

Business model and strategy

CREATING VALUE FOR OUR STAKEHOLDERS

OUR RESOURCES AND RELATIONSHIPS

People

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

[+ Read more on page 20](#)

Expertise and insight

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

[+ Read more on page 5](#)

Channels

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

[+ Read more on page 6-7](#)

Suppliers and partners

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

[+ Read more on page 21](#)

Finance

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

[+ Read more on page 35](#)

HOW WE CREATE VALUE TODAY

Innovation and culture

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

Developing and managing brands

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

Serving our customers

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

Creating inspiring places to shop

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

Leveraging partnerships

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

THE VALUE WE CREATE

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

Gross transaction value

£3.0bn

EBITDA*

£217.0m

Underlying EPS*

6.4p

Digital sales growth (52 weeks)

12.7%

Return on capital**

11.1%

Direct employment

c27,000

* Before exceptional charges.
** Lease-adjusted.

OUR VALUE CREATION IS UNDERPINNED BY

Risk management

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

[+ Read more on page 26](#)

Governance

Governance framework designed to safeguard long-term shareholder value

[+ Read more on page 42](#)

WHAT WE DO

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

THE VALUE WE SHARE

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

Shareholders

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

 [Read more on page 35](#)

Suppliers

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

 [Read more on page 21](#)

Colleagues

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

 [Read more on page 20](#)

Customers

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

 [Read more on page 34](#)

Communities

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

 [Read more on page 21](#)


Environment

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

 [Read more on page 22](#)

Sustainability

Respecting human rights is fundamental to our company ethics and integrity

 [Read more on page 20](#)

HOW WE MAXIMISE VALUE THROUGH OUR NEW STRATEGY



Destination

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

Digital


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

Different

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


Underpinned by Simplify & Focus

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

 [See our strategy in action on page 10](#)

Culture

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

 [Read more on page 14](#)

GROWTH IN LEISURE SPEND

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

4%

vs

2.6%

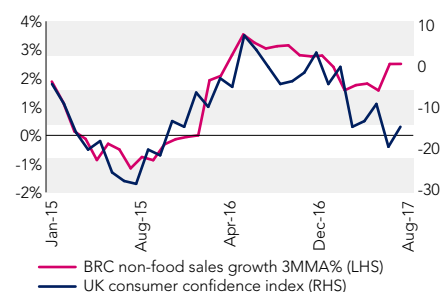
Faster growth in leisure than retail

A CHANGING RETAIL MARKET

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

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

BRC non-food LFL vs UK consumer confidence



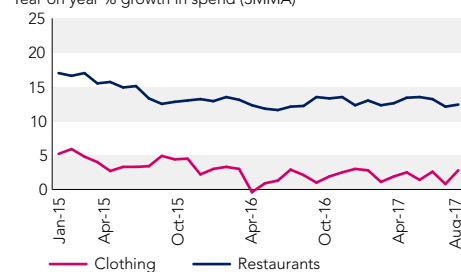
Source: Factset (British Retail Consortium, GfK)

Changing spending priorities

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

Spending in restaurants continues to outpace spending on clothing

Year on year % growth in spend (3MMA)



Source: Barclaycard, Deutsche Bank



Growth of leisure and experience spending

In the period 2010-2016, the annual rate of growth in leisure spending, such as eating out, recreation, culture and hotels, was 50% higher than the growth in non-food retail sales.²

A number of commentators now suggest that this represents a structural shift in consumer spending priorities, away from "stuff" towards "experience".

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

How smartphones are influencing behaviour

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

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

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

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

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



+80%

increase in spend when with friends

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

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

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

Read more on pages 10-11

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

DEBENHAMS

Redesigned



DEAR SHAREHOLDER

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

A year of activity and change

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

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

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

Great strengths to build on

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

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

operations, with a successful separately-branded business in Magasin du Nord, the leading department store business in Denmark.

Changing shopping habits

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

Debenhams is a destination for fashion and beauty. Our customers tell us that shopping for these key categories is about buying a product that will help them look good and feel great, providing a confidence boost; and that the customer journey should be easy and fun –

an experience that many of them will want to share. This is our mission: to make shopping confidence-boosting, sociable and fun.

Strategy that starts with what customers want

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

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

See our strategy in action spreads on pages 9-19

A NEW STRATEGY: DEBENHAMS REDESIGNED

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



Destination

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



Digital

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

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



Different

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



Underpinned by Simplify & Focus

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

Fixing the basics

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

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

- Reduced task-based focus in store, and introduced training programmes to support 2,000 more colleagues in customer-facing roles
- Repurposed our head office as a "support centre" for the business, rather than a head-office "process-driven" approach
- Added customer-service metrics to our internal KPIs, and seen a positive improvement in our net promoter score
- Reduced the average number of stock options by approximately 10% and reduced the fixture density in stores to make shopping easier
- Reduced the time to replenish stock from eight days to two days through our direct-to-floor distribution initiative
- Closed ten regional warehouses and begun consultation for the closure of our Northampton distribution centre

- Announced the closure of two stores, at Farnborough and Eltham
- Opened two new stores, at Stevenage and Wolverhampton, that are providing a "test lab" for new ideas on layout and merchandise presentation
- Developed our own progressive web app with expert partners to make our mobile site much faster and more responsive
- Announced a partnership with blow LTD, the UK's largest and fastest-growing "on-demand" beauty services provider
- Announced a partnership with Sweat! to trial three gyms in stores

A strengthened management team

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

Sergio Bucher
Chief Executive Officer
26 October 2017

Read more on
pages 16-17

DEBENHAMS' MANAGEMENT TEAM

The right team to take the business forward

Executive Committee (left to right):

Matt Smith
CFO

Sally Hyndman
Director of HR

David Smith
Managing Director, International


Sergio Bucher
CEO

Angela Morrison
Director of Technology and Supply Chain

Richard Cristofoli
Managing Director, Beauty & Marketing

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



 Read more on page 43

Getting the basics right

A year of significant action

OCT
2016

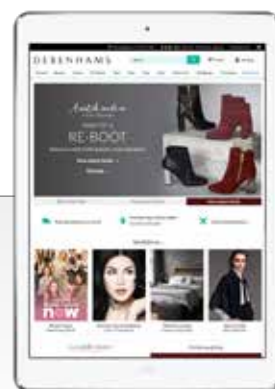
— Sergio Bucher joins Debenhams as CEO

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

DEC

— Digital sales growth accelerates over peak

Driven by mobile demand up 68%

JAN
2017

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

— "Fix the basics" plan gets under way

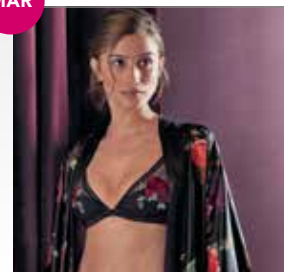
FEB

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

MAR

— Remerchandising trials for lingerie commence

— Plans for Stevenage opening revised



DEBENHAMS
Redesigned



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

APR

— Debenhams Redesigned strategy unveiled alongside interims

— Consultation begins on warehouse closures

MAY

— New Executive Committee members join

— Single warehouse management system transition completed

JUNE



JULY

— Colleague training programme begins

— Regional warehouses start to close

AUG

— New Stevenage store opens





Destination

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

BEAUTY PRODUCTS AND SERVICES

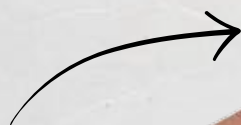
What we have done

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

What we are going to do

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

“Let's
TALK
beauty”



MEET ME @ DEBENHAMS

What we have done

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

What we are going to do

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



FASHION VIA ACCESSORIES

What we have done

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

What we are going to do

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



Digital

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

MOBILE @ EVERYWHERE

What we have done

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

What we are going to do

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





CLICK & PLAY

What we have done

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

What we are going to do

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



BROADEN OUR REACH

What we have done

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

What we are going to do

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

Different

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



INNOVATION AND CULTURE

What we have done

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

What we are going to do

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



BRAND CREATION AND DISTRIBUTION

What we have done

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

What we are going to do

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





DESIGNERS @ DEBENHAMS

What we have done

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

What we are going to do

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



GET TO KNOW OUR FABULOUS
DESIGNERS EXCLUSIVE TO DEBENHAMS:
[www.debenhams.com/
designers-at-debenhams](http://www.debenhams.com/designers-at-debenhams)



JASPER
J CONRAN

STUDIO BY
PREEN

nine
SAVANNAH MILLER

STAR BY
julienmacdonald

Simplify & Focus

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



STORE ESTATE

What we have done

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

What we are going to do

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



OPERATING MODEL

What we have done

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

What we are going to do

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



BETTER USE OF RESOURCES

What we have done

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

What we are going to do

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





International

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

LEVERAGE AND GROW SUCCESSFUL PARTNERSHIPS

What we have done

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

What we are going to do

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



SIMPLIFY

What we have done

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

What we are going to do

We are developing a future franchise service model for existing and new partners.



Magasin

What we have done

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

What we are going to do

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

Q&A WITH CEO SERGIO BUCHER



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

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

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

Q: Are department stores becoming obsolete?

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

Q: What is Social Shopping?

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

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

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

Q: Is this strategy about growing sales or margins?

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

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

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

Resources, relationships and sustainability

HOW WE MANAGE OUR RESOURCES & RELATIONSHIPS

78%

Employee engagement

>£1.7m

raised by the Debenhams Foundation

COLLEAGUE ENGAGEMENT & CULTURE

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

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

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



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

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



EQUAL OPPORTUNITIES

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

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

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

BUILDING A PIPELINE OF LEADERS FOR THE FUTURE

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

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

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

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

APPRENTICESHIPS

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

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

DEBENHAMS FOUNDATION

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

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

ANTI BRIBERY & CORRUPTION

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

GLOBAL SOURCING

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

939
factories

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

Supplier Compliance

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

Worker Welfare

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

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

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

>800
compliance audits

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



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

-13%
CO₂ emissions

Read more on
page 29

HUMAN RIGHTS & MODERN SLAVERY

The Company has a number of policies in place to protect and promote employee welfare and is committed to supporting all human rights in our business operations as well as in our relationships with our suppliers and other stakeholders.

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

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

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

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

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

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

ENVIRONMENT AND ENERGY EFFICIENCY

Annual report Greenhouse Gas ("GHG") emissions reporting

We have reported our greenhouse gas (GHG) emissions for our UK, Irish and Danish operations since 2008. Since then, our footprint boundary has evolved to include areas such as other international offices, packaging, production of hangers, and manufacture of catalogues, brochures and direct mail. This section provides a breakdown of our GHG emissions for this year. Further details of our GHG emissions can be found on our website <http://sustainability.debenhamsplc.com/>.

With the support of Ricardo Energy & Environment, we have applied the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and the UK Government Conversion Factors for Company Reporting, 2017, to calculate our carbon emissions. Our annual reporting year is 4 September 2016 to 2 September 2017 and we report GHG emissions in line with this period.

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

This year, our overall carbon footprint has decreased by 13%, from 204,136 tonnes CO₂e in 2016 to 177,611 tonnes CO₂e this year (using the location-based approach). Table 1 opposite provides a breakdown of these figures.

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

Table 1: Absolute GHG emissions from Scopes 1, 2 and 3 shown in tonnes CO₂e (tCO₂e)

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

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

** FY2016 is a 53 week year.

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

Table 2 shows the total annual turnover and floor area for the whole business. The total absolute emissions are then divided by these figures to provide tonnes of CO₂e per million pounds of turnover and tonnes of CO₂e per m² of floor area, respectively, as shown in Table 3.

These tables show that the tonnes CO₂e for both intensity metrics have also decreased.

Table 2: Data used for intensity measurements

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

* Total floor area includes stores, offices and distribution centres.

** FY2016 is a 53 week year.

Table 3: Assessment of absolute footprint emissions

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

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

** FY2016 is a 53 week year.

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

We will continue to invest in projects that will reduce our footprint and environmental impacts. We are committed to continuously improving the energy efficiency of our buildings and operations as seen by a reduction in this year's carbon footprint. In FY2017, we invested over £3 million and retrofitted LED lighting in 16 stores. These projects have not only delivered excellent results in reducing energy use, but have also led to a more comfortable customer environment. We will be investing £3 million in 2018 on energy efficiency projects, with LED lighting continuing to feature heavily since lighting typically accounts for 35% of energy use in a store.

We have a carbon reduction target to reduce group-wide Scope 1 and 2 absolute operational CO₂e emissions by 10% by 2020 against our 2007/08 baseline. The FY2017 Scope 1 and Scope 2 total emissions have reduced by 32% compared to the Scope 1 and 2 CO₂e emissions in FY2008. This suggests that if the reduction continues, or remains stable, we will meet our target by 2020.

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

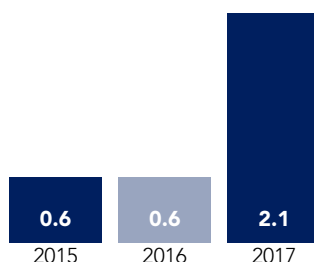
Key performance indicators

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

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

GROUP FINANCIAL KPIs

Like-for-like sales change (%)

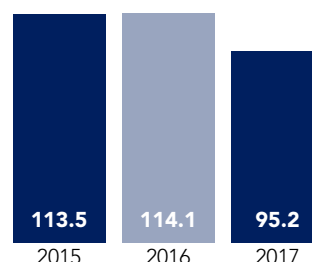
**Rationale**

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

2017 performance

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

Underlying profit before tax* (£m)

**Rationale**

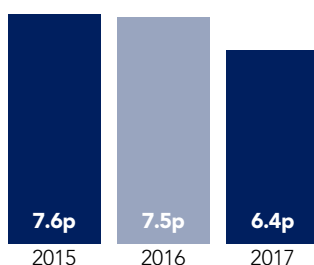
PBT is our principal measure of profitability, and excludes items that are one-off in nature.

2017 performance

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

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

Underlying earnings per share* (pence)

**Rationale**

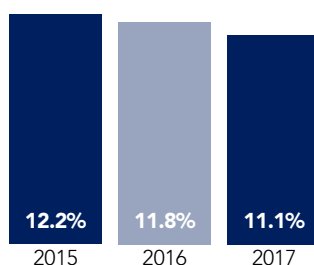
Basic earnings per share (EPS) divides earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

2017 performance

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

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

Return on capital employed* (%)

**Rationale**

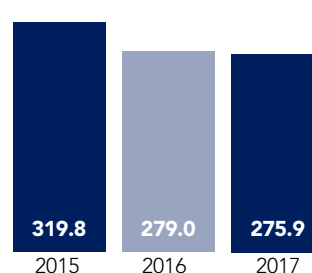
Return on capital employed (ROCE) measures the profitability of the company relative to the size of assets used to generate returns.

2017 performance

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

* Lease-adjusted before exceptional items.

Net debt (£m)

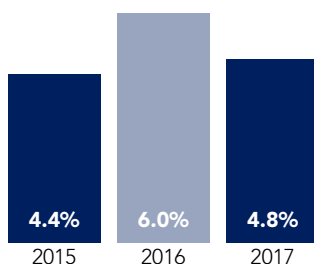
**Rationale**

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

2017 performance

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

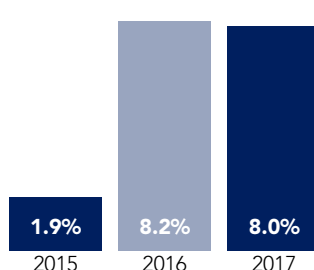
STRATEGIC KPIs

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

Core destination category in which Debenhams will build market leadership.

2017 performance

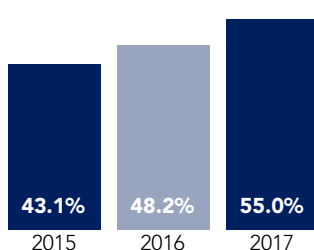
The Beauty category delivered sales growth of 4.8% supported by strong performance in new and exclusive cosmetics brands underpinned by good market growth.

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

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

2017 performance

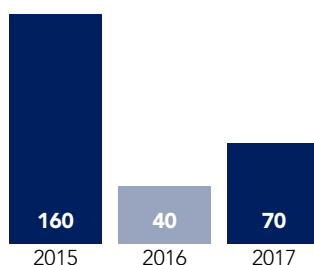
Food and drink GTV grew by 8.0% driven by further new third party brand introductions.

Growth in mobile penetration – Mix of demand (%)**Rationale**

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

2017 performance

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

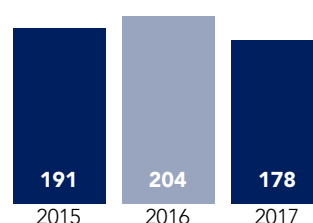
Accelerating warehouse automation – online cost improvement (bps improvement to GTV)**Rationale**

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

2017 performance

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

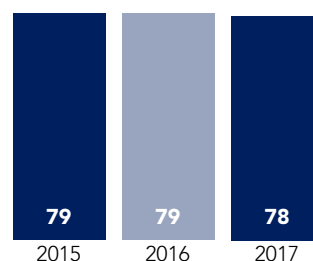
SUSTAINABILITY KPIs

Carbon emissions (CO₂e 000 tonnes)**Rationale**

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

2017 performance

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

Employee engagement (%)**Rationale**

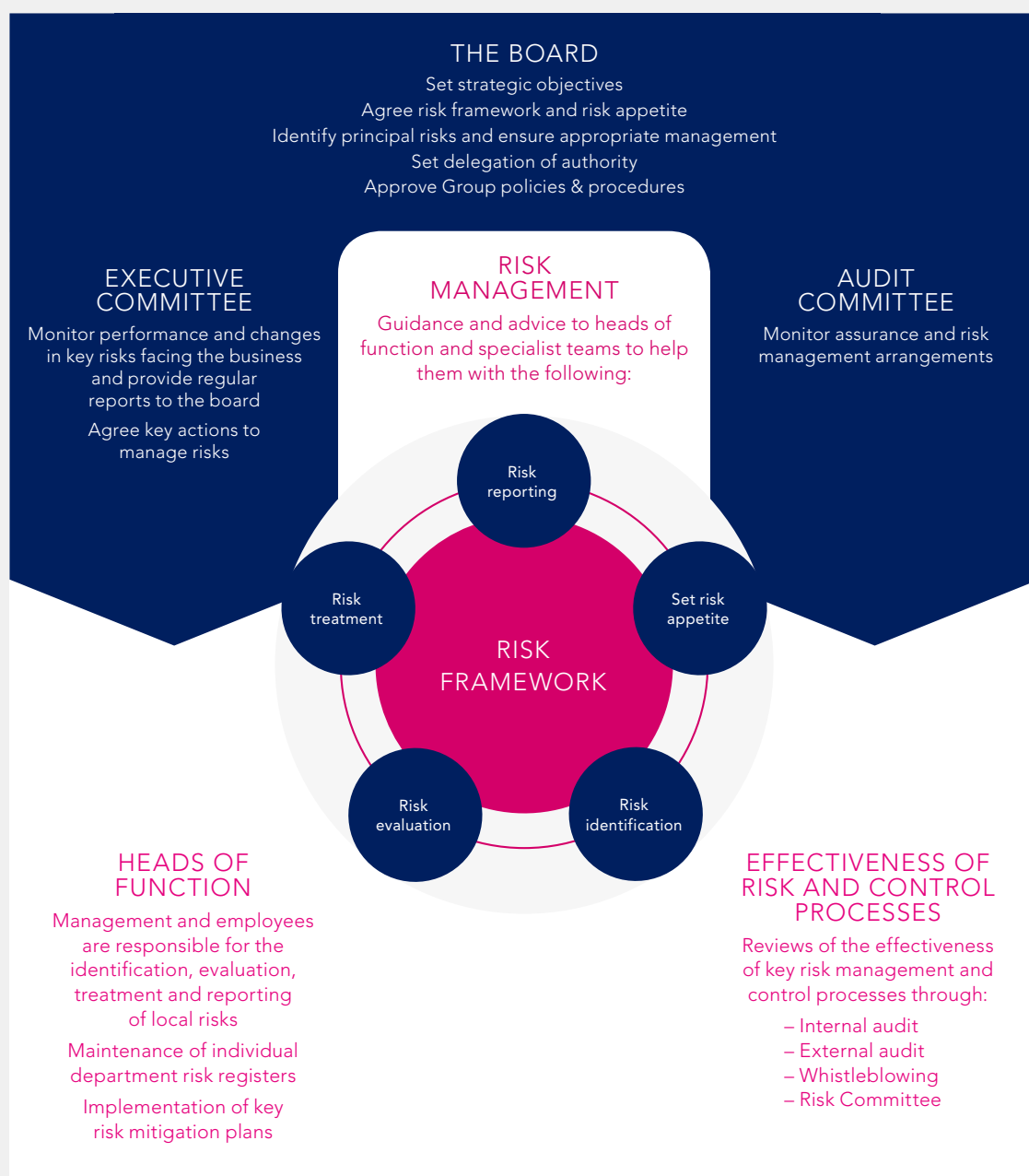
We conduct an annual engagement survey, inviting all employees in our UK and Irish stores and support centres to participate.

2017 performance

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

OPTIMISING OUR RISK MANAGEMENT PROCESSES

Figure 1: Debenhams' risk management framework



The board of Debenhams considers it important that there should be a regular and systematic approach to the management of risks to provide assurance that strategic and operational goals can be met and the Group's reputation is protected.

The board has conducted a review of the effectiveness of internal controls and is satisfied that those in place remain appropriate.

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

RISK MANAGEMENT ACTIVITIES

Risk appetite

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

Risk identification

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

Risk evaluation

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

Risk treatment

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

Risk reporting

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

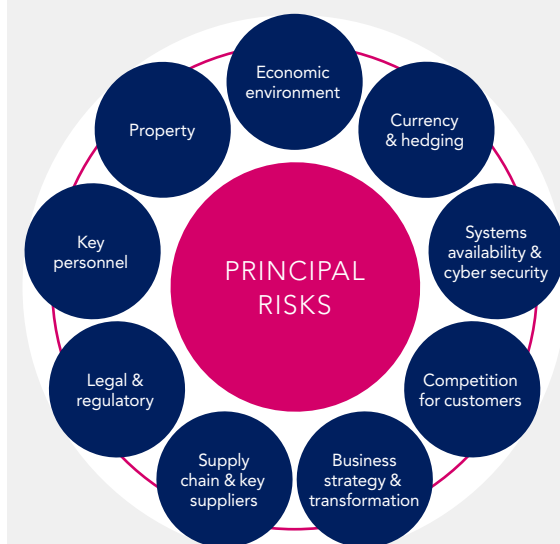
Viability assessment

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

WHISTLEBLOWING

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

Figure 2: Principal risks



If a colleague feels that the matter is so serious that it cannot be discussed in any of these ways, they can contact the Company Secretary or the Director of Internal Audit and Risk Management. The Group's policy on whistleblowing and these methods of raising issues are reviewed annually by the Audit Committee and any serious matters identified are raised with the chairman of the Audit Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

Principal risks and uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES



ECONOMIC ENVIRONMENT

Risk

- Continuing adverse economic conditions

Potential impact

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

Examples of mitigation

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

Strategic focus



CURRENCY AND HEDGING

Risk

- Currency fluctuations or insufficient hedging

Potential impact

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

Examples of mitigation

- Debenhams has a treasury policy in place which covers counterparty limits and hedging for interest rates, foreign exchange and energy. There is also an internal treasury function which is mandated by the board
- Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of KPIs
- The ongoing economic uncertainty that has followed the UK vote to leave the European Union makes this a risk that is monitored carefully

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

Strategic focus



SYSTEMS AVAILABILITY AND CYBER SECURITY

Risk

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

Potential impact

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

Examples of mitigation

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

Strategic focus



Key



Destination



Digital



Different



Simplify & Focus



COMPETITION FOR CUSTOMERS

Risk

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

Potential impact

- Sales will be lower, market share will be reduced and the Company may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortfalls on popular merchandise
- Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability

Examples of mitigation

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

Strategic focus



BUSINESS STRATEGY AND TRANSFORMATION

Risk

- Failure to deliver Debenhams' key strategic priorities

Potential impact

- Could significantly delay or prevent the achievement of Debenhams' business plan and could have a material adverse effect on Debenhams' business, financial condition or results of operations

Examples of mitigation

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

Strategic focus



SUPPLY CHAIN AND KEY SUPPLIERS

Risk

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

Potential impact

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

Examples of mitigation

- Debenhams fosters close and collaborative relationships with its suppliers. Both parties work towards the objective of optimising sustainable fulfilment and costs, which is measured regularly by management through KPIs. You can read more about how the Group builds relationships with our suppliers on pages 21 and 22
- Debenhams continues to develop its supplier base to mitigate the potential of cost price inflation without compromising the quality of its products. In addition, the sourcing division has been strengthened to include additional expertise which assists with sourcing decisions, production consolidation and lead time reduction, amongst other things
- This is an increasing risk given the uncertainty around future trade agreements and duty rates following the UK decision to exit the European Union and is an area of high management focus.

Strategic focus





LEGAL AND REGULATORY

Risk

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

Potential impact

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

Examples of mitigation

- Forums exist to focus on specific areas of legislation, with business policies and procedures in place to ensure roles and responsibilities are understood across the Group
- Debenhams has specialist teams in place to monitor changes to legislation and standards, further supported by membership of key industry bodies to enhance awareness
- All suppliers are expected to adhere to Debenhams' own supplier code of conduct, which is underpinned by Debenhams' robust policy on compliance that includes a focus on social and ethical standards
- This is an increasing risk given the uncertainty around the likely changes to UK legislation following the UK decision to exit the European Union so it is being monitored carefully

Strategic focus



PROPERTY*

Risk

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

Potential impact

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

Examples of mitigation

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

Strategic focus



KEY PERSONNEL

Risk

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

Potential impact

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

Examples of mitigation

- In order to attract and retain talent, both succession and personal development plans are in place throughout the Group. In addition, target-led, performance-related incentive schemes exist
- The UK decision to exit the European Union could impact on the availability of talent in the job market and the eligibility for individuals to work in certain jurisdictions, making this a risk that is monitored carefully

Strategic focus



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

Financial review

RESULTS UNDERPINNED
BY TIGHT COST MANAGEMENT

SEGMENTAL PERFORMANCE

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

UK

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

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

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

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

International

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

Strategic report

Financial review continued

Table 1: Financial summary

£m	52 weeks to 2 September 2017	52 weeks to 27 August 2016	53 weeks to 3 September 2016	% change (52 v. 52)
Gross transaction value ^{1,2}				
UK	2,350.0	2,352.1	2,386.2	(0.1%)
International	604.1	543.8	552.3	11.1%
Group	2,954.1	2,895.9	2,938.5	2.0%
Statutory revenue ^{1,2}				
UK	1,892.9	1,906.6	1,931.9	(0.7%)
International	442.1	403.8	409.8	9.5%
Group	2,335.0	2,310.4	2,341.7	1.1%
Group like-for-like sales movement ³				2.1%
Group gross margin movement ⁴				(30 bps)
EBITDA ^{1,5,6}				
UK	174.0	193.6	198.6	(10.1%)
International	43.0	39.8	41.1	8.0%
Group	217.0	233.4	239.7	(7.0%)
Operating profit ^{1,6}				
UK	74.0	94.9	98.0	(22.0%)
International	33.5	31.7	33.0	5.7%
Group	107.5	126.6	131.0	(15.1%)
Underlying profit before tax ⁶	95.2	114.1	118.2	(16.6%)
Exceptional items	(36.2)	(12.4)	(12.4)	
Reported profit before tax	59.0	101.7	105.8	(42.0%)
Underlying earnings per share ⁶	6.4p	7.5p	7.8p	(14.7%)
Basic earnings per share	4.0p	6.7p	7.0p	(40.3%)
Dividend per share	3.425p	3.425p	3.425p	0.0%
	2 September 2017	3 September 2016		
Net debt	275.9	279.0		
Net debt : EBITDA (last 12 months) ⁶	1.3x	1.2x		

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

- 1 UK operating segment comprises stores in the UK and online sales to UK addresses. International operating segment comprises the international franchise stores, the owned stores in Denmark and the Republic of Ireland and online sales to addresses outside the UK.
- 2 Gross transaction value (GTV): sales on a gross basis before adjusting for concessions, consignments and staff discounts. Statutory revenue: sales after adjusting for these items.
- 3 Like-for-like sales movement relates to sales from stores which have been open for more than 12 months plus online sales.
- 4 Gross margin: GTV less the value of cost of goods sold, as a percentage of GTV.
- 5 EBITDA is earnings before interest, taxation, depreciation and amortisation (including loss on disposal of fixed assets).
- 6 Before exceptional items, comprising costs associated with the Strategic Review and the restructure of Warehouses and Logistics (FY2016: comprising restructure costs in the Republic of Ireland relating to the examinership process, restructure costs associated with streamlining support centre and a charge relating to the cost of writing off intangible systems assets following the launch of the new International website.)

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

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

GROUP SALES AND PROFITS

Sales and revenue

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

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

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

Table 2: Contribution to sales growth

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

Operating profit¹

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

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

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

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

Net finance costs

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

¹ All items stated before exceptional charges.



Exceptional items

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

Strategic review and restructuring

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

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

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

Strategic warehouse restructuring

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

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

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

Profit before tax

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

Taxation

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

Profit after tax

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

Earnings per share

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

Cash flow and uses of cash

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

Operating cash flow before financing and taxation reduced from £113.7 million to £75.6 million as a result of lower EBITDA and exceptional payments relating to FY2017 (£8.5 million) and FY2016 (£7.4 million).

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

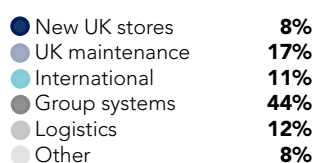
Capital expenditure

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

Read more on
pages 104-105

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

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

Figure 1: Capital expenditure**Table 4: Key balance sheet items**

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

Inventory

Stock levels continued to be managed tightly during the year, reflecting the ongoing strategy to plan the business prudently.

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

Dividends

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

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

Net debt

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

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

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

Pensions

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

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

The agreement replaced an agreement made in 2015 under which the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in the retail price index ("RPI") over the year to the previous December. Additionally during October 2017, the Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Read more on
pages 124-127

OUTLOOK AND GUIDANCE

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

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

Impact of currency depreciation on sourcing costs

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

maintain our competitive position, reacting to market conditions as appropriate.

Expected impact of exceptional costs in FY2018 and FY2019

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

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

How we will measure progress

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

Uncertain trading environment

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

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

Matt Smith
Chief Financial Officer
26 October 2017

Viability statement

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

Debenhams has developed an annual three year strategic plan, which considers the Group's cash flows, dividend cover and other financial key performance indicators over this period. The three year strategic plan takes into consideration sensitivities that encompass a wide spectrum of potential outcomes including changes in like-for-like sales, margin rate, costs, capital expenditure forecasts and franchise store opening plans.

These scenarios are designed to explore the resilience of Debenhams to the potential impact of the Principal risks set out on pages 28 to 30, or a combination of those risks. The directors paid particular attention to the following principal risks:

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

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

The directors have assessed the viability of Debenhams over the three year period to 29 August 2020. This period has been selected because it reflects the pace of change in retail; uncertainty surrounding the UK's decision to exit the European Union; aligns with the Group's plans under its Debenhams Redesigned strategy and its three year planning process; and presents the board and the readers of the annual report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

The board is in agreement that Debenhams is a viable business and the viability statement can be found in the directors' report on page 79.

In making this statement the directors have considered the resilience of Debenhams, taking account of its current position and historical financial performance, the principal risks facing the business in severe but theoretical scenarios, and the effectiveness of any mitigating actions. This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period.

As noted in note 21 of the financial statements on page 115, the Group's revolving credit facility is due to expire in June 2020 and contains an option to request an extension to June 2021. The directors have no reason to believe that future financing facilities will not be available when the current facility expires.

The financial position of the Group, including information on cash flow, can be found in the financial review section on pages 31 to 36. In addition, the financial statements include notes on finance costs (page 106) and financial risk management including treasury policies on interest rate, liquidity, currency and credit risk pages 117 to 121.

STRATEGIC REPORT

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

Matt Smith
Chief Financial Officer
26 October 2017