19 April 2018

DEBENHAMS PLC – INTERIM RESULTS

Accelerating Debenhams Redesigned strategy in a fast-changing market

Debenhams plc, the international department store destination, today announces interim results for the 26 weeks to 3 March 2018.

Strategic Update

Accelerating Debenhams Redesigned strategy.

- Strengthened senior management team with key hires at all levels including new MD of Fashion & Home
- Delivered Digital growth ahead of the market, driven by website improvements and mobile platform acceleration
- Encouraging results from new store format trials, roll out of activity to cover c.35% of UK store sales base
- Established partnerships in furniture with Maisons du Monde and Swoon, as we continue to test profitable opportunities to deliver exciting new products and services to our customers

Focusing on five priority actions to mitigate fast-changing market conditions and drive progress in FY2019:

1. Delivering above-market digital sales growth driven by technological change focused on mobile
2. Sustaining leadership in Beauty through innovative customer engagement both in-store and online
3. Revitalising fashion product under new leadership, with Designers@Debenhams refresh under way
4. Changing in-store experience for customers both through redesigned service model and store presentation
5. Accelerating cost-reduction activity to underpin additional annualised savings of £20m identified in January 2018

Financial and Operational Highlights

26 weeks to 3 March 2018 (£m)	**H1 FY18**	**HI FY17**	**YOY % change**
Group gross transaction value	1,650.1	1,676.5	(1.6%)
Group EBITDA*	103.5	149.1	(30.6%)
Underlying profit before tax*	42.2	87.8	(51.9%)
Reported profit before tax	13.5	87.8	(84.6%)
Underlying EPS* (p)	2.8	5.8	(51.7%}
Dividend per share (p)	0.50p	1.025p	(51.2%)
Net Debt	248.2	216.9	14.4%

**before exceptional charges of £28.7m*

- Like-for-like sales ("LFL") declined 2.2% with constant currency LFL at (2.8%), against a challenging UK market background. The final trading week was disrupted by extreme weather conditions, temporarily closing almost 100 stores during our New Season Spectacular. This is estimated to have reduced LFL by c.1.0% for the half
- Digital growth of +9.7% continued to outpace the overall market, driven by further strong growth in mobile and improved conversion rates. Our Destination categories of Beauty and Food also delivered positive growth, whilst we have held share in a weak Clothing market
- A disappointing Christmas season saw an increase in competitor discounting. Group gross margin rate declined 160 bps reflecting clearance of Gift ranges and management of seasonal stocks in reaction to this environment
- This has impacted UK EBITDA, which declined 39.3% whilst International EBITDA grew by 2.6%, with Magasin du Nord in Denmark delivering further progress
- Underlying profit before tax of £42.2m is stated before exceptional charges in relation to Debenhams Redesigned strategy of £28.7m but after higher depreciation costs associated with investment in the strategy
- Net debt was £248.2m and the Group had headroom of £271.8m on its committed £520m financing facilities
- The Board has decided, in line with our stated priorities for capital and targeted earnings cover of around 2x, that the interim dividend will be rebased to 0.50p per share
- Based on our current view of the second half of the financial year, FY2018 PBT is expected to be at the lower end of the current range of broker forecasts of £50m to £61m[1].

[1] *Company-compiled consensus published on www.debenhamsplc.com*

Sergio Bucher, CEO, commented:

"The UK retail environment is undergoing profound change, and with the help of some important new senior hires, we are moving faster and working harder than ever to ensure Debenhams is well-placed to outperform in this new retail world. We expect no help from the external environment, so we are focused on delivering our Debenhams Redesigned strategy, aiming to mitigate difficult trading conditions through self-help initiatives.

"It has not been an easy first half and the extreme weather in the final week of the half had a material impact on our results. But I am hugely encouraged by the progress we are making to transform Debenhams for our customers. Our digital growth continues to outpace the market while our store in Stevenage was recently named best new store at the Retail Week Awards. We are holding share in a difficult fashion market, and in other categories such as furniture, exciting new partnerships have the potential to transform our offer. We approach the remainder of the year mindful of the very challenging market conditions, but with confidence that we have a strong team and the right plan to navigate them and return Debenhams to profitable growth."

Presentation

A presentation for analysts and investors will be held today (Thursday 19 April 2018) at 8.45am 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/ddkmumqe

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STRATEGIC AND OPERATIONAL REVIEW OF THE HALF YEAR

Debenhams announced a new strategy in April 2017, Debenhams Redesigned, which is transforming our business to fit the way our customers' shopping habits are changing. The pace of change in retail has quickened and in response we have accelerated our plans, while focusing on measures to mitigate the difficult trading environment.

Debenhams Redesigned is defined by leadership 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.

Below we briefly outline progress and plans within the framework of our strategy, particularly focusing on how we can deliver five key priorities identified for the coming year:

- Deliver above-market growth in **digital sales**, as a result of investment in mobile, digital marketing and improved customer experience
- Drive growth in **Beauty** through a new strategy that will build closer interaction with our customers via innovative digital and social activity, including the next generation Beauty Club
- Focus on improving our **fashion product**, revitalising our Designer portfolio and offering exciting brands and relevant product with more frequent newness in our ranges
- Change the **in-store experience** for our customers; both through "Service Redesigned" and upgraded presentation of our fashion and accessories departments
- Deliver **cost reduction** activity including restructuring in stores and at our support centre, to underpin the additional £20 million net cost savings announced in January 2018, and to create a more flexible operating model

DIGITAL

What we have done

- Digital sales grew 9.7% in the half, which was above current market growth[2], with EBITDA growth of 10.3%. Digital sales accounted for 21% of our UK business in the first half, with strong growth in Beauty, up 16% year on year. Confidence in our improved service supported an acceleration in digital sales over the Christmas peak, with two year growth of c30% in the key period.
- Our mobile site is our largest and fastest-growing 'store' now attracting more than 150 million visits and with annualised revenues approaching £250 million. Mobile demand has continued to drive performance, with orders via smartphones growing 35% in H1, and now accounting for 33% of digital sales. Our partnership with Mobify to implement progressive web application technology - focusing initially on the speed of our mobile website - has helped to drive a 16% improvement in smartphone conversion rates. We have also launched it on our Irish and International websites with an even more positive response.
- We have upgraded photography and presentation in product categories including lingerie, swimwear, menswear and womenswear. Separately, our online analytics, multi-variant testing and agile development teams have identified and driven >300 small enhancements to our mobile shopping experience.

What we are going to do

- One of our priorities is to deliver above-market growth in digital sales. Alongside the roll-out across categories of better photography and clear, complete product information, we have just launched Mobify on tablets, which account for c.25% of digital sales, delivering a similar improvement in download speed. Early results show a similar positive response from customers. Later this year, we will be able to offer the same benefits to desktop users.

[2] BRC non-food online growth for 3m ended February 2018 +6.5%

- The next area of focus is on our search engine, with more flexibility embedded into the function to deliver faster "get to product" results. Currently only 60% of browsing customers reach this point in the transaction and each percentage improvement should deliver a meaningful sales contribution.
- To support this we plan to take a more aggressive approach in digital marketing, particularly where there is an opportunity to drive store traffic. Already one third of digital transactions include a store as part of the journey. The ability to interact with mobile customers – via push notifications, for example – will support our ambition to drive faster digital growth as well as to personalise customer relationships.

DESTINATION AND DIFFERENT

BEAUTY PRODUCTS AND SERVICES

What we have done

- In a competitive and promotional beauty market, we delivered positive growth in the first half.
- The successful relaunch of our Beauty Club loyalty programme last year has delivered an increased base of engaged customers, at 1.3 million.
- We have also launched our first three blow LTD. in-store departments, offering a suite of beauty services as the first stage of our plan to deliver a differentiated and disruptive proposition in this large and fragmented market.

What we are going to do

- We are a leader in the Premium Beauty market, with an ambition to grow our sales to £1 billion, and have identified categories where we can extend our offer: for example, bringing a wider choice of brands in smaller markets and expanding in the growing male grooming sector.
- An important part of our future plans is to increase digital and social interaction with our customers. To this end, we plan to launch the next generation interactive Beauty Club, building on our improved mobile capabilities, later this year. Meanwhile, six beauty brand pages are launching online this month with enhanced search visibility.
- Additionally, we are working on the concept for our Beauty Hall of the future, which will be an innovative, interactive and digitally-integrated format, including beauty services and an events space, launching in two stores this autumn. Elements of this will be rolled across a further 20 stores in time for the Christmas peak.

FASHION & HOME

What we have done

- We have strengthened the senior management team in Fashion and Home with key hires, including Steven Cook as MD of this business unit, who was previously at Canadian department store retailer Holt Renfrew.
- Our focus on reducing overlap between brands has supported maintained market share in womenswear[3] in the first half, which we aim to build on with progressive product improvements this season and next.
- In particular, we have seen a strong performance this season in certain brands where we have delivered a clear product point of view and a tighter brand focus. This includes Star by Julien Macdonald – one of our more long-term Designer collaborations – and Mantaray, which is a core brand but with a clearly differentiated handwriting, where we have extended more fashion-led product further down the chain.

What we are going to do

- One of our five priority actions is to improve our fashion product offer. Under the new team, we will deliver progressive improvement in our fashion ranges, with a significant step forward next season. Our ongoing investment to deliver a more flexible and speedy supply chain will deliver more frequent newness in season – which will encourage our customers to visit more frequently - and importantly, more opportunity to repeat our

[3] Kantar Worldpanel data 24 weeks to 11 March 2018

best sellers. As an example of fast turnaround of new product, this season we are testing a curated collection of European brands, Brand MRKT, available online and in 45 stores, which has had a very positive early response.

- A refresh of Designers@Debenhams is under way. In line with our plans to adopt a more robust approach to brand management, we will be phasing out our long-standing collaborations with designers John Rocha and Jeff Banks. Our new season Studio by Preen ranges will offer upgraded premium fabrics whilst maintaining affordable price points and in May we will launch a capsule Designer range online and in flagship stores with award-winning London Fashion Week designer, Richard Quinn.
- Currently, our own bought furniture business is loss making and sub-scale. We intend progressively to phase out this category, focusing on our core strength in home accessories and soft furnishings, whilst developing a series of partnerships with successful furniture retailers such as Maisons du Monde and online pure-player Swoon. The first trial locations have opened in Westfield White City, Manchester and Birmingham.

MEETME@DEBENHAMS

What we have done

- Food has grown 10% in H1 driven by further roll-out of new offers and operational improvements driven by our new food services team.
- We have tested a new food concept, Loaf & Bloom, in two locations and also continued the roll-out of third party formats with seven new offers.
- With four food offers now open at our Stevenage store, including our first Nando's, this category has outperformed expectations even more than our fashion and home offer and currently accounts for c.30% of sales in this location, well ahead of our target company penetration of c10%.

What we are going to do

- We are continuing to refine the trial of Loaf & Bloom, which is now out-performing the previous food service offer it has replaced.
- We are scoping the potential for roll-out of this format, in the context of the broader opportunity we see in health and wellbeing categories.
- We are also testing a new own bought format that has potential in locations with a more traditional catchment, which will offer a fresh spin on some classic British dishes. We will continue to roll out third party food brands, with a further 10 new offers in H2.

SIMPLIFY AND FOCUS TO DELIVER EFFICIENCY

OPERATING MODEL

What we have done

- We have begun to implement a new operating model to simplify processes and introduce a flatter management structure which will support faster decision-making. In the first phase, we have removed 320 store management roles, and plan to reinvest some of the savings in customer-facing staff. We have reduced the number of staff grades in our UK support centres from 17 to nine, and consolidated our London office from five floors to four, reducing occupancy costs in the building by approximately 20%.
- Following the successful roll-out of Direct-to-Floor distribution, we have also activated the first stage of the automation of our distribution centres. Certain stores are now receiving their deliveries fully sorted by division, making processing and floor replenishment in stores much more effective.
- Alongside reducing tasks to allow store colleagues to be more customer-facing, we have launched a 'Service Redesigned' programme with dedicated training and incentives and a mystery shopping programme. As a result we have maintained the double digit improvement in net promoter scores as reported in October.

What we are going to do

- As announced in January, this restructuring activity, which is continuing, is expected to underpin the additional annualised savings of £20 million, of which £10 million will be delivered in H2, and the balance next year.
- We launched a new Central Planning function in February 2018 which is focusing on the way we merchandise and plan ranges more closely to the customer.
- This is an important part of our plan to build our ranges online first, using data analytics.

REAL ESTATE STRATEGY

What we have done

- We announced a year ago 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 closed the first two of these, in Farnborough and Eltham, in January 2018. We also opened one new store at Wolverhampton.
- For our continuing estate we have learnt some important lessons from our newest "test lab" store at Stevenage where we have adopted an operating model that is cheaper and more flexible than our traditional store model.
- At our Uxbridge store, we have reduced the store footprint by 20% with a commensurate reduction in rent, and refitted the continuing store along similar lines to Stevenage. Since its relaunch in November the store is tracking ahead of target, with store EBITDA outperforming the chain average by approximately 20%.

What we are going to do

- Our average store lease length stands at 18 years with low average rents per square foot. We continue to look forward, taking into account channel shifts, to assess the future profitability of certain more marginal stores. Currently, we do not see any material change to our existing store closure plans. However, we will keep this under review and in the meantime approximately 25 stores will come up for lease renewal in the next five years, providing an opportunity to mitigate future rental commitments.
- We are also in consultation with landlords about further opportunities to right-size a number of stores, following the successful model at Uxbridge. We see potential for a total of at least 30 stores to be right-sized under this approach, with Wimbledon the next location to proceed. At the same time, we continue to develop partnership opportunities, such as the existing trial with Sweat! Gyms, that will allow us to make more effective use of low density footage.
- We plan to modernise a further four stores this year, as well as opening a new store containing the prototype for our Beauty Hall of the Future at Watford early in FY2019. We have conducted remerchandising trials in some existing stores based on the fashion layout tested in our Stevenage store. For a small capital outlay we have seen a mid-single digit uplift in the departments affected. We plan to apply these principles across all fashion and home departments in three stores this season, with a further 15-20 ready for autumn/winter 18. These initiatives will be delivered within our current capex plans.

INTERNATIONAL UPDATE

Debenhams' International business accounted for c.20% of Group GTV and over 30% of EBITDA in H1 2018.

What we have done

- Our largest international profit centre, Magasin du Nord in Denmark, grew GTV by 4% and EBITDA by 6% to £20.1 million, building on its consistent track record of good sales and profit improvement. This performance was supported by a new food hall in the Copenhagen flagship as well as further upgrading of the beauty hall, and very strong digital growth.

- Our Irish stores have suffered some of the same market pressures as the UK but nevertheless continue to benefit from the restructuring achieved in 2016.
- Our core Middle Eastern franchise markets have continued to suffer a difficult geo-political climate but remain an important part of our future strategy. We launched our first Southern Hemisphere store with our franchise partner in Australia in Melbourne last September.
- We are continuing to exit low-profit, low-growth activities and markets – three in this half - as we focus on improving the profitability of our International operations.

What we are going to do

- Magasin du Nord plans to become the destination for the best Scandinavian brands to the world online, leveraging its fulfilment and operating model. As well as opening a new Danish store at Aalborg later this year, Magasin will launch click and collect across its chain. New digital market entries in both Sweden and Norway are planned over the next two years.
- 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. Our new franchise service model offers our continuing partners better visibility of product and improved seasonal and continuity ranges. We have just opened our largest international store at the Avenues, Kuwait, applying some of the lessons from our UK "test lab" at Stevenage.
- We have seen rapid growth in our emerging brand representation on third party sites, particularly for Faith shoes and B by Ted Baker lingerie. Our Baker lingerie and childrenswear ranges will soon be available on Ted Baker's own website. 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.

FINANCIAL REVIEW OF THE HALF YEAR

FINANCIAL SUMMARY

	26 weeks to 3 March 2018	26 weeks to 4 March 2017	% change
Gross transaction value[1,2]			
UK	£1,303.3m	£1,344.7m	(3.1%)
International	£346.8m	£331.8m	+4.5%
Group	£1,650.1m	£1,676.5m	(1.6%)
Statutory revenue[1,2]			
UK	£1,065.9m	£1,106.3m	(3.7%)
International	£253.3m	£244.8m	+3.5%
Group	£1,319.2m	£1,351.1m	(2.4%)
Group like-for-like sales movement[3]			(2.2%)
Group gross margin movement[4]			(160bps)
EBITDA[1,5,6]			
UK	£71.6m	£118.0m	(39.3%)
International	£31.9m	£31.1m	+2.6%
Group	£103.5m	£149.1m	(30.6%)
Operating profit[1,6]			
UK	£19.7m	£67.5m	(70.8%)
International	£26.8m	£26.4m	+1.5%
Group	£46.5m	£93.9m	(50.5%)
Underlying Profit before tax[6]	£42.2m	£87.8m	(51.9%)
Exceptional items[6]	(£28.7m)	-	(100.0%)
Reported Profit before tax	£13.5m	£87.8m	(84.6%)
Underlying earnings per share[6]	2.8p	5.8p	(51.7%)
Basic earnings per share	0.9p	5.8p	(84.5%)
Dividend per share	0.50p	1.025p	(51.2%)
	3 March 2018	**4 March 2017**	
Net debt	£248.2m	£216.9m	
Net debt : EBITDA (last 12 months)	1.4x	0.9x	

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 property, plant and equipment).
6. Before exceptional items, comprising costs associated with the Strategic review and the restructure of Warehouses and Logistics.

SEGMENTAL PERFORMANCE

UK

Gross transaction value (GTV) for the UK segment decreased by 3.1% to £1,303.3 million and reported revenue reduced by 3.7% to £1,065.9 million. The GTV decline was a result of a volatile and highly competitive market throughout the period, particularly seen through weaker demand in areas of more discretionary spend. This was exacerbated by extreme weather conditions at the tail end of the half during a key promotional final week, where heavy snow temporarily closed almost 100 stores (including those in Ireland). This had a c.1% negative impact on the first half like-for-like sales performance. Despite the difficult backdrop, we have managed to grow sales in our Destination categories, with growth in food and beauty categories over last year of 10% and 1% respectively.

In response to competitor discounting, we have managed inventory tightly through additional tactical promotional activity. However, the first week of post-Christmas Sale was below expectations despite further markdown investment, particularly in the highly seasonal Gift category. This has been reflected in weaker gross margins, but as a result we have exited the season with a clean stock position, and in line with last year.

EBITDA before exceptional charges decreased by 39.3% to £71.6 million as a result of the disappointing sales, and additional markdown required. Operating profit before exceptional costs for the year, after increased depreciation costs arising from capital expenditure as we invested in our Debenhams Redesigned strategy, decreased by 70.8% to £19.7 million.

International

In the International segment gross transaction value of £346.8 million was 4.5% higher than last year and reported revenue increased by 3.5% to £253.3 million. This has been driven by an improvement in performance from Magasin du Nord, which has benefited from strong digital growth, and together with the Republic of Ireland, was supported by stronger Euro and Danish Kroner exchange rates. On a constant currency basis, International gross transaction value increased by 1.8%.

International EBITDA grew by 2.6% to £31.9 million, with operating profit increasing by 1.5% to £26.8 million as a result of the sales growth.

GROUP SALES AND PROFITS

Sales and revenue

Group gross transaction value decreased by 1.6% to £1,650.1 million whilst Group revenue decreased by 2.4% to £1,319.2 million. Group like-for-like sales decreased by 2.8% on a constant currency basis and 2.2% as reported.

The constant currency like-for-like sales growth reflects the mix from stores to digital, with like-for-like digital growth of 9.7%, with overall digital representing 18.4% of group gross transaction value (2017: 16.6%). The components of the gross transaction value decrease of 1.6% and like-for-like sales decline of 2.2% are shown below:

UK stores	(4.1%)
UK digital	+1.1%
International	+0.2%
Like-for-like sales – constant currency	(2.8%)
Exchange rate impact	+0.6%
Like-for-like sales - reported	(2.2%)
New UK space	+0.3%
Franchise/Wholesale	+0.3%
GTV movement	(1.6%)

Group own bought mix decreased from 74.5% in 2017 to 72.5% mainly as a result of the movement in the UK mix, with the sales growth from Concessions, especially in food, increasing at a faster rate.

Operating profit

Group margin rate has been significantly impacted by the additional markdown in response to competitive discounting and to ensure a clean stock position for the new season. This mitigates some of the momentum we have achieved over the past three years where 240 bps of markdown savings were delivered. The growth in beauty, gifting and concession categories, which are dilutive to gross margin relative to higher-margin own bought clothing categories, has continued to impact sales mix and combined with the additional markdown this has resulted in a gross margin rate reduction of 160 bps.

Costs increased by 1.5% driven by the impact of foreign exchange rates and growth in digital, although efficiencies continue to be realised in this channel. On a constant currency basis, total costs increased by 1.0%. As part of our plan to simplify and focus our operations, we have been working on a new, more flexible operating model that will result in reorganisation and restructuring activity both in our stores and in our support centre. As identified in January 2018, as a result of this and a review of central costs, we expect to generate further annualised savings of c£20 million, of which c£10 million will be realised in H2 FY2018.

Depreciation and amortisation increased by 3.3% to £57.0 million, reflecting investment in capital expenditure over the last few years.

As a result of the above, Group operating profit before exceptional costs of £46.5 million was 50.5% below last year for the 26 weeks to 3 March 2018.

Net finance costs

Net finance costs decreased by 29.5% to £4.3 million, benefiting from a £1.0 million pension valuation credit associated with the pension surplus in accordance with IAS 19 revised "Employee benefits" (2017: £nil).

Exceptional items

Total exceptional items before taxation recognised during the 26 weeks ended 3 March 2018 in relation to the strategic review and restructuring were £28.7 million (26 weeks ended 4 March 2017: £nil; 52 weeks ended 2 September 2017: £36.2 million).

During 2017, the Group announced a new strategy, Debenhams Redesigned, and embarked on a period of significant change, investment and innovation. During the 26 weeks ended 3 March 2018, the following exceptional costs were incurred relating to that change:

	£m
Strategic review and restructuring	15.1
Strategic review of operating model	7.1
Strategic warehouse restructuring	6.5
Total exceptional charges	28.7

a) Strategic review and restructuring

Given the significant changes that are taking place across the retail sector and aligned to the Debenhams Redesigned strategy the Group is reviewing all of its operations, focusing on improving productivity and restructuring to ensure we are well positioned for the future. Following this review the Group has recognised non-cash exceptional costs of £15.1 million in relation to impairment of property, plant and equipment, onerous lease commitments and write-off legacy IT system assets.

b) Strategic review of the operating model
During the 26 weeks ended 3 March 2018, as part of the Debenhams Redesigned strategy to simplify and focus the business, the Group developed a new, more flexible operating model resulting in reorganisation and restructuring activity both in stores and the support centres. Exceptional costs of £5.2 million relating to redundancies, recruitment, professional fees and directly attributable Human Resources staff time were recognised. This activity will continue into the second half of the year and as a result, in order to encourage more collaborative working the fifth floor of the London support centre will no longer be required. In January 2018 we agreed to sublet that space and as a result incurred a £1.9 million charge relating to the write-off of assets no longer required and associated legal fees.

c) Strategic warehouse restructuring
During 2017 the Group embarked on a strategic warehouse restructuring which included warehouse automation and the closure of its distribution centre at Northampton and certain regional warehousing facilities. Total exceptional items before taxation recognised during the 26 weeks ended 3 March 2018 in relation to the strategic warehouse restructuring were £6.5 million (26 weeks ended 4 March 2017: £nil; 52 weeks ended 2 September 2017: £12.7 million).

Profit before tax

Underlying profit before tax before exceptional items decreased by 51.9% to £42.2 million (2017: £87.8 million). Reported profit before tax after exceptional items decreased by 84.6% to £13.5 million (2017: £87.8 million).

Taxation

Taxation excluding the impact of exceptional items decreased from £16.2 million last year to £7.7 million, principally due to a decrease in reported profits. The effective tax rate excluding the impact of exceptional items of 18.2% was broadly level with last year.

Profit after tax

Profit after tax but before exceptional items decreased by 52.5% to £34.0 million. Profit after tax after accounting for exceptional items decreased by 84.9%.

Share of loss of non-integral associate

On 5 September 2017, the Group acquired a stake in blow LTD. for a cash consideration of £7.5 million. For the period from acquisition to 3 March 2018, the Group incurred a £0.5m charge relating to the share of losses of blow LTD.

Earnings per share

Underlying basic and diluted earnings per share, before exceptional items, decreased by 51.7% to 2.8 pence. The basic weighted average number of shares in issue increased from 1,227.1 million last year to 1,227.8 million and the diluted weighted average number of shares increased from 1,227.3 million to 1,232.4 million. Reported basic and diluted earnings per share decreased by 84.5% to 0.9 pence.

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. Then, we pay our shareholders a dividend, whilst as we communicated in October 2015, we continue to have a medium-term financial leverage target to reduce net debt.

Operating cash flow before financing and taxation decreased from £108.7 million to £63.1 million, driven by a reduction in EBITDA and increased capital spend, partly offset by timing benefits in working capital which are expected to reverse in the remainder of the year.

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

£m	26 weeks to 3 Mar 2018	26 weeks to 4 Mar 2017
EBITDA	103.5	149.1
Working capital	38.2	7.1
Cash generated from operations	141.7	156.2
Capital expenditure	(60.3)	(47.5)
Exceptional items	(10.8)	-
Investment in associate	(7.5)	-
Operating cash flow before financing & taxation	63.1	108.7
Taxation	(0.4)	(8.7)
Financing	(4.9)	(6.7)
Dividends paid	(29.4)	(29.4)
Other movements	(0.7)	(1.8)
Change in net debt	27.7	62.1
Opening net debt	275.9	279.0
Closing net debt	248.2	216.9

Capital expenditure

Capital expenditure was £60.3 million during the half compared to £47.5 million in the same period last year. This is in line with our plans and is due to an increased focus on warehouse automation.

Inventory

Stock levels were managed tightly during the first half, reflecting the requirement to exit the season clean despite the tough trading environment. Total stock value increased by 0.1% to £318.3 million. Terminal stock of 2.9% was in line with our historical range of 2.5% to 3.5%. We continue to target working capital efficiencies.

Dividends

Total cash paid in dividends of £29.4 million related to the 2017 final dividend of 2.4 pence per share that was paid to shareholders on 19 January 2018.

The directors have resolved to pay an interim dividend in respect of the 26 weeks ended 3 March 2018 of 0.50 pence per share (4 March 2017: 1.025 pence) which will absorb an estimated £6.1 million of shareholders' funds (4 March 2017: £12.6 million). It will be paid on 6 July 2018 to shareholders who are on the register of members at close of business on 8 June 2018.

Net debt

The Group's net debt position as at 3 March 2018 of £248.2 million was £31.3 million higher than at the same point last year (2017: £216.9 million).

The ratio of net debt to EBITDA of 1.4 times compares with 0.9 times at the same point last year, the increase in the ratio is a result of the movement in profits this year.

The Group had net debt headroom of £271.8 million at 3 March 2018. 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 3 March 2018 was £91.5 million (4 March 2017: net surplus of £46.8 million). The surplus was driven by a reduction in scheme liabilities.

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 next actuarial valuation is at 31 March 2020.

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.

GUIDANCE FOR FY2018

Guidance for FY2018 has been revised and is shown below. Following the shortfall in H1 gross margin as flagged in January, full year gross margin guidance is revised to c. (100bps) from c. (25bps). We have revised cost growth from c. 1% growth to growth of 0% to 1%. We have revised expected capital expenditure from £150 million to £140 million, reflecting revised priorities for spending as indicated in January. Other guidance is broadly unchanged.

Gross margin	c. (100 bps)
Total cost growth	+0% to +1%
Depreciation & amortisation	c.£115m
Net finance costs	£10-£12million
Taxation*	c.20%
Capital expenditure	c.£140 million
Net Debt	£300-£320 million

**after exceptional charges*

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. Our average hedging rate for FY2019 is currently c.$1.35 to £1. 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 October 2017 that exceptional costs over the period of implementing the Debenhams Redesigned strategy would amount to approximately £55 million spread over three years, of which approximately half would be cash costs. We now expect exceptional costs to be approximately £85 million over the three year period, of which approximately £50 million will be cash costs. The exceptional costs are expected to be higher as a result of

- c.£13 million higher store impairment and onerous lease costs (non-cash) arising from a weaker than expected trading performance;
- c.£15 million from staff operating model changes that were not within the original plan (cash). This is expected to deliver annualised savings of £15 million, which is within the £20 million of additional cost savings announced in January 2018.

OUTLOOK

Our Debenhams Redesigned strategy was established with the expectation of continuing change in the UK retail environment. The market dynamics we have seen have reinforced our view that we need to move even faster to implement the cultural and organisational changes needed to ensure Debenhams is in the best possible shape to compete effectively in the future.

We have strengthened the management team with some important new hires. We are making good progress in delivering planned cost savings, we see encouraging signs of progress in our strategy and in some areas, by using partnerships we will be able to accelerate the pace of change. As we implement our five point action plan including self-help initiatives that will help to mitigate the challenging trading background, we remain confident that we have the right team and the right plan to return Debenhams to profitable growth.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties remain as 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

The board of directors as at 19 April 2018 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) and Lisa Myers (independent non-executive director). Martina King's third three year term comes to an end on 31 July 2018, on which date she will step down from the Board. Nicky Kinnaird will take over as Chair of the Remuneration Committee.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors confirm that to the best of their knowledge:

- the condensed consolidated interim financial statements for the 26 weeks ended 3 March 2018 have been prepared in accordance with IAS 34 as adopted by the European Union;
- the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events and their impact during the first 26 weeks and description of principal risks and uncertainties for the remaining 26 weeks of the year); and
- the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

The directors of Debenhams plc are listed above.

By order of the Board

Sergio Bucher
Chief Executive
19 April 2018

Matt Smith
Chief Financial Officer

NOTES TO EDITORS

Debenhams is a leading international, department store destination with a proud British heritage which trades out of 241 stores across 22 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, Julien Macdonald, Savannah Miller, Jenny Packham, Richard Quinn, Aliza Reger, John Rocha, Ashley Thomas, Justin Thornton and Thea Bregazzi, 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.

Independent review report to Debenhams plc

Report on the interim condensed consolidated financial statements

Our conclusion

We have reviewed Debenhams plc's condensed consolidated interim financial information. (the "interim financial statements") in the interim results of Debenhams plc for the 26 week period ended 3 March 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 3 March 2018;
- the condensed consolidated income statement and the condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

Our responsibility is to express a conclusion on the interim financial statements in the interim results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP

Chartered Accountants
London
19 April 2018

a) The maintenance and integrity of the Debenhams plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Condensed Consolidated Income Statement

For the 26 weeks ended 3 March 2018

	Note	Unaudited 26 weeks to 3 March 2018			Unaudited 26 weeks to	Audited 52 weeks to 2 September 2017		
		Before exceptional items £m	**Exceptional items (note 5) £m**	**Total £m**	4 March 2017 Total £m	Before exceptional items £m	Exceptional items (note 5) £m	Total £m
Revenue	2, 3	**1,319.2**	**-**	**1,319.2**	1,351.1	2,335.0	-	2,335.0
Cost of sales		**(1,167.8)**	**(20.8)**	**(1,188.6)**	(1,158.5)	(2,046.1)	(24.1)	(2,070.2)
Gross profit		**151.4**	**(20.8)**	**130.6**	192.6	288.9	(24.1)	264.8
Distribution costs		**(74.7)**	**(5.8)**	**(80.5)**	(68.7)	(124.5)	(10.6)	(135.1)
Administrative expenses		**(30.2)**	**(2.1)**	**(32.3)**	(30.0)	(56.9)	(1.5)	(58.4)
Operating profit	4	**46.5**	**(28.7)**	**17.8**	93.9	107.5	(36.2)	71.3
Finance income	7	**1.1**	**-**	**1.1**	0.1	0.1	-	0.1
Finance costs	8	**(5.4)**	**-**	**(5.4)**	(6.2)	(12.4)	-	(12.4)
Profit before taxation		**42.2**	**(28.7)**	**13.5**	87.8	95.2	(36.2)	59.0
Taxation	9	**(7.7)**	**5.5**	**(2.2)**	(16.2)	(17.2)	7.0	(10.2)
Profit for the financial period before share of non-integral associate		**34.5**	**(23.2)**	**11.3**	71.6	78.0	(29.2)	48.8
Share of loss of non-integral associate		**(0.5)**	**-**	**(0.5)**	-	-	**-**	-
Profit for the financial period After share of non-integral associate		**34.0**	**(23.2)**	**10.8**	71.6	78.0	(29.2)	48.8

Earnings per share attributable to the owners of the parent (pence per share)

	Note							
Basic earnings per share	10	**2.8**		**0.9**	5.8	6.4		4.0
Diluted earnings per share	10	**2.8**		**0.9**	5.8	6.4		4.0

The notes on pages 23-35 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 3 March 2018

	Note	**Unaudited 26 weeks to 3 March 2018 £m**	Unaudited 26 weeks to 4 March 2017 £m	Audited 52 weeks to 2 September 2017 £m
Profit for the financial period		**10.8**	71.6	48.8
Other comprehensive income				
Items that will not be reclassified to the income statement				
Remeasurements of pension schemes	15	**7.4**	46.1	76.7
Taxation relating to items that will not be reclassified		**(4.5)**	(10.0)	(18.5)
		2.9	36.1	58.2
Items that may be reclassified to the income statement				
Change in value of available-for-sale investments		**(0.2)**	(0.1)	(0.1)
Currency translation differences:				
- retranslation of overseas subsidiaries		**(2.3)**	1.0	5.9
Foreign currency cash flow hedges:				
- fair value (losses)/gains		**(17.1)**	25.0	4.6
- recycled and adjusted against cost of inventory		**4.5**	(30.0)	(50.4)
Cash flow hedges reclassified and reported in the income statement		**-**	0.2	0.2
Taxation relating to items that may be reclassified		**1.4**	(0.2)	8.2
		(13.7)	(4.1)	(31.6)
Total other comprehensive (expense)/income		**(10.8)**	32.0	26.6
Total comprehensive income for the financial period		**-**	103.6	75.4

The notes on pages 23-35 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Balance Sheet
As at 3 March 2018

	Note	**Unaudited 3 March 2018 £m**	Unaudited 4 March 2017 £m	Audited 2 September 2017 £m
Assets				
Non-current assets				
Intangible assets	12	**995.3**	978.3	991.9
Property, plant and equipment	12	**637.4**	646.6	654.9
Investments in joint ventures and associates	13	**7.0**	-	-
Available-for-sale investments	14	**1.0**	1.2	1.2
Derivative financial instruments	14	**0.8**	8.8	0.5
Trade and other receivables		**18.8**	18.4	19.3
Retirement benefit surplus	15	**91.5**	46.8	80.9
Deferred tax assets		**16.0**	16.8	15.3
		1,767.8	1,716.9	1,764.0
Current assets				
Inventories		**318.3**	318.0	317.8
Trade and other receivables		**84.7**	78.4	82.9
Derivative financial instruments	14	**2.3**	40.8	4.8
Cash and cash equivalents	20	**39.1**	40.0	40.0
		444.4	477.2	445.5
Liabilities				
Current liabilities				
Bank overdraft and borrowings	20	**(88.3)**	(57.2)	(116.4)
Derivative financial instruments	14	**(17.2)**	(7.3)	(12.0)
Trade and other payables		**(558.0)**	(533.0)	(523.3)
Current tax liabilities		**(11.1)**	(24.0)	(9.8)
Provisions	17	**(14.2)**	(7.5)	(10.2)
		(688.8)	(629.0)	(671.7)
Net current liabilities		**(244.4)**	(151.8)	(226.2)
Non-current liabilities				
Bank overdraft and borrowings	20	**(199.0)**	(199.7)	(199.5)
Derivative financial instruments	14	**(6.8)**	(0.9)	(5.3)
Deferred tax liabilities		**(57.9)**	(55.5)	(54.0)
Other non-current liabilities	16	**(353.0)**	(351.9)	(351.7)
Provisions	17	**(16.3)**	-	(9.7)
		(633.0)	(608.0)	(620.2)
Net assets		**890.4**	957.1	917.6
Equity				
Share capital	18	**0.1**	0.1	0.1
Share premium account		**682.9**	682.9	682.9
Merger reserve		**1,200.9**	1,200.9	1,200.9
Reverse acquisition reserve		**(1,199.9)**	(1,199.9)	(1,199.9)
Hedging reserve		**(17.3)**	26.2	(6.2)
Other reserves		**(6.1)**	(8.4)	(3.5)
Retained earnings		**229.8**	255.3	243.3
Total equity		**890.4**	957.1	917.6

The notes on pages 23-35 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

For the 26 weeks ended 3 March 2018

	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 2 September 2017	683.0	1,200.9	(1,199.9)	(6.2)	(3.5)	243.3	917.6
Profit for the financial period	-	-	-	-	-	10.8	10.8
Other comprehensive (expense)/income for the financial period	-	-	-	(11.1)	(2.6)	2.9	(10.8)
Total comprehensive (expense)/income for the financial period	**-**	**-**	**-**	**(11.1)**	**(2.6)**	**13.7**	**-**
Share-based payment charge	-	-	-	-	-	0.8	0.8
Dividends paid	-	-	-	-	-	(29.4)	(29.4)
Unallocated dividend						1.4	1.4
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**(27.2)**	**(27.2)**
Balance at 3 March 2018	**683.0**	**1,200.9**	**(1,199.9)**	**(17.3)**	**(6.1)**	**229.8**	**890.4**

	Share capital and share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 3 September 2016	683.0	1,200.9	(1,199.9)	31.2	(9.3)	178.0	883.9
Profit for the financial period	-	-	-	-	-	71.6	71.6
Other comprehensive (expense)/income for the financial period	-	-	-	(5.0)	0.9	36.1	32.0
Total comprehensive (expense)/income for the financial period	-	-	-	(5.0)	0.9	107.7	103.6
Share-based payment credit	-	-	-	-	-	(0.2)	(0.2)
Dividends paid	-	-	-	-	-	(29.4)	(29.4)
Purchase of shares by the Debenhams Retail Employment Trust 2004	-	-	-	-	-	(0.8)	(0.8)
Total transactions with owners	-	-	-	-	-	(30.4)	(30.4)
Balance at 4 March 2017	683.0	1,200.9	(1,199.9)	26.2	(8.4)	255.3	957.1

	Share capital and share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserves £m	Retained earnings £m	Total equity £m
Balance at 3 September 2016	683.0	1,200.9	(1,199.9)	31.2	(9.3)	178.0	883.9
Profit for the financial 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 23-35 form an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

For the 26 weeks ended 3 March 2018

	Note	**Unaudited 26 weeks to 3 March 2018 £m**	Unaudited 26 weeks to 4 March 2017 £m	Audited 52 weeks to 2 September 2017 £m
Cash flows from operating activities				
Cash generated from operations	19	**130.9**	156.2	200.4
Finance income		**-**	-	0.1
Finance costs		**(4.9)**	(6.7)	(11.2)
Tax paid		**(0.4)**	(8.7)	(16.3)
Net cash generated from operating activities		**125.6**	140.8	173.0
Cash flows from investing activities				
Purchase of property, plant and equipment		**(45.1)**	(22.9)	(72.6)
Purchase of intangible assets		**(15.2)**	(24.6)	(52.2)
Investment in joint venture and associates	13	**(7.5)**	-	-
Net cash used in investing activities		**(67.8)**	(47.5)	(124.8)
Cash flows from financing activities				
Repayment of revolving credit facility		**(11.0)**	(75.0)	(25.0)
Dividends paid		**(29.4)**	(29.4)	(42.0)
Purchase of shares by Debenhams Retail Employee Trust 2004		**-**	(0.8)	(0.8)
Finance lease payments		**(0.8)**	(0.6)	(1.6)
Net cash used in financing activities		**(41.2)**	(105.8)	(69.4)
Net increase/(decrease) in cash and cash equivalents	20	**16.6**	(12.5)	(21.2)
Net cash and cash equivalents at beginning of financial period		**19.7**	40.8	40.8
Foreign exchange (losses)/gains on cash and cash equivalents		**(0.1)**	-	0.1
Net cash and cash equivalents at end of financial period	20	**36.2**	28.3	19.7

The notes on pages 23-35 form an integral part of this condensed consolidated interim financial information.

Condensed notes to the financial statements

1 General information and basis of preparation

General information

The Group's interim condensed consolidated financial information is not audited and does not constitute statutory financial statements as defined in Section 434 of the Companies Act 2006. The comparative figures for the 52 weeks ended 2 September 2017 and the 26 weeks ended 4 March 2017 are consistent with the Group's 2017 annual report and financial statements and interim financial statements respectively.

The report of the auditors for the financial statements for the 52 weeks ended 2 September 2017 was unqualified, did not contain an emphasis of matter paragraph and did not include a statement under Section 498 of the Companies Act 2006. The full financial statements for those 52 weeks have been filed with the Registrar of Companies.

Basis of preparation

This interim report has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and IAS 34 "Interim Financial Reporting" as adopted by the European Union. The condensed consolidated financial statements for the 26 weeks ended 3 March 2018 should be read in conjunction with the annual financial statements for the 52 weeks ended 2 September 2017 which have been prepared in accordance with International Financial Reporting Standards (IFRSs) including International Accounting Standards ("IAS") and IFRS Interpretations Committee ("IFRS IC") interpretations as adopted by the European Union.

Accounting policies

The Group's principal accounting policies used in preparing this information are as stated in the financial statements for the 52 weeks ended 2 September 2017, which are available on our website www.debenhamsplc.com.

IFRS 16 "Leases" was issued on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for lease contracts, subject to limited exceptions for short-term leases and leases of low value assets.

The 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, collection of relevant data from different areas of the business and consideration of the methodology for calculating the discount rate. In order to quantify the impact of IFRS 16, judgements are required which include, amongst others, the lease term, including consideration of extension options and the discount rate.

IFRS 16 is expected to have a material impact on the balance sheet as both assets and liabilities will increase and is also expected to have a material impact on key components within the income statement because operating lease rental charges will be replaced by depreciation and finance costs. IFRS 16 will not have any impact on the underlying commercial performance of the Group nor the cash flow generated in the year. It is not possible to provide an accurate assessment of the effect of this standard until a detailed review has been completed on an individual lease basis.

The following standards and amendments apply for the first time in the current financial year. They are not expected to have a material impact on the consolidated financial information of the Group:
IFRS 9 "financial Instruments" The standard is effective for accounting periods beginning on or after 1 January 2018
IFRS15 "Revenue from Contracts with Customers" is effective for periods beginning on or after 1 January 2018.

The critical accounting estimates and judgements made by management in applying the Group's accounting policies are consistent with those detailed on page 103 of the annual report and financial statements for the 52 weeks ended 2 September 2017 except for taxes on income in the interim periods which are accrued using the tax rate that would be applicable to the expected total annual profit or loss. The principal risks and uncertainties are set out on page 15 of this interim report.

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures "APMs", which are not defined or specified under the requirements of IFRS and therefore may not be directly comparable with other companies' APMs. The Group believes that these APMs, which are not considered a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how business performance is planned and reported within the internal management reporting to the board and executive committee. Some of the measures are also used for the purpose of setting remuneration targets.

The key APMs that the Group uses include gross transaction value; like-for-like sales; gross margin; underlying profit before tax before exceptional items; underlying earnings per share before exceptional items; underlying Group earnings before interest, taxation, depreciation, amortisation and exceptional items ("underlying EBITDA"); effective tax rate; net debt and return on capital employed. Each of these APMs and others used by the Group, are set out in the Glossary on pages 36 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

2 Gross transaction value

Revenue from concession and consignment sales is required to be shown on a net basis, being the commission receivable rather than the gross value achievable on the sale. Management believes that gross transaction value ('GTV'), which presents revenue on a gross basis before adjusting for concessions, consignments and staff discounts, represents a good guide to the overall activity of the Group.

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Gross transaction value	**1,650.1**	1,676.5	2,954.1

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

3 Segmental information

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

The Group's reportable segments have been identified as UK and International representing the geographical areas in which the Group operates. The UK segment consists of the UK store and digital retail business. The International segment consists of subsidiaries in the Republic of Ireland and Denmark, together with international franchise and digital 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 £m**	**International £m**	**Total £m**
26 weeks ended 3 March 2018	**1,303.3**	**346.8**	**1,650.1**
Gross transaction value			
Concessions, consignments and staff discounts	**(237.4)**	**(93.5)**	**(330.9)**
External revenue	**1,065.9**	**253.3**	**1,319.2**
Operating profit before exceptional items	**19.7**	**26.8**	**46.5**
Exceptional items	**(28.7)**	**-**	**(28.7)**
Operating profit after exceptional items	**(9.0)**	**26.8**	**17.8**
26 weeks ended 4 March 2017			
Gross transaction value	1,344.7	331.8	1,676.5
Concessions, consignments and staff discounts	(238.4)	(87.0)	(325.4)
External revenue	1,106.3	244.8	1,351.1
Operating profit	67.5	26.4	93.9
52 weeks 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

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

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Total operating profit	**17.8**	93.9	71.3
Finance income	**1.1**	0.1	0.1
Finance costs	**(5.4)**	(6.2)	(12.4)
Total profit before taxation	**13.5**	87.8	59.0

4 Operating profit

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

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Amounts of inventory written down during the financial period	**7.5**	5.3	9.7
Cost of inventory recognised as an expense	**697.8**	680.3	1,151.3
Depreciation and amortisation	**58.1**	55.0	109.5
Impairment of property, plant and equipment (note 12)	**5.8**	-	7.2
Loss on disposal and write off of property, plant and equipment and intangible assets	**2.3**	0.2	5.8
Operating lease rentals	**113.1**	112.3	221.4
Foreign exchange gains	**(16.7)**	(23.8)	(49.4)

5 Exceptional items

Exceptional items comprise the following:

26 weeks to 3 March 2018	**Cost of sales £m**	**Distribution costs**	**Administrative expenses**	**Operating profit**	**Taxation £m**	**Total £m**
Strategic review and restructuring	20.1	-	2.1	22.2	(4.2)	18.0
Strategic warehouse	0.7	5.8	-	6.5	(1.3)	5.2
	20.8	**5.8**	**2.1**	**28.7**	**(5.5)**	**23.2**
26 weeks ended 4 March 2017	**-**	**-**	**-**	**-**	-	-
52 weeks to 2 September 2017						
Strategic review	21.1	0.9	1.5	23.5	(4.9)	18.6
Strategic warehouse restructuring	3.0	9.7	-	12.7	(2.1)	10.6
	24.1	10.6	1.5	36.2	(7.0)	29.2

Strategic review
Total exceptional items before taxation recognised during the 26 weeks ended 3 March 2018 in relation to the strategic review and restructuring were £22.2 million (26 weeks ended 4 March 2017: £nil; 52 weeks ended 2 September 2017: £23.5 million).

Strategic review and restructuring

Given the significant changes that are taking place across the retail sector and aligned to the Debenhams Redesigned strategy the Group is reviewing all of its operations, focussing on improving productivity and restructuring to ensure we are well positioned for the future. Following this review the Group has recognised exceptional costs of £15.1 million in relation to impairment of property, plant and equipment, onerous lease commitments, and write off of the IT legacy systems.

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 review of the operating model
During the 26 weeks ended 3 March 2018, as part of the Debenhams Redesigned strategy to simplify and focus the business, the Group developed a new, more flexible operating model resulting in reorganisation and restructuring activity both in stores and the support centres. Exceptional costs of £5.2 million relating to redundancies, recruitment, professional fees and directly attributable Human Resourcing staff time were recognised during the 26 weeks ended 3 March 2018. This activity will continue into the second half of the year and as a result, in order to encourage more collaborative working the fifth floor of the London support centre is no longer required. In January 2018 we agreed to sublet that space and as a result incurred a £1.9 million charge relating to writing off assets no longer required and associated legal fees.

Costs incurred in relation to the strategic review of the operating model 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 2017 the Group embarked on a strategic warehouse restructuring which included warehouse automation and the closure of its distribution centre at Northampton and certain regional warehousing facilities. Total exceptional items before taxation recognised during the 26 weeks ended 3 March 2018 in relation to the strategic warehouse restructuring were £6.5 million (26 weeks ended 4 March 2017: £nil; 52 weeks ended 2 September 2017: £12.7 million).

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.

6 Employment costs

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Wages and salaries including restructuring costs and other termination benefits	**188.9**	188.5	366.5
Social security cost	**11.9**	11.5	23.0
Other pension costs	**8.9**	8.5	17.5
Share-based payments	**0.8**	(0.2)	0.5
	210.5	208.3	407.5

7 Finance income

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Interest on bank deposits	**0.1**	0.1	0.1
Net interest on net defined benefit pension schemes' asset	**1.0**	-	-
	1.1	0.1	0.1

8 Finance costs

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Interest payable on bank loans and overdrafts	**1.3**	1.4	2.8
Interest payable on senior notes	**5.2**	5.2	10.4
Cash flow hedges reclassified and reported in the income statement	**-**	0.2	0.2
Amortisation of issue costs on loans and senior notes	**0.5**	0.6	1.3
Interest payable on finance leases	**0.1**	0.1	0.2
Capitalised finance costs – qualifying assets	**(1.7)**	(1.3)	(2.5)
	5.4	6.2	12.4

9 Taxation

The taxation charge for the 26 weeks ended 3 March 2018 is based on an estimated effective tax rate for the full year of 18.2% (52 weeks ended 2 September 2017: 17.3%), which is lower than the blended standard rate of corporation tax of 19.0%. The difference primarily relates to a prior year adjustment.

10 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the financial period, excluding any shares purchased by the Company and held as treasury shares.

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

Basic and diluted earnings per share		**26 weeks to 3 March 2018**		26 weeks to 4 March 2017		52 weeks to 2 September 2017
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit for the financial period after taxation	**10.8**	**10.8**	71.6	71.6	48.8	48.8
Exceptional items after taxation (note 5)	**23.2**	**23.2**	-	-	29.2	29.2
Profit for the financial period after taxation – before exceptional items	**34.0**	**34.0**	71.6	71.6	78.0	78.0
	Number m	**Number m**	Number m	Number m	Number m	Number m
Weighted average number of shares	**1,227.8**	**1,227.8**	1,227.8	1,227.8	1,227.8	1,227.8
Shares held by ESOP (weighted)	**-**	**-**	(0.7)	(0.7)	-	-
Shares issuable (weighted)	**-**	**4.6**	-	0.2	-	1.2
Weighted average number of shares used in calculating earnings per share	**1,227.8**	**1,232.4**	1,227.1	1,227.3	1,227.8	1,229.0
	Pence per share	**Pence per share**	Pence per share	Pence per share	Pence per share	Pence per share
Earnings per share	**0.9**	**0.9**	5.8	5.8	4.0	4.0
Earnings per share - before exceptional items	**2.8**	**2.8**	5.8	5.8	6.4	6.4

11 Dividends

The Company paid a final dividend in respect of the 52 weeks ended 2 September 2017 of 2.4 pence per share on 19 January 2018. The directors have resolved to pay an interim dividend in respect of the 26 weeks ended 3 March 2018 of 0.5 pence per share (4 March 2017: 1.025 pence) which will absorb an estimated £6.1 million of shareholders' funds (4 March 2017: £12.6 million). It will be paid on 6 July 2018 to shareholders who are on the register of members at close of business on 8 June 2018.

12 Intangible assets and property, plant and equipment

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Opening net book amount	**1,646.8**	1,632.3	1,632.3
Additions:			
- Intangible assets	**15.2**	26.5	53.3
- Property, plant and equipment	**38.6**	20.0	78.4
Foreign currency revaluation	**(1.7)**	1.3	5.3
Disposals and write offs	**(2.3)**	(0.2)	(5.8)
Depreciation and amortisation	**(58.1)**	(55.0)	(109.5)
Impairment losses	**(5.8)**	-	(7.2)
Closing net book amount	**1,632.7**	1,624.9	1,646.8

Capital commitments contracted but not provided for by the Group amounted to £4.6 million (2 September 2017: £0.5 million; 4 March 2017: £4.3 million).

The total goodwill which arose upon the acquisition of the Group in 2004 is £819.4 million at 3 March 2018. The Group has carried out an impairment test at 3 March 2018 following the procedure as that described in the financial statements on 2 September 2017. The impairment review performed considers the value-in-use calculation based on the new Debenhams Redesigned strategy which aims to drive growth and deliver cost reductions across the Group. The key assumptions in determining the value in use calculation are the discount rate at 7.4%, a short term average UK EBITDA growth rate at 3% and a long term UK EBITDA growth rate at 1%.

The test leads to a recoverable amount in excess of its value-in-use at 3 March 2018. Whilst management believes that the assumptions used are realistic, a sensitivity analysis of the test has been performed on each of these key assumptions in isolation, considering reasonable possible changes to the assumptions. An increase of 0.5% to the discount rate or a reduction of 1% in the short term average UK EBITDA growth rate would not lead to impairment. A reduction of the long term UK EBITDA growth rate from 1% to zero would lead to a possible impairment of £28 million.

13 Investments in joint ventures and associates

On 5 September 2017, the Group acquired a stake in blow LTD. for a cash consideration of £7.5 million. blow LTD. provides beauty services and is registered in the UK.

	3 March 2018 £m
Aggregate carrying amount of associate	**7.5**
Group's share of losses for the year	**(0.5)**
Closing net book amount	**7.0**

14 Financial risk factors and financial instruments

The Group's activities expose it to a variety of financial risks which include funding and liquidity risk, credit risk, foreign exchange risk, interest rate risk and other price risk. The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and

they should be read in conjunction with the Group's annual financial statements as at 2 September 2017. There have been no changes in risk management procedures and policies since 2 September 2017.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1 – Quoted prices (unadjusted) based on active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices)
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

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

	Level 1 £m	**Level 2 £m**	**Total £m**
At 3 March 2018			
Assets			
Available-for-sale financial investments	**1.0**	**-**	**1.0**
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	**-**	**1.5**	**1.5**
- Other forward foreign currency contracts	**-**	**1.6**	**1.6**
Total assets	**1.0**	**3.1**	**4.1**
Liabilities			
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	**(4.4)**	**(4.4)**
- Other forward foreign currency contracts	-	**(19.6)**	**(19.6)**
Total liabilities	-	**(24.0)**	**(24.0)**

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

	Level 1 £m	Level 2 £m	Total £m
At 2 September 2017			
Assets			
Available-for-sale financial investments	1.2	-	1.2
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	5.2	5.2
- Other forward foreign currency contracts	-	0.1	0.1
Total assets	1.2	5.3	6.5
Liabilities			
Derivative financial instruments:			
- Forward foreign currency contracts held as cash flow hedges	-	(17.3)	(17.3)
Total liabilities	-	(17.3)	(17.3)

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers of assets or liabilities between levels of the fair value hierarchy in the current period (26 weeks ended 4 March 2017: no transfers).

During the financial year ended 2 September 2017 the Group closed out certain forward foreign currency contracts and reset the contracts to current market rates. As a result of this transaction, cash amounting to £10.1 million was received. The gains on these forward foreign currency contracts are being recycled from the hedging reserve as the contracts reach expiry. The Group's accounting policy for forward foreign currency contracts that qualify as cash flow hedges is shown on pages 99 and 100 of the Group's 2017 annual report and financial statements.

Available-for-sale financial investments within the level 1 hierarchy level relate to the Group's holding at 3 March 2018 of 10% (4 March 2017: 10%) of the issued shares of Ermes Department Stores Plc ("Ermes"), a company listed on the Cyprus Stock Exchange whose shares are quoted in Euros. The fair value of Ermes is based on the market price at the balance sheet date. At 3 March 2018, if the market value of equity investments had been 10% higher/lower, when all other variables were held constant:

- Net profit would have been unaffected as the equity investments were classified as available-for-sale investments
- Other reserves would increase/decrease by £0.1 million (4 March 2017: £0.1 million) for the Group as a result of the changes in the fair value of available-for-sale investments

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

The fair value of forward foreign currency contracts has been determined based on discounted market forward currency exchange rates at the balance sheet date.

There were no material differences between the carrying value of cash and cash flow equivalents, trade and other receivables, trade and other payables, current borrowings and lease obligations and their fair values at the balance sheet date. At 3 March 2018 the carrying value of the Group's senior notes debt was £199.6 million (4 March 2017: £199.0 million) and the fair value of this debt was £191.1 million (4 March 2017: £213.0 million).

15 Retirement benefit schemes

The Group operates defined contribution pension schemes for its employees.

The Group also operates defined benefit type pension schemes, being the Debenhams Executive Pension Plan ("DEPP") and the Debenhams Retirement Scheme ("DRS") (together "the Group's pension schemes"), the assets of which are held in separate trustee-administered funds. The Group's pension schemes were closed to future service accrual from 31 October 2006. The closure to future accrual will not affect the pensions of those who have retired or the deferred benefits of those who have left service or opted out before 31 October 2006.

On 6 October 2017, the actuarial valuation of the Group's pension schemes at 31 March 2017 was completed, concluding that DEPP was fully funded on a technical provisions basis and on a technical provisions basis DRS had improved since the previous actuarial valuation but remained in deficit. Therefore the Group agreed a recovery plan for DRS which was intended to restore the scheme to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £5.0 million per annum to the pension schemes for the period from 1 September 2017 to 31 March 2022. The agreement replaced an agreement made in 2015 under which the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. Additionally during October 2017, the Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Employees make no further contributions to the schemes.

Further details of the Group's pension arrangements are set out in pages 124 to 127 of the annual report and financial statements for the 52 weeks ended 2 September 2017.

The major assumptions used by the actuary were:

	3 March 2018 per annum %	4 March 2017 per annum %	2 September 2017 per annum %
Inflation assumption	**3.3**	3.3	3.2
General salary and wage increase	**3.3**	3.3	3.2
Rate of increase in pension payments and deferred payments	**3.3**	3.3	3.2
Pension increase rate	**3.2**	3.2	3.1
Discount rate	**2.5**	2.5	2.4

The amounts recognised in the balance sheet were:

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Total market value of assets	**1,089.5**	1,089.3	1,123.4
Present value of scheme liabilities	**(998.0)**	(1,042.5)	(1,042.5)
Net surplus in pension schemes	**91.5**	46.8	80.9
Analysed as:			
DEPP scheme surplus	**38.6**	17.6	22.3
DRS scheme surplus	**52.9**	29.2	58.6

The movement in the net pension surplus/(deficit) during the financial period was:

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Net surplus/(deficit) in the schemes at the start of the financial period	**80.9**	(4.1)	(4.1)
Movement in the financial period:			
- Company contributions	**3.0**	5.6	9.8
- Current service cost (including expenses)	**(0.8)**	(0.8)	(1.5)
- Net interest on net defined benefit asset/liability	**1.0**	-	-
- Re-measurements of pension schemes	**7.4**	46.1	76.7
Net surplus in the schemes at end of the financial period	**91.5**	46.8	80.9

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

The table below illustrates the estimated impact on the schemes' liabilities as a result of movements in the principal assumptions used to measure those liabilities.

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Increase in schemes' liabilities arising from:			
- a 0.5% increase in inflation	**75.7**	115.7	113.2
- a 0.5% reduction in the discount rate	**99.0**	126.1	123.3
- a one year increase in life expectancy	**32.7**	27.9	27.3

A 0.5% reduction in the inflation assumption, a 0.5% increase in the discount rate assumption and a one year reduction in the life expectancy assumption would result in an equal and opposite change in the schemes' liabilities. The above sensitivities relate purely to liabilities. Inflation and discount rate movements may be mitigated by a similar offsetting movement in the schemes' assets.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be accumulated.

16 Other non-current liabilities

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Property lease incentives received	**353.0**	351.9	351.7

Property lease incentives received from landlords, either through developers' contributions or rent-free periods, are recognised as non-current liabilities and are credited to the income statement on a straight line basis over the term of the relevant lease. Property lease incentives received also relate to the spreading of the charges in respect of leases with fixed annual increments in rent (escalating rent clauses) over the term of the relevant lease.

17 Provisions

	Promotional activities £m	**Property £m**	**Restructuring £m**	**Total £m**
At 2 September 2017	6.0	10.2	3.7	19.9
Charged to the income statement	10.1	9.6	3.6	23.3
Released to the income statement	-	(1.4)	-	(1.4)
Utilised during the financial period	(8.9)	(0.3)	(2.1)	(11.3)
At 3 March 2018	**7.2**	**18.1**	**5.2**	**30.5**

	3 March 2018 £m	4 March 2017 £m	2 September 2017 £m
Current	**14.2**	7.5	10.2
Non-current	**16.3**	-	9.7
Total	**30.5**	7.5	19.9

Promotional activities provision
Provisions for promotional activities represent deferred income relating to the internal beauty and cardholder loyalty schemes in the UK and the reward scheme in the Republic of Ireland. They are expected to be utilised during the next 12 months and have been analysed as current.

Property provisions
Property provisions comprise onerous lease provisions and dilapidations provisions. The Group has recognised a net onerous property provision charge in the financial period of £7.2 million (52 weeks ended 2 September 2017: £5.9 million) which has been recognised as an exceptional item within strategic review and restructuring and strategic warehouse restructuring (note 5).

Onerous lease provisions are based on the lower of the net cost of fulfilling or exiting the contract. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the Group's risk-free rate of 1.8% (2 September 2017: 1.8%). Onerous lease provisions will be utilised over the relevant lease terms, predominantly within the next ten years.

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

Restructuring provision

The restructuring provision arose as a result of the strategic review and restructuring programme that Debenhams is currently undergoing. The £3.4 million charge for the financial period relates to redundancies, recruitment, professional fees and directly attributable human resourcing staff time (52 weeks ended 2 September 2017: £5.2 million, principally relating to the support centre and the closure of the Group's distribution centre at Northampton). The provision is expected to be utilised over the next five years.

18 Share capital

	£	Number
Issued and fully paid - ordinary shares of £0.0001 each		
At 3 March 2018, 4 March 2017 and 2 September 2017	128,686	1,286,863,381

19 Cash generated from operations

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Profit before taxation	**13.5**	87.8	59.0
Depreciation and amortisation (note 12)	**58.1**	55.0	109.5
Impairment losses	**5.8**	-	7.2
Loss on disposal and write off of property, plant and equipment and intangible assets	**2.3**	0.2	5.8
Share-based payment charge/(credit)	**0.8**	(0.2)	0.5
Fair value losses/(gains) on derivative instruments	**1.7**	(7.6)	6.4
Net movements in provisions	**10.6**	(6.5)	5.9
Finance income (note 7)	**(1.1)**	(0.1)	(0.1)
Finance costs (note 8)	**5.4**	6.2	12.4
Net movement in close out of forward foreign currency contracts	**(5.4)**	-	(1.6)
Pension current service cost (note 15)	**0.8**	0.8	1.5
Cash contributions to pension schemes (note 15)	**(3.0)**	(5.6)	(9.8)
Net movement in other long-term receivables	**-**	(0.5)	(0.1)
Net movement in other non-current liabilities	**1.3**	(2.6)	(2.8)
Changes in working capital			
(Increase)/decrease in inventories	**(0.5)**	8.4	8.8
(Increase)/decrease in trade and other receivables	**(1.8)**	2.8	(1.4)
Increase/(decrease) in trade and other payables	**42.4**	18.1	(0.8)
Cash generated from operations	**130.9**	156.2	200.4

Cash payments in relation to exceptional costs were:

	26 weeks to 3 March 2018 £m	26 weeks to 4 March 2017 £m	52 weeks to 2 September 2017 £m
Exceptional items for the 26 weeks ended 3 March 2018	**7.8**	-	-
Exceptional items for the 52 weeks ended 2 September 2017	**3.0**	-	8.5
Exceptional items for the 53 weeks ended 3 September 2016	**-**	6.7	7.4
	10.8	6.7	15.9

20 Analysis of changes in net debt

	At 2 September 2017 £m	Cash flow £m	Foreign exchange losses £m	Non-cash movements £m	**At 3 March 2018 £m**
Analysis of net debt					
Cash and cash equivalents	40.0	(0.8)	(0.1)	-	**39.1**
Bank overdrafts	(20.3)	17.4	-	-	**(2.9)**
Net cash and cash equivalents	19.7	16.6	(0.1)	-	**36.2**
Debt due within one year	(94.5)	11.0	-	(0.3)	**(83.8)**
Debt due after one year	(197.9)	-	-	(0.3)	**(198.2)**
Finance lease obligations due within one year	(1.6)	0.8	-	(0.8)	**(1.6)**
Finance lease obligations due after one year	(1.6)	-	-	0.8	**(0.8)**
	(275.9)	28.4	(0.1)	(0.6)	**(248.2)**

At 3 March 2018, the Group’s drawings under credit facilities outstanding comprised revolving credit facility drawings of £84.0 million (52 weeks ended 2 September 2017: £95.0 million: 4 March 2017: £45.0 million).

21 Related parties

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

22 Financial information

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

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 2.
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 (4.1%) UK digital +1.1% International 0.2% Like-for-like-sales – constant currency[1] (2.8%) Exchange rate impact 0.6% Like-for-like sales movement - reported (2.2)% [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 46.5 Add: non-exceptional depreciation and amortisation 56.0 Add: non-exceptional loss on disposal of assets and asset write offs 1.0 Underlying Group EBITDA 103.5
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 10.
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 10.
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 20.
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.