26 October 2017

DEBENHAMS PLC – FULL YEAR RESULTS

Delivering the first building blocks of Debenhams Redesigned

Debenhams plc, the international department store destination, today announces preliminary results for the 52 weeks to 2 September 2017.

Strategic Overview

We have made good progress in setting the foundations for our new strategy, Debenhams Redesigned, in FY2017. We have delivered a number of important operational changes to the business and we are embarking on several strategic partnerships that will be key to accelerating the pace of change:

- This month we have upgraded our mobile website in partnership with Mobify, making it significantly faster and more responsive;
- We have invested in blow LTD., the UK's leading digital beauty services provider, ahead of rolling out a nationwide offer; and
- We are announcing a partnership with Sweat! to trial gyms, initially in three stores.

There will be more strategic partnerships to come as we identify opportunities to create compelling destination categories; drive customer frequency; and build leadership in the category we define as Social Shopping.

Additionally, we have established "test labs" for new format trials in our new Stevenage and Wolverhampton stores, which are delivering very positive initial results. We are also confirming today our exit from a number of activities: as planned, we have closed 10 regional warehouses; we have exited four franchise markets; and we are announcing the closure of two stores in early 2018.

Financial and Operational Highlights

52 week comparison (£m)	**FY17**	**FY16[1]**	**YOY % change[1]**
Group gross transaction value	2,954.1	2,895.9	2.0%
Group EBITDA[2]	217.0	233.4	(7.0%)
Underlying[2] profit before tax	95.2	114.1	(16.6%)
Reported profit before tax	59.0	105.8[3]	(44.2%)[3]
Underlying[2] EPS (p)	6.4	7.5	(14.7%)
Dividend per share (p)	3.425	3.425	0.0%
Net Debt	275.9	279.0[3]	(1.1%)[3]

- Like-for-like sales ("LFL") grew 2.1%[1] with UK LFL at 0.0%, reflecting growth in Destination categories; strong digital momentum; and a weaker H2 trading environment
- Beauty sales grew by 5%; Food by 8%, whilst clothing declined by 0.5%, broadly in line with the UK market. Digital sales grew 12.7%, driven by mobile orders up 57% in the UK
- Group gross margin rate declined 30 bps, in line with guidance. As expected, further 20 bps markdown improvement in the year was offset by sales mix dilution. Full price sales grew 1.7%
- UK EBITDA declined 10.1% against a tougher trading background in H2 but mitigated by tight cost management. International EBITDA grew by 8.0%, with Magasin du Nord in Denmark having a solid year in a tougher trading environment, whilst our Irish business benefited from restructuring under examinership
- Underlying profit before tax of £95.2m was in line with market expectations, before exceptional charges as guided in relation to Debenhams Redesigned strategy of £36.2m. Net debt improvement includes exceptional cash outflow of £15.9m
- Continued cash generation and confidence in Debenhams Redesigned strategy supports maintained final dividend of 2.4p per share, making a total dividend of 3.425p per share.

[1] Year on year comparatives on 52 week basis
[2] Before exceptional charges of £36.2m
[3] 53 weeks

Sergio Bucher, CEO, commented:

"We are making good progress with implementing our new strategy, Debenhams Redesigned, and are encouraged by the results from our initial trials, as well as the number of exciting new partners who want to work with us. There is a lot to do but I am delighted with the enthusiasm and flair shown by my colleagues as we embark on this journey. I'd like to thank the whole team for delivering these results against a background of rapid change in the business.

"The environment remains uncertain and we face tough comparatives over the key Christmas weeks. However, we are well prepared for peak trading and the early signs from our activity to date confirm that we are moving in the right direction towards a successful and profitable future for Debenhams."

Presentation

A presentation for analysts and investors, will be held today (Thursday 26 October 2017) at 9:00am UK time at Deutsche Bank Winchester House, 75 London Wall, London, EC2N 2DB.

The presentation will be webcast live at https://edge.media-server.com/m6/p/29xixsek

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STRATEGIC AND OPERATIONAL REVIEW OF THE YEAR

Debenhams announced a new strategy in April 2017, Debenhams Redesigned. This will position us to become the leader in Social Shopping - shopping as a fun leisure activity centred around mobile interaction with our customers. We aim to drive Growth by becoming a Destination, Digital and Different, and Efficiency by simplifying and focusing our operations.

We also aim to deliver a rapid pace of change, in part by using partnerships both to achieve scale quickly and also to leverage our partners' know-how. We have confirmed a number of new partnerships that underpin our Growth strategy and there will be more to come.

USING PARTNERSHIPS TO BUILD SCALE AND LEVERAGE EXPERTISE

The first of these is an important building block as we build our mobile-centred strategy. Our partnership with Mobify and Sapient Razorfish to develop a progressive web app has already delivered a step-change in our mobile site, significantly improving speed and responsiveness. In the first three weeks since launching, conversion rates have shown a double digit percentage point improvement.

We announced a strategic investment in blow LTD. in September. This is the UK's largest and fastest-growing digital beauty services provider. The partnership offers Debenhams the opportunity to accelerate growth in the beauty services market, increase frequency of visit in stores and the potential to develop a new channel, in our customers' homes. It offers blow LTD. a rapid route to national coverage and stronger brand relationships.

We continue to investigate both how to make categories where we have an existing presence a more compelling destination, as well as how to provide complementary service-based offers that fit with our mission to make shopping confidence-boosting, sociable and fun. We are announcing today a partnership with Sweat! gyms, the "friendly fitness" operator. We will test three locations initially with a view to understanding the opportunity for a proposition in the growth market of health and wellbeing.

FIRST STAGE OF JOURNEY ON STORE FORMAT

We opened a new store in Stevenage in August 2017. Although the store itself has long been in the planning, the store fit-out was recast in the Spring in order to test a new customer experience. The product and brand mix has been tailored to the catchment but otherwise is no different to the rest of the chain. We are using this location, as well as our recently-opened Wolverhampton store, as a "test lab" for new ideas. We have also down-sized our Uxbridge store by 20%, with the support of the landlord, and this store is being refitted and re-ranged for its catchment. With Stevenage performing well ahead of plan in the early weeks of trading, we will review progress over peak and apply the lessons learnt in more locations in the Spring.

ACTIVITIES AND OPERATIONS WE ARE STOPPING

As well as testing and trialling across a range of activities, an important part of the Redesigned approach is simplifying and focusing our operations. To that end, we are confirming a number of closures and cessations today.

We announced our intention to close 10 regional warehouses in April. Those closures have now been completed, and we remain in consultation on the planned closure of our Northampton distribution centre. We are announcing today the closure of two stores, in Eltham and Farnborough, in line with our store review, which identified 10 stores at risk of becoming unprofitable over time. We have exited four franchise markets and plan to continue to exit low-profit, low growth franchise locations, whilst concentrating on those with scale opportunity and strong strategic partners.

Below we briefly outline progress and plans within the framework of our strategy.

DIGITAL

What we have done

- Digital growth continued to be strong in FY2017, with sales up 12.7%[1] and EBITDA growth of 13.4%[1]. Growth in mobile demand has been the key driver, with mobile now accounting for 55% of digital orders.
- In FY2017 we focused on an agile web development programme, delivering regular small improvements, such as new beauty brand presentations and a new payment page. This has helped to drive improved conversion, particularly in smartphones, where conversion rate improved by 15%.
- Mobile capability is critical to the future delivery of our strategy, as smartphones will be our primary method of interacting with customers. We have partnered with two experts in the digital field - Mobify (for the tech platform) and Sapient Razorfish (for development and support) in order to drive a rapid improvement in our mobile platform.

What we are going to do

- Our progressive web app launched this month. This is a Google-backed innovation which is designed to combine the best features of mobile apps and mobile web. It will improve user experience and in particular enable much faster and more responsive customer interaction.
- Future capabilities supported by this technology include the ability to make push notifications and enhanced search engine optimisation which will support our ambition to personalise customer relationships.
- We have changed our processes in order to upgrade our digital imagery and presentation, category by category. We are shooting product earlier in the cycle, with the aim of achieving a coherent presentation by collection and a visible improvement in the quality of product shots.

DESTINATION

What we have done

- We have seen good growth in our strategic destination areas of Beauty, Accessories and Food. This has helped to mitigate the impact of a weaker clothing market. Our focus on reducing stock density and improving brand presentation has supported a 1.7% improvement in full price sell-through.
- We have relaunched our Beauty Club loyalty programme, with additional benefits, and with popular celebrity Alesha Dixon as the face of "Let's talk Beauty", to build on our base of 1.2 million cardholders, with a resultant increase in the base of over 10%.
- With a stated aim to become a primary destination for our customers in the important accessories categories of lingerie and footwear, we have trialled a new merchandising presentation, combined with a reduction in options and a stronger service proposition in our new stores at Stevenage and Wolverhampton, with positive early results.

What we are going to do

- Following the acquisition of a minority stake in blow LTD., the UK's largest and fastest-growing digital beauty services provider, we plan to accelerate growth in this fragmented market, which is a similar size to the beauty products market at c£4bn. In partnership with blow LTD., we will open three beauty bars in flagship locations including Oxford Street before Christmas, with a further four to open in the New Year. We aim to have national coverage in key centres within three years.

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[1] Year on year comparatives on 52 week basis

- We see an opportunity to bring an innovative approach to the market, leveraging our Beauty Club base and our access to brands. This will also allow us to develop a new channel – in-home; providing an opportunity to build a still-closer relationship with our customers.
- We currently have almost 70 third party managed food and drink offers in our stores including new partners The Real Greek and Nandos. We plan at least a further 50 with partners over the next three years, but we are also testing a new own-brand format, Loaf & Bloom, which will have a health and wellbeing focus. We have also appointed a new trading director for Restaurants, David Murdin, formerly of Whitbread.

DIFFERENT

What we have done

- In line with our intention to transform Debenhams' culture from process driven and head office-led to a customer-led business, we have focused on reducing the tasks loaded onto our store colleagues. This has allowed us to have approximately 2,000 more colleagues in customer-facing roles in store in time for peak trading.
- We added customer service measures to our KPIs and we have seen significant progress in net promoter scores in FY2017, with month by month improvement and an exit rate showing a double digit uplift year on year.
- We opened our new store in Stevenage in August 2017. In line with our future intention to develop ranges for our online customers first, we ranged our new Stevenage store by identifying the brand profile from online demand in the catchment. This has proved particularly successful in our womenswear and home departments, which both over-index strongly against the chain.

What we are going to do

- Building on our initial work to become customer-led, we are launching a new service model aimed at supporting our mission to make shopping confidence-boosting, sociable and fun. We have already trained many of our store leadership teams and will roll the programme out further for peak trading.
- We intend to take a more robust approach to managing our existing brands, refreshing them more frequently. Principles is a brand with a great future that we plan to reinvigorate, and to that end we are confirming today that this will be the last collection by Ben de Lisi for Principles.
- We launched a new Designer range, Studio by Preen in Spring 2017. The demand for this range has confirmed the appetite for a more fashion-forward offer from our customers, and in 2018 we expect to launch a new Designer brand with up-and-coming talent.

SIMPLIFY AND FOCUS TO DELIVER EFFICIENCY

What we have done

- We have announced the creation of three business units: Fashion and Home; Beauty and Beauty Services; and Food and Events. Each will be led by a member of the Executive Committee to ensure the focus on the Destinations that will drive growth in our business. We are currently recruiting for the Fashion and Home role, and this appointee will be a member of the Executive Committee.
- Having completed the transition to a single warehouse management system in May, we introduced direct-to-floor distribution which has allowed us to declutter the sales floor, holding stock in the distribution centre until needed, and increasing the frequency of replenishment. At the same time, we have reduced stock options by approximately 10%, whilst improving stock availability, supporting our strategy to drive full price sales.
- We have completed the closure of 10 regional warehouses, as announced in April 2017, and begun consultation on the planned closure of our Northampton distribution centre.

What we are going to do

- We announced in April that we had undertaken a review of our UK real estate and that as a result we had identified up to 10 stores that could become unprofitable over time and would be reviewed for closure. We have today announced the closure of two UK stores, in Farnborough and Eltham. These stores will cease trading in January 2018.
- In line with the real estate review, we are actively consulting with landlords where there is an opportunity to right-size a store for its location. The first of these is in Uxbridge, where the store will shortly complete a modernisation, having reduced in footprint by 20%, with a commensurate reduction in rental cost.
- Alongside this, we continue to actively examine our use of space and how to optimise the performance of our continuing stores. As well as acting as a "test lab" for layout and merchandising, we have adopted an operating model at Stevenage that is cheaper and more flexible than our traditional store model. We have seen our Home offer in this store perform alongside top stores in the chain despite trading on half a typical footprint with 35% fewer SKUs.
- We are today announcing a partnership with Sweat!, opening an initial three gyms in surplus space in regional stores in Spring 2018. We believe that alongside a sports offer and a fresh and healthy-focused café this format could become a wellbeing destination in its own right.

INTERNATIONAL REDESIGNED

Debenhams' International business accounts for approximately 20% of Group GTV and EBITDA. The largest contributor to International turnover and profit is our own-operated department store business in Denmark, Magasin du Nord. We also operate 11 Debenhams stores in Ireland and have a network of 63 franchise stores concentrated mainly in the Middle East and South East Asia. We have growing digital operations across our core markets and are expanding our digital presence into new markets through selected partnerships and brands.

What we have done

- Our largest international profit centre, Magasin, has had a resilient year against a weaker market background. This builds on the last three years of good sales and profit improvement. The performance reflects investment in the Copenhagen flagship, including extensive upgrading of the beauty hall, and launching 100 new brands, which has helped support further strong digital growth of c40%.
- In line with our strategy to rationalise low-profit, low-potential franchise markets, we have closed nine franchise stores, exiting four markets. Our core Middle Eastern markets have had a tough year given the geo-political climate but remain an important part of our future strategy.
- We have built partnerships with third party digital partners for a number of our brands, in order to reach different demographics and geographies. We have a brand presence on ASOS, Label, Very, Zalando and Zalora, and launched on Amazon Prime in the UK and Amazon.de in FY2017.

What we are going to do

- We are strengthening the international management team with a number of new hires, injecting fresh talent and aligning reporting responsibilities alongside our international business priorities.
- At Magasin du Nord we have identified a significant digital opportunity to grow beyond its domestic market whilst leveraging its fulfilment and operating model. We are continuing to add brands to expand the digital offer with the aim of making Magasin the destination for Scandinavian brands. As well as opening a new Danish store at Aalborg, we plan new digital market entries in the Nordic region in 2018.
- We are cementing our franchise focus on strategic markets in the Middle East, SE Asia and Australia where we have strong long term partnerships and see multi-channel opportunity. Following the successful launch of an Australian online store in FY2016, FY2018 will see our first franchise store open in this market with a flagship in Melbourne opening this month, in partnership with Pepkor South East Asia. Additionally we will open a store in

Kuwait in the Spring. Both openings will apply some of the lessons from our UK "test labs". We plan to test mobile-led digital propositions in both regions.

- We are designing a new franchise service model in order to leverage the benefits of our Debenhams Redesigned strategy, for example improved merchandising, a more flexible store operating model, more locally customised product and the opportunity for future mobile-led digital growth.
- We intend to broaden our reach to new markets and customers through strategic partnerships with key global digital players. For example, we will continue to test the opportunity in China, building on existing trials, as we develop the wider market strategy.
- We have seen rapid growth in our emerging brand representation on third party sites, particularly for Faith shoes and some of our childrenswear brands. We intend to build on these differentiated brands with international appeal that can leverage our resource and infrastructure to be marketed both inside Debenhams and via selected external partners.
- Alongside the opportunity to optimise brand reach where brand appeal is already proven, we will use marketplaces to test brand opportunity and scale in new markets. We are continuing to develop a "brand franchise" concept, whereby our brands are sold within a host retailer in markets that might not support a full range Debenhams, or to prepare the way for full market entry, as in Australia.

FINANCIAL REVIEW OF THE YEAR

FINANCIAL SUMMARY

£m	52 weeks to 2 September 2017	52 weeks to 27 August 2016	53 weeks to 3 September 2016	*% change (52wk v 52wk)*
Gross transaction value[1,2]				
UK	2,350.0	2,352.1	2,386.2	-
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	*Flat*
	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 digital sales to UK addresses. International operating segment comprises the international franchise stores, the owned stores in Denmark and the Republic of Ireland and digital 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 digital 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 (2016: restructure costs relating to the examinership process and streamlining head office and a charge relating to the costs of writing off intangible assets following launch of the international website).

SEGMENTAL PERFORMANCE

The Financial Statements for the period ended 3 September 2016 included 53 weeks. In the notes to 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 on the 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 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 LFL 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.

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 of the 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 below:

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 sales. Operating cost growth in constant currency was 1.5%. As previously guided, the increase in 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 investment 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.

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:

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[1] All items stated before exceptional charges

a) 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.

b) 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, 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 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 below.

£m	52 weeks to 2 September2017	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 & 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

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.

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 20 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 ('RCF') 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 values.

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 the same 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 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.

OUTLOOK AND GUIDANCE

We are 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 to £1, which is approximately 15% below FY2017. We continue 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 our progress

We have clear growth ambitions in our Destination categories, and targets in the categories of beauty; food; and growth in mobile revenues are being measured as part of senior management remuneration. Additionally we will report on our 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, we 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.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties will be detailed in the Group's 2017 Annual Report and Accounts. Reference should be made to the 2017 Annual Report and Accounts for more details on the potential impact of these risks and examples of mitigation.

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 Brexit and these continue to be monitored carefully, with appropriate levels of mitigating action being considered as details emerge.

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

Suzanne Harlow stepped down from the Board and left the Company on 20 October 2017 following 23 years with the business. 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.

David Adams was appointed to the board as an independent non-executive director on 19 October 2017.

The board of directors as at 26 October 2017 is as follows: Sir Ian Cheshire (Chairman), Sergio Bucher (Chief Executive), Matt Smith (Chief Financial Officer), David Adams (independent non-executive director), Terry Duddy (senior independent director), Peter Fitzgerald (independent non-executive director), Stephen Ingham (independent non-executive director), Martina King (independent non-executive director), Nicky Kinnaird (independent non-executive director), Lisa Myers (independent non-executive director) and Mark Rolfe (independent non-executive director).

NOTES TO EDITORS

Debenhams is a leading international, department store destination with a proud British heritage which trades out of 246 stores across 26 countries and is available online in more than 60 countries. Debenhams gives its customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

Debenhams has been investing in design for over 20 years through its exclusive Designers at Debenhams portfolio of brands. Current designers include Abigail Ahern, Jeff Banks, Jasper Conran, Sadie Frost and Jemima French, Patrick Grant, Henry Holland, Ben de Lisi, Todd Lynn, Julien Macdonald, Savannah Miller, Jenny Packham, Aliza Reger, John Rocha, Ashley Thomas, Justin Thornton and Thea Bregazzi, Eric Van Peterson and Matthew Williamson.

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.

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	**Exceptional items (note 5)**	**Total**	Before exceptional items	Exceptional items (note 5)	Total
		£m	**£m**	**£m**	£m	£m	£m
Revenue	2, 3	**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	4	**107.5**	**(36.2)**	**71.3**	131.0	(12.4)	118.6
Finance income	7	**0.1**	**-**	**0.1**	1.4	-	1.4
Finance costs	8	**(12.4)**	**-**	**(12.4)**	(14.2)	-	(14.2)
Profit before taxation		**95.2**	**(36.2)**	**59.0**	118.2	(12.4)	105.8
Taxation	9	**(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	11	**6.4**		**4.0**	7.8		7.0
Diluted earnings per share	11	**6.4**		**4.0**	7.8		7.0

The notes on pages 21 to 30 form an integral part of this condensed consolidated financial information.

Consolidated Statement of Comprehensive Income

For the financial year ended 2 September 2017

	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	**76.7**	(41.1)
Taxation relating to items that will not be reclassified	**(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	**(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	**(50.4)**	(27.2)
Cash flow hedges reclassified and reported in the income statement	**0.2**	0.8
Taxation relating to items that may be reclassified	**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

The notes on pages 21 to 30 form an integral part of this condensed consolidated financial information.

Consolidated Balance Sheet
As at 2 September 2017

	Note	**2 September 2017 £m**	3 September 2016 £m
Assets			
Non-current assets			
Intangible assets		**991.9**	962.1
Property, plant and equipment		**654.9**	670.2
Available-for-sale investments		**1.2**	1.3
Derivative financial instruments		**0.5**	10.7
Trade and other receivables		**19.3**	17.4
Retirement benefit surplus		**80.9**	6.4
Deferred tax assets		**15.3**	20.1
		1,764.0	1,688.2
Current assets			
Inventories		**317.8**	326.3
Trade and other receivables		**82.9**	81.1
Derivative financial instruments		**4.8**	39.1
Cash and cash equivalents		**40.0**	56.3
		445.5	502.8
Liabilities			
Current liabilities			
Bank overdraft and borrowings		**(116.4)**	(135.6)
Derivative financial instruments		**(12.0)**	(7.6)
Trade and other payables		**(523.3)**	(516.3)
Current tax liabilities		**(9.8)**	(14.7)
Provisions		**(10.2)**	(14.0)
		(671.7)	(688.2)
Net current liabilities		**(226.2)**	(185.4)
Non-current liabilities			
Bank overdraft and borrowings		**(199.5)**	(199.7)
Derivative financial instruments		**(5.3)**	(3.7)
Deferred tax liabilities		**(54.0)**	(50.5)
Other non-current liabilities	12	**(351.7)**	(354.5)
Retirement benefit obligations		**-**	(10.5)
Provisions		**(9.7)**	-
		(620.2)	(618.9)
Net assets		**917.6**	883.9
Equity			
Share capital		**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		**(3.5)**	(9.3)
Retained earnings		**243.3**	178.0
Total equity		**917.6**	883.9

The notes on pages 21 to 30 form an integral part of this condensed consolidated financial information.

Consolidated Statement of Changes in Equity

For the financial year ended 2 September 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 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
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	-	-	-	-	-	0.5	0.5
Taxation recognised directly in equity	-	-	-	-	-	0.6	0.6
Dividends paid	-	-	-	-	-	(42.0)	(42.0)
Purchase of shares by the Debenhams Retail Employment Trust 2004	-	-	-	-	-	(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**

The notes on pages 21 to 30 form an integral part of this condensed consolidated financial information.

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	13	**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	14	**(25.0)**	(15.0)
Dividends paid	10	**(42.0)**	(42.0)
Purchase of shares by Debenhams Retail Employment Trust 2004		**(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	14	**19.7**	40.8

The notes on pages 21 to 30 form an integral part of this condensed consolidated financial information.

1 Basis of preparation

The consolidated financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared on the basis of the accounting policies set out in the financial statements of Debenhams plc for the 52 weeks ended 2 September 2017 with the comparative year ended 3 September 2016 being a 53 week year. Accounting policies have been consistently applied.

The financial information set out in this document does not constitute the statutory accounts of the Group for the years ended 2 September 2017 and 3 September 2016 but is derived from the 2017 annual report and financial statements. The annual report and financial statements for 2016, which were prepared under IFRS, have been delivered to the Registrar of Companies and the Group's annual report and financial statements for 2017, prepared under IFRS, will be delivered to the Registrar of Companies in due course. The Group's external auditors PricewaterhouseCoopers LLP have reported on these accounts and have given an unqualified report which does not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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.

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 in 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.

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.

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.

2 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.

3 Segmental reporting

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

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

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

Segmental analysis of results	**UK**	**International**	**Total**
	£m	**£m**	**£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	**81.0**	**8.5**	**89.5**
- Amortisation	**19.0**	**1.0**	**20.0**
- Impairment of property, plant and equipment	**7.2**	**-**	**7.2**
- Loss on disposal and write off of property, plant and equipment	**1.2**	**-**	**1.2**
- Loss on disposal and write off of intangible assets	**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	82.3	7.1	89.4
- Amortisation	18.2	1.0	19.2
- Impairment of intangible assets	-	2.2	2.2

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, 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 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	**89.5**	89.4
Amortisation of intangible assets	**20.0**	19.2
Impairment of intangible assets	**-**	2.2
Impairment of property, plant and equipment	**7.2**	-
Loss on disposal and write off of property, plant and equipment	**1.2**	0.1
Loss on disposal and write off of intangible assets	**4.6**	-
Operating lease rentals	**221.4**	220.7
Foreign exchange gains	**(49.4)**	(24.1)
Auditors' remuneration	**0.5**	0.5

5 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 administrative expenses	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.

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.

6 Employment costs

	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	**17.5**	17.0
Share-based payments	**0.5**	(0.8)
Employment costs	**407.5**	396.0

7 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	**-**	1.1
	0.1	1.4

8 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	**1.3**	1.3
Interest payable on finance leases	**0.2**	0.1
Capitalised finance costs – qualifying assets	**(2.5)**	(1.9)
	12.4	14.2

9 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)**	-
Effects 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	**(2.6)**	0.8
Taxation charge for the financial year	**10.2**	19.9

10 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 20 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.

11 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the financial year, excluding any shares purchased by the Company and held as treasury shares. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the financial year.

Basic and diluted earnings per share	**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 5)	**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

12 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.

13 Cash generated from operations

	2 September 2017 £m	3 September 2016 £m
Profit before taxation	**59.0**	105.8
Depreciation and amortisation	**109.5**	108.6
Impairment losses	**7.2**	2.2
Loss on disposal and write off of property, plant and equipment	**1.2**	0.1
Loss of disposal and write off of intangible assets	**4.6**	-
Share-based payment charge/(credit)	**0.5**	(0.8)
Fair value gains on derivative instruments	**6.4**	(7.0)
Net movements in provisions	**5.9**	7.6
Finance income (note 7)	**(0.1)**	(1.4)
Finance costs (note 8)	**12.4**	14.2
Net movement in close out of forward foreign currency contracts	**(1.6)**	11.2
Pension current service cost	**1.5**	1.5
Cash contributions to pension schemes	**(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

14 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)

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).

15 Related parties

There have been no significant related party transactions during the year (2016: none).

16 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.

17 Financial information

Copies of the statutory accounts will be 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.

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: 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.
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: £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
Underlying profit before tax	Profit before tax	Exceptional items (see note 5)	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 5)	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 11.
Underlying diluted earnings per share	Diluted earnings per share	Exceptional items (see note 5)	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 11.
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, Senior Notes 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 14.
Tax measures			
Effective tax rate before exceptional items	Effective tax rate	Exceptional items and their tax impact	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.