Debenhams plc
Annual Report and Accounts 2012

A leading international, multi-channel brand

DEBENHAMS


THE TOWN
THE WOODS
DEBENHAMS

Business model

Understanding Debenhams

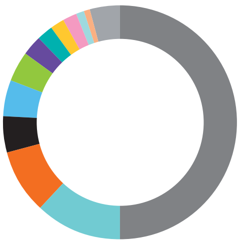
Debenhams is a leading international, multi-channel brand which is available in 92 countries through stores or online. We put our customers at the heart of everything we do and are truly passionate about the products that we sell, half of which are exclusive to Debenhams.

How we buy

A diverse supply chain

Our sourcing strategy is based on "right product, right country." We have been direct sourcing for many years, resulting in long-standing relationships with suppliers around the world. China/Hong Kong remains our largest sourcing hub whilst other countries like Bangladesh are growing. At all times we need to meet our customers' expectations that every one of our products is manufactured in a factory which is socially ethical and quality assurance compliant.

Country sourcing



Country	%
China/Hong Kong	50
India	12
Bangladesh	9
Vietnam	5
Romania	5
Turkey	4
Pakistan	3
Cambodia	2
UK	2
Sri Lanka	2
Morocco	1
Egypt	1
Rest of world	4

Direct vs indirect sourcing

	%
Direct	65
Indirect	35

65%
Direct sourcing in 2012

Read more about trends in sustainable sourcing in the Sustainability Review on **page 48**.

What we sell

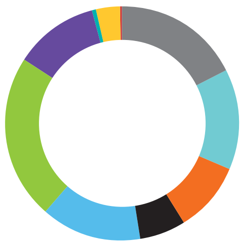
A unique, differentiated and exclusive product offer

Delivering a compelling customer proposition is a key part of our strategy. Our offer is unique through a combination of own brands, international and concession brands. It is exclusive through core and designer own brands which account for almost half of everything that we sell. It is differentiated through Designers at Debenhams, a portfolio of diffusion brands from some of the UK's top fashion designers. We also give our customers the wide choice of product categories that they expect from a department store.

Unique mix of brands

Sales by brand	%
Own bought core brands	28.9
Own bought designers brands	17.2
Own bought international brands	30.6
Concessions/consignment	23.3

Wide choice of product categories



Own bought sales by category	%
Womenswear	17.6
Menswear	13.8
Childrenswear	9.9
Lingerie	6.3
Accessories	14.0
Health & beauty	22.8
Home & furniture	11.5
Sports & leisure	0.5
Food services	3.4
Other	0.2

76.7%
2012 Own bought sales mix

Read more about "Delivering a compelling customer proposition" on **page 20**.

How we sell

Giving customers around the world more ways to shop

The Debenhams brand trades through 239 stores in 28 countries and is available online in 67 countries. Customers can also shop through smartphones, tablet computers and other mobile devices as well as more traditional sales channels such as catalogues and by telephone. Our flexible approach means that we can tailor our product range to meet the demands of a particular local market or channel.

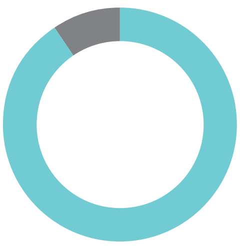
Store numbers

	No
UK	154
International - Ireland	11
International - Denmark	6
International - franchises	68

Gross transaction value by segment

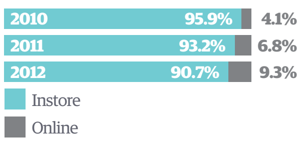
	£m
UK	2,204.6
International	503.4

Sales by channel



Channel	£m	%
Instore (UK and international)	2,457.4	90.7
Online (UK and international)	250.6	9.3

Sales by channel trend



239

Stores trading the Debenhams brand

Read more about how we are "Focusing on UK retail", "Increasing availability and choice through multi-channel" and "Expanding the brand internationally" on **pages 16 to 19, pages 24 to 27 and pages 28 to 31**.

Who we sell to

A family department store with something for everyone

Debenhams is a family department store that operates at the heart of the communities in which we are present. Our customer base reflects our family orientation. In 2012 we gained market share in key categories including womenswear, menswear, premium health & beauty and home & furniture. Over the past year we have focused communications with our customers on the "Life Made Fabulous" theme.

Frequency of visit

	%
Daily	2
2-3 times a week	8
Once a week	21
Once a fortnight	17
Once a month	23
Every couple of months	17
Less often	12

Market share by age

	%
Under 20	2.4
20-24 years	3.5
25-34 years	5.5
35-44 years	5.8
45-54 years	5.7
55-64 years	6.3
65+	5.2

Source: Kantar Worldpanel Fashion market share data 24 weeks to 2 September 2012

Market share gains in 2012

Total clothing	↑
Womenswear	↑
Menswear	↑
Childrenswear	↔
Health & beauty	↑
Home & furniture	↑

Source: Kantar, NPD, GfK

42

Average age of Debenhams customer

Read more about how we communicate with our customers through our marketing activities on **page 22**.

Highlights

Gross transaction value *

£2.7bn +2.6%

Revenue*

£2.2bn +2.5%

Profit before tax*

£158.3m +4.2%

Basic earnings per share *

9.8p +14.0%

Dividend per share**

3.3p +10.0%

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011
**52 weeks to 1 September 2012 vs 53 weeks to 3 September 2011

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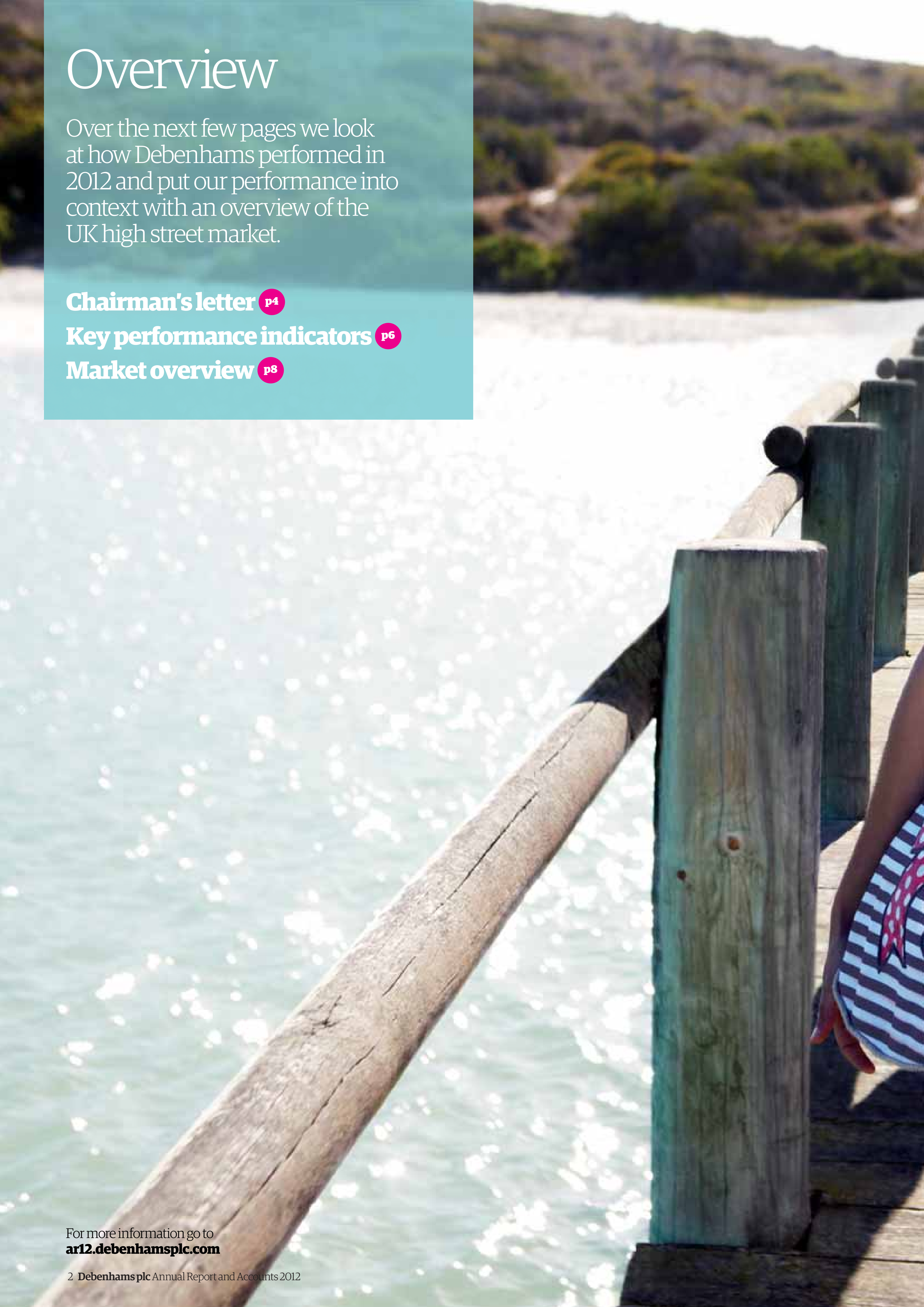
Note:
The 2012 financial year comprised 52 weeks to 1 September 2012 whereas the 2011 financial year comprised 53 weeks to 3 September 2011. The board believes that in order to have a proper understanding of the performance of the business, in many cases it is more appropriate to compare the 52 weeks of the 2012 financial year with the first 52 weeks of the 2011 financial year (the 52 weeks to 27 August 2011). The basis on which comparisons are made is clearly stated throughout this Annual Report and Accounts. Further details are set out in the Chief Financial Officer's review on **pages 34 to 38**.

To view our online report visit:
ar12.debenhamsplc.com



Overview

Over the next few pages we look at how Debenhams performed in 2012 and put our performance into context with an overview of the UK high street market.

Chairman's letter p4
Key performance indicators p6
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For more information go to
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Chairman's letter

Resilient performance in challenging markets

Nigel Northridge, Chairman

2012 was a year of celebration across the UK for many reasons, not least the Queen's Diamond Jubilee and the hosting of enormously successful Olympic and Paralympic Games. For retailers, however, it was one of the most challenging years on record.

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Dear shareholder

2012 was a year of celebration across the UK for many reasons, not least the Queen's Diamond Jubilee and the hosting of enormously successful Olympic and Paralympic Games. For retailers, however, it was one of the most challenging years on record.

A warm autumn/winter season was followed by a wet spring/summer season which depressed consumer demand in an already fragile environment. Despite this, I am delighted to tell you that Debenhams not only weathered these difficult conditions but came out in good shape. Our like-for-like sales performance during the year was by far the strongest for a number of years and we delivered our fourth successive year of profit before tax growth*.

This was Debenhams' first year under Michael Sharp's leadership. As a vastly experienced retailer with an unparalleled knowledge of and passion for Debenhams, the board was confident in Michael's ability to develop and execute a successful strategy that would write the next chapter in Debenhams' history. This has undoubtedly been the case. The strategy to create a leading multi-channel, international brand is centred around the four pillars, about which you can read more on pages 16 to 31. Our stakeholders – including our customers, employees, suppliers and of course shareholders – have responded well to this clear articulation of strategy and consistent delivery against it and we believe that our performance in 2012 is clear evidence that the strategy is working.

We are aware that capital allocation is a subject at the forefront of many shareholders' minds. The first priority for the use of capital in Debenhams is to invest in the strategy that Michael laid out in October 2011. Having reinstated the dividend in April 2011, we announced in October 2011 that we would commence a long-term share buyback programme in the second half of the year. This decision was based on the board's belief that there is little benefit to the business of sustaining leverage below one times net debt to EBITDA and that a share buyback programme is the most flexible method to return cash to shareholders. The buyback started in April 2012 and by the end of the financial year we had completed the initial tranche of £20 million. The programme will continue in the 2013 financial year.

Debenhams' Corporate Governance Report can be found on pages 58 to 62 of this Annual Report and the Remuneration Report on pages 66 to 74.

During the year, there were a number of changes to the board. Having joined Debenhams at the beginning of November 2011, Simon Herrick was appointed Chief Financial Officer at the Annual General Meeting in January 2012, replacing Chris Woodhouse who resigned from the board on that day. Adam Crozier stepped down from the board at the end of the financial year, having served as a non-executive director for more than six years. We thank Chris and Adam for their commitment to the business. Following Adam's resignation, Dennis Millard assumed chairmanship of the Remuneration Committee and Mark Rolfe succeeded Dennis as chairman of the Audit Committee.

In October 2012 we announced the appointment of Peter Fitzgerald to the board as a non-executive director. Peter has extensive experience in helping retail businesses to succeed online with market leaders Amazon and Google. We look forward to his contribution.

To succeed as we have done in such a difficult year has only been achieved through the dedication and hard work of the many thousands of people who work for Debenhams, in our stores, our head office locations, our international offices and our logistics and print operations. We do not take their support and enthusiasm for our business for granted. The board thanks each of them for the tremendous effort they made in 2012 and looks forward to another successful year in 2013.

Nigel Northridge
Chairman

We are aware that capital allocation is a subject at the forefront of many shareholders' minds. The first priority for the use of capital in Debenhams is to invest in the strategy that Michael laid out in October 2011.

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011

2012 performance
Key performance indicators

Group financial KPIs

Gross transaction value
Gross transaction value (GTV) is a measure of overall sales in the business and includes sales from own bought brands and concession brands. The board believes that GTV is a good guide to the overall level of activity in the Group.

2012 performance
Debenhams reported an increase in GTV of 2.6% in 2012. This was driven by like-for-like sales growth in stores and online in the UK and international businesses as well as new store space.

KPI
Gross transaction value

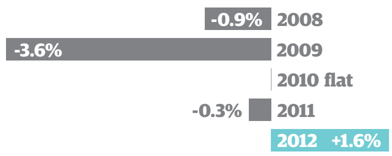
Further information

• Finance review p35

Like-for-like sales
Like-for-like sales measures the annual sales performance of stores that have been open for one year or more. The board therefore views it as a useful indication of organic sales growth across the business.

2012 performance
Like-for-like sales increased by 1.6% in 2012, the first time it has grown in the past five years. This was a good performance given the difficult market conditions that prevailed throughout the year. Further details on the drivers of like-for-like sales growth can be found on pages 36.

KPI
Like-for-like sales



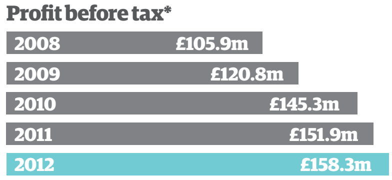
Further information

• Finance review p35

Profit before tax
Profit before tax is the board's principal measure of profitability. The use of headline profit before tax has now been discontinued as explained in the finance review on page 35.

2012 performance
Profit before tax grew by 4.2% in 2012 versus the prior year. The main drivers of growth were higher sales and a smaller interest charge as a result of reduced net debt and lower funding costs following refinancing of the bank facilities in July 2011.

KPI
Profit before tax*



*All numbers are before exceptionals

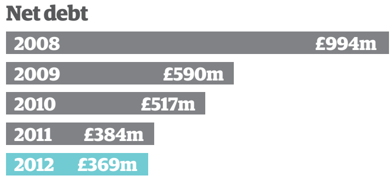
Further information

• Finance review p35

Net debt
Net debt is the KPI used by the board to measure balance sheet strength. It is vital that the Company has the right capital structure to support its strategic objectives.

2012 performance
Net debt continued to fall in 2012, ending the year £15 million lower than last year despite higher capex, payment of both the 2011 final dividend and 2012 interim dividend and the £20 million initial tranche of the long-term share buyback programme.

KPI
Net debt



Further information

• Finance review p37

All comparisons for 2011 are for the 52 weeks to 27 August 2011 unless otherwise stated.

Strategic KPIs

Focusing on UK retail – number of UK stores

Opening new stores in the UK will continue to be a driver of sales growth as detailed on page 18. Debenhams generates a strong return on investment on new stores, averaging c.40% for the 35 stores opened since 2007.

2012 performance

Two new stores were opened during 2012. The UK store portfolio comprised 154 stores at year end. The contracted store pipeline at the end of the year stood at 18 stores scheduled to open over the next five years. The first of these, Chesterfield, opened in September 2012.

KPI

UK stores

2008	138
2009	143
2010	149
2011	152
2012	154

Further information

- Strategy review p18

Delivering a compelling customer proposition – own bought sales mix

A key part of Debenhams' unique, differentiated and exclusive customer proposition is the high percentage of sales generated by own bought brands.

2012 performance

Group own bought sales mix was 76.7% in 2012, down slightly from 77.1% last year largely due to a better performance from some concession brands, the addition of new concessions in modernised UK stores and concession expansion online.

KPI

Own bought sales mix

2008	72.3%
2009	76.5%
2010	77.4%
2011	77.1%
2012	76.7%

Further information

- Strategy review p22

Increasing availability and choice through multi-channel – online sales

Online sales are a good indicator of the performance of Debenhams' multi-channel business. You can read more about the developments in this fast growing area on page 26.

2012 performance

2012 was another year of strong growth in online sales. Group sales increased by 39.8%, driven by increased choice of products, brands and ways to shop and a 54% increase in the number of visits to debenhams.com. The medium-term sales target for online is £600 million.

KPI

Online sales

2008	£42.1m
2009	£55.1m
2010	£104.1m
2011	£179.2m
2012	£250.6m

Further information

- Strategy review p26

Expanding the brand internationally – number of international stores

Debenhams' international activities comprise stores that we own in Denmark and the Republic of Ireland, the franchise stores and international online.

2012 performance

The number of international stores increased by four in 2012 due to franchise store openings. At the end of the year, the Debenhams brand traded from 85 stores in 27 countries: six in Denmark, 11 in the Republic of Ireland and 68 franchise stores in 25 countries.

KPI

International stores

2008	52
2009	63
2010	77
2011	81
2012	85

Further information

- Strategy review p30

All comparisons for 2011 are for the 52 weeks to 27 August 2011 unless otherwise stated.

Market overview

Putting our performance in context

Market conditions in 2012
Market conditions remained challenging throughout 2012. Macroeconomic factors were compounded by unseasonal weather throughout the year with a warm, dry autumn followed by a cold, wet spring and summer. The summer of 2012 saw an unprecedented number of special events including the Queen's Diamond Jubilee and the Olympic and Paralympic Games.

Consumer confidence

Consumer confidence in the UK remained in negative territory throughout 2012 (figure 1), causing Nick Moon, Managing Director of GfK Social Research, to comment that "confidence has never been so low for so long, even during the dark days of the 2008-2009 recession." The widely reported "feel good factor" from the various events that took place during the summer did not translate into discernible improvements in consumer confidence data.

High street sales

High street sales showed a fair degree of volatility in 2012, as measured by the BRC-KPMG Retail Sales Monitor (figure 2). The year-on-year percentage change in like-for-like sales declined in the unseasonably warm autumn months of October and November 2011 but recovered in December as peak trading finally got underway. April saw a sharp drop, although this is only to be expected given the very strong performance associated with the Royal Wedding in that month last year. June showed some growth, possibly driven by the long Diamond Jubilee weekend but the Olympic and Paralympic Games in July and August do not appear to have driven like-for-like sales growth on UK high streets.

Input costs

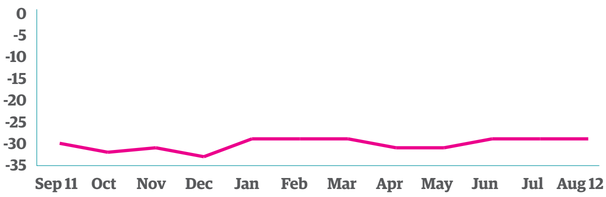
After a volatile year in 2011, input costs were far more stable in 2012. As can be seen in figure 3, cotton prices fell significantly from their 2010/11 highs leading to lower cotton fabric prices during the course of the year. Other fabric costs such as viscose, polyester and wool have also fallen. There is still pressure on input costs, however, from rising labour rates. The Chinese government's five year plan will increase minimum wages by 13% per annum. Labour costs are also rising in other countries, particularly Bangladesh. Freight rates have remained broadly flat with some shipping lines reducing tonnage due to falling demand. Sterling has appreciated against the main sourcing currencies including the Chinese yuan, US dollar and Indian rupee.

UK clothing market

The total market for clothing, footwear and accessories grew in 2012. In the 24 weeks to 2 September 2012, it increased by 0.3%. This was largely a result of increases in average prices which offset a decline in volume as shown in figure 4. Amongst the major product categories, the size of the womenswear market declined whilst menswear and childrenswear both grew.

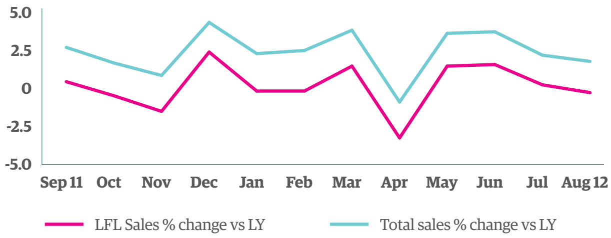
Market metrics

Figure 1
UK consumer confidence



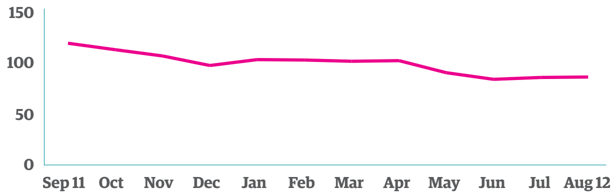
(Source: GfK Consumer Confidence Index Score)

Figure 2
UK high street sales (% change year-on-year)



(Source: BRC-KPMG Retail Sales Monitor)

Figure 3
Monthly average cotton prices (US cents per pound)



(Source: National Cotton Council of America "A" Index)

Figure 4
UK clothing market overview

	%
Total clothing/footwear/accessory units sold	-3.0
Total clothing/footwear/accessories average price	3.3
Total market for clothing/footwear/accessories	**0.3**

(Source: Kantar Worldpanel fashion market share 24 weeks to 2 September 2012 vs 2011)

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An independent view of the UK retail market in 2013 from Verdict

"We at Verdict expect 2013 to be yet another tough year for UK retail. Despite talk of green shoots, the economy still faces a long, slow haul to recovery. Further public sector job cuts will keep unemployment levels high and there will be a time lag before the private sector can absorb this capacity. Continuing inflation in household expenditure, low wage rises and consumers building up their savings and paying off debts will restrict consumer spending for yet another year.

Furthermore, retail in the UK is a mature sector and was already facing saturation. The recession has simply expedited the demise of weaker retailers, especially those with propositions based on low margins and high volumes and underpinned by large amounts of debt.

Austerity has settled in; consumers are buying less and considering purchases more. Price has increased in importance in their buying decisions – but so has quality. They are more demanding and social media has given consumers the power to influence demand and businesses' reputations instantaneously.

The outcome is that retailers have to reassess the basics of retailing. First, getting the product and price equation right is essential. Having a unique product reduces price comparisons and drives footfall to your stores and website. This demands frequent and innovative design and product development.

Secondly, managing costs in both retail operations and the supply chain is crucial. As global demand rises, there are fewer low-cost countries to source from and the rising cost of transport and long delivery times negate any manufacturing price advantages. Buyers and merchandisers need to work closely with manufacturers and suppliers and have a real understanding of the true costs of the whole supply chain. They must have the flexibility to exploit sales opportunities and control margin risks. This demands a high level of professionalism and the appropriate skills.

Thirdly is distribution. No longer can retailers depend on opening new space to drive sales, as the associated costs of maintaining physical stores can negate profitability. Retailers must develop an optimum model for both physical and online stores, with the two working seamlessly together to give consumers what they want, when and how they want it.

And finally is marketing. Communicating the value of the brand, its relevance and benefits are vital in keeping a retailer top of mind when consumers finally decide to spend. Customer loyalty will be vital in the new landscape of austerity."

About Verdict Research

With over 25 years' experience, Verdict Research is the leading authority on UK and European retail markets, publishing unrivalled independent analysis.

Our conclusions

Debenhams performed well in 2012 in a market that was challenging on many levels. Like-for-like sales growth of 1.6% for the year clearly outperformed both the UK high street and clothing sector. We achieved this through meeting our customers' needs, especially when footfall was at its highest around key events as well as month ends. We began to see the benefit of lower commodity prices in the final months of the year although inflation in other areas of the supply chain, especially labour costs, will require careful management.

We agree with the sentiments expressed in Verdict's outlook for the UK retail market in 2013 and there are clear correlations between these trends and the four pillars of Debenhams' strategy. Our unique, differentiated and exclusive customer proposition helps us to get the price/product equation right. Our buying and merchandising and supply chain teams who have many years of experience of direct sourcing and have developed long-standing relationships with many of our suppliers will help us to manage input costs. The development of a true customer-focused multi-channel model which focuses on improving choice, availability, convenience and service for customers will help to optimise all sales channels, whether store based or otherwise. Finally we are investing more in communicating our proposition and have a proven record of driving sales and improving the perceptions of the Debenhams' brand through this investment.

Strategy review

Over the next few pages we outline our growth strategy and what we have been doing to deliver against this strategy.

Chief Executive's review p12

The four pillars of our strategy

Focusing on UK retail p16

Delivering a compelling customer proposition p20

Increasing availability and choice through multi-channel p24

Expanding the brand internationally p28

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Chief Executive's review

Delivering a clear and consistent strategy

Michael Sharp, Chief Executive

My first year as Chief Executive of Debenhams has been both hugely rewarding and hugely challenging.

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My first year as Chief Executive of Debenhams has been both hugely rewarding and hugely challenging. We made significant progress in many areas of the business whilst at the same time facing what could be seen as a "perfect storm." Consumer confidence was already fragile before the warm autumn/winter and wet spring/summer seasons dented demand further. The summer saw an unprecedented number of special events including the Queen's Diamond Jubilee and the London Olympics and Paralympics which threatened to change consumer behaviour. At Debenhams, we focused on controlling factors that were within our power, taking a flexible and pragmatic attitude towards trading in light of the market conditions. I believe this was a successful approach as the results for the financial year demonstrate.

A clear and consistent strategy
Throughout 2012 we focused on the relentless implementation of the four pillars of the strategy that I set out in October 2011 to build a leading international, multi-channel brand. As I said in last year's Annual Report, almost every major retailer has the same ambition so why do I believe Debenhams can succeed? We already have a strong brand equity. We have a broad base of customers in terms of age and demographics. We have a unique and differentiated product offer which gives our customers a market-leading choice of brands and products. We give our customers lots of different ways to shop through many different channels. We already have a wide international reach. By the end of 2012 the Debenhams brand traded from 239 stores in 28 countries and was available online in 67 countries. You can read about the progress we made in 2012 and future drivers for growth in each of the four pillars on pages 16 to 31.

The right team to deliver
One of my priorities during my first year was to ensure we have the right team with the capability and capacity to deliver the strategy. I firmly believe we have the best group of retailers in the UK today.

I made a number of changes to the senior management team during 2012 and at the same time redefined some of the key roles to improve clarity, align them more fully with our strategy and allow for faster implementation of best practice across the business.

We welcomed Simon Herrick to Debenhams in November 2011 and he subsequently took up the role of Chief Financial Officer in January 2012. As well as his finance role, Simon heads our systems and logistics activities.

Mike Goring joined us as Retail Director in January 2012. Mike's role brings together for the first time the operation of all Debenhams stores, whether owned or franchised, UK or international, and store development. As such, Mike's responsibilities are aligned to the first and fourth pillars of the strategy, "Focusing on UK retail" and "Expanding the brand internationally."

Group Trading Director Suzanne Harlow, who has been with Debenhams since 1994, leads our buying and merchandising activities which are crucial to any business with an extensive own brand programme. Suzanne is responsible for the development of the brand and product strategy that underpins the second pillar "Delivering a compelling customer proposition." During the past year Suzanne has also assumed responsibility for the sourcing and supply chain functions.

Richard Cristofoli joined Debenhams as Marketing Director in 2011, the first senior marketing appointment to the executive committee. Richard has been instrumental in the changes we have made to communicating the proposition, another key tenet of the second pillar of our strategy.

Nikki Zamblera has been HR Director since 2004. In a business that employs 30,000 people, attracting, retaining and rewarding our people is of paramount importance. We have recently launched the first employee climate survey.

It is not just the senior team which has been strengthened. We are investing in people across the business, including the teams in buying and merchandising, marketing, customer analytics, systems and logistics.

Highlights of the year
Overall I was very pleased with our performance which I believe is evidence that the strategy is starting to work. In particular I was delighted with our like-for-like sales performance. At 1.6%, this was by far the strongest like-for-like sales since Debenhams became a public company in 2006. Top line growth has been the missing part of our story in recent years. We delivered this by focusing on what customers wanted when they wanted it. We played into key calendar events – not just Christmas but also Valentine's Day, Easter, Mother's Day and the Diamond Jubilee – when footfall was at its highest.

The store modernisation programme also contributed sales growth. Eighteen modernisations were completed between January and September 2012. This is more stores than we have ever undertaken before in a single year and it is testament to our planning and execution that we kept disruption to a minimum.

We saw continued strong progress in our multi-channel business which grew faster than the market in 2012. Online sales increased by 39.8%* during the year to £250.6 million and on a three year basis have grown by 355%.

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011

Throughout 2012 we focused on the relentless implementation of the four pillars of the strategy that I set out in October 2011 to build a leading international, multi-channel brand.

We have begun to see some real results from the "Life Made Fabulous" marketing campaign that ran throughout 2012. Not only have sales of featured lines been very strong but our independently conducted brand research suggests that attitudes towards Debenhams are changing in a positive way.

I was also pleased with our international businesses. The franchise stores performed well with seven new store openings in 2012 and a contracted new store pipeline of 21 stores. Our Danish department store chain Magasin du Nord had a successful year, delivering like-for-like sales growth despite a slowing of the local economy. The environment is still difficult in the Republic of Ireland but we believe we are gaining market share. International online has also been expanded significantly. The number of countries we deliver to from debenhams.com outside the UK has expanded from seven to 66 and we have launched a local language website in Germany.

For a number of years we have been seeking to expand our non-clothing business and we saw further progress in this area in 2012. Non-clothing accounted for 49% of gross transaction value in 2012. Health & beauty is a key part of our non-clothing offer and our premium health & beauty sales increased by 11%, ahead of the market which grew at 8% (source: NPD, 52 weeks to end August 2012). We have also seen traction in areas where we have been specifically targeting market share growth such as women's footwear where market share has increased by 40 basis points to 2.5% over the year (source: Kantar 52 weeks to 2 September 2012 vs 2011). Home sales have also held up well in a difficult market, driven by online which now accounts for over 20% of all home sales.

We have begun to see some real results from the "Life Made Fabulous" marketing campaign that ran throughout 2012. Not only have sales of featured lines been very strong, but our independently conducted brand research suggests that attitudes towards Debenhams are changing in a very positive way.

In April, we commenced a long-term share buyback programme and subsequently purchased £20 million of shares. We expect to buy back up to £40 million of shares over the next 12 months.

Next steps: future growth drivers

Whilst I am pleased with the great progress made over the past year, I am more excited about what is to come next. You can read more about future growth drivers in all four pillars but I would highlight a few areas where I am impatient for success.

I would include amongst these the work we are doing on what we call "single view of the customer" which will give us a clearer

Focusing on UK retail

Improving uninvested core stores

Accelerating store modernisations

Opening new stores

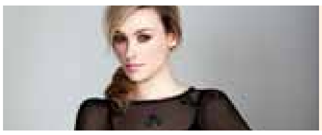
Increasing availability and choice through multi-channel

More choice and better availability

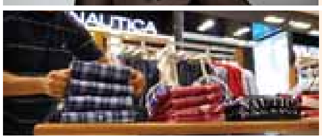
More ways to shop

Improving the customer experience

Delivering a compelling customer proposition



Brand and product strategy



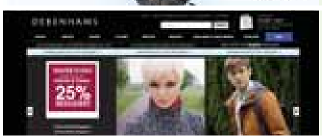
Instore execution

Communicating the proposition

Expanding the brand internationally

International franchise stores

Owned international assets



International online

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perspective on shopping patterns and customer behaviour. One of the benefits of this will be more tailored marketing to individual customers because we will have a better understanding of how they shop and will be able to personalise our communications to them. In fact we are strengthening our overall customer strategy and insight capability.

With the success of the stores we have modernised over the past two years, I would like to have all the outstanding store modernisations – including Oxford Street – completed more quickly. But we are working at full capacity and so our target remains Christmas 2014 to complete the core store modernisations, after which we will have a rolling programme of 10-12 stores a year.

We also need to improve our delivery promise for customers who shop online. The groundwork has been done with the completion of the Sherburn distribution centre and the conversion of Peterborough to a fulfilment centre but we will start to gain real momentum next year as third party fulfilment contracts end and we bring the majority of online fulfilment in-house, thereby allowing us to reduce delivery times and offer a better range of delivery options.

Outlook for 2013

We believe that customers are to a large extent acclimatised to the new economic reality. We do not anticipate a significant change in the economic environment over the course of 2013 but we expect to make further progress during the year as our strategy delivers further benefits. We will always manage cash, costs, stocks and margins closely but we are committed to continue investing in key areas of the business to deliver long-term sustainable growth as well as further returns of capital to drive shareholder value.

Michael Sharp
Chief Executive

Executive committee

From left to right: **Nikki Zamblera** HR Director, **Simon Herrick** Chief Financial Officer, **Richard Cristofoli** Marketing Director, **Michael Sharp** Chief Executive, **Mike Goring** Retail Director, **Suzanne Harlow** Group Trading Director.

Having opened our doors in 1778, we are proud of our British heritage and our role as one of the UK's leading department store groups. There are lots of growth opportunities in the UK.

Focusing on UK retail

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Improving uninvested core stores
We are driving sales ahead of modernisation by focusing on basic retail standards and improving choice.

Accelerating store modernisations
18 stores were modernised in 2012. All remaining uninvested core stores will be modernised by Christmas 2014.

Opening new stores
New stores in the UK could provide an additional £1 billion of sales. The pipeline stands at 18 stores over the next five years.

Focusing on UK retail

Improving uninvested core stores

At the end of 2012, there were 30 uninvested core stores in the UK portfolio of 154 stores. All of these stores, none of which is loss-making, will be modernised over the next two years but we are taking action ahead of this to improve their performance and to put these stores in the best possible position to benefit from modernisation. This action is a question of focus rather than incurring additional costs or capital spend.

Amongst the initiatives we take are reviewing management teams, undertaking space optimisation work to ensure each product category trades from an appropriate amount of space, replacing choice that may have been lost through concession closures over the past few years and improving presentation standards. In some cases we hold a pre-modernisation sale to drive sales and counteract the impact of disruption from modernisation work.

In 2012 we started to see an improvement in the performance of the uninvested core stores as we undertook these actions. We will continue to pursue this programme until all these stores have been modernised.

Accelerating store modernisations

We modernise stores for a number of reasons: to meet customers' demands for a modern and contemporary place to shop; to improve perceptions of the Debenhams brand; to improve choice to suit the needs of local markets; and to build a stronger relationship with our international brands and concessions. Our thorough planning process, expertise in implementation and strong capital discipline result in a modernisation programme that is delivering increases in sales and market share and a good return on investment.

It is not just as case of improving a store's infrastructure: in order to achieve acceptable returns, store modernisations need to give customers something different. We add new product offer through additional brands and categories. We remix space based on performance, ideal adjacencies and ease of shopping as well as the Group's overall strategy. We invest in the health & beauty department. We reclaim space from back-of-house where possible and we upgrade restaurants, WCs and other services.

In 2012 we modernised 18 stores in two tranches, one starting in January and the second in May, and spent some £32 million in total, averaging £20-25 per sq ft. This was the most stores we have ever undertaken in a single year.

The 32 stores which have been modernised over the past two years are performing well. On average these stores have recorded a sales increase in the first year after completion of c.6%. It is particularly pleasing to note that for those stores which have completed two years since modernisation, we have seen a sales uplift in the second year of an average c.1.5%. Previous modernisation programmes have generally achieved a one year increase, after which stores perform in line with the rest of the estate. We believe the second year uplift is due to the extensive nature of the modernisation work we are undertaking as well as being a function of the investment in health & beauty which can take more than 12 months to translate into higher sales. Return on investment is averaging 15%.

The remaining 30 uninvested core stores will be completed in time for Christmas 2014 with 15 taking place in each of 2013 and 2014. Amongst these is Oxford Street which will be transformed inside and out by October 2013. It will become a true company flagship, showcasing the best of everything that Debenhams has to offer and a beacon for international expansion.

Opening new stores

Debenhams is one of very few UK retailers with a space expansion strategy. We believe we could operate up to 225 stores in the UK, an increase of 70 stores over the current estate. These stores could add £1 billion of sales and offer economies of scale which should provide margin enhancement over time.

Stores will continue to be the largest channel for the majority of customers despite the expected growth in online shopping. As such they form a key component of the multi-channel shopping environment and we know that customers who live near a store spend more online.

We have a strong track record of creating value from new store openings. The 35 stores opened since 2007 have delivered an average return on investment of c.40%. We employ robust acquisition criteria to ensure every new store has the right location, the right developer, the right type and size of store and the right deal so that it can achieve these superior levels of return.

Of the 70 potential opportunities in the UK, at the end of 2012, 18 were contracted and are expected to open in the next five years. These stores total 845,000 sq ft of trading space and have predicted sales in excess of £150 million at maturity. One has already opened (Chesterfield in September 2012) with Lichfield due to open in March 2013.

Discussions are ongoing on another 25 opportunities.

154
UK stores at the end of 2012

10.9m
Total UK trading space (sq ft)

We operated 154 stores in the UK at the end of 2012, trading from a total of 10.9 million sq ft. Our stores vary in size from 13,000 to 200,000 sq ft and are located in high streets, town shopping centres, regional shopping centres and retail parks.

18
Store modernisations in 2012

30
Modernisations over next two years

We are transforming our UK portfolio by modernising all uninvested core stores. 32 have already been completed. The remaining 30 will be completed by Christmas 2014, including Oxford Street.

18
New store pipeline

£150m
Potential additional sales from pipeline

We have a track record of delivering strong financial returns from new stores. The average return on investment of the 35 stores opened during the last five years is c.40%. New stores could add £1 billion of sales in the UK.

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1. Modernising Oxford Street
Our vision is to create a branded environment that redefines Debenhams in the Oxford Street store and beyond.

2. Improving uninvested core stores
We saw an improvement in the performance of uninvested core stores in 2012 by focusing on basic retail standards.

3. Opening new stores
Designer at Debenhams Ashley Thomas opens our new store in Chesterfield in September 2012. Another 17 stores will open over the next five years.

Delivering a compelling customer proposition

Our customer proposition is based on a unique, differentiated and exclusive collection of brands, products and categories within a wide price architecture.

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Brand and product strategy
We offer our customers a unique, differentiated and exclusive collection of brands, products and categories.

Instore execution
Raising standards of visual merchandising and product presentation reinforces Debenhams as a modern and contemporary place to shop.

Communicating the proposition
Our marketing and PR activities are fully joined up and we are speaking with one voice across all media under the banner of "Life Made Fabulous."

Delivering a compelling customer proposition

Brand and product strategy

Our brand and product strategy gives customers a unique, exclusive and differentiated choice. It is unique through the combination of own brands, international brands and concession brands. It is exclusive through our core own brands and Designers at Debenhams which together account for half of everything we sell. It is differentiated through Designers at Debenhams, which two-thirds of our customers tell us is an important reason they shop with us.

An area of focus in 2012 has been the further development of our non-clothing business, particularly in areas such as health & beauty, footwear and accessories where there is clear market share momentum. Non-clothing sales accounted for 49% of total sales during the year, providing the balance and resilience which is an inherent strength of the department store model. We are targeting further growth in non-clothing sales and market share going forward.

Newness and product innovation are key to delivering a compelling customer proposition. We added several new brands to the portfolio in 2012 . These include: No.1 by Jenny Packham, a glamorous new occasionwear range by one of the UK's best designers; classic American menswear brand Nautica which is now available in the UK exclusively at Debenhams; footwear brand Call It Spring; and the extension of the Edition Designer concept into home through Ashley Thomas, Yukari Sweeney and Carole Lake. New launches for 2013 include Marios Schwab in womenswear and Donna & Mark in childrenswear.

Looking forward, we will drive growth by investing in our differentiated own bought strategy. In particular, trials in Red Herring, Principles by Ben de Lisi and the footwear division will be aiming to replicate concession sales densities at own bought gross margins. This requires end-to-end investment, from buying and merchandising to supply chain to marketing to instore resourcing.

Instore execution

Good visual merchandising and product presentation are key to creating an exciting shopping experience. Historically, our standards have been inconsistent across the store estate and they need to improve. Creating great looking stores must be a core competence for the retail community.

We will achieve this by defining standards of merchandising and presentation for each season in regional "model" stores and cascading them through the estate, thereby ensuring that every store team understands and is equipped to deliver these standards. Excellence will be rewarded on a regional basis.

Standards are complemented by increasingly strong instore graphics and displays which reflect the overall marketing and advertising themes, giving customers a clear communication trail to follow from advert to store window to instore collateral to ticketing.

Communicating the proposition

For too long Debenhams was a hidden secret to all but our regular customers. Our marketing and brand communication has improved significantly over the past year with a joined up approach under the theme of "Life Made Fabulous".

We increased our marketing spend in 2012 which has both driven sales and begun to change perceptions about the Debenhams brand. We have increased TV advertising at the times and on the channels our customers are most likely to see them and we have fully embraced digital and social media marketing. Further, we are using the same images and production values for both premium brand marketing and promotional marketing, which in the past had been dissimilar and confusing.

We saw tangible evidence of market share growth in some of the categories where we introduced focused marketing activities. Women's footwear market share, for example, grew by 40 basis points following the launch of a shoe brochure and prominence in a number of premium adverts.

We have seen significant shifts in customer perception in our independently conducted brand tracker, with greater recognition for exclusive brands, fashionability and engagement.

Looking forward, we will continue to invest in marketing, thereby demonstrating our continuing confidence in communicating the proposition. For the first time in six years we will have a TV advertising campaign at Christmas 2012, aiming to increase our share of voice when the market is at its largest.

Through our work to gain a single view of the customer we will also be able to drive sales through more tailored and personalised communication with customers. There are also new developments in our successful Beauty Club loyalty scheme – which already has 1.3 million cards in regular use – and the introduction of a new store card and credit card with a loyalty element.

26
Designers at Debenhams brands

£552m
Designers at Debenhams 2012 sales inc VAT

Designers at Debenhams is an exclusive portfolio of diffusion brands designed by some of the UK's leading fashion designers. Our medium-term target for Designer sales is £750 million.

49%
2012 sales mix of non-clothing categories

40bps
Increase in women's footwear share

Non-clothing categories accounted for almost half of everything we sold in 2012. We saw good growth in market share in non-clothing including women's footwear (source: Kantar Worldpanel Fashion market share 52 weeks to 2 September 2012 vs. 2011).

1.3m
Beauty Club cards in regular use

485,000
Facebook fans

We communicate with our customers in many different ways including the Beauty Club, which offers treats as well as loyalty points in our premium health & beauty department. We are increasingly using all forms of social media as a marketing channel.

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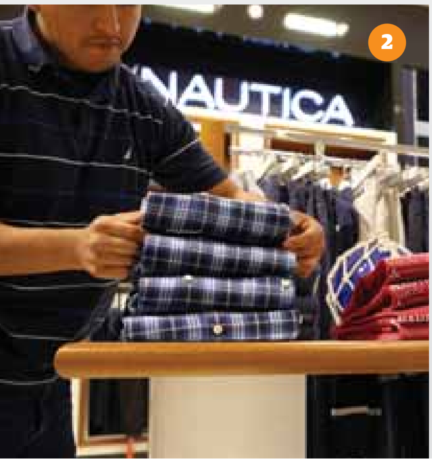

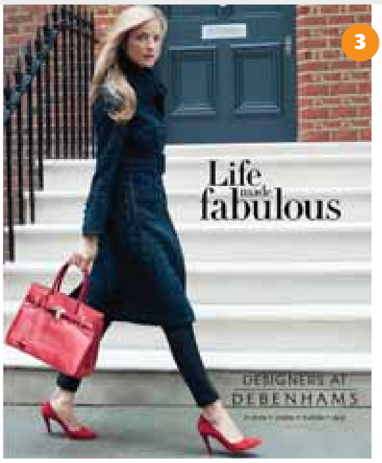

1. No. 1 by Jenny Packham
We were delighted to welcome Jenny Packham to Designers at Debenhams in 2012 with a glamorous new range of occasionwear clothing and accessories.

2. Improving instore execution
We are raising our standards of visual merchandising and product presentation in our UK stores.

3. Life Made Fabulous
We are investing in marketing through the "Life Made Fabulous" campaign which focuses on Designers at Debenhams to drive sales and improve brand perceptions.

Increasing availability and choice through multi-channel

We define multi-channel retailing very simply. It is about widening choice and offering customers more ways to shop.

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More choice and better availability
We are increasing the choice of brands, products and categories that we sell online as well as improving availability and working towards offering a better range of delivery options.

More ways to shop
We know that the more ways we offer customers to shop, the more they do shop. Multi-channel customers spend up to three times more than single channel customers.

Improving the customer experience
Growth will come through making shopping easier for our customers by better customer service and encouraging more customers to shop multi-channel.

Increasing availability and choice through multi-channel

Our multi-channel business continues to grow strongly. Online sales increased by 39.8% in 2012 to £250.6 million*. This ongoing momentum has led us to increase our medium-term online sales target from £500 million to £600 million.

More choice and better availability
Multi-channel is all about choice. Customers expect the walls of a multi-channel store to be entirely elastic. As a multi-brand, multi-category department store Debenhams is well-placed to meet this demand. Our online product offer now encompasses some 110,000 product lines: one third larger than our biggest store and five times bigger than the smallest stores.

Online is becoming a key destination for some key product categories. In 2012, eight out of ten furniture orders were placed online. One in three dresses was sold online – even higher for occasionwear – and one in five pairs of shoes. Online health & beauty sales, although still small, increased by 76%.

During the first half of 2012 we introduced a store-based fulfilment service we call Endless Aisle which improves availability by meeting demand for products which are out of stock in the fulfilment centre. By utilising the stock held on the trading floors and stock rooms of 36 of our largest stores we are able to meet some 95% of this potentially lost demand. In 2012 we estimate this accounted for sales of £16 million. Endless Aisle reinforces our stores as a vital element of our multi-channel offer.

A focus in 2013 will be to improve the choice of delivery options for multi-channel orders. At present we have a standard delivery promise of four days as well as offering collect from store. Investment in our delivery infrastructure will allow us to shorten the delivery promise and offer a range of delivery options, including next day delivery. These changes will also improve collation, thereby improving customer service and improving the margins of our online business over time by reducing delivery and logistics costs.

More ways to shop
It is clear that the more ways we give customers to shop, the more they do shop.

The fastest growing sales channel is mobile. In 2012, 27% of all visits came from mobile devices, higher than the industry average of c.15%. In May 2012 we were among the first major high street retailers to offer free wi-fi in all our stores. This is undoubtedly driving some of the growth in mobile channel visit numbers. Continuing to develop our mobile strategy will be a key focus in 2013 through, for example, introducing device-specific content which recognises that customers use different mobile devices to do different things.

The instore kiosks we installed across the estate in time for Christmas 2011 have been very successful and customers are using them to purchase both out of stock and unranged items. In 2013 new collateral will be rolled out across the estate to improve their profile in store.

Whilst technology is an important part of giving customers more ways to shop, more traditional channels such as the home catalogue which was launched in September 2011 have also proved successful.

Improving the customer experience
In 2012 we made some important changes in order to improve customer service. Track and trace is now available on all orders so customers can follow their deliveries online. We introduced webchat technology so that customer service advisors can assist customers through the website. We also made the difficult decision to close our customer contact centre in Taunton and outsource it to a dedicated call centre facility run by Capita in Leeds. This took effect in August 2012 and is providing us with industry leading capability and technology which aims to improve first call resolution, thereby improving customer satisfaction and reducing costs.

Our refund policy has been updated to allow customers to return a product purchased through one channel to any other channel that is most convenient for them. Online shoppers are now able to return goods to any store, even if it does not stock that particular item.

Looking forward, growth will come from improving the visibility of other shopping channels across all channels to convert single-channel customers to multi-channel. So we will be raising awareness of services such as click and collect and return to store. We are using vouchers to encourage store customers to try online shopping, reinforcing the availability of instore kiosks and promoting mobile sales channels and free instore wi-fi.

We will be improving online visual merchandising and product presentation by introducing better photography and product descriptions, particularly in womenswear. All clothing is now displayed on models, including childrenswear. We have invested in an online creative team which is driving improvements in styling. These initiatives should also help to reduce the level of returned goods.

Customers see online and instore as one Debenhams brand and we as a business need to see the customer in the same way. To this end stores are now being credited with online sales within their locality so that each channel is focused on meeting customers' needs across their own and all other channels.

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011

£250.6m
2012 online sales

£600m
Medium-term online sales target

Over the past three years online sales have grown by more than 350%. This performance has given us the confidence to increase our medium-term sales target for online sales from £500 million to £600 million.

177m
Visits to debenhams.com in 2012

11th
largest UK online retailer

Visits to debenhams.com increased by 54% in 2012 to 177 million. We are now the 11th biggest UK online retailer by traffic volume, up from 13th last year (source: IMRG/ Experian Hitwise Hot Shops List May 2012).

200%
Increase in mobile visits in 2012

537%
Increase in iPad visits in 2012

Mobile is by far the fastest growing sales channel through smartphone and tablet apps and the mobile website. Mobile visits increased by over 200% and now account for 27% of all visits.

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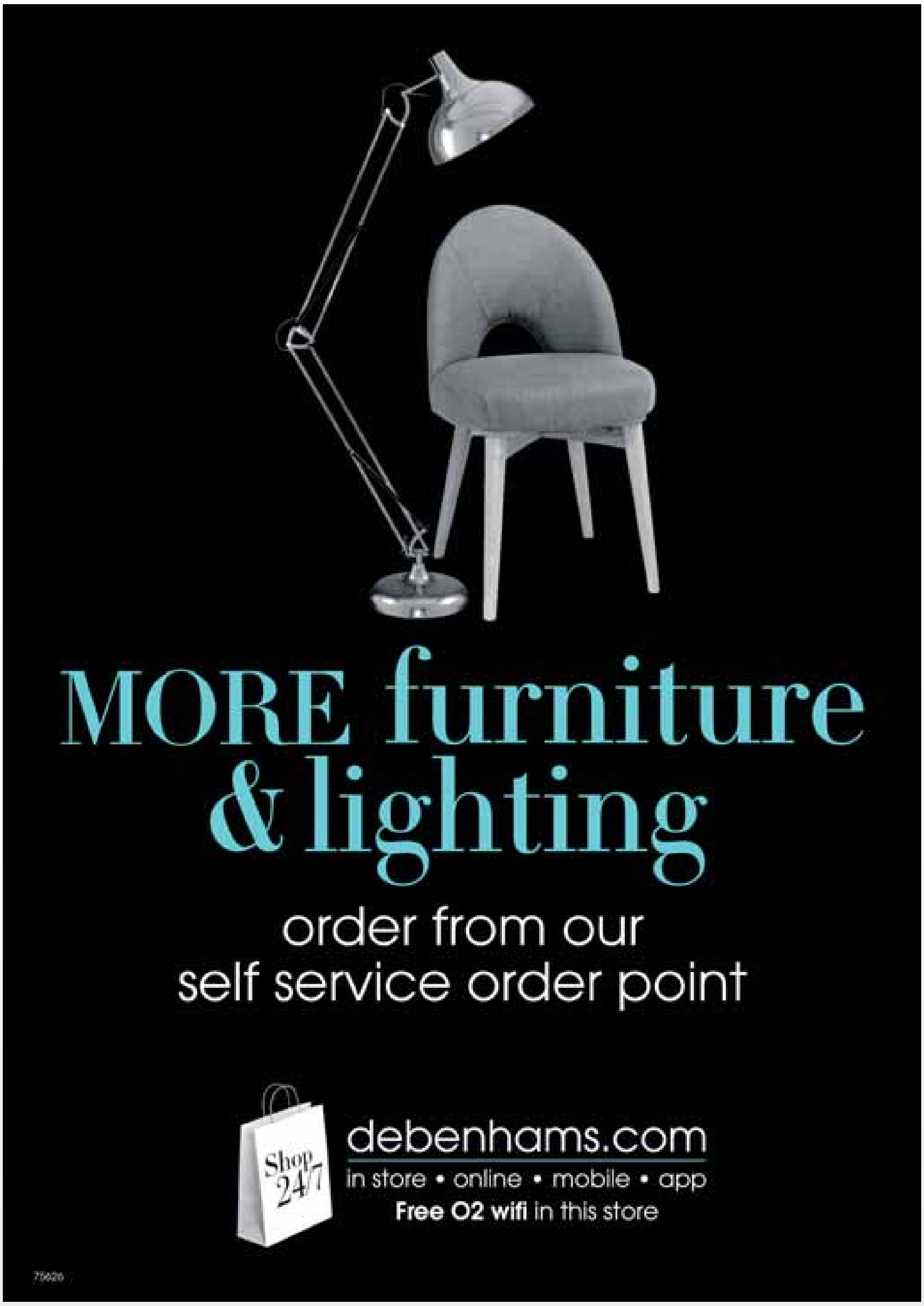

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3

1. Raising the visibility of multi-channel
New collateral is being introduced in stores to reinforce the availability of other shopping channels.

2. Developing our mobile strategy
We are introducing device specific content, particularly for iPads and other tablet devices.

3. Home catalogue
Autumn 2012 saw the launch of the third edition of our catalogue for the home department.

Expanding the brand internationally

Debenhams is already so much more than a UK department store brand. It is available in 92 countries through stores or online.

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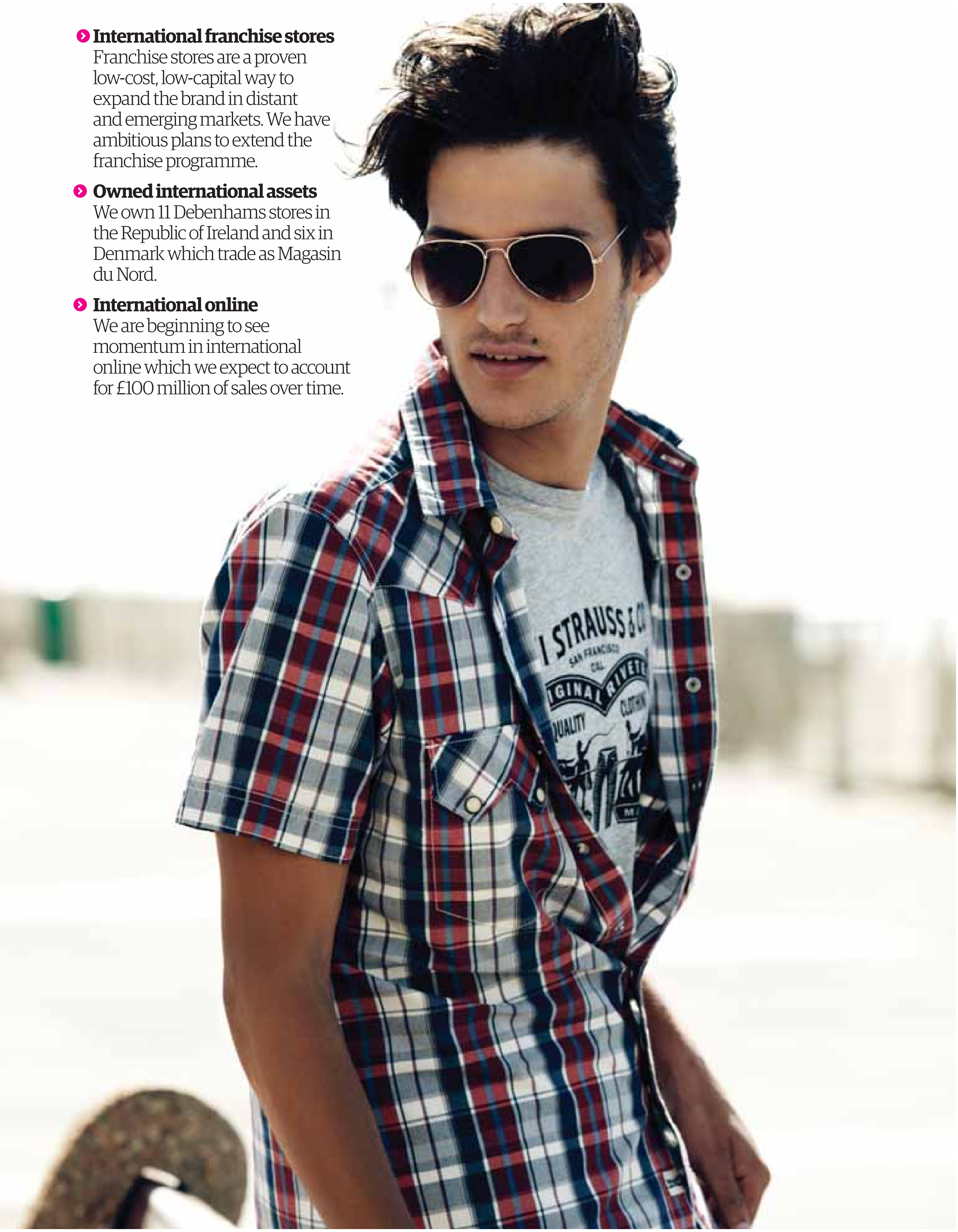
International franchise stores
Franchise stores are a proven low-cost, low-capital way to expand the brand in distant and emerging markets. We have ambitious plans to extend the franchise programme.

Owned international assets
We own 11 Debenhams stores in the Republic of Ireland and six in Denmark which trade as Magasin du Nord.

International online
We are beginning to see momentum in international online which we expect to account for £100 million of sales over time.



Expanding the brand internationally

Debenhams is already so much more than a UK department store. We are extremely proud of our British roots, but over time we believe that sales generated from outside the UK should exceed those from within our home market.

Franchise stores

During 2012 we celebrated the 15th anniversary of the opening of our first franchise store in Bahrain. We continue to believe that in most distant and emerging markets this proven low capital, low cost franchise model is the way to extend the reach of the Debenhams brand outside the UK.

The key to a successful franchise store programme is having the right partners. Our partners are retailers with considerable experience of operating in their local markets as well as the resources to make the significant investment in capital and costs required to build and run a department store.

We entered two new markets in 2012, Russia and Pakistan. We also opened new stores in India, the Philippines and Iran. By the end of the year our franchise partners were operating from 68 stores across 25 countries, a net increase of four stores during the year.

In 2013, seven new stores are scheduled to open in both existing markets – Indonesia, Malta, Saudi Arabia and the UAE – and new markets Bulgaria, Georgia and Libya. Beyond this, the contracted store pipeline comprises 14 stores which are expected to open over the subsequent three years. We are in discussions on another 50 or so stores.

As a result of the strength of the new store pipeline, we have increased our five year franchise store target from 130 to 150.

Owned assets

Our owned store portfolio outside the UK consists of 11 stores in the Republic of Ireland, which are branded as Debenhams, and six stores in Denmark which have continued to operate as Magasin du Nord since their acquisition in November 2009.

Magasin had a good year with like-for-like sales increasing by 4.6% in local currency. During 2012 the Danish business was integrated into the Debenhams retail operational management through the international division. This will allow for a faster and more effective exchange of ideas and roll out of best practice.

Since acquisition Magasin du Nord has increased sales and margins through the introduction of both Debenhams own brands and Magasin branded volume lines. There is more benefit to come from this in future years. Although the propensity for online shopping is low and multi-channel virtually unknown amongst Danish consumers at this time, this will change and we are well placed to take advantage of changing trends.

The business in the Republic of Ireland has been affected by the extremely difficult economic environment. However it does appear to be stabilising and we believe we are gaining market share.

International online

Online retailing is a key part of our plans for international expansion. Over the medium-term we anticipate it will generate sales of some £100 million.

Our strategy is two-fold. For major markets we will develop a series of country specific websites, which are presented in the local language and transact in local currency. In other markets we will use overseas delivery from the UK. We made progress in both these areas during 2012.

The development of country specific websites is facilitated by the investment made over the past year in the latest Websphere 7 internet technology. An Irish website has been operating since Autumn 2010. The first local language site was launched in Germany in summer 2012. We will monitor the performance of debenhams.de and learn lessons from it before introducing further websites in major markets.

During the course of the year the number of countries we deliver to through debenhams.com outside the UK increased from seven to 66. Expansion to another 30 countries is planned.

2.7%
2012 international sales growth*

18.5%
2012 international operating profit growth

The international segment performed well in 2012 with sales growing by 2.7% to £503.4 million and operating profit growing by 18.5% to £30.7 million. The main drivers of this were the franchise stores and Magasin du Nord.

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011

68
Franchise stores at end of 2012

150
Five year target for franchise stores

The contracted new store pipeline stands at 21 stores with a further 50 in discussion. We will be opening in a number of new markets including Bulgaria, Estonia, Georgia and Libya.

66
Countries we deliver to outside UK

£100m
International online sales target

Although small at present, we have ambitious plans for international online. Our approach is for local websites in major markets and online delivery in other markets.

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1. Welcome to Russia
Designers at Debenhams Ben de Lisi, Aliza Reger, John Rocha and Julien Macdonald at the launch of the first franchise store in Russia.

2. Magasin du Nord
Our Danish department store chain had a good year in 2012 with like-for-like sales growth of 4.6% in local currency.

3. Guten Tag Deutschland
The first local language, local currency website launched in Germany during 2012.

Finance and risk review

Over the next few pages we demonstrate our strong financial position and how we are protecting shareholder returns by managing risks.

Chief Financial Officer's review p34

Risk review p39

For more information go to
ar12.debenhamsplc.com

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Chief Financial Officer's review

Building strong foundations

Simon Herrick, Chief Financial Officer

We made good progress in 2012.
Gross transaction value, like-for-like sales, profit before tax and earnings per share all increased*. Net debt improved and we completed the first tranche of the share buyback programme.

*52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011

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Note: The Financial Statements for the period ended 3 September 2011 included 53 weeks. Therefore all comparative income statement numbers for the 2011 financial year relate to the 52 weeks of trading to 27 August 2011. Management believes that comparing like-for-like 52 week periods demonstrates the underlying performance of the business. Comparative cash flow numbers reflect the full 53 weeks to 3 September 2011 and the comparative balance sheet is also at this date.

Sales and profit performance

Debenhams delivered a good performance in 2012 given the challenging market conditions. Key financial metrics are summarised in figure 1 whilst our key performance indicators are described in detail on page 6.

Group

The Debenhams brand trades through 239 stores in 28 countries and online in 67 countries.

The total trading space of owned stores as at 1 September 2012 was 12,521,000 sq ft, an increase of 78,000 sq ft (0.6%) during the course of the year.

Group gross transaction value increased by 2.6% to £2,708.0 million for the 52 weeks to 1 September 2012 (2011: £2,639.5 million). Group revenue increased by 2.5% from £2,176.4 million to £2,229.8 million. Group like-for-like sales grew by 2.3% including VAT and by 1.6% excluding VAT.

Group gross margin decreased by 30 basis points during the year due to a largely weather-related sales mix change towards health & beauty, which has a lower gross margin than own bought clothing, and to higher concession sales. The promotional calendar was largely unchanged from last year as stocks were very tightly controlled across the business given the difficult market conditions.

Profit before tax for the year increased by 4.2% to £158.3 million (2011: £151.9 million). The use of "headline profit before tax" was discontinued during 2012 as the quantum of the amortisation of capitalised bank fees which constituted the difference between the reported and headline metrics has become small enough that the distinction is no longer necessary.

Profit after tax increased by 12.8% to £125.3 million, largely due to both lower taxation and interest as detailed on page 37.

Basic earnings per share for 2012 were 9.8 pence (2011: 8.6 pence) and diluted earnings per share were 9.8 pence (2011: 8.6 pence).

Segmental performance

Debenhams is adopting a new segmental analysis which better represents the way we manage the Group. This will provide sales and operating profit information for two segments: UK and international. Each segment represents the performance of one pillar of the four pillar Debenhams' strategy. The UK segment will reflect the performance of "Focusing on UK retail", while the international segment will reflect "Expanding the brand internationally". The results of the pillar "Improving choice and availability through multi-channel" are split between the two segments based on customer location.

Figure 1: Financial summary

	52 weeks to 1 September 2012	52 weeks to 27 August 2011	53 weeks to 3 September 2011
Gross transaction value - Group	**£2,708.0m**	£2,639.5m	£2,679.3m
Gross transaction value - UK	**£2,204.6m**	£2,149.5m	£2,181.1m
Gross transaction value - international	**£503.4m**	£490.0m	£498.2m
Like-for -like sales exc VAT	**1.6%**	n/a	n/a
Revenue - Group	**£2,229.8m**	£2,176.4m	£2,209.8m
Revenue - UK	**£1,860.3m**	£1,823.1m	£1,850.6m
Revenue - international	**£369.5m**	£353.3m	£359.2m
Operating profit - Group	**£175.0m**	£175.0m	£183.7m
Operating profit - UK	**£144.3m**	£149.1m	£156.2m
Operating profit - international	**£30.7m**	£25.9m	£27.5m
Net interest	**£16.7m**	£23.1m	£23.4m
Profit before tax	**£158.3m**	£151.9m	£160.3m
Basic earnings per share	**9.8p**	8.6p	9.1p
Diluted earnings per share	**9.8p**	8.6p	9.1p
Dividend per share	**3.3p**	3.0p	3.0p

UK

The UK segment comprises 154 stores in the UK plus online deliveries to UK customers. During the year we opened two new stores and modernised 18.

UK gross transaction value increased by 2.6% to £2,204.6 million for the 52 weeks to 1 September 2012. Revenue increased by 2.0% to £1,860.3 million.

Sales growth in the UK was driven by a number of factors.

- Good performance from the 32 stores which have been modernised since 2010. Stores modernised for one year are achieving a sales uplift of c.6% during the first year. Those stores which have completed two years since modernisation are achieving a further average uplift of c.1.5% in the second year. This is significant because previous modernisation programmes have generally only delivered a first year uplift
- An improved performance from uninvested core stores (i.e. those awaiting modernisation) following the introduction of initiatives to improve basic retail practices
- Market share gains in key categories including womenswear, menswear and health & beauty (sources: Kantar Worldpanel Fashion Market Share, NPD)
- Improvements in our marketing activities and higher marketing spend that is both driving sales and improving perceptions about the Debenhams brand
- Growth in online sales

EBITDA for the UK segment decreased by 0.2% to £224.8 million. UK operating profit for the UK segment decreased by 3.2% to £144.3 million, largely as a result of higher depreciation.

International

The international segment represents 85 stores, comprising 11 Debenhams stores in the Republic of Ireland, six Magasin du Nord stores in Denmark, the 68 international franchise stores and online sales to customers outside of the UK. During the year we opened seven franchise stores including two new markets and closed three stores.

International gross transaction value increased by 2.7% to £503.4 million. Revenue increased by 4.6% to £369.5 million.

The key drivers of international sales growth during the year were:

- A strong performance from Magasin du Nord which recorded like-for-like sales growth of 4.6% in local currency
- Good results from the international franchise stores. Seven new stores opened over the course of the year (two each in India and the Philippines, one each in Iran, Pakistan and Russia). Three stores closed (one each in Moldova, Romania and Slovakia) resulting in a total of 68 stores in 25 countries at the end of the year
- A growing international online business. During the year the number of countries able to transact through debenhams.com outside the UK increased from seven to 66. A local language website was launched in Germany

EBITDA for the international segment increased by 10.8% to £42.0 million. Operating profit for the international segment increased by 18.5% to £30.7 million. Improved profitability was driven by higher sales.

Figure 2: Cash flow and uses of cash

	52 weeks to 1 September 2012	53 weeks to 3 September 2011*
EBITDA	**£266.8m**	£272.2m
Working capital	**£(7.1)m**	£(22.6)m
Proceeds from sale of fixed asset investments	**-**	£5.0m
Capital expenditure and investments	**£(118.6)m**	£(114.0)m
Operating cash flow before financing and taxation	**£141.1m**	£140.6m
Taxation	**£(44.6)m**	£(48.6)m
Financing	**£(13.6)m**	£(25.6)m
Dividends paid	**£(38.5)m**	£(12.9)m
Share buyback	**£(20.1)m**	-
Other	**£(9.3)m**	£79.6m
Change in net debt	**£15.0m**	£133.1m
Opening net debt	**£383.7m**	£516.8m
Closing net debt	**£368.7m**	£383.7m

*Adjustment for property sales and leaseback transactions

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Group costs

Ensuring the business has an appropriate and well-controlled cost base continues to be an important area of focus and we maintain very strong cost management disciplines across all areas of the business. The main cost categories are described in terms of their percentage of gross transaction value.

- Store payroll as a ratio to gross transaction improved to 10.5% (2011: 10.9%), largely as a result of efficiency savings, in particular in relation to the employment of temporary staff over the peak trading period
- Store rent as a ratio to gross transaction value decreased from 7.0% last year to 6.8% this year
- Warehousing and distribution costs as a ratio to GTV increased from 2.6% to 3.0% as a result of higher levels of activity in the multi-channel business
- Other costs comprise a number of components, not least buying and merchandising, marketing, pension and the costs associated with the multi-channel business. We are investing in a number of these areas to ensure Debenhams can deliver sustainable, long-term sales growth. As a result, other costs as a percentage of gross transaction value increased by 20 basis points during 2012

Depreciation

Group depreciation and amortisation of £91.6 million increased by 1.7% versus last year (2011: £90.1 million) as they begin to reflect increased investment in capital expenditure.

Financing income and expense

The net interest cost of £16.7 million for the 52 weeks to 1 September 2012 represented a decline of 27.7% from last year (2011: £23.1 million). This reflects the lower interest rate associated with the refinancing of the senior credit facility in July 2011 and a reduction in the Group's level of debt.

Taxation

The Group's tax charge of £33.0 million on a profit of £158.3 million gave an effective tax rate of 20.8% compared with 26.9% for the prior year. The decline in effective rate is in part due to reductions in the headline rate of corporation tax (accounting for 2.0% of the 6.1% nominal decrease) with the balance largely due to the resolution of historical issues net of current year contingencies.

Earnings per share

Total basic and diluted earnings per share were 9.8 pence, compared with 8.6 pence for the 52 weeks to 27 August 2011. The weighted average number of shares in issue in 2012 was 1,281.3 million (2011: 1,286.5 million).

Cash flow and uses of cash

Debenhams remains a highly cash generative business and has clear priorities for the uses of cash which are:

1. Invest in the business to support the four pillars of the strategy
2. Grow dividend cover in line with maintaining dividend cover of three times earnings
3. Move towards one times net debt to EBITDA over the medium-term
4. Return surplus cash to shareholders through a long-term share buyback programme

Cash flow generation, the uses of cash and the movement in net debt are summarised in figure 2.

Operating cash flow before financing and taxation was £141.1 million. We used this cash to pay taxation of £44.6 million and financing of £13.6 million. Payment of the 2011 final dividend and 2012 interim dividend accounted for £38.5 million. A further £20.1 million was spent on share buybacks.

Capital expenditure

Capital expenditure during the year was £118.6 million, an increase of 4.0% versus the previous year (2011: £114.0 million). The key components of capital expenditure are detailed in figure 3 as is guidance for capital expenditure in 2013.

Dividends

An interim dividend of 1.0 pence per share was paid to shareholders on 6 July 2012. The board is recommending a final dividend of 2.3 pence per share (2011: 2.0 pence) which will be paid to shareholders on 11 January 2013, taking the total dividend for the year to 3.3 pence (2011: 3.0 pence).

Share buyback programme

In October 2011 the board announced that as it could see no benefit in leverage below 1 times EBITDA, it intended to commence a long-term share buyback programme as leverage approached this 1 times. It was subsequently announced at the interim results in April 2012 that this programme would commence with the initial purchase of £20 million of shares during the following six months. This was duly completed by the end of August 2012. The total number of shares bought was 23.6 million, consuming £20.1 million of cash. These shares are currently held as treasury shares.

Net debt

The Group's net debt position as at 1 September 2012 was £368.7 million (3 September 2011: £383.7 million), a reduction of £15.0 million during the course of the year after the share buyback. As a consequence the ratio of reported net debt to EBITDA remained at 1.4 times.

Figure 3: Capital expenditure

	FY 2012
New UK stores	9%
UK store modernisations	27%
UK maintenance	23%
International	6%
Group systems	21%
Group warehouse	9%
Other	5%

	FY 2013 guidance
New UK stores	10%
UK store modernisations	29%
UK maintenance	15%
International	8%
Group systems	20%
Group warehouse	5%
Head office move	9%
Other	4%

Balance sheet

Key balance sheet items are summarised in figure 4.

Reported net assets were £661.0 million representing an increase of £1.4 million from the Balance Sheet at 3 September 2011.

Inventory

Stock levels continued to be managed very tightly during the year given the difficult market conditions. Store stock levels were flat on the prior year whilst stock levels in the online and international businesses increased in line with growing demand. As a result, total stock increased by 3.4% to £332.3 million. Terminal stock at year end of 2.6% was in line with the long-term average.

Pensions

The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together the "Group's pension schemes") which closed for future service accrual from 31 October 2006. Under IAS 19, the Group's pension schemes' deficit as at 1 September 2012 was £57.3 million (3 September 2011: £3.9 million surplus). Further information can be found in note 23 to the Group financial statements starting on page 107.

Future pension arrangements will be provided for Debenhams' employees by a money purchase stakeholder plan or defined contribution pension schemes.

During March this year the triennial actuarial valuation was completed and discussions with the pension fund trustees were concluded. The contributions from the Company and the investment strategies devised by the trustees are intended to restore the schemes to a fully funded position on an ongoing basis by the end of March 2022 (Debenhams Retirement Scheme) and August 2021 (Debenhams Executive Pension Plan). As a consequence of this agreed plan, annual contributions to the two funds were set at £8.9 million, rising each year in line with the RPI. The Company also pays the non-investment expenses and levies to the Pension Protection Fund.

Financial position

In July 2011, the Group refinanced its £650 million senior credit facility which has a maturity date of October 2015, with an option to extend further to October 2016. The facility comprises a £250 million term loan and a £400 million revolving credit facility.

The senior credit facility contains fixed charge cover and leverage covenants, which were both met in full during the year. The directors believe that the Group has sufficient headroom to ensure compliance for the foreseeable future.

Financing risk and treasury management

The board has established an overall treasury policy and has approved authority levels within which the treasury function must operate. Treasury policy is to manage risks within the agreed framework whilst not taking speculative positions.

The policies and strategies for managing financial risks are disclosed in note 21 of the Group financial statements starting on page 101.

Simon Herrick
Chief Financial Officer

Figure 4: Balance sheet

	1 September 2012	3 September 2011
Intangible assets	**£864.9m**	£858.1m
Property, plant and equipment	**£661.6m**	£634.6m
Inventory	**£332.3m**	£321.3m
Other assets	**£105.2m**	£95.6m
Trade and other payables	**£(525.4)m**	£(489.1)m
Other liabilities	**£(370.1)m**	£(382.7)m
Retirement benefit (obligations)/assets	**£(57.3)m**	£3.9m
Deferred tax assets/liabilities	**£18.5m**	£1.6m
Net debt	**£(368.7)m**	£(383.7)m
Reported net assets	**£661.0m**	£659.6m

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Risk review

Safeguarding future returns

Effective management of risks and opportunities is essential if Debenhams is to deliver its strategic and operational goals, protect its reputation and ultimately enhance shareholder value.

The board, which has overall responsibility for risk management and internal control, considers it important that there should be a regular and systematic approach to the management of risks in order to provide assurance that strategic and operational goals can be met and the Group's reputation is protected.

In order to identify and manage risks effectively, a risk management framework has been developed, which includes: processes to identify the risks facing the Group; a process to evaluate the potential impact of risks; appropriate controls and strategies to treat the risks; reporting requirements for changes to the risk profile; and details of specific roles and responsibilities relating to the management of risk. Management is expected to utilise the risk management framework when assessing risks and implementing suitable controls.

Risk management framework

The board is responsible for the Group's system of internal control, which is based on the COSO model (covering control environment, risk assessment, information and communication, control activities and monitoring) and for reviewing the effectiveness of the internal control systems in place. Such systems are designed to manage rather than eliminate the risk of failure to achieve the strategic business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss. The board has conducted a review of the effectiveness of internal controls and is satisfied that the controls in place remain appropriate.

The board exemplifies the control environment to its stakeholders through its compliance with the UK Corporate Governance Code, Debenhams' policies and procedures and, in particular, policies covering risk management, code of business conduct and anti-bribery and corruption.

To support this system for internal control, the Debenhams risk management framework (figure 1) has been developed using the principles of the international standard ISO 31000 (Risk Management).

This framework highlights the central role that the management of risk plays in the successful delivery of strategic objectives and the fact that this process is dependent on people fulfilling their clearly defined roles and responsibilities.

The key points of the process are described in more detail below.

Risk identification

Risks exist within all operations and it is important to identify them in order to understand the degree to which their occurrence would threaten the delivery of key objectives.

Risks are identified through a number of routes. They include membership of industry bodies, environmental scanning (i.e. market research), changes to legislation, enterprise risk management best practices, strategic planning exercises, ongoing operational reviews by management, project governance processes, internal audits and control environment reviews.

Whilst there are ongoing monitors in place, the most extensive piece of work undertaken to identify risks is the annual organisation-wide review facilitated by the risk management team. This was most recently conducted in October 2012. All senior managers participate in the exercise, including the board. It considers strategy, objectives and risks to their achievement together with the existing and new controls required to mitigate risk. The outputs from this process are collated into the Group's risk register and are taken into consideration when setting the annual internal audit plan. Management is required to update the register with any new or emerging risks as they are identified.

Figure 1: Debenhams risk management framework

Risk evaluation

In order to understand the impact specific risks would have to the Group, each risk is evaluated based on the likelihood of occurrence and its severity.

The risk ranking matrix (figure 2) has been developed to ensure that a consistent approach is taken when assessing the overall impact to the Group. Likelihood is based on the frequency of occurrence in a rolling 12 month period and severity is determined by the degree of change across key performance indicators.

Management is responsible for ensuring that risks are evaluated correctly, with support from the finance department as required. Individual managers consider the cumulative impact of all risks across their particular area of operation when determining the state of their overall control environment. The purpose of this exercise is to calculate the risk score for each risk identified, which determines the level of treatment expected.

The board reviews the key risks to the Group, taking action to strengthen where necessary, and the output from this is used to populate the Group's risk map.

Risk treatment

The board is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives, which is defined as the risk appetite and is outlined in figure 3.

Risk scores are compared to the risk appetite matrix, which provides guidance on the expected level of treatment, timeframes and authority levels. The four methods used to treat risk are:

- Tolerate (accept risk and take no further action)
- Treat (reduce risk by defining and completing appropriate actions to improve or implement controls)
- Transfer (share a risk via insurance policies or asking a third party to take the risk in another way)
- Terminate (avoid risk quickly and decisively by eliminating or re-engineering the activities that lead to the risk occurring)

Risk reporting and monitoring

Individual managers are expected to define and analyse the reports they require to enhance financial and operational performance and identify emerging risks or control failures.

Financial performance is monitored through a number of processes. An operating plan is prepared in August of each year, shortly before the start of the financial year and a revised forecast is prepared each month of the financial year which analyses actual performance and highlights variances against the plan. In particular, performance is monitored through a series of key metrics. Daily sales, weekly sales and margin and monthly management accounts are prepared, all of which report on performance against the operating plan, last year and forecast. Additionally, a treasury report is made to each board meeting which covers matters such as senior operating restrictions, covenant reporting and forecasting (under the Group's banking facilities), exposure to foreign exchange and hedging arrangements, net debt and interest rate hedging, cash flow and cash flow forecasting and amounts deposited with counterparties.

Performance is reviewed at board meetings, senior management meetings, Audit Committee, business continuity management committee and executive health and safety meetings. There are also other mechanisms in place to monitor risks such as internal audit reviews, critical and serious risk monitor, fraud detection systems, whistleblowing, stock counts and security equipment such as CCTV.

In addition, the Audit Committee satisfies itself that key risks are being monitored by senior management and that the internal audit plan is focused on high priority areas. The internal audit team updates the board and the Audit Committee on the effectiveness of risk management within each discrete area audited throughout the year. The Audit Committee will bring any areas of concern to the attention of the board.

Roles and responsibilities

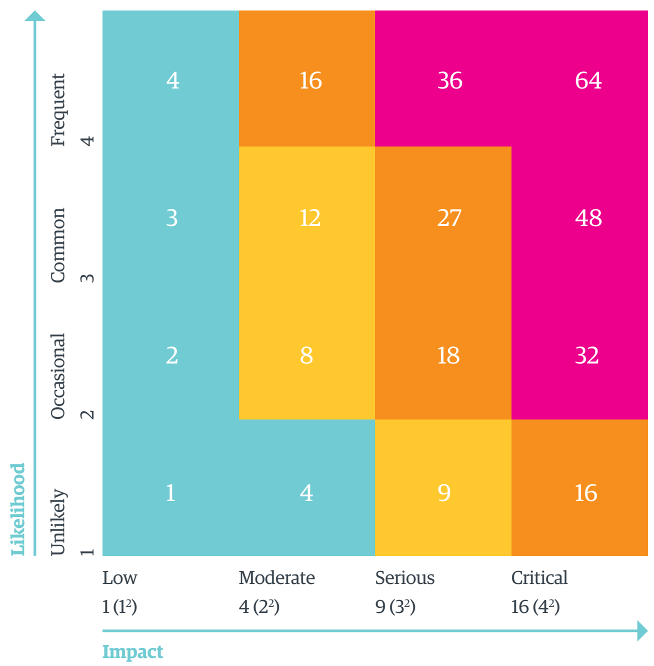
The effective management of risk is reliant upon all employees successfully performing their specific roles and responsibilities and individual managers are expected to familiarise themselves with their responsibilities, which are outlined below, and to act accordingly.

Only suitably qualified employees are responsible for each of the functions within the Group to ensure that each area operates effectively. Training, performance reviews and support mechanisms are in place to ensure performance standards are maintained.

Board of directors

The board of directors is responsible for: approving the risk management policy and related framework; setting and communicating the Group's risk appetite and related policies; setting the tone and culture for managing risk; providing strategic direction and guidance on risk related decision making; ensuring that risk management processes are adopted across the whole Group; obtaining assurance on the effectiveness and compliance with the risk management framework; reporting

Figure 2: Risk ranking matrix



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on the management of risk to stakeholders; and signing off public disclosures related to risk and risk management.

Divisional directors and heads of function

Divisional directors and heads of function are responsible for: identifying and evaluating the risks that relate to their areas and activities; implementing appropriate controls to manage risks in line with the Group's risk appetite; and taking ownership for risks and controls within their area of responsibility.

All employees

All employees are responsible for: being aware of the risks that relate to their roles and their activities; continuously improving their management of risk; implementing appropriate controls to manage risks; and reporting ineffective and/or inefficient controls wherever they sit.

Risk management and internal audit function

The Group's risk management and internal audit function is made up of three discrete areas: risk management, internal audit and profit protection. This combination enables the Group to maintain a cohesive approach to all aspects of risk management whilst allowing the internal audit team to benefit from the insights that other areas of the function can provide.

Risk management team

The risk management team is responsible for: developing, implementing and reviewing the risk management framework and process; promoting effective risk management at all levels of the Group; encouraging an appropriate risk culture within the Group; liaising with other functions that advise on specialist areas; coordinating responses where risks impact more than one area; reporting, escalating and communicating risk management issues to key stakeholders; and providing assurance regarding risk management within the Group. In addition, the team manages corporate insurance and undertakes business continuity planning activities.

Internal audit team

In relation to risk management, the internal audit team is responsible for providing independent assessment of: the design, operation and effectiveness of the risk management framework and process; management of key risks, including the effectiveness of the controls; reporting of risk and control status; reliability of assurances provided by management relating to risk management.

Profit protection

The profit protection team's responsibilities include activities such as: ensuring loss prevention strategies are developed and implemented, anti-fraud monitoring across the Group and the management of whistleblowing.

Whistleblowing

All Debenhams' employees are required to adhere to the code of business conduct and the anti-bribery and corruption policy, with senior employees required to confirm their compliance in writing. These policies set out the ethical standards expected by the Group and include details of how matters can be raised in strict confidence. Two main routes are available to employees at all levels within the Group to raise concerns over malpractices. The first, "Employees' guidelines to problem solving", encourages employees to talk to their line manager, their manager's line manager or, if still concerned, to call HR Connect (the central human resources team) directly. The second route is a confidential reporting line through which employees can speak to the Group anti-fraud team. If an employee feels that the matter is so serious that it cannot be discussed in any of these ways, s/he can contact the Company Secretary or the Director of Internal Audit and Risk Management. The Group's policy on whistleblowing and these methods of raising issues of concern are published on Debenhams' intranet and emphasised on posters. The policy is reviewed annually by the Audit Committee. All serious matters identified are raised with the chairman of the Audit Committee.

Business continuity planning

The business continuity committee comprises the Chief Financial Officer, Retail Director, HR Director and Director of Internal Audit and Risk Management. Other executives are invited to attend meetings as and when appropriate.

The objectives of this committee are to ensure that potential threats to the Group and the impact that those threats might cause have been identified, that a framework to build organisational resilience to known threats is in place and that the framework is capable of providing an effective response to safeguard the Group.

The committee uses a framework based on ISO 22301:2012 (Business Continuity Management Systems) and undertakes a number of key activities. These are to review and agree: the business continuity management policy and how it will be managed and communicated; the risks and threats facing the Group and prioritise them based on the evaluation of their severity and likelihood; the business continuity management strategy; the business continuity management response and its implementation; the process for exercising, maintaining and reviewing business continuity management arrangements; and the mechanisms to embed business continuity management in the Group's culture.

Principal risks and uncertainties

The risks detailed on pages 42 to 45 and in the Notes to the Financial Statements are the principal risks and uncertainties that may impact the Group's ability to achieve its strategic and operational goals. Both external factors, such as the economic environment, and internal factors, such as the retention of key management, are included in the risks and uncertainties that could substantially impact performance. Relevant mitigation for each risk is also outlined. These risks are presented in no particular order.

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

Figure 3: Risk appetite matrix

Risk score	Risk matrix zone	Action	Risk response	Treatment timeframe	Risk acceptance owner
1, 2, 3 or 4	**Green (Limited)**	Optional	Treat or tolerate	9-12 months	Head of department
8, 9 or 12	**Yellow (Moderate)**	Optional	Treat or tolerate	6-9 months	Line director
16, 18 or 27	**Orange (Significant)**	Yes	Treat, transfer or terminate	3-6 months	Executive director
32, 36, 48 or 64	**Red (Ultimate)**	Yes	Treat, transfer or terminate	0-3 months	Main board

External risk

Risk and impact	Example of mitigation	Change*
Consistent fall in customer spending as a result of economic downturn, inflation or deflation Reduction in gross transaction value and a decline in sales on discretionary purchases	The board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the four pillars of the Group's strategy to build a leading international, multi-channel brand.	↔
Competitive pressures in existing markets influence customer behaviour Place pressure on our pricing strategy, margins and profitability	Debenhams' brand and product strategy gives customers a unique, differentiated and exclusive choice of brand, products and categories within a good/better/best pricing architecture. An understanding of customers and their needs is developed by listening to their views, market intelligence and reviewing key performance indicators which ensures that pricing is competitive. Debenhams is investing additional resources in customer analytics and insight.	↔
Factors influencing the sustainability of the supply chain Place pressure on margin and will also divert financial and management resources from more beneficial uses	Debenhams fosters excellent relationships with its suppliers that are mutually beneficial. Both parties work towards the objective of optimising sustainable fulfilment and costs, which is measured regularly by management through key performance indicators. Alongside this, Debenhams develops multiple sourcing routes to ensure pricing remains competitive and that demand can be supplied. Debenhams and its suppliers will continue to work hard to deliver the best performance possible in a very challenging market.	↔
Loss of profit or additional expenditure caused by increased energy or fuel costs Place pressure on margin and will also divert financial and management resources from more beneficial uses	A key objective of the energy committee is to control energy usage, including the impact of the Carbon Reduction Commitment scheme. An energy hedging policy is in place to provide a high degree of cost certainty.	↔

Financial risk

Risk and impact	Example of mitigation	Change*
Risks associated with currency, hedging, interest rates, credit, counterparties and financial covenants under the credit facilities Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition	Debenhams has a treasury policy in place which covers counterparty limits and hedging for interest rates, foreign exchange and energy. There is also an internal treasury function which is mandated by the board and audited annually. Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of key performance indicators. Business critical spreadsheets and databases used by the finance department have been identified and appropriate control measures are used in line with Debenhams' policy to ensure data integrity.	↔
Shortfall in the pension fund Increases in pension related liabilities could impact profits and cash flow	The trustees of the Group's pension schemes carefully monitor the pension fund and alter the investment strategy as appropriate. Any shortfall in funding is brought to the attention of the board.	↔

Please refer to the Notes to the Financial Statements for other risks in this category

*Change in severity and/or likelihood of risk during course of 2012

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Strategic risk

Risk and impact	Example of mitigation	Change*
Inability to predict or fulfil customer demands or preferences Sales will be lower, market share reduced and will be forced to rely on markdown and promotions to dispose of excess or slow moving inventory. May be inventory shortfalls on popular merchandise	Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. It delivers these requirements through multiple channels, including its store and non-store sales channels. To achieve this these channels are constantly developed and high operational standards maintained to differentiate from competitors. Stock levels and the supply chain are monitored closely in order to ensure product newness is maximised. This is a decreasing risk as a number of strategic projects have been undertaken to improve our understanding of our customers.	↓
Departure of key personnel and failure to attract or retain talent Significantly delay or prevent achievement of strategy	In order to attract and retain talent, both succession and personal development plans are in place throughout the Group. In addition, target-led, performance-related incentive schemes exist.	↔
Failure to achieve the new store roll out or acquisition targets Reduced growth or a decline in gross transaction value and may be required to write down the value of any stock acquired for sale in an uncompleted store	Debenhams undertakes research of key markets and demographics to identify potential locations to drive growth through new space. A full investment appraisal is conducted as part of the decision making process and a specialist team has responsibility for end-to-end management of each project once the decision is made.	↔
Failure of ethical trading policy, poor perception in the market on corporate responsibility matters or negative impact to brand due to product quality, supply chain practices, health and safety etc. Negative effect on reputation leading to loss of stakeholder trust and confidence, material adverse effect on the ability to attract and retain third party brands, suppliers, designers, concessionaires and franchisees with subsequent impact on performance and results	Ethical sourcing, legislative change and corporate responsibility matters are key areas of focus for the sustainability committee. To ensure that Debenhams has the most current information available, it is a member of relevant industry bodies that provide awareness of changes to standards and legislation. Debenhams is an active member of Ethical Trading Initiative (ETI) and expects all suppliers to follow the ETI base code and adhere to Debenhams' own supplier code of conduct. A reliance on third party suppliers, the challenges of the current economic environment and the complexity of new and existing legislation makes this an ongoing risk which Debenhams and its suppliers have to manage.	↔

Hazard

Risk and impact	Example of mitigation	Change*
Loss of business or additional expenditure caused by terrorism, strikes, riots, natural disasters or pandemics Adverse effect on inventory and gross transaction value and will divert financial and management resources from more beneficial uses. In the case of terrorism, customer confidence may be impacted	The business continuity committee is comprised of senior executives and works to a framework based on the most recent international standard. The key objectives of this committee are to ensure that potential threats to the organisation and the impacts that those threats might cause have been identified, that a framework that builds organisational resilience to known threats is in place and that the framework has the capability to deliver an effective response to safeguard the Group. Insurance policies have been placed as appropriate to minimise the impact of specific risks.	↔
Additional expenditure or reputational damage caused by changes in legislation or a breach of regulations Adverse effect on inventory and gross transaction value and will divert financial and management resources from more beneficial uses	Debenhams has specialist accounting, taxation and legal and secretariat teams and is also a member of key industry bodies which provide awareness of changes to standards and legislation. Forums exist to focus on specific areas of legislation. Specific business policies and procedures are in place to ensure roles and responsibilities are understood across the Group.	↔

*Change in severity and/or likelihood of risk during course of 2012

Hazard continued

Risk and impact	Example of mitigation	Change*
Theft of customer data or breach of payment card industry data security standards Negative effect on reputation leading to loss of stakeholder trust and confidence, with subsequent impact on performance and results and will divert financial and management resources from more beneficial uses	The information security forum reviews projects and key activities for compliance to the relevant standards. Debenhams' compliance to the PCI standard is monitored by management and reported to the Audit Committee. A number of security tools are employed to protect data, including encryption, intruder detection and data loss prevention.	↔
Personal injury or property damage relating to a major Debenhams or supplier location Injury or loss of life to staff or customers. Negative effect on reputation and will divert financial and management resources from more beneficial uses	The executive health and safety committee reviews compliance in this area and a number of participants are members of various relevant industry bodies. The committee receives input from specialist teams which focus on discrete aspects. These include health and safety, building services, insurance and buying and merchandising. To support compliance and to maintain high operational standards, health and safety awareness programmes are in place and each site has its own health and safety committee.	↔
Disruptions or other adverse events affecting relationships with or the performance of major suppliers, franchise partners, store card providers, designers or concessionaires Costs associated with the transfer of the operations or the potential of extra operational cost from a new provider Changes in exclusivity arrangements with designers or any decline in their popularity could have a material adverse impact Loss of a number of important concession partners may adversely affect GTV Adverse events within the supply chain could restrict the availability or significantly increase the cost of goods Credit insurance difficulties for a significant number of suppliers could lead to a detrimental variation of terms or alternative suppliers used to source some goods	In order to minimise the impact of any third party relationship or performance issues, Debenhams' objectives are to: maintain excellent third party relationships by ensuring strategies are aligned; have appropriate, unambiguous contracts in place; ensure third parties are financially robust; and have contingency plans in place in the event of a failure (e.g. conversion of space to own bought for concessionaire failure, multiple sourcing routes for supplier failure). This is an increasing risk due to the ongoing, global economic situation and the impact this could have on a significant supplier or partner.	↑
Fraud, theft or industrial espionage Negative effect on reputation and will divert financial and management resources from more beneficial uses	In order to mitigate fraud across all channels in which Debenhams operates, a number of preventative measures are in place. These include accounting policies and procedures, systems access restrictions, expenditure authorisation levels, whistleblowing and anti-bribery and corruption policies and a code of business conduct, all of which provide employees with guidelines on how to escalate an issue confidentially. A variety of monitoring mechanisms are used to identify fraudulent activity including data mining across point of sale and head office functions. As part of the organisation-wide risk assessment, individual managers sign an anti-fraud, bribery and corruption declaration. Issues identified are investigated and reported to the Audit Committee.	↔

*Change in severity and/or likelihood of risk during course of 2012

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Operational risk

Risk and impact	Example of mitigation	Change*
Failure to deliver a business critical project Divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems	A full investment appraisal is conducted as part of the decision making process and must be signed off by a board member before any project is undertaken. As part of project governance, a steering committee monitors all key areas involved in the delivery of the project, a project framework is used, selected projects will be reviewed by internal audit and post investment appraisals are undertaken. Debenhams is undertaking a head office move during 2013 which increases the risk rating compared to last year.	↑
Ineffective brand awareness and marketing programmes Loss of market share, customer loyalty, reduction in gross transaction value and a decline in sales on discretionary purchases	Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. This information is used to identify specific segments of the market to target and to form a proposal as a marketing campaign. A full investment appraisal is conducted and must be signed off by a board member before any campaign is undertaken. Campaign effectiveness is monitored through external feedback and internal analysis.	↔
Risks associated with leasehold properties Significant alterations in rental terms could have a material adverse effect on the business, as would failure to secure desirable locations Disputes over store modernisations may lead to reinstatement costs and termination of leases may lead to dilapidation costs being incurred Failure to manage asbestos in specific properties may lead to fines or other liabilities affecting Debenhams' reputation and the full or partial closure of properties	Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store modernisation programme, lease renewals and adherence to all legal obligations under the lease. Debenhams is also a member of key industry bodies which provide awareness of changes to standards and legislation. Debenhams consults with industry experts to ensure that the asbestos policy and asbestos register are fully up to date. All locations where asbestos has been identified are clearly marked with signage and the condition is checked on a regular basis with action taken in the event of any deterioration. Any works undertaken in these areas are approved by both the health and safety and building services teams prior to any work permits being issued with specialist companies used as required. Debenhams is undertaking a head office move during 2013 which increases the risk rating compared to last year.	↑
Risks associated with systems failure, external attack of systems or data inaccuracy Divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems Inappropriate decisions could be made using wrong or ambiguous information	Project governance, change control and implementation frameworks form part of all project lifecycles and the IS management team is responsible for ensuring that they are adhered to. Monitoring processes are in place across a number of key business systems, alongside appropriately trained specialist teams and an internal knowledge database. Disaster recovery site is in place and associated systems are regularly tested to ensure that invocation would work effectively if required. This risk was previously included within other risks in this section but has now been detailed separately, given the significance of the risk should it occur.	↔
Inability to effectively invoke the Business Continuity Plan Unable to continue operations smoothly in the event of a major incident Divert financial and management resources from more beneficial uses	The Business Continuity Committee is comprised of senior executives and works to a framework based on the most recent international standard. The key objectives of this committee are to ensure that potential threats to the organisation and the impacts that those threats might cause have been identified, that a framework that builds organisational resilience to known threats is in place and that the framework has the capability for an effective response to safeguard the Group. Debenhams is undertaking a Head Office move during 2013 which increases the risk rating compared to last year. This risk was previously included within other risks in this section but has now been displayed separately, given the significance of the risk should it occur.	↑

*Change in severity and/or likelihood of risk during course of 2012

Sustainability

We are committed to economic, environmental and social sustainability as an integral driver of long-term business success.

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Sustainability review

Building the right future

Martina King, chair of sustainability committee

Debenhams does not have a sustainability department. For us, being environmentally and socially responsible is embedded into the business and into everyone's role.

Our sustainability committee represents all key areas of the business. Our experts in every aspect of retail have a deep understanding of the direct benefits we can introduce by adopting sustainability measures.

For more information go to
sustainability.debenhamsplc.com

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Debenhams has been trading successfully for over 200 years. Our ability to endure is founded on our long history of acting responsibly towards our stakeholders – shareholders, suppliers, customers, employees and local communities – as well as the environment.

We do not have a dedicated sustainability department and our sustainability committee may be relatively new but our practice of sustainability principles is well established. The material issues for our sustainability working groups – ethical sustainable sourcing, logistics and distribution, environment and people – derive from Debenhams' risk register, which has been a foundation of our business strategy for many years. The discipline of annually updating the register has created a culture where managers across the business routinely seek to identify, mitigate and eliminate risks.

Commercial drivers have always been paramount. All managers review practices regularly to ensure their area is operating as effectively and efficiently as possible. Wherever possible, we seek economically beneficial measures with positive social and environmental impacts.

A sounding board

Debenhams' sustainability committee brings together experts from all aspects of retail – from sourcing and supply through to stores, staff and sales. The committee meets quarterly to update Debenhams' sustainability chair Martina King on progress towards our commitments.

The committee also acts as a forum for new ideas amongst members and between the different working groups, leading to increased collaboration across the business. The advantage of embedding sustainability into everyone's role is that all decisions can be practically implemented by the relevant department heads.

Plan to endure

During 2012, the sustainability committee has been very active on both a practical and strategic level. Whilst working on targets set for the year, we have also been developing a longer-term sustainability plan.

We have now drawn up Debenhams' "Plan to Endure" ("P2E"), the aim of which is to continue to grow and be here for the duration by doing the right things for our stakeholders.

P2E entails driving overall business performance while living up to our responsibilities as a retailer, employer and business partner, as a steward of the environment and our shareholders' investments and as a member of the community.

In line with our business strategy to simplify as much as possible, P2E consolidates the work of our four internal working groups – ethical sustainable sourcing, logistics and distribution, environment and people – into three main areas of focus which balance the economic, environmental and social aspects of sustainability.

Sustainable supply

Sustainable supply brings together the commitments of our ethical sustainable sourcing working group with relevant elements of logistics and distribution – namely, their objective to ensure our supply chain is robust so that goods always flow.

Environmental responsibility

Our priorities for environmental responsibility are climate change, energy and waste. We aim to reduce our environmental footprint through various initiatives undertaken by the logistics and distribution and environmental working groups.

Connecting with people

Our people working group is committed to attracting, keeping and growing our employees; to delivering the service, standards and goods our customers expect and to making a positive contribution to local communities and national charities.

Sustainability reporting

Last year we committed to launching a dedicated website as our principal method of communication of sustainability issues. This site is now live at sustainability.debenhamsplc.com. Following on from P2E, our sustainability website focuses on the three areas of sustainable supply, environmental responsibility and connecting with people.

The aim of the website is to update stakeholders regularly with news about our sustainability progress as initiatives unfold during the year. The new site is also home to details of our sustainability approach, our policies and key performance data for the year. The following pages of this review aim to highlight the progress Debenhams has made on sustainability during 2012.

Supply highlights

The market has continued to be volatile in terms of costs of cotton and other materials, labour and shipping, but we were successful in ensuring the continued supply of goods during the year at the quality and value our customers expect.

One trial that proved beneficial was working directly with mills supplying cotton, denim and chinos. By consolidating orders across internal divisions, we were able to negotiate directly with mills to secure supplies at an acceptable cost to us and our suppliers.

Sustainability drivers

The material issues for Debenhams' sustainability working groups derive from our risk register. Commercial drivers have always been paramount but wherever possible, we seek economically beneficial measures with positive social and environmental impacts.

P2E

Our sustainability committee has been very active on both a practical and strategic level. While working on targets set for the year, we have also been developing a longer-term sustainability plan. We have now drawn up Debenhams' "Plan to Endure" (P2E).

Our close relationship with suppliers also ensured a sustained flow of goods from China that avoided unpredictable labour that traditionally follows the Chinese New Year holiday. We talked to our suppliers to gauge labour availability and understand how many workers they expected to return. By changing our critical path for menswear, womenswear and childrenswear we made sure our goods were produced earlier, which gave us a competitive advantage.

In light of ongoing international shipping issues, Debenhams' policy to take direct responsibility for shipping was also of strategic and commercial benefit. Our high freight on board ("FOB") policy delivers improved speed, cost and visibility further up the supply chain. We know instantly where and when problems occur and, where necessary, can switch supplies to another country to ensure continued supply.

We used different shipping lines to spread risk and improved logistics planning to achieve increased loads and greater cost effectiveness per container. We also achieved our lowest ever demurrage charges.

Environmental progress

As well as complying with all mandatory requirements, we believe there is a very strong and valid business case for being environmentally responsible. Reducing our use of resources and our production of waste will result in lower overheads and improve our ability to endure economically. Our 2012 environmental activities have contributed towards this.

We participate in the UK government's CRC Energy Efficiency Scheme and have been reporting greenhouse gas ("GHG") emissions online to the Carbon Disclosure Project ("CDP") for the past three years. Our latest CDP submission – for the year ended August 2011 – shows that our overall emissions grew by 6%, while like-for-like emissions based on floorspace reduced by 2%.

The increase in overall emissions is due to our increased scope and improved methods of reporting, including data for our operations in Denmark as well as new calculation methods. We reduced our like-for-like consumption of purchased energy through a combination of monitoring and targeting of store energy, staff awareness, training and bonus incentives as well as technical support and energy efficiency investments.

We appointed New Star Environmental as our new store waste contractor in March 2012. New Star understands our business and the different operational needs of our stores. On our behalf, they manage contracts with a number of regional suppliers to ensure the most flexible and eco-efficient solutions

Ethical supply

Debenhams has been a member of the Ethical Trading Initiative ("ETI") since 2001. All our suppliers must sign our Code of Conduct, based on the ETI Base Code. Every supplier and factory undergoes regular social, ethical and technical auditing. Our Code of Conduct lays out an number of labour rights principles, for example, that no child labour is used, no discrimination is practised, correct wages are paid and product safety standards are adhered to.

SGS are our nominated global partner for social, ethical and technical audits. In 2012, the monitoring programme covered 99% of our total manufacturing base.

We have also continued with random unannounced visits, first initiated in 2011. As well as monitoring compliance, we engage first-hand with our manufacturers, giving us first-hand insight into local social and economic pressures, how factories are responding and what we need to do to work collectively together for positive remediation.

Energy efficiency

Energy efficiency is a key component of our continuing store modernisation programme. We are investing a total of £1.2 million in lighting, heating, ventilation and air conditioning control projects which will reduce energy consumption while improving the store environment for customers.

We know that energy use increases when store modernisation is carried out overnight and we will carefully review energy consumption for all stores that have been modernised this year, but initial results are very encouraging.

For example, trials replacing lights with energy efficient lamps in the Scarborough and White Rose stores achieved like-for-like savings of 37% and 31% respectively. Reducing the voltage in Swindon reduced energy consumption between 8 and 13% and saved £14,000. To date, such measures have saved nearly £400,000 on energy across the business and we are on track to see a full return on our investment within four years.

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are available to us. A full year review will be carried out in April, but initial figures indicate that we are now sending far less to landfill, resulting in significant financial savings.

Connecting with people
Customers are at the heart of our decision making. Delivering on our customer promise relies on the commitment of our 30,000 employees so we remain committed to attracting, retaining and growing the very best talent in the industry.

We created 168 new jobs during 2012 through the opening of two new stores in Newbury and Dumfries. We also worked in partnership with Capita to open a new customer call centre in Leeds.

We continued our policy to appoint the majority of store and head office managers internally. Over the 12 months to the end of September 2012, 89% of retail management appointments and 69% of senior executive appointments at head office were internal promotions.

Debenhams Design Team remains the key vehicle for quantitative feedback from customers. 15,000 registered customers participate in regular surveys to provide opinions on initiatives such as advertising, branding, charity involvement and store modernisation. We use this feedback to influence decision making throughout the business.

Our Customer Closeness programme has proved extremely valuable for qualitative feedback. Our Chief Executive Michael Sharp and other senior executives spend a day in store each quarter gaining insights directly from customers and non-customers.

Our long tradition of connecting with local communities and supporting good causes became more strategic during 2012. Following feedback from our customers and employees, we have formed national partnerships with BBC Children in Need, NSPCC, Breakthrough Breast Cancer, Breast Cancer Campaign, Pink Ribbon Foundation and Movember.

We now have a calendar of support for these charities that encourages individual stores to fundraise in their preferred style. Stores also have the freedom to support local causes during other times of the year.

The Debenhams Foundation (number 1147682) was formally registered with the Charity Commission on 13 June 2012. All funds raised for charity will go through the Foundation, providing improved transparency and accountability. Nikki Zamblera, HR Director, is chair of the trustees who include former Debenhams' senior managers, Pat Skinner and Keith Markham.

Our future plans
During 2013 we plan to progress many initiatives that will contribute towards Debenhams' sustainability goals.

In supply, we will be undertaking trials for sourcing merchandise closer to home in Europe. We will also progress trials to ship merchandise directly from the country of manufacture to our international franchisees.

We expect further improvements through our waste management contracts and to see environmental and economic benefits of our investments in store modernisation and our upgraded distribution fleet.

Our new employee and customer surveys should give us more relevant information about ways to improve people's experience of Debenhams. We also look forward to our head office move in 2013.

Updates on all activities will be posted on our dedicated sustainability website: sustainability.debenhamsplc.com.

Customer confidence

Debenhams' long-running Inclusivity Campaign was honoured with the Campaign for Body Confidence Retail Award in April 2012. The judges believe the campaign "showcases imagery that is inspirational and realistic by using models who are older, curvier and visually disabled to inspire modern day British women".

For us, using models, mannequins and photography that customers can identify with is about more than taking a socially responsible stance. Inclusivity is a business decision that makes commercial sense because it appeals to a wider audience.

Debenhams also supports the UK All-Party Parliamentary Group on Body Image; we are a signatory to the British Retail Consortium guidelines on responsible marketing to children and the Mumsnet Let Girls be Girls campaign. Campaigns like this are important for sustaining consumer trust and confidence.

Governance

This section explains the board's approach to corporate governance and corporate responsibility.

Chairman's introduction p55
Board of directors p56
Corporate governance report p58
Directors' report p63
Remuneration report p66

For more information go to
ar12.debenhamsplc.com

Quick reference guide to the contents of the Governance section

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For more information go to
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Chairman's introduction to governance

Good governance is about responsible and effective management of the business in a way which demonstrates honesty, transparency and accountability.

Dear shareholder
On behalf of the board, I am pleased to present the Corporate Governance Report for the financial year ended 1 September 2012.

At Debenhams we remain committed to high standards of corporate governance. We believe this is central to the continued strong performance of the Group in a manner which is sustainable over the long-term and to maintaining the confidence of our shareholders. For us, good governance is about responsible and effective management of the business in a way which demonstrates honesty, transparency and accountability.

In this report we set out how the board and its committees are structured and what they have done during the year.

The board has the ultimate responsibility for the Group's performance and for overseeing the management of risk. As such, it is right that shareholders look to us to promote the long-term success of Debenhams. As Chairman, it is my role to provide the leadership to enable the board to do this effectively. This year I therefore personally conducted the board evaluation process. You can find more details on this process and its outcome on page 59 of this report and I confirm that all of the directors continue to perform effectively and to demonstrate commitment to their roles.

There have been several changes to the board composition over the past year. Most notably, Michael Sharp was appointed Chief Executive on 4 September 2011. Simon Herrick took up the role of Chief Financial Officer on 10 January 2012, replacing Chris Woodhouse. Adam Crozier stepped down from the board on 1 September 2012.

Subsequent to the year end, on 4 October 2012 we announced the appointment of Peter Fitzgerald as a non-executive director. Peter has a wealth of experience in helping retail businesses to realise their online ambitions with acknowledged industry-leaders Amazon and Google. Growing our multi-channel business is a crucial part of Debenhams' strategy (which you can read about on page 24) and, as one of the leading experts in his field, we look forward to Peter's contribution as a member of the board.

In accordance with the Listing Rules of the UK Listing Authority, I confirm, on behalf of the Company, that throughout the year ended 1 September 2012 and as at the date of this Annual Report, it was compliant with all the relevant provisions as set out in the UK Corporate Governance Code issued by the Financial Reporting Council.

As with last year, all the directors will submit themselves for re-election at the Annual General Meeting in January 2013. Peter Fitzgerald will stand for election having been appointed to the board on 4 October 2012. Biographies for the members of the board can be found on pages 56 and 57 of this Annual Report.

Details of the Annual General Meeting itself are enclosed with this report. The board and I look forward to meeting with shareholders in January.

Nigel Northridge
Chairman

Management structure

Michael Sharp
Chief Executive

Simon Herrick
Chief Financial Officer
Financial reporting and management, tax, treasury, legal, internal audit, investor relations, systems and logistics

Suzanne Harlow
Group Trading Director
Design, buying, merchandising, distribution, sourcing, supply chain and external business

Mike Goring
Retail Director
UK and international store operations and store development

Richard Cristofoli
Marketing Director
Product marketing, advertising, PR, visual and creative, strategy and insight

Nikki Zamblera
HR Director
Pay & reward, learning & development, pensions and facilities

Board of directors

Composition of the board

Directors	No.
Executive	2
Non-executive	6

Length of tenure of directors

Directors	No.
Less than one year	2
One to three years	2
Three to six years	2
More than six years	2

Committees

Nomination Committee

The Nomination Committee is responsible for board recruitment and succession planning, thereby ensuring that the right skill sets are present in the boardroom.

Remuneration Committee

The Remuneration Committee is responsible for determining all elements of remuneration for the executive directors and for reviewing the appropriateness and relevance of the Group's remuneration policy.

Audit Committee

The Committee's primary responsibilities are to monitor the integrity of the Group's financial statements, to review external and internal audit activity and to review and monitor the effectiveness of risk management and internal controls.

Sustainability committee

Although not a formal board committee, the sustainability committee was created by order of the board to ensure the Group's activities promote the interests of all its stakeholders.

Nigel Northridge (56)
Term of office Chairman since April 2010 following appointment as a member of the board in January 2010
Experience Nigel Northridge is currently Chairman of Paddy Power plc and a non-executive director of Inchcape plc. He also chairs the remuneration committee at Inchcape plc. Previously he was senior independent director of Aggreko plc, chief executive of Gallaher Group plc and a non-executive director of Thomas Cook Group plc.
Committee membership
Nomination (chairman), Remuneration
Other directorships
Paddy Power plc
Inchcape plc

Michael Sharp (55)
Term of office Chief Executive of Debenhams plc since September 2011, Deputy Chief Executive from November 2008 and Chief Operating Officer from May 2006
Experience From 1997 to 2004, Michael Sharp was Trading Director of Debenhams Limited and from January 2004 to May 2006 he was its Chief Operating Officer. He previously worked in various capacities within the Burton Group, including as Managing Director of Principles and Racing Green and Buying and Merchandising Director of Topshop and Topman.
Committee membership
None
Other directorships
None

Simon Herrick ACA (49)
Term of office Chief Financial Officer since January 2012 following appointment as a member of the board in November 2011
Experience Simon Herrick was formerly Group Finance Director and subsequently Acting Chief Executive Officer of Northern Foods PLC. He is a former Finance Director of Kesa Electricals PLC and PA Consulting. He has also held senior roles at Regus PLC, Hays PLC and PepsiCo.
Committee membership
None
Other directorships
None

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Dennis Millard CA (SA) (63)
Term of office Senior Independent Director since May 2010 following appointment as an independent non-executive director in May 2006
Experience Dennis Millard is currently Chairman of Halfords Group plc having acted as interim Executive Chairman from July to October 2012. He is also Chairman of Smiths News plc and a non-executive director of Premier Farnell plc. His former appointments include Group Finance Director of Cookson Group plc and non-executive director of Exel plc, Arc International and EAG Ltd and Xchanging PLC.
Committee membership
Remuneration (chairman), Nomination, Audit
Other directorships
Halfords Group plc
Premier Farnell plc
Smiths News plc

Martina King (51)
Term of office Independent non-executive director since August 2009
Experience Former Managing Director of Aurasma, Martina King has an extensive career in media technology. Her previous roles include Managing Director of Capital Radio and Managing Director for Europe at Yahoo! where she rebuilt the UK and Ireland business after the dot com collapse and subsequently led the rebuilding of the European division. Ms King is also a non-executive director of Capita plc and Cineworld plc.
Committee membership
Remuneration, Nomination, Audit, chair of sustainability committee (a committee of the board)
Other directorships
Capita plc
Cineworld plc

Peter Fitzgerald (42)
Term of office Independent non-executive director since October 2012
Experience Peter Fitzgerald is Country Sales Director for Google UK/Eire having worked for that business since 2007, predominantly with retail business clients. Previously he worked for Amazon both in Europe and the USA.
Committee membership
Audit
Other directorships
None

Mark Rolfe FCA (53)
Term of office Independent non-executive director since October 2010
Experience Mark Rolfe is currently a non-executive director of Barratt Developments plc, Hornby plc and The Sage Group plc. He is also Chairman of Lane, Clark & Peacock LLP. Mr Rolfe previously worked in various finance and executive roles within Gallaher Group plc including as Finance Director for seven years until the company was acquired in 2007.
Committee membership
Remuneration, Nomination, Audit (chairman)
Other directorships
Barratt Developments plc
Hornby plc
The Sage Group plc

Sophie Turner Laing (52)
Term of office Independent non-executive director since August 2009
Experience Sophie Turner Laing is currently Managing Director, Entertainment, News and Broadcast Operations at British Sky Broadcasting Group plc and on the board of AETN UK and NGC Network International LLC. In addition, she is Vice President of BAFTA and a trustee of The Media Trust and the National Film and TV School. Her previous roles include Controller, Programme Acquisition at the BBC and Vice-President, Broadcasting at Flextech (now Virgin Media Television). Ms Turner Laing was also Co-founder and Managing Director of HIT Entertainment.
Committee membership
Remuneration, Nomination, Audit
Other directorships
AETN UK
NGC Network International LLC

Corporate governance report

Gender ratios

Main board	No.
Male	6
Female	2

Executive committee	No.
Male	4
Female	2

Senior management team	No.
Male	65
Female	50

Role of the board

The board of Debenhams is collectively responsible for the long-term success of the Company and is ultimately accountable for the Group's strategy, risk management and performance.

Following the retirement of Adam Crozier from the board on 1 September 2012, at the end of the year the board of Debenhams plc comprised the non-executive Chairman, two executive directors and four independent non-executive directors. Peter Fitzgerald was subsequently appointed as an independent non-executive director on 4 October 2012. Dennis Millard is the Senior Independent Director.

Debenhams has 25% female representation on the board. Women account for one third of the executive committee and 43% of the senior management team.

The board held five meetings during 2012 which were fully attended by all the board members apart from the meeting on 12 April 2012 which Adam Crozier was unable to attend due to a schedule clash. In addition to the directors, board meetings were attended by the Retail Director, the HR Director, the Group Trading Director, the Marketing Director and the Company Secretary. The board also held its annual off-site meeting in February to consider the Company's strategy. No individual or small group of individuals dominates the board's decision-making process.

In accordance with the UK Corporate Governance Code, there is a formal schedule of matters reserved for the board's decision which is monitored by the Company Secretary and reviewed annually by the board. Specific matters reserved for the board's consideration include: the approval of the Company's business model and strategy; determination of the level of risk the Company is willing to take in achieving the Company's strategic and operational plans, approval of the Company's Financial Statements; major capital expenditure; major acquisitions and disposals; approval of changes to governance and business policies; and a review of the effectiveness of the board and its committees. The board delegates the operational decisions for the implementation of these matters to the Company's management.

Reports from the executive directors are circulated in advance of each board meeting and they focus on major operational matters. Reports are also produced by specialists on general and Company business areas and by other executives and external advisers on key business areas. Various sectors of the business present to the board on a rotating basis. During last year these overviews were presented by menswear, womenswear, home and childrenswear. In 2012 other matters considered by the board included presentations from marketing and PR, investor relations, taxation, health and safety, human resources, approval of the annual budget and the five year plan, assessment of the corporate risk map and a review of governance issues affecting the Company.

The Chairman and the Chief Executive

There are clear divisions of responsibilities between the Chairman and the Chief Executive and these are set out in writing and agreed by the board.

The main responsibility of the Chairman is the effective running of the board, ensuring that the board as a whole plays a full and constructive part in the development and determination of the Company's strategy and its overall commercial objectives. He ensures that the board determines the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy. The Chairman is responsible for promoting the highest standards of integrity,

Board activity throughout the year

September 2011	October 2011	January 2012	February 2012	April 2012	June 2012
Received an update on Health and Safety within the business	Received an overview of menswear performance	Received an overview of womenswear performance	Annual Strategy Meeting	Received an overview of home performance	Received an overview of childrenswear performance
Approved budget for financial year	Approved full year results, report and accounts and recommended the final dividend	Met with shareholders at the Annual General Meeting		Review of five year plan	
	Reviewed the annual performance evaluation of the board and its committees			Approval of interim results and resolved to pay interim dividend	
	Debated and approved the Corporate Risk Map				

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probity and corporate governance throughout the Company. The Chairman also manages the relationship and communication with the shareholders of the Company in relation to any governance matters. He takes the lead on issues of director development through induction programmes and regular reviews. By chairing the Nomination Committee he regularly considers succession planning and the composition of the board.

The Chairman sets the board agenda. Together with the Company Secretary, he ensures that the members of the board and its committees receive clear, comprehensive, up-to-date and timely information so that there can be thorough consideration of the issues prior to, and informed debate and challenge, at board and committee meetings. Where directors have not been able to attend meetings due to conflicts in their schedule, they receive and read the papers for consideration at that meeting, relaying any comments to the Chairman in advance of the meeting where possible.

The Chief Executive is responsible for all executive management matters affecting the Company. His principal responsibility is the day-to-day running of the Company business and the achievement of the agreed strategic objectives. The management structure of the Company under the Chief Executive's leadership is shown on page 55.

The Company Secretary
The Company Secretary reports to the Chairman on all board governance matters. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

Indemnification of directors
Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the directors who held office during the year. The Company also provides insurance cover for its directors.

Directors' conflicts of interest
The Nomination Committee annually reviews and considers the interests and other external appointments held by the members of the board . All conflicts declared were approved at its meeting in September 2012. The directors have a continuing duty to inform the board of any potential conflicts immediately so that such conflicts may be considered and if authorised included within the register of conflicts.

The Senior Independent Director
Dennis Millard provides a sounding board for the Chairman and serves as an intermediary for the other directors as necessary. The Senior Independent Director also acts as a line of contact for shareholders if they have concerns which are not appropriate for discussion through the Chairman, Chief Executive or Chief Financial Officer.

Non-executive directors
All the non-executive directors are considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement. They have a wide range of skills and experience and provide constructive challenge in the boardroom.

The table below details the length of service for each non-executive director.

The letters of appointment for the non-executive directors set out the time commitment expected to be necessary for the performance of their duties. Routinely, the expected number of days required for each non-executive director is ten days.

Debenhams plc recognises that the non-executive directors have other business interests outside of the Company and that other directorships bring benefits to the board. All existing directorships are detailed within the director biographies on pages 56 and 57. Non-executive directors are required to obtain the approval of the Chairman before accepting any further appointments.

Performance evaluation
In 2011 the performance evaluation was facilitated by Lintstock Ltd. This year an evaluation of the performance of the board, its committees, the individual directors and the Chairman was conducted internally. This was led by the Chairman who interviewed all board members individually and discussed the results collectively with the board. The conclusion was that the board is operating effectively with plenty of energy around the table. The overviews presented to the board by the various parts of the business are proving extremely valuable. The board agreed to focus on further rationalisation of materials it receives. In addition, the non-executive directors evaluated the Chairman's performance at a meeting chaired by the Senior Independent Director.

Length of service for each non-executive director

Name	Date of appointment	Date of last re-election by shareholders	Current length of service as a non-executive director at year end
Nigel Northridge	1 January 2010	10 January 2012	2 years 8 months
Peter Fitzgerald	4 October 2012	n/a	n/a
Martina King	1 August 2009	10 January 2012	3 years 1 month
Dennis Millard	9 May 2006	10 January 2012	6 years 4 months
Mark Rolfe	1 October 2010	10 January 2012	1 year 11 months
Sophie Turner Laing	1 August 2009	10 January 2012	3 years 1 month

Chairman's responsibilities

- Leading the board, ensuring the directors receive accurate and timely information to enable debate and high quality decision making
- Promoting high standards of corporate governance
- Accountable to shareholders for the effectiveness of the board
- Ensuring, as Chairman of the Nomination Committee, that there are board succession plans in place in order to retain and build an effective and complementary board

Chief Executive's responsibilities

- Developing business strategies and commercial objectives for board approval
- Successfully implementing the business strategy
- Regularly updating the board on progress against approved plans
- Ensuring that the Executive Committee complies with all business policies, delegated authorities and regulations in achieving the objectives of the business

Board committees

The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference (which are reviewed annually) of each committee can be found at www.debenhamsplc.com. The members and the role of each committee are disclosed on pages 56 and 57 of this report.

In 2011 the board formed the sustainability committee, a committee of the board whose aim is to embed the corporate social responsibility of the business within its operations. The sustainability committee is chaired by Martina King and its members are employees whose roles within the business fall within four key work streams, namely sustainable sourcing, environment, logistics & distribution and people. Further information on the role, operation and achievements of that committee can be found on pages 48 to 51 and on our dedicated website sustainability.debenhamsplc.com.

Share capital and control

Information which the directors are required to provide pursuant to section 992 of the Companies Act 2006 can be found on pages 63 and 64 of the Directors' Report.

Auditor independence

In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is regularly reviewed. This covers matters such as that auditors and their staff should have no family, financial, employment, investment or business relationship with the Company, the employment by the Company of former audit employees, the rotation of audit partners and the provision of non-audit services. The Audit Committee makes recommendations to the full board in respect of re-appointment annually of the auditors and the board then ensures that this is included on the notice for the Annual General Meeting. As regards the risk of the external auditors' withdrawal from the market, the Company considers that there are sufficient other auditors in the market place should this situation ever arise.

The objective of the Audit Committee's policy in relation to the provision of non-audit services by the auditors is to ensure that the provision of such services does not impair the external auditors' independence or objectivity. An independent report is produced by the Debenhams finance team each quarter during the year detailing all non-audit work, its cost, when it was carried out and who instructed it. This information is reported to the Audit Committee at each meeting.

The Company's policy identifies three categories of accounting services. The first category is audit-related services which the auditors are permitted to provide. The second category is prohibited services which the auditors are not permitted to provide. Prohibited services are those which might result in the external auditors auditing their own work or making management decisions for the Company and those where some mutuality of interest is created or where the external auditors are put in the role of advocate for the Company. The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include tax advisory services or services where the auditors are acting as the Company's reporting accountant.

£0.1 million was paid by the Company to PricewaterhouseCoopers LLP for non-audit services in respect of advisory services. The audit fees paid by the pension schemes were £38,000.

Relations with shareholders

The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and the Senior Independent Director are always available to major shareholders. Formal trading updates are given to the market on six occasions during the year. Following each of these announcements, conference calls are held with shareholders and analysts and after the full year and interim results a presentation is made to the shareholders and analysts. Analysts or brokers' briefings are circulated to the board.

A programme of meetings and conference calls is organised at appropriate times during the year at which the Chief Executive, Chief Financial Officer and Director of Investor Relations discuss Company performance and respond to any issues raised by shareholders. During 2012 such meetings were held in the UK, France, Germany, Spain, Denmark, Sweden, Switzerland and the USA.

A series of events is being held to provide shareholders with a greater understanding of each of the four pillars of the strategy.

Formal feedback from shareholders is sought through an independently conducted shareholder perception study which this year took place in February 2012. The results of this study were presented to the board.

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Nomination Committee

Dear shareholder

Martina King, Dennis Millard, Mark Rolfe, Sophie Turner Laing and I form your Company's Nomination Committee. Other individuals including the Chief Executive, the HR Director and external advisors may be invited to attend for all or part of any meeting, as and when appropriate. The Company Secretary also attends meetings in his capacity as Secretary of the Committee. The Committee met twice formally during the year.

This year we have seen several changes to our board composition. Michael Sharp took over leadership of the business in September 2011, Simon Herrick assumed the position of Chief Financial Officer in January this year following the departure of Chris Woodhouse, our former Finance Director, and Adam Crozier stepped down from the board on 1 September 2012 having served just over six years as an independent non-executive director.

The recruitment process for the appointment of Simon Herrick was facilitated by external search consultants Egon Zehnder. They identified possible candidates for the position and provided a shortlist for consideration by the Nomination Committee. These candidates met with the majority of the board members before a recommendation was made by the Committee. Both in its recruitment and succession planning processes, the Committee takes into account the board size, structure and composition having regard to the balance of skills, knowledge, experience and diversity of psychological type, background and gender so as to ensure that the board is not composed of solely like-minded individuals.

The Committee's key focus this year has therefore been on succession planning to ensure that the right skill sets are present in the boardroom to support the Chief Executive's strategic plan.

As last year, in line with the UK Corporate Governance Code, the Nomination Committee is recommending that all the directors of the Company stand for re-election at the next Annual General Meeting.

Nigel Northridge
Chairman, Nomination Committee

Nomination Committee:
Main activities during the year

- Conducted a review of the board size and composition and the composition of the committees of the board following the new executive director appointment and the resignation of an existing non-executive director
- Reviewed the time commitment and length of service of the Chairman and each non-executive director
- Monitored directors' conflicts of interest
- Members participated in an annual board evaluation
- Reviewed its terms of reference

Directors	Position	Number of meetings held and attended during the year
Nigel Northridge (Committee chairman)	Chairman	2/2
Adam Crozier (resigned 1 September 2012)	Independent non-executive director	2/2
Martina King	Independent non-executive director	2/2
Dennis Millard	Senior independent director	2/2
Mark Rolfe	Independent non-executive director	2/2
Sophie Turner Laing	Independent non-executive director	2/2

Audit Committee:
Main activities during the year

- Reviewed all Financial Statements released by the Company
- Monitored the effectiveness of the system of internal controls and risk management
- Created a business continuity committee
- Approved the internal audit plan
- Approved the external auditors' plan and fees
- Reviewed its terms of reference

Audit Committee

Dear shareholder

As the new chairman of the Audit Committee, I am joined by Martina King, Dennis Millard and Sophie Turner Laing to form your Company's Audit Committee.

The meetings of the Audit Committee are also attended by the Chairman, the Chief Financial Officer, the Director of Internal Audit and Risk Management and the external auditors, PricewaterhouseCoopers LLP. The Treasurer and the Head of Tax make an annual presentation to the Committee. The Company Secretary attends all meetings in his capacity as Secretary of the Committee but also reports on any material litigation and corporate governance issues. The business experience of the members of the Committee is enhanced by the considerable financial and accounting experience of Dennis Millard and by my own financial and accounting background.

The Committee met three times during the year and also met with the Company's auditors and the Director of Internal Audit and Risk Management privately without any management being present. After each meeting, the chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

Our responsibilities
The Audit Committee's primary responsibilities are to monitor the integrity of Financial Statements (including any related information presented with the Financial Statements) and any formal announcements relating to the Company's financial performance, to review any changes in accounting principles and consider the appropriateness of accounting policies adopted by the Company, to review the Group's internal and external audit activity and to review and monitor the effectiveness of the risk management and internal control systems within the business.

External auditors' appointment
The Committee has primary responsibility for making a recommendation to shareholders on the appointment, re-appointment and removal of the external auditors by annually assessing the expertise, resources and independence of the external auditors and the effectiveness of the audit process. PricewaterhouseCoopers LLP has served as auditors of the Company since flotation in May 2006, with their performance being reviewed annually. Having considered the external auditors' performance, resources, independence and objectivity, the Committee has recommended to the board the re-election of the auditors for 2013.

The external auditors are required to rotate the audit engagement partner every five years. The current audit partner commenced his engagement in August 2009. The external auditor independence policy sets out the guidelines for engaging PricewaterhouseCoopers LLP to provide non-audit services and a report is provided to each Committee meeting detailing the services and fees for all non-audit services for consideration by the Committee.

Mark Rolfe
Chairman, Audit Committee

Directors	Position	Number of meetings held and attended during the year
Mark Rolfe (appointed Committee Chairman on 1 September 2012)	Independent non-executive director	3/3
Adam Crozier (resigned 1 September 2012)	Independent non-executive director	2/3
Peter Fitzgerald	Independent non-executive director	0/0
Martina King	Independent non-executive director	3/3
Dennis Millard (resigned as Committee Chairman on 1 September 2012)	Senior independent director	3/3
Sophie Turner Laing	Independent non-executive director	3/3

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Directors' report

Principal activities
Debenhams is a leading international, multi-channel brand which traded from 239 stores across 28 countries at the end of 2012. Of these, Debenhams owns 171 stores with a combined trading space of c.12.5 million sq ft. The brand is also available online in 67 countries. Customers can also shop through mobile devices, catalogues and by telephone. Debenhams gives its customers a unique, differentiated and exclusive mix of own brands, international brands and concessions.

A detailed review of the business of the Group during the financial year ended 1 September 2012, including an analysis of the position of the Group at the end of the financial year, the trends and factors likely to affect the future development, performance and position of the business and a description of the principal risks and uncertainties the Group faces constitutes the business review and are therefore incorporated into this report by reference. Information about environmental matters, employees and social and community issues appear on pages 48 to 51 and on the Company's dedicated sustainability website sustainability.debenhamsplc.com.

Any liability is restricted to the extent prescribed by the Companies Act 2006.

Events since the year end
Since the year end Debenhams has:

- Appointed Peter Fitzgerald as an independent non-executive director
- Opened a store in Chesterfield
- Opened international franchise stores in Indonesia, Georgia and Abu Dhabi

Profit and dividends
The profit after tax for the financial year ending 1 September 2012 was £125.3 million (2011: £117.2 million). The directors recommend the payment of a final dividend of 2.3 pence per ordinary share, to be paid on 11 January 2013 to members on the register at the close of business on 7 December 2012. This, together with the interim dividend of 1.0 pence per share paid in July, gives a full year dividend of 3.3 pence per share.

Share buy-back programme
The Company announced on 20 October 2011 that it intended to return funds to shareholders through a programme of share repurchases once leverage neared 1.0 times EBITDA. At the January 2012 Annual General Meeting shareholders authorised the Company to purchase up to 128,680,629 ordinary shares in the market. On 24 April 2012 a share repurchase programme commenced and in the period 24 April 2012 to 7 August 2012, 23.6 million ordinary shares of 0.01p each were purchased at a cost of £20.1 million. All shares purchased by the Company are currently held as treasury shares. Approval will be sought from shareholders at the forthcoming Annual General Meeting to renew the annual authority to purchase its own shares.
It is the board's intention to purchase up to £40 million of shares in the next 12 months.

Share capital and control
The issued share capital of the Company and the number of shares held in treasury as at 1 September 2012 are shown in note 27 to the Financial Statements on page 112. In addition to the shares trading on the London Stock Exchange, the Company operates a Level 1

Interests in voting rights
In accordance with Listing Rule 9.8.6(2), the following investor interests have been disclosed to the Company pursuant to the Disclosure and Transparency Rules:

As at 1 September 2012:

Shareholder	Number of shares	% of issued share capital (excluding shares held as treasury shares)
Schroders plc	176,142,956	13.9
Bestinver Gestion, S.A. SGIIC	114,142,577	9.0
Milestone Resources Group Ltd	89,183,155	7.1
Morton Holdings , Inc	52,196,706	4.1
Legal & General Group plc	42,075,474	3.3

The following notifications have been received during the period 1 September 2012 to 19 October 2012:

Date of notification	Shareholder	Number of shares	% of issued share capital (excluding shares held as treasury shares)
24 September 2012	Delta Lloyd N.V.	38,221,087	3.03
9 October 2012	Bestinver Gestion S.A., SGIIC	61,554,348	4.87

ADR programme. Each ADS represents four ordinary shares of 0.01p each.

The holders of ordinary shares are entitled to exercise voting rights, to receive dividends when declared, to receive all shareholder communications and to attend and speak at general meetings of the Company. All the shares rank pari passu. These rights and the obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary. The Debenhams Retail Employee Trust 2004 (the "Trust") holds 1,068,301 ordinary shares in the Company (0.08%). Of those shares, 344,765 shares relate to invested shares held by the Trust on behalf of the participants of the Deferred Bonus Matching Plan who instruct voting rights in relation to those shares. Any voting or other similar decisions relating to the balance of shares held by the Trust is taken by the trustees, who may take account of any recommendations of the Company.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company except that the supplier agreements with certain major cosmetic suppliers contain termination provisions on change of control and the multicurrency credit facility dated 16 July 2010 (as amended by supplemental agreement dated 13 July 2011) contains mandatory prepayment. There are no agreements providing for compensation for directors or employees on change of control. Details concerning the impact on share options and share awards held by directors or employees in the event of a change of control are set out on page 71 of the remuneration report.

Essential contracts

Debenhams has contractual arrangements with many organisations, but no one contract is so material as to be essential to our business, with the exception of the warehouse operators.

Board of directors

The membership of the board and biographical details of the directors are given on pages 56 to 57. The rules governing the appointment and replacement of the board members are set out in the Company's Articles of Association.

Directors' indemnities

In addition to the indemnity provisions in their Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the directors and certain other officers or senior employees of the Group.

The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors and officers.

Directors' interests

The beneficial and non-beneficial interests of the directors and their connected persons in the shares of the Company are shown on page 73 of the remuneration report. Their interests in options and awards over shares in the Company are shown on page 74 of the same report.

No director had, during or at the end of the year, any material interest in any contract of significance in relation to the Group's business.

Employees

Business information and key messages are cascaded to all employees throughout the business via personal briefings and email. Briefings are also held by the Chief Executive and members of the board to update employees on the performance of the Company and the Company's strategy. The Employee Consultation Forum, which is attended by elected representatives from stores and head office, is another medium by which employees receive information on the Company as well as giving employees the opportunity to be consulted on certain activities of the business.

Debenhams is committed to ensuring that employees or applicants for employment are treated equally regardless of gender, race, ethic or national origin, religious, political or philosophical beliefs, disability, marital or civil partnership status, sexual orientation, gender reassignment and age. Through our equal opportunities policy we aim to create an environment that offers all employees the chance to use their skills and talent.

As part of the Company's policy on equality of opportunity, decisions on recruitment, training, promotion, pay, terms and conditions and leavers are based solely on objective, job-related criteria and personal competence and performance. The Company seeks wherever possible to make reasonable adjustments to ensure that an employee who becomes disabled during the course of his or her employment is able to continue working effectively. This includes: providing equipment or altering working arrangements; providing additional training; reallocating on a temporary or permanent basis some of the employee's duties to other members of staff; transferring the employee to a suitable alternative role; and adjusting working times. Any such adjustment will be monitored and reviewed on a regular basis to ensure it continues to be effective.

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Payment of suppliers
It is the Company's policy to pay suppliers in accordance with the agreed payment terms provided that the invoice is properly presented and not subject to dispute.

The ratio, expressed in days, between the amounts owed by the Company to trade creditors at the end of the year and the amounts invoiced by suppliers in the financial year ended 1 September 2012 was nil days (2011: nil days). The ratio, expressed in days between the amounts owed by the Group to trade creditors and the amount invoiced by suppliers in the financial year ended 1 September 2012 was 59 days (2011: 60 days).

Financial instruments
Debenhams does not enter into financial instruments for speculative trade. Details of financial instruments entered into for underlying risks are set out in note 22 on page 105.

Political donations
There were no disclosable expenses made during the financial year which fall within the definition of a political donation under the Political Parties, Elections and Referendums Act 2000. It is the Group's policy not to make donations to political organisations or independent election candidates or incur political expenditure.

Charitable giving
During the year the Group made charitable donations totalling £0.75 million (2011: £1.1 million). The Company supports various charities. Key donations made during the year were £178,144 to the NSPCC, £112,684 to the Breast Cancer Campaign, £77,071 to the Estée Lauder MAC Aids campaign and £53,842 to the Marine Conservation Society. Following the incorporation of the Debenhams Foundation in March 2012, future funds raised for charity will go through the foundation.

Going concern
After making enquiries, the directors consider that the Group has adequate resources to continue in operation for the foreseeable future. For this reason and in accordance with the Going Concern and Liquidity Risk Guidance for Directors of UK Companies 2009, published by the FRC in October 2009, the directors have adopted the going concern basis in preparing the Financial Statements.

Corporate Governance Statement
In accordance with the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 and DTR 7.2.10 are within the Chairman's introduction to governance on page 55, the Corporate governance report on pages 58 to 62 and risk review on pages 39 to 45 and are therefore incorporated into this report by reference.

Disclosure of information to auditors
Each of the directors of the Company at the time when the Directors' Report was approved confirms that:

a) so far as the director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware

b) s/he has taken all the steps that s/he ought to have taken as a director in order to make herself or himself aware of any information needed by the Company's auditors in connection with preparing the report and to establish that the Company's auditors are aware of that information.

Auditors
PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution dealing with their re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting
The Annual General Meeting of Debenhams plc will be held at No.11 Cavendish Square, London W1G 0AN on Tuesday 8 January 2013 at 2.00pm. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the board

Paul Eardley, Company Secretary
25 October 2012

Remuneration report

Remuneration Committee: Main activities during the year

- Reviewed the executive remuneration strategy for 2013
- Approved the executive directors' bonuses for 2012
- Approved the executive directors' bonus plan for 2013
- Approved share awards and vesting of awards
- Reviewed remuneration benchmarking
- Reviewed its terms of reference

Dear shareholder

As the new chairman of the Remuneration Committee, I am pleased to present our remuneration report for 2012, for which we will be seeking your approval at our Annual General Meeting in January 2013.

As outlined earlier in this Annual Report, performance this year has been strong. We have made excellent progress against our strategic goals, improving the store format and customer experience, expanding product selection, increasing market share in our major categories, improving our multi-channel offering and expanding the brand internationally. We have grown gross transaction value, like-for-like sales, profit before tax and earnings per share during the year and the share price has increased from 52p to 96.5p, adding c.£550 million of value for shareholders.

The Committee believes that the remuneration for executives for the year appropriately reflects this performance against the demanding targets we set for them. Annual bonus payments of 40% of base salary will be made as a result of profit before tax (PBT) performance of £158.3 million (4.2% growth on last year, 52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011) and long-term incentive awards granted in 2009 will vest for the first time since the Company listed in 2006, with PSP awards vesting just above threshold and ESOP awards vesting in full reflecting progress towards long-term goals.

During the year, the Committee reviewed the performance measures for the annual bonus plan and determined that the 2013 annual bonus plan will be based on 80% PBT performance and 20% on a like-for-like sales and gross margin percentage performance matrix (previously 100% based on PBT). The Committee considers that these measures are consistent with the four pillars of our strategy and therefore most appropriate to create a strong alignment with shareholder value creation and effectively incentivise executives to grow profit and like-for-like sales on an annual basis whilst motivating focus on gross margin.

After careful consideration and personal consultation with a number of major shareholders and investor representatives, the Committee decided that for 2013 only, the Chief Executive will be made a PSP award of 200% of base salary. The Committee deemed it appropriate to make a slightly larger award to the Chief Executive this year in light of the strong business performance since his appointment, including significant share price appreciation, his exceptional personal performance and to enhance his longer term alignment with our four pillared strategy. The Committee believes this award will have a very positive retention and motivational impact on the Chief Executive. For 2014, it is intended that the award level will revert to the normal policy.

This year we have seen significant focus on improving the transparency of reporting on executive pay. Although based on the current timeline Debenhams will not be formally required to provide disclosure in line with the legislation until the year ending August 2014, we have provided some additional disclosures in order to help shareholders better understand our remuneration policy and practice. Our directors' remuneration report received a strong level of support in January 2012 with 98% of shareholders voting in favour of the resolution.

Dennis Millard
Chairman, Remuneration Committee

Director	Position	Number of meetings held and attended during the year
Dennis Millard (appointed Committee Chairman 1 September 2012)	Senior independent director	3/3
Adam Crozier (resigned as Committee Chairman on 1 September 2012)	Independent non-executive director	3/3
Martina King	Independent non-executive director	3/3
Nigel Northridge	Independent non-executive Chairman	3/3
Mark Rolfe	Independent non-executive director	3/3
Sophie Turner Laing	Independent non-executive director	3/3

This remuneration report for the year ended 1 September 2012 complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the 2010 UK Corporate Governance Code.

Part 1: Unaudited information

The Remuneration Committee

Committee members

The Committee chairman, Dennis Millard (chairman from 1 September 2012) is joined by Nigel Northridge, Martina King, Mark Rolfe and Sophie Turner Laing to form the Remuneration Committee. Details of each of the member's background and experience is provided within their biography on pages 56 to 57.

Role of the Committee

The full terms of reference for the Committee, which are reviewed annually, are available on the Company's website at www.debenhamsplc.com. In summary, the Committee has responsibility for determining all elements of the remuneration of the executive directors and the Company Secretary together with the provisions of their service agreements, reviewing the bonus structure for senior managers below board level, reviewing the appropriateness and relevance of the Company's remuneration policy (taking into account the remuneration arrangements and levels across the Company) and administering all aspects of any share incentives in operation for senior management. The remuneration of the non-executive directors is a matter for the Company Chairman and the executive members of the board.

Advisors to the Committee

In performing its duties, the Committee has received advice from Deloitte LLP ("Deloitte") who acted as external advisors to the Committee throughout the financial year, providing independent advice on directors' remuneration and share incentives. Deloitte is one of the founding members of the Remuneration Consulting Group ("RCG") and complies with the voluntary code of conduct in respect of the provision of remuneration consulting services. Deloitte also provides industry and comparative employee remuneration data to Debenhams' management. Deloitte also provided unrelated advisory services in respect of corporate and employment taxes during the year. The Chief Executive, Chief Financial Officer and HR Director have attended Committee meetings and provided advice to the Committee during the year. They are not in attendance when matters relating to their own compensation or contracts are discussed.

Remuneration policy

It is the Company's remuneration policy to provide packages that will attract, motivate and retain high calibre executives in a competitive retail market and, where possible, to do this in the most cost effective way for the business. Remuneration structures are designed to support the business strategy with the majority of the remuneration package being linked to the delivery of performance, paid in a combination of cash and shares. Short-term and long-term performance measures have been selected to be aligned with the delivery of the four pillared business strategy through an annual focus on increasing sales volume while improving margin and profitability and a long-term focus on growing earnings which ensure that returns to shareholders remain strong.

When determining remuneration policy and arrangements for executive directors, the Remuneration Committee considers pay and employment conditions elsewhere in the Group to ensure that pay structures from executive director to store manager are appropriately aligned and that levels of remuneration remain appropriate in this context. The Remuneration Committee also considers the pay and practices of companies of a similar size and complexity and other companies in the retail sector through the review of external survey data and benchmarking provided by Deloitte in order to inform its consideration of the remuneration of Company executives.

In addition to basic salary and pension provision (or equivalent cash contribution), the Company seeks to incentivise its executives and senior managers through an annual bonus scheme and through its share incentives.

Remuneration policy for 2013

The Remuneration Committee considered the remuneration policy during the year and determined that the majority of elements would remain the same as for 2012. However, the Committee did review and make changes to the annual bonus performance targets and the PSP opportunity for the Chief Executive for 2013. Further details are provided later in this report.

Summary of remuneration

The following table summarises the various elements of executive remuneration:

Element	Purpose and link to remuneration policy	Key features	Policy operated in 2012	Policy for 2013
Base salary	• Reflects the competitive market salary level for the individual and their role • Takes account of personal performance and contribution to corporate performance	• In cash • Based on individual contribution • Reviewed annually	• Chief Executive – £600,000 • CFO – £400,000	• Salary increase of 2.5% with effect from 1 September 2012, in line with the wider Company pay policy
Annual bonus	• Rewards the achievement of stretching annual profit and Group financial goals	• In cash following year end	• Maximum award of 100% base salary • 40% of base salary awarded in cash based on 4.2% increase in profit before tax	• Maximum award of 100% base salary • 80% of the bonus will be based on profit before tax performance and 20% based on matrix of like-for-like sales and gross margin percentage performance
Performance Share Plan ("PSP")	• Aligns with shareholder interests through the delivery of shares • Rewards growth in earnings and maintenance of an efficient and sustainable level of return on our capital	• Maximum award of 200% of base salary (250% of base salary in exceptional circumstances) • Awards vest after three years • It is intended that the PSP will be the key incentive vehicle going forward with awards being granted on an annual basis	• Chief Executive received an award of 150% of base salary. CFO received an award of 100% of base salary • PSP awards subject to a combination of 75% EPS and 25% ROCE	• PSP award level of Chief Executive reviewed during the year • In 2013 only, the Chief Executive will be made an award of 200% of base salary. The CFO's award will be 100% of base salary. It is intended that the award level will revert to the normal policy in 2014. • PSP awards subject to a combination of 75% EPS and 25% ROCE
Benefits	• Reflects market practice	• Car allowance • Healthcare • Dental insurance • Life insurance	• No change	• No change
Pension	• Provides funds to allow executives to save for retirement	• 15% of base salary • Executive directors are provided a salary supplement in lieu of a pension provision	• No change	• No change

Components of remuneration

Base salary

The Committee considers base salary and salary increases for executives in the context of remuneration levels at companies of a similar size and complexity and comparable companies in the FTSE 350 retail sector, as well as considering salary increases across the Group's wider employee population. The Committee's policy is to set base salaries at an appropriate level to attract and retain the quality of individuals required to run a business of the size and complexity of Debenhams successfully but without paying more than is necessary to do this. The salary increases awarded to the Chief Executive and Chief Financial Officer with effect from 1 September 2012 of £615,000 (2.5%) and £410,000 (2.5%) respectively are in line with the wider Company pay policy.

Executive directors bonus schemes

2012 bonus

As disclosed in last year's remuneration report, the annual bonus scheme for executive directors for 2012 was based on PBT with a maximum bonus potential of 100% of base salary. A target payout of 40% of salary would have been triggered by the achievement of a PBT target of £158.3 million with the maximum only being paid out for performance significantly in excess of this level. The Committee considered the target to be both stretching and represent value creation for shareholders.

For 2012 the Company achieved the target PBT of £158.3 million which represented growth of 4.2%, 52 weeks to 1 September 2012 vs 52 weeks to 27 August 2011. The Committee believes that the 40% bonus payment, recognises the excellent performance of the executive directors in terms of delivery against the strategic pillars and financial improvement over the period in what was another challenging year for the retail sector.

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2013 bonus

The Committee reviewed the operation of the annual bonus plan during the year and decided to introduce a like-for-like sales and gross margin percentage performance matrix alongside the existing PBT measure. The weighting of the measures will be 80% PBT and 20% gross margin percentage performance matrix. The Committee considers that these measures are the most appropriate to create a strong alignment with shareholder value creation and effectively incentivise executives to grow profit and like-for-like sales on an annual basis whilst motivating focus on increasing the gross margin. This is illustrated below:

2012 performance measures **2013 performance measures**

The maximum bonus opportunity will remain at 100% of base salary, payable in cash. 40% of the bonus will be payable for delivering threshold levels of performance with the maximum bonus only being payable on the delivery of performance significantly in excess of plan.

The Company's share incentives

The Committee continues to consider that the Debenhams Performance Share Plan ("PSP") is the most appropriate long-term incentive plan for the business as it provides an incentive to deliver superior corporate performance whilst creating alignment with shareholder interest through the delivery of shares. As communicated last year, it is the Committee's intention to grant long-term incentive awards annually to executive directors and other key senior managers under the PSP.

The Debenhams Performance Share Plan ("PSP")

The Committee has discretion to grant awards under the PSP up to a maximum of 200% of base salary to executive directors and other senior executives. Up to 250% of base salary may be awarded in exceptional circumstances.

Awards under the PSP comprise a right to receive free shares or a nil cost option. Awards under the PSP normally vest on the third anniversary of the date of grant (and in the case of nil cost options must be exercised within six months of vesting) subject to satisfaction of performance conditions set by the Remuneration Committee at the time awards are granted and generally provided that the participant remains in employment. In addition, in order for the award to vest the Remuneration Committee must be satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the award.

2013 award levels

The Remuneration Committee proposes that for 2013 only the Chief Executive will be made a PSP award of 200% of base salary to ensure alignment with the four pillared strategy. It is intended that the PSP award level for the Chief Executive in future years will return to the normal level of 150% of base salary. The award for the CFO will be 100% of base salary.

Performance measures

The vesting of PSP awards is based on stretching earnings per share (EPS) and return on capital employed (ROCE) performance targets. The Committee considers that EPS and ROCE are the most appropriate performance metrics for our business, as growing our earnings while maintaining an efficient and sustainable level of return on capital is a key strategic driver of business performance and they are closely aligned with the creation of shareholder value. For any financial year of the Company, ROCE means profit before interest and tax excluding any pension credit or debit divided by consolidated balance sheet net assets excluding net debt, pension balances, corporation tax and deferred tax. Should any performance condition not be met at the end of the relevant performance period, that portion of the award will lapse immediately without any opportunity to re-test the relevant performance condition.

Targets for 2013 awards

Following shareholder consultation, the Remuneration Committee reviewed the performance targets for the awards to be made in November 2012 and, in the context of the long-term strategic plan, analysts' forecasts and market practice, agreed that the 25% of award based on ROCE performance be stretched to trigger threshold vesting at average ROCE equal to the cost of capital plus 1%.

The targets therefore proposed for awards to be made in November 2012 are:

Performance measures	75% based on absolute EPS growth	25% based on ROCE performance vs cost of capital
Targets		
Threshold (30% vesting)	Absolute EPS growth of 6% per annum	Average ROCE equal to the cost of capital plus 1%
Maximum (100% vesting)	Absolute EPS growth of 12% per annum	Average ROCE equal to the cost of capital plus 5%

Both the EPS and ROCE elements of the awards vest on a straight line basis between 30% and 100% based on performance achieved between the threshold and maximum targets disclosed.

2009 and 2011 PSP awards

The table below sets out the performance conditions of the 2009 and 2011 PSP awards.

Date of grant	Vesting criteria	Performance condition over three year period	
24 November 2009	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%	
23 May 2011	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%	
1 November 2011	**Performance measures**	**75% based on absolute EPS growth**	**25% based on ROCE performance vs cost of capital**
	Targets		
	Threshold (30% vesting)	Absolute EPS growth of 6% per annum	Average ROCE which is equal to the cost of capital
	Maximum (100% vesting)	Absolute EPS growth of 12% per annum	Average ROCE equal to the cost of capital plus 5%

Reported EPS in the 2008/09 base year for the PSP performance period ended 1 September 2012 was impacted by the firm placing and placing and open offer of new share capital that took place in June 2009, prior to the grant in November 2009 of PSP share awards for this performance period. In accordance with the PSP rules the Remuneration Committee has determined that it would be appropriate for this purpose for base year EPS to be calculated as if the firm placing and placing and open offer took place at the start of the year with a corresponding increase to profit after tax to reflect the interest benefit from the additional capital. On this basis, EPS growth for the period amounted to 6.1% and 32% of the award granted in November 2009 will therefore vest on 24 November 2012. In reaching this decision, the Remuneration Committee considered that: the minimum EPS growth targets of 6% per annum were appropriately based on this methodology; no other PSP awards vested during the performance period in question though determination thereof utilised this method and therefore no participants benefitted from awards based on any other methodology; and that the resultant outcome was fair in the context of the earnings performance demonstrated, particularly over the last financial year, in what has been a very tough economic climate for the retail sector.

No awards under the PSP vested or were exercised during the year.

The Debenhams Deferred Bonus Matching Plan (the "DBMP")

The Committee has discretion to invite participants to invest up to 100% of net annual bonus earned into shares ("invested shares"). If the participant remains in service for three years and retains the beneficial ownership of all the invested shares , then subject to the satisfaction of a stretching performance target s/he is eligible to receive a matching share award equal to the pre-tax amount of the bonus that has been invested. If the performance target is not met at the end of the performance period, the matching share awards lapse immediately and the invested shares are returned to the participant. There is no opportunity to re-test the performance condition.

All bonus eligible employees were offered the opportunity to invest up to 50% of the 2010 bonus. Matching awards were therefore made under this plan in November 2010. These awards have a primary performance metric of EPS. In addition, the awards are subject to the achievement of an underpin level of ROCE performance. No executive directors have participated in the DBMP.

This plan has not been operated since November 2010.

The Debenhams 2006 Executive Share Option Plan (the "ESOP")

The Committee has discretion to grant options to acquire shares to eligible employees. It is not currently intended that executive directors will participate in the ESOP other than in exceptional circumstances (e.g. recruitment). Options with a face value of up to a maximum of 100% of base salary can be granted under the plan. Options may, in exceptional circumstances, be granted with a market value in excess of this amount at the discretion of the Remuneration Committee. Options can be granted in the form of unapproved options or HM Revenue & Customs approved options (up to the prescribed HMRC limit, currently £30,000).

Share options are granted at the closing mid-market price on the day prior to the date of grant and normally become exercisable three years after grant, expiring seven years later. The exercise of the options is subject to performance conditions set by the Remuneration Committee at the time awards are granted. In addition, in order for the award to vest, the Remuneration Committee must be satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the options.

For options granted under the Scheme in 2009, the performance measure was based on the Company's ROCE exceeding the cost of capital. The Committee considered that ROCE was an appropriate performance condition as it incentivises sustainable, efficient profit performance. If the performance condition is not met at the end of the performance period, the options will lapse immediately without any opportunity to re-test the relevant performance condition. The Committee will consider the performance conditions for any future award of options at the time of grant.

The table below sets out the performance conditions of ESOP options existing during the year:

Date of grant	Vesting criteria	Performance condition over three year period
24 November 2009	ROCE growth against cost of capital	ROCE ≤ cost of capital = zero vesting ROCE > cost of capital = 30% vesting ROCE > cost of capital + 5% = 100% vesting Between these points the options vest on a straight line basis between 30% and 100%

Based on ROCE performance exceeding the cost of capital by 7.8% during the three year performance period ended 1 September 2012, the options granted in November 2009 will become exercisable in full on 24 November 2012.

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Details of the options held by Michael Sharp are disclosed on page 74. No options under the ESOP vested or were exercised during the year.

Debenhams 2006 Sharesave Scheme (the "Sharesave Scheme")
Under the Sharesave Scheme, employees may be granted an option to acquire shares at a fixed exercise price. At the end of the savings period the employee may either exercise the option within six months of the end of the savings period using the savings contributions and bonus accumulated or have the savings and bonus repaid. No options have been granted under this scheme and there is currently no intention to use the scheme.

The Debenhams 2008 Share Incentive Plan
The Debenhams 2008 Share Incentive Plan is an unapproved plan operated by the Company. This plan is focused at key senior managers and it is not intended that executive directors would participate in this plan. The purpose of the plan is to retain and incentivise key employees in the short to medium-term. Awards under the plan are subject to continuing employment and performance conditions specific to the individuals' role within the business. Existing awards under this plan were granted to key individuals in November 2010 and June 2012.

The Debenhams Retail Employee Trust 2004 (the "Trust")
The Debenhams Retail Employee Trust 2004 currently holds 1,068,301 shares in the Company. 450,000 shares are held in the Trust to satisfy potential grants made under The Debenhams 2008 Share Incentive Plan. The Trust also holds the invested shares of participants of the DBMP totalling 344,765 shares. Dividends receivable on the shares held in the Trust which are not subject to the DBMP are waived on the recommendation of the Company.

Funding of share schemes
It is the Company's current intention to satisfy any future requirements of its share schemes in a method best suited to the interests of the Company, either by acquiring shares in the market utilising shares held as treasury shares or, subject to institutional guidelines, issuing new shares. Where the awards are satisfied by newly issued shares, the Company will comply with ABI guidelines on shareholder dilution. Current levels of shareholder dilution are 0.69% (2011: 0.30%) of share capital.

Change of control
Generally the rules of the Company's share schemes provide that in the event of a change of control, awards/options would vest to the extent that the performance conditions (where applicable) are satisfied at the date of such event. Any such early vesting would generally be on a time pro-rata basis.

Pension
Michael Sharp is a deferred member of the Debenhams Executive Pension Plan. Full details are disclosed on page 74 of this Report. Under the terms of the directors' contacts of employment, the executive directors are entitled to a salary supplement in lieu of pension provision of 15% of base salary. These amounts are disclosed in the directors' emoluments table on page 73.

Termination arrangements for Rob Templeman
As disclosed in last year's report, Rob Templeman, the former Chief Executive, entered into a 12 month consultancy agreement with the Company on 4 September 2011. At the agreement of both parties, the consultancy terminated on 31 December 2011. A total of £72,950 was paid in respect of management consultancy and advisory services. Mr Templeman also received £13,887 in respect of pay and benefits earned during the period 1 September 2011 to 4 September 2011.

Termination arrangements for Chris Woodhouse
Chris Woodhouse resigned from the board on 10 January 2012 and his employment with the Company terminated on 31 January 2012. In accordance with this contract the Company made a payment to Chris Woodhouse equal to the aggregate of 12 months' basic salary and the value of his annual contractual benefits. The total amount paid to Mr Woodhouse in respect of compensation for loss of office was £577,319.

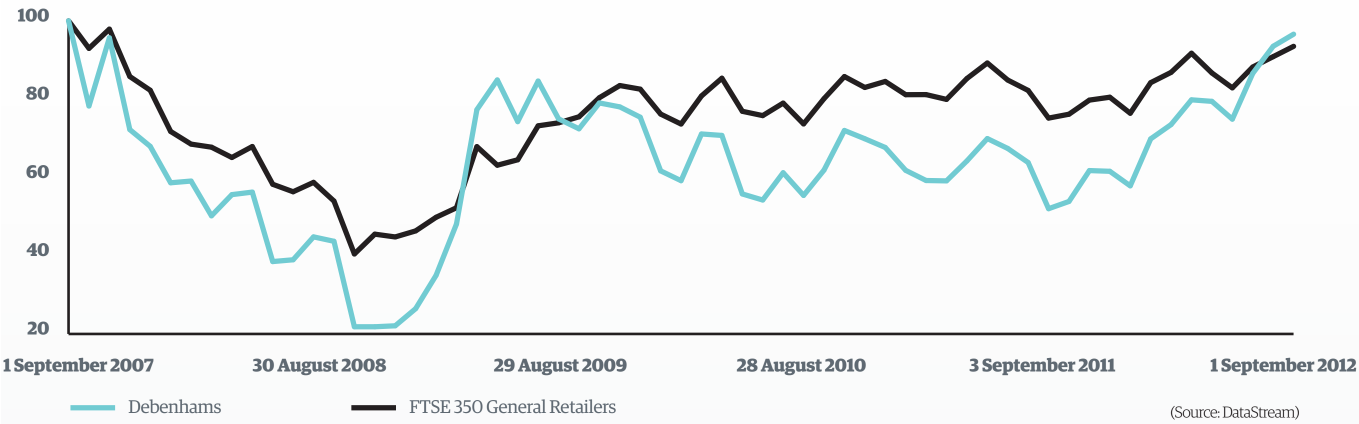
The terms of Mr Woodhouse's service agreement dated 3 May 2006 also entitled him to a payment equal to the average of the annual bonus paid in the two bonus years prior to the termination of employment. In light of current best practice regarding the inclusion of bonus in liquidated damages provisions in executive director service contracts, the Committee agreed with Mr Woodhouse that this element of liquidated damages which amounted to £306,566 would not be paid. The Company's policy regarding bonus payments in liquidated damages provisions now reflects best practice and executive director service contracts are in line with this policy.

Mr Woodhouse also earned a prorated bonus of £79,840 under the executive directors' annual bonus scheme for the Company's financial year ending 1 September 2012. This bonus was based on the same performance conditions as for other senior executives.

The 2006 service agreement for Chris Woodhouse permitted him to hold up to two non-executive directorships in non-competing companies and to retain payments received in respect of those other directorships. Chris Woodhouse, who was non-executive chairman of Agent Provocateur Ltd., retained fees of £20,547 (2011: £18,943) during the period 4 September 2011 to 31 January 2012 together with £62,111 (2011: £150,000) in respect of his role of group non-executive chairman of Gondola Group Limited.

Performance graph

The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from 1 September 2007 to 1 September 2012. The FTSE 350 General Retailers Index has been chosen as Debenhams has been a member throughout the period and it is made up of a broad spectrum of retail competitors (including major general retail listed competitors) in the principal product areas in which the Company trades.



(Source: DataStream)

Chairman and non-executive directors

Terms and conditions

Nigel Northridge was appointed a non-executive director of the Company on 1 January 2010 and became Chairman on 1 April 2010. His appointment as Chairman is subject to the terms of a letter of appointment dated 28 January 2010 and the appointment is for a term of three years ending on 31 March 2013 which may be extended by further terms of three years by mutual agreement. In addition to time commitment, the annual engagement fee, and other business interests, the Chairman is permitted to hold other directorships provided that any such appointment does not interfere with his position at the Company.

The non-executive directors have letters of appointment from the Company covering matters such as duties, time commitment, fees and other business interests. The non-executive directors, excluding Dennis Millard, were appointed for an initial three years which may be extended for a further term of three years by mutual agreement. Both Martina King and Sophie Turner Laing have been appointed for a further three years following the end of their initial engagement on 31 July 2012. Dennis Millard's appointment may be terminated by either party giving one month's notice.

All appointments are subject to the Company' Articles of Association and the annual shareholders' re-election. The letters of appointment do not contain a provision for compensation if their appointments are terminated.

Fees for non-executive directors are determined by the board and are made up of an annual fee for acting as a non-executive director of the Company together with additional fees for membership of and chairing a board committee. There is a further fee for acting as senior independent non-executive director. The non-executive directors do not take part in discussions on their own remuneration which is reviewed annually by the board. The fees are set to reflect the time which they are required to commit to their duties, their experience and the amounts paid to non-executive directors in comparable companies. Fees for the non-executive directors remained frozen for 2012 with the exception that the fee for Remuneration Committee chairman was increased from £7,500 to £10,000 to reflect the responsibility and time commitment for this role and to align the fee with that paid for the chairmanship of the Audit Committee.

Details of the fees for the Chairman and the non-executive directors are set out below. Their letters of appointment are available for inspection at the Company's registered office during normal business hours and at the Annual General Meeting.

Name	Date of joining the Company	Fees £	Committee member fee £	Committee chairman fee £	SID Fee £	Current annual fee £
Nigel Northridge	1 January 2010	175,000	0	0	0	175,000
Dennis Millard	9 May 2006	40,000	5,000	10,000	10,000	65,000
Adam Crozier*	9 May 2006	40,000	5,000	7,500	0	52,500
Martina King	1 August 2009	40,000	7,500	7,500**	0	55,000
Mark Rolfe	1 October 2010	40,000	5,000	10,000	0	55,000
Sophie Turner Laing	1 August 2009	40,000	7,500	0	0	47,500

* Resigned 1 September 2012
** Fee for chairing the sustainability committee

Executive director terms and conditions

Executive director contracts

Michael Sharp entered into a service agreement with the Company on 3 May 2006. His agreement is terminable by either party giving not less than 12 months' written notice. If the Company terminates the employment without due notice, other than in circumstances such as gross misconduct or other immediate justifiable cause, the Company is required to make a payment equal to the aggregate of the executive director's

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basic salary and the value of any contractual benefits for the notice period. Mr Sharp's original contract also included that in the event of termination he would be entitled, as part of his liquidated damages, to receive a payment equal to the average of the last two years' annual bonus. When Mr Sharp was promoted to Chief Executive on 5 September 2011 this provision was removed from his contract in line with best practice.

Simon Herrick entered into a service agreement with the Company on 19 October 2011. His agreement is terminable by either party giving not less than 12 months' written notice. If the Company terminates the employment without due notice, other than in circumstances such as gross misconduct or other immediate justifiable cause, the Company is required to make a payment equal to the executive director's basic salary for the notice period.

Executive directors are entitled, in addition to salary, to other benefits or equivalent cash allowances, the value of which is set out in the table of directors' emoluments. Such benefits include company car and fuel, life, medical, dental and personal accident insurance together with product discount and personal financial advice.

Outside appointments for executive directors

Any proposed external directorships are considered by the Nomination Committee to ensure they do not cause a conflict of interest. Neither of the current executive directors hold any such directorships.

Directors' shareholdings

The interests of the directors in the share capital of the Company as at 1 September 2012 are shown below. Awards granted under the PSP and ESOS are shown in Part 2 of this report.

Director	Ordinary shares held as at 4 September 2011	Ordinary shares held as at 1 September 2012	Ordinary shares held as at 19 October 2012
Nigel Northridge	100,000	100,000	100,000
Michael Sharp[(1)]	5,854,579	5,954,579	5,954,579
Simon Herrick	0	26,250	26,250
Martina King	10,000	10,000	10,000
Dennis Millard	69,455	69,455	69,455
Mark Rolfe	30,000	30,000	30,000
Sophie Turner Laing	20,000	20,000	20,000

Notes:
(1) As at 19 October 2012 Mr Sharp's holding includes 218,904 shares held by The Sharp Discretionary Settlement of which he is a Trustee

In order to align the interests of executives with those of shareholders and to demonstrate the executives' ongoing commitment to the business, the Committee has this year introduced a shareholding guideline policy. Executives are required to build up and maintain a holding of Debenhams shares equal to one times base salary. Executives are expected to retain 50% of any post-tax shares that vest under any share incentive plans until this shareholding is reached. The Committee expects executives to have met the shareholding guideline policy by the fifth anniversary of their appointment.

Part 2: Audited information

Directors' emoluments

The remuneration of each director who served during the year is set out in the following table.

Director	Salary/fees £	Benefits £	Bonus £	Annual allowance in lieu of pension £	Compensation for Loss of Office £	Total 2012 £	Total 2011 £
Nigel Northridge	175,000	–	–	–	–	175,000	175,000
Michael Sharp	599,243	40,232	240,000	89,886	–	969,361	859,495
Simon Herrick[(1)]	333,333	15,312	134,137	50,000	–	532,782	–
Rob Templeman[(2)]	10,562	1,741	–	1,584	–	13,887	1,044,515
Chris Woodhouse[(3)]	198,404	11,663	79,840	26,189	577,319	893,415	720,268
Adam Crozier	52,500	–	–	–	–	52,500	52,500
Martina King	55,000	–	–	–	–	55,000	54,154
Dennis Millard	65,000	–	–	–	–	65,000	65,000
Mark Rolfe	47,500	–	–	–	–	47,500	43,542
Sophie Turner Laing	47,500	–	–	–	–	47,500	47,500
Total	1,584,042	68,948	453,977	167,659	577,319	2,851,945	3,061,974

Notes:
(1) Mr Herrick joined the Company on 1 November 2011
(2) Mr Templeman left the Company on 4 September 2011
(3) Mr Woodhouse left the Company on 31 January 2012

Pension

Michael Sharp is a deferred member of the Debenhams Executive Pension Plan. He ceased to accrue benefits in that plan on 31 March 2006.

The table below shows his pension accrued at the year end:

Director	Increase in accrued pension during the year (£)	Increase in accrued pension during the year (net of inflation) (£)	Accumulated total accrued pension at 1 September 2012 (£)	Transfer value as at 3 September 2011 of accrued pension as at 3 September 2011 (£)	Transfer value as at 1 September 2012 of accrued pension as at 1 September 2012 (£)	Increase in transfer value during the period (£)
Michael Sharp	9,468	(42)	199,673	4,383,809	5,172,559	788,750

Directors' interests in the performance share plan

	Date of award	Number of shares held at 3 September 2011	Shares awarded during the year	Shares lapsed during the year	Number of shares held at 1 September 2012	Market value on date of award	Earliest date of vesting	Expiry date of options
Michael Sharp	24 November 2009	485,902	0	0	485,902	83.35p	24 November 2012	24 May 2013
	1 November 2011	0	1,396,973	0	1,396,973	64.43p	1 November 2014	1 May 2015
Simon Herrick	1 November 2011	0	620,877	0	620,877	64.43p	1 November 2014	1 May 2015

Directors' interests in the executive share option scheme

	Date of grant	Number of shares under option held at 3 September 2011	Shares granted during the year	Shares lapsed during the year	Option price	Number of shares held at 1 September 2012	Earliest date of exercise	Expiry date of options
Michael Sharp	Approved scheme: 24 November 2009	35,108	0	0	85.45p	35,108	24 November 2012	24 November 2019
	Unapproved scheme: 24 November 2009	438,853	0	0	85.45p	438,853	24 November 2012	24 November 2019

The closing mid-market price of the Company's shares on 31 August 2012 was 96.5 pence and ranged from 51.2 pence to 96.5 pence during the period from 4 September 2011 to 1 September 2012.

On behalf of the board

Dennis Millard
Chairman of the Remuneration Committee

25 October 2012

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The directors are responsible for preparing the Annual Report, the Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement pursuant to disclosure and transparency rule 4.1.12
Each of the directors, whose names and functions are detailed on pages 56 and 57, confirms that to the best of his/her knowledge:

- The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' Report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the board

Michael Sharp
Chief Executive

Simon Herrick
Chief Financial Officer

25 October 2012

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

We have audited the Group Financial Statements of Debenhams plc for the 52 week period ended 1 September 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the statement of directors' Responsibilities set out on page 75, the directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the Group Financial Statements:

- Give a true and fair view of the state of the Group's affairs as at 1 September 2012 and of its profit and cash flows for the 52 week period then ended
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- The information given in the Directors' Report for the 52 week period for which the Group Financial Statements are prepared is consistent with the Group Financial Statements
- The information given in the Risk Review set out on pages 39 to 41 in this Annual Report and Accounts with respect to internal control and risk management systems and the information about share capital in the Directors' report on pages 63 to 64 is consistent with the Financial Statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit
- A Corporate Governance Statement has not been prepared by the Parent Company

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 65, in relation to going concern
- The part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the board on directors' remuneration

Other matter
We have reported separately on the Parent Company Financial Statements of Debenhams plc for the 52 week period ended 1 September 2012 and on the information in the remuneration report that is described as having been audited.

Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
25 October 2012

Consolidated Income Statement

For the financial year ended 1 September 2012

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	Note	**52 weeks ended 1 September 2012 £m**	53 weeks ended 3 September 2011 £m
Revenue	3, 4	**2,229.8**	2,209.8
Cost of sales		**(1,927.5)**	(1,913.1)
Gross profit		**302.3**	296.7
Distribution costs		**(81.0)**	(70.2)
Administrative expenses		**(46.3)**	(42.8)
Operating profit	6	**175.0**	183.7
Finance income	8	**1.2**	3.9
Finance costs	9	**(17.9)**	(27.3)
Profit before taxation		**158.3**	160.3
Taxation	10	**(33.0)**	(43.1)
Profit for the financial year attributable to equity shareholders		**125.3**	117.2

Earnings per share attributable to equity shareholders (expressed in pence per share)

		Pence per share	Pence per share
Basic	12	**9.8**	9.1
Diluted	12	**9.8**	9.1

Consolidated Statement of Comprehensive Income

For the financial year ended 1 September 2012

	Note	**52 weeks ended 1 September 2012 £m**	53 weeks ended 3 September 2011 £m
Profit for the financial year		**125.3**	117.2
Other comprehensive (expense)/income			
Actuarial (losses)/gains recognised in the pension schemes	23	**(82.3)**	75.8
Deferred tax credit/(charge) on actuarial losses or gains	24	**16.9**	(22.5)
Current tax credit on the pension schemes		**2.3**	2.1
Currency translation differences		**(6.7)**	4.3
Sale of available-for-sale investment		**-**	(2.0)
Change in the valuation of the available-for-sale investments	15	**(0.7)**	(0.2)
Cash flow hedges			
- Fair value gains/(losses)		**5.0**	(15.7)
- Tax (charge)/credit on fair value gains or losses		**(1.6)**	3.9
- Reclassified and reported in net profit	9	**2.0**	4.7
- Tax charge on items reclassified and reported in net profit		**(0.4)**	(1.2)
- Recycled and adjusted against cost of sales		**(1.9)**	1.8
- Tax credit/(charge) on items recycled against cost of sales		**0.5**	(0.5)
Total other comprehensive (expense)/income		**(66.9)**	50.5
Total comprehensive income for the year		**58.4**	167.7

Consolidated Balance Sheet

As at 1 September 2012

	Note	1 September 2012 £m	3 September 2011 £m
Assets			
Non-current assets			
Intangible assets	13	**864.9**	858.1
Property, plant and equipment	14	**661.6**	634.6
Available-for-sale investments	15	**1.9**	2.6
Derivative financial instruments	22	**0.8**	1.4
Other receivables	17	**19.3**	18.3
Retirement benefit assets	23	**–**	3.9
Deferred tax assets	24	**83.2**	75.7
		1,631.7	1,594.6
Current assets			
Inventories	16	**332.3**	321.3
Trade and other receivables	17	**75.4**	72.1
Derivative financial instruments	22	**7.8**	1.2
Cash and cash equivalents	18	**44.0**	29.0
		459.5	423.6
Liabilities			
Current liabilities			
Bank overdraft and borrowings	20	**(163.4)**	(168.1)
Derivative financial instruments	22	**(1.9)**	(8.5)
Trade and other payables	19	**(525.4)**	(489.1)
Current tax liabilities		**(31.0)**	(43.7)
Provisions	26	**(5.3)**	(6.2)
		(727.0)	(715.6)
Net current liabilities		**(267.5)**	(292.0)
Non-current liabilities			
Bank overdraft and borrowings	20	**(249.3)**	(244.6)
Derivative financial instruments	22	**(8.9)**	(4.2)
Deferred tax liabilities	24	**(64.7)**	(74.1)
Other non-current liabilities	25	**(321.9)**	(318.9)
Provisions	26	**(1.1)**	(1.2)
Retirement benefit obligations	23	**(57.3)**	–
		(703.2)	(643.0)
Net assets		**661.0**	659.6
Shareholders' equity			
Share capital	27	**0.1**	0.1
Share premium account		**682.9**	682.9
Merger reserve		**1,200.9**	1,200.9
Reverse acquisition reserve		**(1,199.9)**	(1,199.9)
Hedging reserve		**(2.6)**	(6.2)
Other reserves		**(10.5)**	(3.1)
Retained earnings		**(9.9)**	(15.1)
Total equity		**661.0**	659.6

The financial statements on pages 77 to 118 were approved by the board on 25 October 2012 and were signed on its behalf by:

Simon Herrick
Chief Financial Officer

Consolidated Statement of Changes in Equity

As at 1 September 2012

	Note	Share capital and share premium £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m
Balance at 28 August 2010		683.0	1,200.9	(1,199.9)	0.8	(5.2)	(176.2)	503.4
Profit for the financial year		–	–	–	–	–	117.2	117.2
Actuarial gain on pension schemes	23	–	–	–	–	–	75.8	75.8
Deferred tax charge on pension schemes	24	–	–	–	–	–	(22.5)	(22.5)
Current tax credit on pension schemes		–	–	–	–	–	2.1	2.1
Sale of available-for-sale investment	15	–	–	–	–	(2.0)	–	(2.0)
Change in the value of available-for-sale investments	15	–	–	–	–	(0.2)	–	(0.2)
Currency translation differences		–	–	–	–	4.3	–	4.3
Cash flow hedges								
– Fair value losses (net of tax)		–	–	–	(11.8)	–	–	(11.8)
– Reclassified and reported in net profit (net of tax)		–	–	–	3.5	–	–	3.5
– Recycled and adjusted against the cost of inventory (net of tax)		–	–	–	1.3	–	–	1.3
Total comprehensive income and expense for the financial year		**–**	**–**	**–**	**(7.0)**	**2.1**	**172.6**	**167.7**
Share-based payment charge	28	–	–	–	–	–	1.4	1.4
Dividends paid	11	–	–	–	–	–	(12.9)	(12.9)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(11.5)**	**(11.5)**
Balance at 3 September 2011		**683.0**	**1,200.9**	**(1,199.9)**	**(6.2)**	**(3.1)**	**(15.1)**	**659.6**
Profit for the financial year		–	–	–	–	–	125.3	125.3
Actuarial loss on pension schemes	23	–	–	–	–	–	(82.3)	(82.3)
Deferred tax credit on pension schemes	24	–	–	–	–	–	16.9	16.9
Current tax credit on pension schemes		–	–	–	–	–	2.3	2.3
Change in the value of available-for-sale investments	15	–	–	–	–	(0.7)	–	(0.7)
Currency translation differences		–	–	–	–	(6.7)	–	(6.7)
Cash flow hedges								
– Fair value gains (net of tax)		–	–	–	3.4	–	–	3.4
– Reclassified and reported in net profit (net of tax)		–	–	–	1.6	–	–	1.6
– Recycled and adjusted against the cost of inventory (net of tax)		–	–	–	(1.4)	–	–	(1.4)
Total comprehensive income and expense for the financial year		**–**	**–**	**–**	**3.6**	**(7.4)**	**62.2**	**58.4**
Share-based payment charge	28	–	–	–	–	–	1.6	1.6
Purchase of treasury shares	27	–	–	–	–	–	(20.1)	(20.1)
Dividends paid	11	–	–	–	–	–	(38.5)	(38.5)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(57.0)**	**(57.0)**
Balance at 1 September 2012		**683.0**	**1,200.9**	**(1,199.9)**	**(2.6)**	**(10.5)**	**(9.9)**	**661.0**

For a description of the nature and purpose of each reserve, together with an analysis of other reserves, see note 27.

Consolidated Cash Flow Statement

For the financial year ended 1 September 2012

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	Note	**52 weeks ended 1 September 2012 £m**	53 weeks ended 3 September 2011 £m
Cash flows from operating activities			
Cash generated from operations	30	**259.7**	267.6
Finance income		**0.2**	6.7
Finance costs		**(13.8)**	(26.3)
Tax paid		**(44.6)**	(48.6)
Net cash generated from operating activities		**201.5**	199.4
Cash flows from investing activities			
Purchase of property, plant and equipment		**(101.4)**	(94.3)
Purchase of intangible assets		**(17.2)**	(19.7)
Proceeds from sale of available-for-sale investment	15	**-**	5.0
Proceeds from sale of finance leases	30	**-**	12.6
Net cash used in investing activities		**(118.6)**	(96.4)
Cash flows from financing activities			
Repayment of term loan facility	20	**-**	(548.6)
(Repayment)/drawdown of new facility		**(10.0)**	415.0
Purchase of treasury shares		**(20.1)**	-
Dividends paid	11	**(38.5)**	(12.9)
Finance lease payments		**(2.2)**	(0.1)
Debt issue costs	20	**-**	(4.1)
Net cash used in financing activities		**(70.8)**	(150.7)
Net increase/(decrease) in cash and cash equivalents		**12.1**	(47.7)
Net cash and cash equivalents at beginning of financial year		**22.8**	69.5
Foreign exchange (losses)/gains on cash and cash equivalents		**(0.3)**	1.0
Net cash and cash equivalents at end of financial year	31	**34.6**	22.8

Notes to the Financial Statements
For the financial year ended 1 September 2012

1 General information
Introduction
Debenhams plc ("the Company") is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Company No. 5448421). The address of the registered office is 1 Welbeck Street, London W1G 0AA.

The principal activity of the Company is that of a holding company. The principal activities of the Group and its subsidiaries (together the "Group" or the "Debenhams Group") is the sale of fashion clothing and accessories, cosmetics and products for use in the home. The Group trades from department stores in the UK, the Republic of Ireland and Denmark, on the internet and has international franchise stores.

The Group prepares its financial statements for the financial year ending on the nearest Saturday to 31 August of a given calendar year. Consequently the financial year ended 1 September 2012 is a 52 week financial year, with the comparative financial year ended 3 September 2011 being a 53 week financial year.

The principal companies within the Group during the financial year ended 1 September 2012 are disclosed in note 33.

2 Accounting policies
The Group's principal accounting policies, as described below, have been consistently applied to all financial years presented, unless otherwise stated.

Basis of preparation
The consolidated financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The consolidated financial statements for the financial years ended 1 September 2012 and 3 September 2011 have been prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of the financial statements, in conformity with IFRS, requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Although these results are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates (see note 5).

Consolidation
The financial statements comprise a consolidation of the accounts of Debenhams plc and all its subsidiaries. Subsidiaries include all entities over which the Group has the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the Group has the power to control. They are de-consolidated from the date that control ceases.

On consolidation, inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the Company and its subsidiaries have been changed where these have a significant impact on the Group's income statement or balance sheet to ensure consistency with the policies adopted by the Group.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of staff discounts and the cost of loyalty scheme points, and is stated net of value added tax and other sales-related taxes.

Revenue on department store sales of goods and commission on concession and consignment sales is recognised when goods are sold to the customer. Retail sales are usually in cash or by credit or debit card. Internet sales are recognised when the goods are despatched to the customer. Revenue from gift cards and gift vouchers sold by the Group is recognised on the redemption of the gift card or gift voucher. Revenue from sales to franchisees is recognised when the goods are despatched.

It is the Group's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

Segmental reporting
IFRS 8 "Operating Segments" requires segment information to be presented based on what is reported to the Chief Operating Decision Maker. The Group has identified the executive committee as its Chief Operating Decision Maker and has identified two operating segments, UK and international.

Interest recognition
Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable. Finance charges are calculated using the effective interest rate method.

Dividend distribution
A final dividend distribution to the Company's shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

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2 Accounting policies continued

Retirement benefit costs

The liability or asset recognised in respect of defined benefit schemes is the fair value of the plan assets less the present value of the defined obligation at the balance sheet date. Plan assets include various equities, bonds and alternative strategies and are managed separately by investment managers. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations are determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in sterling and that have terms to maturity which approximate to the terms of the related pension liabilities.

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service costs are recognised immediately in the income statement, unless the changes in pension plans are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight line basis over the vesting period.

The Group operates a defined contribution scheme in the Republic of Ireland and Denmark and a stakeholder scheme in the UK and Hong Kong. Contributions to these pension schemes are charged to the income statement as they fall due. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. A fair value for the equity-settled share awards is measured at the date of grant. The Group measures the fair value using the valuation technique most appropriate to value each class of award. These are either a Black-Scholes, Monte Carlo or binomial pricing model.

The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company may issue new shares or utilise shares held as treasury shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium when the options are exercised.

Foreign exchange

a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in sterling, which is the Group's presentation currency.

b) Group companies

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the date of the balance sheet
- Income and expenses are translated at the average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction)
- Resulting exchange differences are recognised as a separate component of equity

c) Transactions and balances

Transactions denominated in foreign currencies are translated into the respective functional currency at average monthly rates. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date. Differences on exchange are taken to the income statement.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

Foreign exchange gains and losses that relate to borrowings, cash and cash equivalents and the translation of inter company loans are presented in the income statement within finance income or charges. All other foreign exchange gains and losses are presented in the income statement within cost of sales.

2 Accounting policies continued

Taxation

Taxation expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profits for the financial period using tax rates that are in force during the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other financial years and it further excludes items that are never taxable or deductible.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. If deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates that have been enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversals of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leased assets

a) Finance leases

Leases of assets which transfer substantially all the risks and rewards of ownership to the Group are classified as finance leases. Finance leases are classified as a financial liability and measured at amortised cost. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased plant and equipment or the present value of the minimum lease payments and depreciated over the shorter of the useful economic life or the period of the lease. The resulting lease obligations are included in liabilities.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

b) Operating leases

All other leases are classified as operating leases. Rentals payable under operating leases, net of lease incentives, are charged to the income statement on a straight line basis over the period of the lease.

Where property lease contracts contain guaranteed fixed minimum incremental rental payments, the total committed cost is determined and is calculated and amortised on a straight line basis over the life of the lease.

Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the consideration given, liabilities incurred or assumed and equity instruments issued by the Group in exchange for control of the acquiree. All costs directly attributable to an acquisition are expensed to the income statement.

Identifiable assets and liabilities acquired in a subsidiary are measured at their fair values at the acquisition date, provided they meet the conditions set out in IFRS 3 (Revised) "Business Combinations". The excess of cost over the Group's share of identifiable net assets acquired is recognised as goodwill. If, after reassessment, the cost of acquisition is less than the fair value of assets acquired, the excess is immediately recognised in the income statement.

Intangible assets

a) Goodwill

Goodwill on acquisition of subsidiaries represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised but tested for impairment annually, or when trigger events occur, and carried at cost less accumulated impairment losses.

Goodwill represents the goodwill for a portfolio of sites, which have been allocated to groups of cash-generating units on a regional basis for the purpose of impairment testing.

b) Other intangible assets

Other intangible assets are held at cost less accumulated amortisation and any provision for impairment.

Internally generated software costs, where it is clear that the software developed is technically feasible and will be completed and that the software generated will generate economic benefit, are capitalised as an intangible asset. Included within intangible assets are assets in the course of construction. These assets comprise primarily web development projects including directly attributable costs to bring the assets into use. Amortisation is provided at the following rates per annum to write off the costs of other intangible assets, less residual value, on a straight line basis from the date on which they are brought into use.

Acquired licences and trademarks	Up to 10%
Internally generated software	12.5% to 33.3%
Purchased software	12.5% to 33.3%

2 Accounting policies continued

Property, plant and equipment

Property, plant and equipment are held at historic purchase cost less accumulated depreciation and any provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

Depreciation is provided at the following rates per annum to write off the cost of property, plant and equipment, less residual value, on a straight line basis from the date on which they are brought into use:

Freehold land	Not depreciated
Freehold buildings	1%
Long leasehold land and buildings including landlords' fixtures and fittings	1% or life of lease if shorter
Short leasehold land and buildings including landlords' fixtures and fittings	Life of lease
Retail fixtures and fittings	4% -25%
Office equipment	10% -12.5%
Computer equipment	12.5% -33.3%
Vehicles	25% or life of lease

The assets' useful economic lives and residual values are reviewed and adjusted, if appropriate, at each financial year end.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement.

Included within property, plant and equipment are assets in the course of construction. These assets comprise stores, which are under construction, including costs directly attributable to bring the asset into use. Transfers to the appropriate category of property, plant and equipment are made when the store opens. No depreciation is provided on stores or other assets under construction.

Impairment testing

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped by store, which is the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have been impaired are reviewed at each reporting date for possible reversal of the impairment.

Available-for-sale investments

The Group classifies its investments as available-for-sale financial assets in accordance with IAS 39 "Financial Instruments: Recognition and Measurement". Available-for-sale financial investments are non-derivative assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Investments are recognised at fair value plus any transaction costs.

The fair value of available-for-sale investments denominated in a foreign currency is calculated in that foreign currency and translated at the spot rate at the reporting date.

An impairment test is performed annually on the carrying value of each investment. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its recoverable amount. Impairment losses are recognised in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value using the retail method and represent goods for resale. This method intrinsically takes into account any stock loss or mark down to goods sold below cost. Concession inventories are not included within inventory held by the Group.

Trade and other receivables

Trade receivables are stated at amortised cost less provisions for impairment. A provision for impairment of trade receivables is established when there is evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of future cash flows discounted at the effective interest rate. The movement in the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at the bank and other short-term liquid investments with original maturities of approximately three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2 Accounting policies continued

Borrowing costs
Borrowing costs that are facility costs are recognised initially at fair value, and are amortised over the term of the facilities using the effective interest rate on the committed amount of each facility.

Debt repurchase
The nominal value of debt repurchased has been accounted for as a loan redemption, reducing net borrowings at the balance sheet date.

Trade payables
Trade payables, defined as financial liabilities in accordance with IAS 39, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

All of the trade payables are non-interest bearing.

Other payables
Included within other payables are lease incentives received from landlords either through developers' contributions or rent-free periods. These incentives are being credited to the income statement on a straight line basis over the term of the relevant lease.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and where it is more likely than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

Promotional activities – Provisions for promotional activities such as the cosmetics loyalty scheme are recognised where the Group has a legal or constructive obligation to provide a customer with goods or services.

Restructuring – Provisions for restructuring are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Share capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares in equity are shown as a deduction, net of tax, from the proceeds.

Where the Company purchases its own ordinary shares, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs together with the related income tax effects, are included in equity attributable to the Company's equity holders.

Derivatives
Derivatives comprise interest rate swaps and forward foreign exchange contracts. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the Group documents the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

i) Cash flow hedges
The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item. Forward exchange contracts designated as cash flow hedges are de-designated and subsequently classified as "held for trading" when the underlying forecast transaction is recognised in the financial statements.

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the balance sheet or in the income statement.

When a hedged instrument expires, is sold or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time is held in equity until the forecast transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the relevant line of the income statement which would have been affected by the forecasted transaction.

ii) Derivatives That Do Not Qualify For Hedge Accounting
Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within finance costs.

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2 Accounting policies continued

New standards and interpretations

New or revised standards or interpretations which were mandatory for the first time in the financial year beginning 4 September 2011 did not have a material impact on the net assets or results of the Group.

At the date of approval of these financial statements, IAS 19 (Revised) "Employee Benefits" was in issue, but not yet effective. Other standards and interpretations in issue, but not yet effective, are not expected to have a material effect on the Group's net assets or results.

The directors anticipate that the adoption of IAS 19 (Revised) "Employee Benefits", in the financial year starting 1 September 2013, will potentially have a material impact, dependent upon market conditions, on the financial statements of the Group. The revised standard is expected to increase net finance costs and reduce operating profit. The extent of this impact is currently being assessed.

3 Segmental reporting

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

The Group's reportable segments have been identified as the UK and international. These have been re-stated from the previous financial year to better reflect the way in which financial performance is managed. The segments are reported to the CODM to operating profit level, using the same accounting policies as applied to the Group accounts. The Group does not review the assets and liabilities by operating segment as these are reviewed on a group-wide basis given their transposable nature. As a result, no such analysis has been provided.

3 Segmental reporting continued

Segmental analysis of results

	UK £m	International £m	Total £m
Financial year ended 1 September 2012			
Gross transaction value	**2,204.6**	**503.4**	**2,708.0**
Concessions, consignments, staff discounts and loyalty schemes	**(344.3)**	**(133.9)**	**(478.2)**
External revenue	**1,860.3**	**369.5**	**2,229.8**
Operating profit	**144.3**	**30.7**	**175.0**
Other segment items			
– Depreciation	**72.6**	**9.8**	**82.4**
– Amortisation of intangible assets	**7.7**	**1.5**	**9.2**
Financial year ended 3 September 2011 (re-stated)			
Gross transaction value	2,181.1	498.2	2,679.3
Concessions, consignments, staff discounts and loyalty schemes	(330.5)	(139.0)	(469.5)
External revenue	1,850.6	359.2	2,209.8
Operating profit	156.2	27.5	183.7
Other segment items			
– Depreciation	72.8	10.7	83.5
– Amortisation of intangible assets	7.0	1.5	8.5

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

	1 September 2012 £m	3 September 2011 £m
Total operating profit	**175.0**	183.7
Finance income	**1.2**	3.9
Finance costs	**(17.9)**	(27.3)
Total	**158.3**	160.3

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

	1 September 2012 £m	3 September 2011 £m
United Kingdom	**1,860.3**	1,850.6
Republic of Ireland	**136.5**	144.1
Denmark	**142.7**	136.9
Rest of the world	**90.3**	78.2
Total	**2,229.8**	2,209.8

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

	1 September 2012 £m	3 September 2011 £m
United Kingdom	**1,476.1**	1,436.0
Republic of Ireland	**32.1**	39.2
Denmark	**33.3**	35.2
Rest of the world	**4.3**	0.6
Total	**1,545.8**	1,511.0

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4 Gross transaction value

Revenue from concession and consignment sales is required to be shown on a net basis, being the commission received rather than the gross value achieved on the sale. Management believes that gross transaction value, which presents revenue on a gross basis before adjusting for concessions, consignments, staff discounts and the cost of loyalty scheme points, represents a good guide to the overall activity of the Group.

	1 September 2012 £m	3 September 2011 £m
Gross transaction value	**2,708.0**	2,679.3

A reconciliation of gross transaction value to external revenue is included in note 3.

5 Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Estimated impairment of goodwill

The Group tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amount of cash-generating units is determined based on a value-in-use calculation. The method requires an estimate of future cash flows and the selection of a suitable discount rate in order to calculate the net present value of the cash flows. Actual outcomes could vary, see note 13 for further details.

Taxation and deferred taxation

The Group is subject to income taxes in the UK, the Republic of Ireland, Denmark and Hong Kong. At each financial period end, judgement is required in determining the provision for income taxes. The Group recognises liabilities for anticipated tax issues based on the best estimates at the balance sheet date.

Significant judgement is also required in determining the deferred tax on developer's contributions, fair value losses and gains, retirement benefit assets and liabilities and other provisions. The Group recognises deferred tax assets and liabilities based on the best estimate at the balance sheet date.

Where the final tax outcome of the above matters is different from the amounts that were initially recorded, such differences will impact the corporation tax and deferred tax provisions in the period in which such determination is made. The final outcome of some of these tax items may give rise to material profit or loss and/or cash flow movements.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. The fair value determined at the grant date is expensed on a straight line basis over the vesting period. The fair value is calculated using the appropriate fair value model with the estimated level of vesting being reviewed annually by management. The key assumptions of this model are set out in note 28.

Retirement benefits

The Group's defined benefit schemes' pension liability/asset, which is assessed each period by actuaries, are based on key assumptions including return on plan assets, discount rates, mortality rates, inflation, future salary and pension costs. These assumptions, individually or collectively, may be different to actual outcomes.

Other key assumptions for pension obligations are based in part on current market conditions; additional information relating to this is disclosed in note 23.

Estimated useful life of property, plant and equipment

The Group estimates the useful life of property, plant and equipment and reviews this estimate at each financial period end. The Group also tests for impairment whenever a trigger event occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value using the retail method and represent goods for resale. This method intrinsically takes into account any stock loss or mark down to goods sold below cost. Concession inventories are not included within inventory held by the Group.

6 Operating profit

	1 September 2012 £m	3 September 2011 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**13.0**	12.9
Cost of inventories recognised as an expense	**1,131.2**	1,117.5
Employment costs (note 7)	**360.0**	372.8
Depreciation of property, plant and equipment (note 14)	**82.4**	83.5
Amortisation of intangible assets (note 13)	**9.2**	8.5
Loss on disposal of property, plant and equipment	**0.2**	0.1
Operating lease rentals	**203.6**	207.3
Foreign exchange gains	**(14.8)**	(12.7)
Auditors' remuneration	**0.4**	0.4

Services provided by the company's auditor and network firms
During the financial year the Group obtained the following services from the Company's auditor as detailed below:

	1 September 2012 £m	3 September 2011 £m
Audit services		
Fees payable to the Company's auditor for the audit of the Parent Company and consolidated accounts	**0.2**	0.2
Other services		
The audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services		
– Other services	**0.1**	0.1

Other services comprise advisory work relating to indirect taxation £0.1 million (2011: advisory work relating to indirect taxation of £0.1 million) and £38,000 (2011: £28,000) relating to the defined benefit pension scheme audits. It is cost effective for the Group that such services are provided by its auditors in view of their knowledge of the Group's affairs.

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7 Employees

	1 September 2012 £m	3 September 2011 £m
Wages and salaries	**336.1**	337.6
Social security costs	**21.9**	22.6
Pension cost	**0.4**	11.2
Share-based payments (note 28)	**1.6**	1.4
Total employment costs	**360.0**	372.8

	Number	Number
Average number of employees (including key management):		
- Full time	**8,355**	8,735
- Part time	**21,762**	21,889
Total	**30,117**	30,624

Information concerning directors' remuneration, interest in shares and share options is included in the remuneration report on pages 66 to 74, which forms part of these financial statements.

Key management compensation

	1 September 2012 £m	3 September 2011 £m
Salaries and short-term benefits	**2.8**	4.0
Post-employment benefits	**0.5**	0.6
Share-based payments	**0.5**	0.4
Termination payments	**1.0**	-
	4.8	5.0

Members of the executive committee (which includes the executive directors) and the non-executive directors are deemed to be key management. It is the board who has responsibility for planning and controlling the activities of the Group. During the financial year key management consisted of 12 members (2011: 13 members).

8 Finance income

	1 September 2012 £m	3 September 2011 £m
Interest on bank deposits	**0.1**	0.6
Other financing income	**1.1**	3.3
	1.2	3.9

9 Finance costs

	1 September 2012 £m	3 September 2011 £m
Bank loans and overdrafts	**11.7**	16.2
Cash flow hedges reclassified and reported in net profit	**2.0**	4.7
Amortisation of issue costs on loans (note 20)	**2.9**	5.8
Interest payable on finance leases	**0.1**	-
Other financing charges	**1.2**	0.6
	17.9	27.3

10 Taxation

Analysis of tax charge in the financial year

	1 September 2012 £m	3 September 2011 £m
Current tax:		
UK corporation tax charge on profit for the financial year	**43.4**	58.4
Adjustments in respect of prior periods	**(8.9)**	(1.6)
Current tax expense	**34.5**	56.8
Deferred taxation:		
Origination and reversal of temporary differences	**(3.8)**	(13.0)
Pension cost relief in excess of pension charge	**2.9**	0.2
Adjustments in respect of prior periods	**(0.6)**	(0.9)
Deferred tax credit (note 24)	**(1.5)**	(13.7)
Tax charge for the financial year	**33.0**	43.1

The effective tax rate for the financial year is lower at 20.8% (2011: lower at 26.9%) than the rate of corporation tax in the UK of 25.2% (2011: 27.2%). The differences are explained below:

	1 September 2012 £m	3 September 2011 £m
Profit on ordinary activities before tax	**158.3**	160.3
Profit on ordinary activities at standard rate of corporation tax in the UK of 25.2% (2011: 27.2%)	**39.9**	43.6
Effects of:		
Permanent differences	**4.0**	0.8
Overseas tax rates	**1.5**	0.8
Utilisation of tax losses	**(3.1)**	(2.3)
Non-qualifying depreciation and lease transactions	**0.4**	3.5
Effect on deferred taxation of the change in corporation tax rate	**(0.2)**	(0.8)
Adjustments in relation to prior periods	**(9.5)**	(2.5)
Tax charge for the financial year	**33.0**	43.1

The Finance Act 2012, which became substantially enacted on 3 July 2012, included legislation reducing the main rate of corporation tax from 26% to 24% from 1 April 2012 and also reducing the main rate of corporation tax from 24% to 23% from 1 April 2013. A further reduction to the main rate is proposed to reduce the rate to 22% by 1 April 2014. This further change has not been substantially enacted at the balance sheet date and is therefore not included in these financial statements.

The effect of the reduction in the corporation tax rate enacted in the Finance Act 2012 has been to reduce the net deferred tax asset recognised at 3 September 2011 by approximately £0.1 million. This £0.1 million decrease has been recognised in line with the treatment of the assets and liabilities giving rise to the net deferred tax asset.

The proposed reduction of the main rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately next year. The overall effect of the further change from 23% to 22%, if applied to the deferred tax balances at 1 September 2012, would be to reduce the net deferred tax asset by approximately £0.8 million.

11 Dividends

	1 September 2012 £m	3 September 2011 £m
Final paid 2.0 pence (2011: nil pence) per £0.0001 share		
– Settled in cash	**25.6**	–
Interim paid 1.0 pence (2011: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.9**	12.9
	38.5	12.9

A final dividend of 2.0 pence per share (2011: nil pence per share) was paid during the financial year in respect of the financial year ended 3 September 2011, together with an interim dividend of 1.0 pence per share (2011: 1.0 pence per share) in respect of the financial year ended 1 September 2012. The directors are proposing a final dividend in respect of the financial year ended 1 September 2012 of 2.3 pence per share (2011: 2.0 pence per share), which will absorb an estimated £29.0 million (2011: £25.6 million) of shareholders' funds. It will be paid on 11 January 2013 to shareholders who are on the register of members at close of business on 7 December 2012. No liability is recorded in the financial statements in respect of the final dividend as it was not approved as at the balance sheet date.

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

Basic and diluted earnings per share

	1 September 2012		3 September 2011	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit for the financial year after taxation	**125.3**	**125.3**	117.2	117.2
	Number m	**Number m**	Number m	Number m
Weighted average number of shares	**1,282.0**	**1,282.0**	1,286.8	1,286.8
Shares held by ESOP (weighted)	**(0.7)**	**(0.7)**	(0.3)	(0.3)
Shares issuable (weighted)	**–**	**1.4**	–	0.6
Adjusted weighted average number of shares	**1,281.3**	**1,282.7**	1,286.5	1,287.1
	Pence per share	**Pence per share**	Pence per share	Pence per share
Earnings per share	**9.8**	**9.8**	9.1	9.1

13 Intangible assets

	Goodwill £m	Acquired licences and trademarks £m	Internally generated software £m	Purchased software £m	Total £m
Cost					
At 28 August 2010	818.7	7.2	55.1	6.2	887.2
Additions	–	–	16.2	3.2	19.4
Exchange rate movement	0.5	–	0.1	–	0.6
Disposals	–	–	(0.1)	–	(0.1)
At 3 September 2011	819.2	7.2	71.3	9.4	907.1
Additions	–	–	14.6	2.8	17.4
Exchange rate movement	(0.7)	–	(0.9)	–	(1.6)
Disposals	–	–	(0.7)	(0.1)	(0.8)
At 1 September 2012	**818.5**	**7.2**	**84.3**	**12.1**	**922.1**
Accumulated amortisation					
At 28 August 2010	–	0.9	34.2	5.9	41.0
Charge for the financial year	–	0.7	6.8	1.0	8.5
Exchange rate movement	–	–	(0.4)	–	(0.4)
Disposals	–	–	(0.1)	–	(0.1)
At 3 September 2011	–	1.6	40.5	6.9	49.0
Charge for the financial year	–	0.7	7.2	1.3	9.2
Exchange rate movement	–	–	(0.2)	–	(0.2)
Disposals	–	–	(0.7)	(0.1)	(0.8)
At 1 September 2012	**–**	**2.3**	**46.8**	**8.1**	**57.2**
Net book value					
At 1 September 2012	**818.5**	**4.9**	**37.5**	**4.0**	**864.9**
At 3 September 2011	819.2	5.6	30.8	2.5	858.1
At 28 August 2010	818.7	6.3	20.9	0.3	846.2

Expenditure during the financial year on assets in the course of construction, included primarily in software, was as follows:

	1 September 2012 £m	3 September 2011 £m
Assets in the course of construction	**9.1**	9.8

Amortisation of Intangible Assets

Amortisation on the Group's intangible assets has been charged to the income statement as follows for the financial years ended:

	1 September 2012 £m	3 September 2011 £m
Included within:		
– Cost of sales	**7.7**	7.2
– Distribution costs	**0.2**	0.2
– Administrative expenses	**1.3**	1.1
	9.2	8.5

Intangible assets includes the following assets held under finance leases:

	Purchased Software	
	1 September 2012 £m	3 September 2011 £m
Cost	**1.5**	1.4
Accumulated depreciation	**(0.8)**	(0.3)
Net book value	**0.7**	1.1

13 Intangible assets continued

Impairment test for goodwill

Goodwill is not amortised but is reviewed on an annual basis or more frequently if there are indications that goodwill may be impaired. Goodwill represents the goodwill for a portfolio of sites, which has been allocated to groups of cash-generating units ("CGUs") split on a regional basis according to the level at which management monitors that goodwill. This allocation was primarily undertaken subsequent to the acquisition in December 2003 of the Debenhams stores by Debenhams plc. The CGUs are set out below:

	North £m	Midlands £m	South-East £m	South-West £m	South £m	Other £m	**Total £m**
Goodwill	159.3	184.3	180.1	185.3	102.8	6.7	**818.5**

For the purposes of this impairment review, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These cash flow projections are based on financial budgets approved by management covering a five year period. The key assumptions used in these projections are sales growth and discount rates. The five year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Cash flows beyond the five year period are extrapolated based on the assumption of 2% growth after year five. The growth rates do not exceed the long-term average growth rate for the retail sector in which the CGUs operate. The pre-tax discount rate used to calculate the value-in-use was 8.2% (2011: 8.9%) and reflects the specific risks in the retail business.

Management determined the gross margin for each CGU based on performance of individual stores and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and risk-free rates. Based on the value-in-use calculations, there is substantial headroom on a region by region basis and a reasonably possible change in the assumptions used would not cause an impairment to goodwill.

As a result of the impairment review, as at 1 September 2012 no impairment of goodwill has been required (2011: nil).

14 Property, plant and equipment

	Land and buildings				
	Freehold £m	Long-leasehold £m	Short-leasehold fixtures and fittings £m	Vehicles, fixtures and equipment £m	Total £m
Cost					
At 28 August 2010	50.6	11.5	339.1	776.3	1,177.5
Additions	–	0.3	11.7	82.7	94.7
Exchange rate movements	–	–	0.6	4.4	5.0
Disposals and write-offs	(49.0)	(5.1)	–	(45.1)	(99.2)
At 3 September 2011	1.6	6.7	351.4	818.3	1,178.0
Additions	–	0.4	2.8	110.2	113.4
Exchange rate movements	–	–	(1.3)	(7.4)	(8.7)
Disposals and write-offs	–	–	(0.3)	(39.0)	(39.3)
At 1 September 2012	**1.6**	**7.1**	**352.6**	**882.1**	**1,243.4**
Accumulated depreciation					
At 28 August 2010	2.1	1.5	83.2	414.6	501.4
Charge for the financial year	–	0.1	14.7	68.7	83.5
Exchange rate movements	–	–	0.1	2.1	2.2
Disposals and write-offs	(1.9)	(1.0)	–	(40.8)	(43.7)
Reclassification	–	–	(0.2)	0.2	–
At 3 September 2011	0.2	0.6	97.8	444.8	543.4
Charge for the financial year	–	0.1	14.9	67.4	82.4
Exchange rate movements	–	–	(0.3)	(4.6)	(4.9)
Disposals and write-offs	–	–	(0.3)	(38.8)	(39.1)
At 1 September 2012	**0.2**	**0.7**	**112.1**	**468.8**	**581.8**
Net book value					
At 1 September 2012	**1.4**	**6.4**	**240.5**	**413.3**	**661.6**
At 3 September 2011	1.4	6.1	253.6	373.5	634.6
At 28 August 2010	48.5	10.0	255.9	361.7	676.1

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14 Property, plant and equipment continued

Expenditure during the financial year on assets in the course of construction included primarily in vehicles, fixtures and equipment was as follows:

	1 September 2012 £m	3 September 2011 £m
Assets in the course of construction	**49.9**	39.3

Property, plant and equipment includes the following assets held under finance leases:

	Vehicles, fixtures and equipment	
	1 September 2012 £m	3 September 2011 £m
Cost	**10.7**	5.0
Accumulated depreciation	**(3.5)**	(3.4)
Net book value	**7.2**	1.6

Contractual commitments at 1 September 2012 were £14.9 million (2011: £5.3 million).

15 Financial assets – available-for-sale investments

	£m
At 28 August 2010	7.8
Disposals	(5.0)
Decrease in the market value charged to the statement of comprehensive income	(0.2)
At 3 September 2011	2.6
Decrease in the market value charged to the statement of comprehensive income	(0.7)
At 1 September 2012	**1.9**

The Group holds 10% (2011: 10%) of the issued shares of Ermes Department Stores Limited ("Ermes"), a company listed on the Cyprus Stock Exchange. The market value of the shares at 1 September 2012 was £1.9 million (2011: £2.6 million). Ermes is a company that is registered and trades in Cyprus and its shares are quoted in euros.

During the financial year ended 3 September 2011 the Group disposed of its "A" ordinary shares of BF Properties (No.4) Limited for their fair value of £5.0 million. The original cost of this investment was £3.0 million and accordingly £2.0 million profit was recycled from other reserves to the income statement.

16 Inventories

	1 September 2012 £m	3 September 2011 £m
Items held for resale	**332.3**	321.3

17 Trade and other receivables

	1 September 2012 £m	3 September 2011 £m
Non-current		
Other receivables	**19.3**	18.3

Other receivables include contractual lease deposits of £15.5 million (2011: £17.1 million).

	1 September 2012 £m	3 September 2011 £m
Current		
Trade receivables	**21.4**	22.7
Allowance for doubtful debts	**(0.5)**	(0.2)
	20.9	22.5
Other receivables	**2.3**	1.3
Prepayments and accrued income	**52.2**	48.3
	75.4	72.1

At the year-end, £19.1 million (2011: £20.0 million) of the trade receivables are denominated in sterling, £0.2 million (2011: £0.3 million) are denominated in euros and £2.1 million (2011: £2.4 million) in Danish kroner.

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

	£m
At 28 August 2010	(0.1)
Increase in provision	(0.1)
At 3 September 2011	(0.2)
Increase in provision	(0.3)
At 1 September 2012	**(0.5)**

Trade receivables which are past their due date but not impaired amount to £4.0 million (2011:£4.5 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 1 September 2012, £0.5 million (2011: £0.2 million) of trade receivables were past their due date and impaired.

18 Cash and cash equivalents

	1 September 2012 £m	3 September 2011 £m
Cash at bank and in hand	**28.7**	23.7
Short-term bank deposits	**15.3**	5.3
	44.0	29.0

19 Trade and other payables

	1 September 2012 £m	3 September 2011 £m
Trade payables	**318.3**	286.9
Other payables	**65.3**	68.0
Taxation and social security	**24.7**	26.9
Accruals	**115.0**	106.1
Deferred income	**2.1**	1.2
	525.4	489.1

20 Bank overdraft and borrowings

	1 September 2012 £m	3 September 2011 £m
Current		
Bank overdraft	**9.4**	6.2
Term loan facility	**–**	0.1
Revolving credit facility[1]	**151.8**	160.5
Lease obligations	**2.2**	1.3
	163.4	168.1
Non-current		
Term loan facility[2]	**244.8**	243.2
Lease obligations	**4.5**	1.4
	249.3	244.6

(1) Revolving credit facility is stated net of unamortised issue costs of £3.2 million (2011: £4.5 million)
(2) Term loan facility is stated net of unamortised issue costs of £5.2 million (2011: £6.8 million)

The Group has a £650.0 million credit facility comprising a term loan of £250.0 million and a Revolving Credit Facility ("RCF") of £400.0 million. These facilities expire in October 2015, with an option to extend further to October 2016. At 1 September 2012 the Group's facilities outstanding comprised the term loan of £250.0 million (2011: £250.0 million) and RCF drawings of £155.0 million (2011: £165.0 million).

In November 2010 the Group cancelled its existing term loan and RCF and drew down on its new £650.0 million credit facility.

During the current and prior financial years the Group has complied with its covenants relating to its credit facilities.

Issue costs, which mainly relate to facility costs, are being amortised over the term of the facilities to October 2015 at the effective interest rate based on the committed amount of the term loan. The total amortisation charge relating to the issue costs of the Group's credit facilities cancelled and current for the financial year ended 1 September 2012 was £2.9 million (2011: £5.8 million).

20 Bank overdraft and borrowings continued

Finance lease obligations

Finance lease obligations relate mainly to information technology systems, print machinery and vehicles leased under hire purchase contracts.

The minimum lease payments under finance leases fall due as follows:

	1 September 2012 £m	3 September 2011 £m
Not later than one year	**2.4**	1.3
Later than one year but not later than five years	**4.7**	1.4
	7.1	2.7
Interest element of future instalments	**(0.4)**	–
Present value of finance lease obligations	**6.7**	2.7

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

	1 September 2012 £m	3 September 2011 £m
Not later than one year	**2.2**	1.3
Later than one year but not later than five years	**4.5**	1.4
	6.7	2.7

Maturity of borrowings

The maturities of the Group's borrowings at carrying value are as follows:

	1 September 2012 £m	3 September 2011 £m
Amounts falling due:		
In one year or less or on demand	**163.4**	168.1
In more than one year but not more than two years	**1.7**	0.9
In more than two years but not more than five years	**247.6**	243.7
	412.7	412.7

Interest rates

The effective interest rates at the balance sheet dates were as follows:

	1 September 2012 %	3 September 2011 %
Bank overdraft	**1.88**	1.88
Term loan facility	**2.29**	2.64
Revolving credit facility	**2.29**	2.51
Lease obligations	**3.57**	2.80

21 Financial risk management

a) Financial risks and treasury management

The Group conducts its Treasury activities within the remit of a Treasury Policy, which outlines approved policies, procedures and authority levels. The board delegates its responsibility for reviewing and approving Treasury Policy to the Audit Committee. Reports are prepared monthly covering all areas of treasury activity and policy compliance and are reviewed by the Chief Financial Officer. The board and Audit Committee receive regular reporting covering treasury activities and policy compliance. Group Treasury manages the Group's funding requirements and financial risks in line with the agreed treasury policies and procedures.

The Group's financial instruments, other than derivatives, primarily include borrowings, cash and liquid resources, available-for-sale assets, trade receivables and trade payables. The main purpose of these financial instruments is to manage liquidity or raise finance for the Group.

Group Treasury uses derivative financial instruments to manage its interest rate risks associated with the Group's financing and currency risk arising from the Group's operations. The derivatives used are mainly interest rate swaps and forward currency contracts.

The Group's activities expose it to a variety of financial risks, which include:

- Funding and liquidity risk
- Credit risk
- Foreign exchange risk
- Interest rate risk
- Other price risk

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

The policies and strategies for managing these risks are summarised as follows:

i) Funding and liquidity risk

Prudent liquidity risk management implies sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying business, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

The Group finances its operations by a combination of retained profits, debt finance and leases. The objective is to ensure that there is a sufficient cash or working capital facility to meet the cash flow requirements of the Group for its current business plan.

The table below shows the maturity analysis of the Group's net contractual undiscounted cash flows in respect of non-derivative financial liabilities and derivative assets and liabilities at the balance sheet date.

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 1 September 2012				
Non-derivative financial liabilities:				
Borrowings	**(164.4)**	**–**	**(250.0)**	**–**
Interest payments due on borrowings	**(5.7)**	**(5.7)**	**(6.7)**	**–**
Finance lease liabilities	**(2.4)**	**(1.8)**	**(1.7)**	**(1.2)**
Trade and other payables	**(473.1)**	**-**	**-**	**–**
Derivative financial assets and liabilities:				
Interest rate swaps				
– Net settled derivative contracts – payments	**(3.0)**	**(2.5)**	**(2.3)**	**–**
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	**373.2**	**131.6**	**–**	**–**
– Gross settled derivative contracts – payments	**(367.6)**	**(130.9)**	**–**	**–**
Total	**(643.0)**	**(9.3)**	**(260.7)**	**(1.2)**

21 Financial risk management continued
a) Financial risks and treasury management continued
i) Funding and liquidity risk continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 3 September 2011				
Non-derivative financial liabilities:				
Borrowings	(165.0)	–	(250.0)	–
Interest payments due on borrowings	(0.1)	–	–	–
Finance lease liabilities	(1.3)	(0.9)	(0.5)	–
Trade and other payables	(433.4)	–	–	–
Derivative financial assets and liabilities:				
Interest rate swaps				
– Net settled derivative contracts – payments	(2.3)	(2.0)	(2.5)	–
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	332.8	121.8	–	–
– Gross settled derivative contracts – payments	(340.3)	(121.4)	–	–
Total	(609.6)	(2.5)	(253.0)	–

ii) Credit risk
Credit risk is the risk that the Group may suffer financial loss through default by customers or financial institutions. The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or by credit and debit cards, wholesale sales of products to franchisees are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. The Group's policy requires that cash surpluses are placed on deposit for no longer than three months and only with counterparties with a credit rating of A- or A3 or higher as assigned by Standard & Poor's or Moody's respectively. Exceptions to this policy require board approval. The carrying amount of financial assets recorded in the financial statements net of any provision for losses represents the Group's maximum exposure to credit risk.

iii) Foreign exchange risk
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the euro, the Chinese yuan and to a lesser extent the Danish krone.

To manage the foreign exchange transaction risk, entities in the Group use forward currency contracts transacted by Group Treasury. Foreign exchange risk arises when commercial transactions are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the exposure in each foreign currency by using external forward currency contracts with a settlement of up to two years. Forecast cash flows are hedged to the extent that those cash flows are deemed highly probable. The Group regularly reviews the need to hedge foreign exchange exposure arising from the profits, assets and liabilities of its non-sterling businesses, hedging those exposures to the extent that they are considered appropriate for hedging.

A gain of £1.9 million (2011: loss of £1.8 million) was reclassified from equity to the income statement within cost of sales during the year in respect of forward foreign exchange contracts designated as cash flow hedges.

The notional value of open forward foreign exchange contracts at 1 September 2012 was £503.7 million (2011: £461.1 million). The net fair value gains on open forward foreign exchange contracts at 1 September 2012 are £5.0 million (2011: losses of £4.2 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next two years.

During the current and prior financial years there were no contracts reclassified to "held for trading" due to cash flow hedges being ineffective.

iv) Interest rate risk
The Group's interest rate risk arises from long-term borrowings. The Group's current borrowing facilities are issued at variable rates that expose the Group to cash flow interest rate risk.

The interest exposure of the Group is managed within the constraints of the Group's business plan and the financial covenants under its facilities. The aim is to reduce exposure to interest rate movements and to take advantage of low interest rates by hedging an appropriate amount of interest rate exposure whilst maintaining the flexibility to minimise early termination costs. The Group's interest rate hedging strategy is to achieve a target fixed percentage of 75%, with a 15% tolerance (60%-90%).

The impact of movements in interest rates is managed through the use of floating rate debt and interest rate swaps. These are usually matched with specific loans for a period of time up to their maturity or call date.

The Group's main interest rate exposure is from the floating rate loans under the credit facilities. At the year end the Group's hedged borrowings amounted to £330.0 million (2011: £327.5 million), being 78.3% (2011: 78.4%) of the Group's total borrowings.

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21 Financial risk management continued
a) Financial risks and treasury management continued
iv) Interest rate risk continued
Interest rate swaps
The Group's interest rate swaps switch interest from floating rates to fixed rates. The Group's interest rate swap portfolio is summarised as follows:

	Notional £m	Rate %	Maturity
Interest rate swaps	330.0	0.84% - 1.865%	31 October 2015

The notional principal amount of interest rate swaps at 1 September 2012 was £330.0 million (2011: £327.5 million). The net gains and losses on these swaps, which are deferred in equity, will reverse through interest in the income statement over the life of the swaps. During the financial year a loss of £2.0 million (2011: £4.7 million) was reclassified and reported in the income statement in respect of interest rate swaps.

Financial liabilities and assets
The interest rate profiles of financial liabilities after taking account of interest rate swaps, swapped from floating to fixed rates, used to manage interest were as follows:

	1 September 2012			3 September 2011		
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Financial liabilities						
Sterling[1]	**(336.7)**	**(84.4)**	**(421.1)**	(330.3)	(93.7)	(424.0)

[1] Debt issue costs of £8.4 million (2011: £11.3 million) are excluded from the financial liabilities above

Fixed sterling financial liabilities comprise the hedged portion of the debt facility of £330.0 million and finance lease liabilities of £6.7 million at 1 September 2012. The weighted average interest rate on the fixed rate borrowings as at 1 September 2012 was 3.3% (2011: 3.6%), with the weighted average time for which rates are fixed being 3.2 years (2011: 4.2 years). Floating rate borrowings are interest bearing at interest rates based on LIBOR. Cash deposits are interest bearing at rates based on LIBID or relevant base rates. Non-interest bearing cash refers to cash in stores or in transit.

Floating rate borrowings have been classified as fixed if there were derivative financial instruments hedging the floating rate interest for more than one year.

The interest rate profiles of financial assets were as follows:

	1 September 2012			3 September 2011		
	Floating £m	**Non-interest bearing £m**	**Total £m**	Floating £m	Non-interest bearing £m	Total £m
Financial assets						
Sterling	**13.5**	**23.7**	**37.2**	0.5	20.7	21.2
Euros	**1.3**	**1.9**	**3.2**	0.8	1.2	2.0
US dollars	**0.3**	**0.5**	**0.8**	0.9	–	0.9
Danish kroner	**–**	**1.9**	**1.9**	3.1	1.8	4.9
Chinese yuan	**0.3**	**–**	**0.3**	–	–	–
Other	**–**	**0.6**	**0.6**	–	–	–
Total financial assets	**15.4**	**28.6**	**44.0**	5.3	23.7	29.0

v) Other price risk
The Group is exposed to price risk arising from equity investments.

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. At the year end, if the market value had been 10% higher/lower, based on the Group's view of reasonably possible changes to the value of the equity investments, when all other variables were held constant:

- Net profit would have been unaffected as the equity investments were classified as available-for-sale investments; and
- Other reserves would decrease/increase by £0.2 million (2011: £0.3 million) for the Group as a result of the changes in the fair value of available-for-sale investments.

21 Financial risk management continued

b) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, provide returns for shareholders and benefits to other stakeholders and to maintain a structure to optimise the cost of capital. The Group defines capital as debt and equity.

In order to maintain or adjust the capital structure, the Group may consider: the amount of dividend paid to shareholders, the return of capital to shareholders, the issue or sale of shares; or the sale of assets to reduce debt.

The Group routinely monitors its capital and liquidity requirements through leverage ratios consistent with industry-wide borrowing standards, maintaining suitable headroom to bank facility fixed charge and leverage covenants together with credit market requirements to ensure financing requirements continue to be serviceable.

c) Fair value estimates

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

The fair values of short-term deposits, loans and overdrafts with a maturity of less than one year are assumed to approximate to their book values. In the case of the Group's loans due in more than one year, the fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group.

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities to their fair values at the year end.

d) Sensitivity analysis

The Group monitors interest rate risk and foreign exchange risk by determining the effect on profit of a range of possible changes in interest rates and foreign exchange rates. The range of sensitivities chosen, being 1% movement in the interest rate or 5% movement in sterling when compared to US dollar, Chinese yuan, Danish krone and euro, reflects the Group's view of reasonably possible changes to these risk variables which existed at the year end.

The table below illustrates the estimated impact on the Group as a result of market movements in foreign exchange and interest rates in relation to all the Group's financial instruments. The analysis has been produced assuming no changes in the borrowings and existing interest rate swaps portfolio when considering the interest rate movement. The table below illustrates the estimated impact on the Group as a result of market movements in interest rates in relation to all the Group's financial instruments that are expressed in currencies different to that of the functional currency.

	1 September 2012		3 September 2011	
	Income statement gain/(loss) £m	**Equity gain/(loss) £m**	Income statement gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rate	**(0.7)**	**7.5**	(0.9)	6.3

	1 September 2012		3 September 2011	
	Income statement gain/(loss) £m	**Equity gain/(loss) £m**	Income statement gain/(loss) £m	Equity gain/(loss) £m
5% weakening in sterling compared to US dollar	**0.1**	**12.1**	0.4	11.8
5% weakening in sterling compared to the euro	**(0.3)**	**(2.4)**	(0.4)	(3.2)
5% weakening in sterling compared to Danish krone	**(0.4)**	**-**	(0.2)	-
5% weakening in sterling compared to Chinese yuan	**-**	**1.7**	-	-

A 1% decrease in interest rate or 5% strengthening in sterling compared to the US dollar, euro, Danish krone or Chinese yuan would result in an equal and opposite change in the income statement and equity respectively.

22 Financial instruments

Financial assets and liabilities by category

Information regarding the Group's financial risk management policies has been disclosed in note 21. All financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments and available-for-sale assets, which are held at fair value. The following table sets out the classification and carrying value of each class of financial assets and liabilities within the financial statements:

	Available-for-sale £m	Held for trading £m	Derivatives designated as cash flow hedges £m	Loan receivables and financial liabilities at amortised cost £m	Total £m
At 1 September 2012					
Assets					
Current assets					
Cash and cash equivalents	**–**	**–**	**–**	**44.0**	**44.0**
Trade and other receivables	**–**	**–**	**–**	**23.2**	**23.2**
Forward foreign currency contracts	**–**	**1.2**	**6.6**	**–**	**7.8**
Non-current assets					
Trade and other receivables	**–**	**–**	**–**	**19.3**	**19.3**
Available-for-sale financial assets	**1.9**	**–**	**–**	**–**	**1.9**
Forward foreign currency contracts	**–**	**–**	**0.8**	**–**	**0.8**
Liabilities					
Current liabilities					
Trade and other payables	**–**	**–**	**–**	**(498.5)**	**(498.5)**
Current borrowings	**–**	**–**	**–**	**(163.4)**	**(163.4)**
Forward foreign currency contracts	**–**	**(0.1)**	**(1.8)**	**–**	**(1.9)**
Non-current liabilities					
Non-current borrowings	**–**	**–**	**–**	**(249.3)**	**(249.3)**
Interest rate swaps	**–**	**–**	**(8.3)**	**–**	**(8.3)**
Forward foreign currency contracts	**–**	**–**	**(0.6)**	**–**	**(0.6)**
Total	**1.9**	**1.1**	**(3.3)**	**(824.7)**	**(825.0)**
At 3 September 2011					
Assets					
Current assets					
Cash and cash equivalents	–	–	–	29.0	29.0
Trade and other receivables	–	–	–	23.8	23.8
Forward foreign currency contracts	–	0.2	1.0	–	1.2
Non-current assets					
Trade and other receivables	–	–	–	18.3	18.3
Available-for-sale financial assets	2.6	–	–	–	2.6
Interest rate swaps	–	–	0.1	–	0.1
Forward foreign currency contracts	–	–	1.3	–	1.3
Liabilities					
Current liabilities					
Trade and other payables	–	–	–	(461.1)	(461.1)
Current borrowings	–	–	–	(168.1)	(168.1)
Interest rate swaps	–	–	(0.3)	–	(0.3)
Forward foreign currency contracts	–	(2.2)	(6.0)	–	(8.2)
Non-current liabilities					
Non-current borrowings	–	–	–	(244.6)	(244.6)
Interest rate swaps	–	–	(3.8)	–	(3.8)
Forward foreign currency contracts	–	–	(0.4)	–	(0.4)
Total	2.6	(2.0)	(8.1)	(802.7)	(810.2)

22 Financial instruments continued

Fair value measurement

The Group has adopted the amendment to IFRS 7 which requires financial instruments to be grouped into a fair value hierarchy based on the lowest level input that is significant to the fair value measurement. The three levels of the hierarchy are:

- 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

The following table shows the Group's financial assets and liabilities as measured at fair value at 1 September 2012:

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Available-for-sale financial assets	**1.9**	**–**	**–**	**1.9**
Derivative financial instruments:				
– Forward foreign currency contracts held as cash flow hedges	**–**	**7.4**	**–**	**7.4**
– Other forward foreign currency contracts	**–**	**1.2**	**–**	**1.2**
Total assets	**1.9**	**8.6**	**–**	**10.5**
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**(8.3)**	**–**	**(8.3)**
– Forward foreign currency contracts held as cash flow hedges	**–**	**(2.4)**	**–**	**(2.4)**
– Other forward foreign currency contracts	**–**	**(0.1)**	**–**	**(0.1)**
Total liabilities	**–**	**(10.8)**	**–**	**(10.8)**

The following table shows the Group's financial assets and liabilities as measured at fair value at 3 September 2011:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	2.6	–	–	2.6
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	–	0.1	–	0.1
– Forward foreign currency contracts held as cash flow hedges	–	2.3	–	2.3
– Other forward foreign currency contracts	–	0.2	–	0.2
Total assets	2.6	2.6	–	5.2
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	–	(4.1)	–	(4.1)
– Forward foreign currency contracts held as cash flow hedges	–	(6.4)	–	(6.4)
– Other forward foreign currency contracts	–	(2.2)	–	(2.2)
Total liabilities	–	(12.7)	–	(12.7)

The Group disposed of its level 3 investment during the financial year 2011. For further details see note 15 to the financial statements.

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23 Retirement benefit obligation

The Group 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.

Both pension schemes were closed for 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. Future pension arrangements are provided through a money purchase stakeholder plan in the UK and Hong Kong or a defined contribution scheme for the employees in the Republic of Ireland and Denmark.

In accordance with the recovery plan for the Group's pension schemes, which is intended to restore the schemes to a fully funded position on an ongoing basis, the Group agreed to contribute £5.8 million per annum from 1 April 2009 to 31 March 2011 increasing by annual Retail Price Index ("RPI") from the year to 31 December 2009 to fund past service benefits. The Group agreed to increase its contributions to the Group's pension schemes to £7.0 million per annum from 1 April 2011 until 31 August 2021, increasing by annual RPI from the year to the previous December. The Group has also agreed to make a further increase in its contributions to the pension schemes to £8.9 million per annum for the period from 1 April 2012 to 31 August 2022 increasing by the percentage increase in the RPI over the year to the previous December.

Additionally, the Group has agreed to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

If the Company had paid or declared a dividend during the period from 1 April 2009 to 31 March 2011, the Group would have made further contributions of 3.1% and 1.9% of the total amount of the ordinary dividend to the DRS and DEPP respectively. No dividends were declared by the Company during this period.

The investment strategy for the Group's pension schemes was changed during the year ended 3 September 2011. Investment of the schemes assets is now arranged by AON Hewitt Limited under a delegated consulting service agreement. As at 1 September 2012 most of the schemes assets are invested in a delegated liability fund or a delegated growth fund, with some legacy holdings from the former investment strategy due to be transferred to the delegated consulting service arrangement in the future.

Actuarial valuations of the Group's pension schemes using the projected unit basis were carried out at 31 March 2011, and updated as at each relevant year end for the purposes of IAS 19 "Employee Benefits" by Towers Watson Limited, a qualified independent actuary. The 31 March 2011 actuarial valuation has been used when calculating the IAS 19 "Employee Benefits" valuation at 1 September 2012. The major assumptions used by the actuary were:

	1 September 2012 per annum %	3 September 2011 per annum %	28 August 2010 per annum %
Inflation assumption	**2.90**	3.30	3.20
General salary and wage increase	**2.90**	3.30	3.20
Rate of increase in pension payments and deferred payments	**2.90**	3.30	3.20
Pension increase rate	**2.80**	3.20	3.10
Discount rate	**4.70**	5.75	5.00

The expected return on scheme assets is based on market expectations at the beginning of the year for return over the entire life of the defined benefit obligation.

The inflation assumption is based on the RPI rate as pension increases both in payment and deferment within the schemes are set out with reference to this measure.

	1 September 2012		3 September 2011		28 August 2010	
	Long-term rate of return expected per annum %	**£m**	Long-term rate of return expected per annum %	£m	Long-term rate of return expected per annum %	£m
Assets						
Delegated liability fund	**–**	**105.5**	–	90.7	–	–
Delegated growth fund	**–**	**464.2**	–	433.4	–	–
Legacy holdings	**–**	**1.7**	–	23.9	–	–
Equities	**–**	**–**	–	–	8.2	247.0
Bonds	**–**	**–**	–	–	5.0	244.9
Property	**–**	**–**	–	–	7.3	20.3
Cash and other assets	**–**	**12.3**	–	3.5	3.8	11.6
Total market value of assets	**7.0-7.4**	**583.7**	7.8-8.1	551.5	6.6	523.8
Present value of scheme liabilities		**(641.0)**		(547.6)		(604.5)
(Deficit)/surplus in scheme		**(57.3)**		3.9		(80.7)

23 Retirement benefit obligation continued
The expected rates of return on assets for the schemes as at 1 September 2012 have been derived from the target returns specified in the current Statement of Investment Principles for each scheme, and have been set at 7.0% (2011: 7.8%) for the DEPP and 7.4% (2011: 8.1%) for the DRS. At previous year ends, prior to 3 September 2011, the expected rates of return on assets were derived as the weighted average of the expected rates of return from each of the main asset classes.

Assumptions regarding future mortality experiences are based on the mortality tables shown below.

	1 September 2012 Male and female	3 September 2011 Male and female
Debenhams Retirement Scheme	**S1PMA_L+1**	PNMA00 +1
Debenhams Executive Pension Plan	**S1PFA_L+1**	PNFA00 -2

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

	1 September 2012		3 September 2011	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**22.4**	**24.3**	21.4	23.2
Member aged 65 in 15 years	**23.4**	**25.4**	22.3	24.0

	1 September 2012		3 September 2011	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**24.4**	**25.8**	24.0	25.8
Member aged 65 in 15 years	**25.4**	**26.9**	24.8	26.5

The actual return on scheme assets was as follows:

	1 September 2012 £m	3 September 2011 £m
Return on scheme assets	**42.4**	38.6

The amounts recognised in the income statement are as follows:

	1 September 2012 £m	3 September 2011 £m
Interest on pension scheme liabilities	**30.9**	29.8
Expected return on pension scheme assets	**(42.6)**	(30.7)
Total credit included within staff costs	**(11.7)**	(0.9)

The total credits included are as follows:

	1 September 2012 £m	3 September 2011 £m
Cost of sales	**(9.7)**	(0.8)
Distribution costs	**(0.1)**	-
Administrative expenses	**(1.9)**	(0.1)
Total credit	**(11.7)**	(0.9)

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

	1 September 2012 £m	3 September 2011 £m
Present value of obligations at start of the financial year	**547.6**	604.5
Interest on pension scheme liabilities	**30.9**	29.8
Benefit payments by the fund	**(18.2)**	(17.5)
Actuarial losses/(gains)	**80.7**	(69.2)
Present value of obligations at end of the financial year	**641.0**	547.6

23 Retirement benefit obligation continued

Changes in the fair value of pension scheme assets are as follows:

	1 September 2012 £m	3 September 2011 £m
Fair value of pension scheme assets at start of the financial year	**551.5**	523.8
Benefits paid	**(18.2)**	(17.5)
Company contributions	**9.4**	7.9
Expected return on pension scheme assets	**42.6**	30.7
Actuarial (losses)/gains	**(1.6)**	6.6
Fair value of pension scheme assets at end of the financial year	**583.7**	551.5

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

	1 September 2012 £m	3 September 2011 £m
Surplus/(deficit) in the schemes at start of the financial year	**3.9**	(80.7)
Movement in the financial year:		
– Pension credit	**11.7**	0.9
– Company contributions	**9.4**	7.9
– Net actuarial (losses)/gains	**(82.3)**	75.8
(Deficit)/surplus in the schemes at end of the financial year	**(57.3)**	3.9

Cumulative actuarial gains and losses recognised in the statement of comprehensive income:

	1 September 2012 £m	3 September 2011 £m
At start of the financial year	**(50.4)**	(126.2)
Net actuarial (losses)/gains recognised in the financial year	**(82.3)**	75.8
Net actuarial losses recognised at end of the financial year	**(132.7)**	(50.4)

History of experience gains and losses:

	1 September 2012	3 September 2011	28 August 2010	29 August 2009	30 August 2008
Actuarial losses/(gains) arising on scheme assets:					
– Amounts	**£1.6m**	£(6.6)m	£(12.0)m	£62.7m	£55.7m
– Percentage of scheme assets	**0.3%**	(1.2)%	(2.3)%	12.8%	10.6%
Experience losses/(gains) arising on defined benefit obligation:					
– Amounts	**£6.9m**	£(5.1)m	£7.6m	£(18.2)m	£14.6m
– Percentage of the present value of scheme liabilities	**1.1%**	(0.9)%	1.3%	(3.4)%	2.9%
Present value of scheme liabilities	**£(641.0)m**	£(547.6)m	£(604.5)m	£(542.0)m	£(500.6)m
Fair value of scheme assets	**£583.7m**	£551.5m	£523.8m	£488.4m	£525.6m
(Deficit)/surplus	**£(57.3)m**	£3.9m	£(80.7)m	£(53.6)m	£25.0m

The contributions expected to be paid during the financial year ended 31 August 2013 amount to £10.5 million.

Other Debenhams defined contribution schemes

The Group contributions to other defined contribution schemes during the financial year were £12.0 million (2011: £11.8 million).

24 Deferred tax assets and liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%) for the UK differences and the local tax rates for overseas differences.

	1 September 2012 £m	3 September 2011 £m
Non-current		
Deferred tax assets	**83.2**	75.7
Deferred tax liabilities	**(64.7)**	(74.1)
	18.5	1.6

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

The movement on the deferred tax account is as shown below:

Assets	Developer's contribution received £m	Fair value losses £m	Other provisions £m	Retirement benefit asset £m	Total £m
At 28 August 2010	44.4	4.8	21.0	21.8	92.0
Credited/(charged) to the income statement	2.8	–	7.9	(0.2)	10.5
Result of the change in the standard rate of corporation tax charged to the income statement	(3.2)	(0.4)	(1.6)	(0.1)	(5.3)
Charged to the statement of comprehensive income	–	–	–	(21.5)	(21.5)
At 3 September 2011	44.0	4.4	27.3	–	75.7
(Charged)/credited to the income statement	(6.8)	(2.4)	9.1	(2.9)	(3.0)
Result of the change in the standard rate of corporation tax charged to the income statement	(2.9)	0.1	(2.8)	0.2	(5.4)
Credited to the statement of comprehensive income	–	–	–	15.9	15.9
At 1 September 2012	**34.3**	**2.1**	**33.6**	**13.2**	**83.2**

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit liability £m	Total £m
At 28 August 2010	(78.7)	(5.1)	–	(83.8)
Credited/(charged) to the income statement	2.8	(0.6)	–	2.2
Result of the change in the standard rate of corporation tax charged to the income statement	5.9	0.4	–	6.3
Credited/(charged) to the statement of comprehensive income	–	2.2	(1.0)	1.2
At 3 September 2011	(70.0)	(3.1)	(1.0)	(74.1)
Credited to the income statement	1.8	2.7	–	4.5
Result of the change in the standard rate of corporation tax charged to the income statement	5.4	–	–	5.4
(Charged)/credited to the statement of comprehensive income	–	(1.5)	1.0	(0.5)
At 1 September 2012	**(62.8)**	**(1.9)**	**-**	**(64.7)**

Within other provisions is a deferred tax asset of £1.7 million (2011: £7.8 million) in relation to overseas operations which has been recognised. In addition to this there is an unrecognised deferred tax asset of £11.5 million (2011: £15.8 million) relating to operations in Denmark.

25 Other non-current liabilities

	1 September 2012 £m	3 September 2011 £m
Other liabilities	**321.9**	318.9

Included within other liabilities are lease incentives received from landlords either through initial contributions or rent-free periods. These incentives are being credited to the income statement on a straight line basis over the term of the relevant lease. Additionally, the liability relates to the spreading of the charges relating to leases with fixed annual increments in rent.

26 Provisions

	Closure provision £m	Promotional activities £m	Restructuring provision £m	Other provisions £m	Total £m
At 28 August 2010	0.1	3.3	0.5	2.5	6.4
Charged to the income statement	–	10.4	1.0	–	11.4
Unused amounts reversed in the financial year	–	(2.9)	–	(0.1)	(3.0)
Utilised during the financial year	–	(6.0)	(0.8)	(0.6)	(7.4)
At 3 September 2011	0.1	4.8	0.7	1.8	7.4
Charged to the income statement	–	10.2	0.5	–	10.7
Unused amounts reversed in the financial year	–	(4.5)	–	–	(4.5)
Utilised during the financial year	–	(5.7)	(1.2)	(0.3)	(7.2)
At 1 September 2012	**0.1**	**4.8**	**–**	**1.5**	**6.4**

Provisions have been analysed between current and non-current as follows:

	1 September 2012 £m	3 September 2011 £m
Current	**5.3**	6.2
Non-current	**1.1**	1.2
	6.4	7.4

Closure provision
Relating to one vacated building which will be utilised over the term of the lease, being the next two years.

Promotional activities provision
Provisions for promotional activities represent the cost to the business of operating an internal cosmetics loyalty scheme and the Debenhams Reward Scheme in the Republic of Ireland and they are expected to be utilised during the next 12 months.

Restructuring provision
This included provisions for redundancy and restructuring costs within the Republic of Ireland, Denmark and the UK.

Other provisions
The majority of the Group's other provisions relate to dilapidations on properties based upon the directors' best estimate of the Group's future liability. The remainder of the other provisions, none of which is individually significant, represent the best estimate of the expenditure required to settle present obligations in respect of other liabilities. These provisions are expected to be utilised within the next three years.

27 Share Capital and Reserves

	1 September 2012 £	1 September 2012 Number	3 September 2011 £	3 September 2011 Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start and end of the financial year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

During the financial year ended 1 September 2012, 23,559,155 (2011: nil) of the above shares were purchased by the Company and are held as treasury shares. See retained earnings below.

Employee share trust – interest in share capital

The number of ordinary shares in the Company held by the DRET was as follows:

	1 September 2012 Ordinary shares Number	3 September 2011 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**723,536**	723,536

The market value of the shares on 1 September 2012 was £0.7 million for DRET (2011: £0.4 million). The cost of the shares held at the year end is £0.6 million (2011: £0.6 million).

A description of the nature and purpose of each reserve is set out below:

Share premium account

On admission to the London Stock Exchange, the Company issued 358,974,359 shares at £1.95, generating proceeds of £700.0 million. Costs directly associated with the issue of the new shares totalled £17.1 million and in accordance with the Companies Act these costs were set off against the premium generated on issue of the new shares.

Merger reserve

The merger reserve of £1,200.9 million exists as a result of the 2005 Group reconstruction.

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the 2005 Group reconstruction. In accordance with International Accounting Standards, the 2005 Group reconstruction has been accounted for as a reverse acquisition.

Hedging reserve

The hedging reserve represents the change in fair value of all interest rate swaps and forward foreign currency contracts which have been designated as cash flow hedges. The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item.

Other reserves

The other reserve represents the change in fair value in respect of the Group's available-for-sale investments (see note 15) and exchange differences arising as part of a reporting entity's net investment in a foreign operation. Other reserves may be analysed as follows:

	Translation reserve £m	Change in fair value of available-for-sale investments £m	Total £m
At 28 August 2010	(5.8)	0.6	(5.2)
Currency translation differences	4.3	–	4.3
Change in the fair value of available-for-sale investments	–	(0.2)	(0.2)
Sale of available-for-sale investments	–	(2.0)	(2.0)
At 3 September 2011	(1.5)	(1.6)	(3.1)
Currency translation differences	(6.7)	–	(6.7)
Change in the fair value of available-for-sale investments	–	(0.7)	(0.7)
At 1 September 2012	**(8.2)**	**(2.3)**	**(10.5)**

Retained earnings

The Company acquired 23,559,155 of its own shares through purchases on the London Stock Exchange between 24 April 2012 and 7 August 2012. The total amount paid to acquire the shares net of income tax was £20.1 million. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares acquired by the Company were fully paid.

28 Share-based payments
The total charge to operating profit relates to the following equity settled schemes:

	1 September 2012 £m	3 September 2011 £m
Performance Share Plan ("PSP")	**1.4**	0.7
Executive Share Option Plan ("ESOP")	**0.1**	0.2
Share Incentive Plan ("SIP")	**-**	0.4
Deferred Bonus Matching Plan ("DBMP")	**0.1**	0.1
Charge for the financial year	**1.6**	1.4

The following table reconciles the movement in shares awarded under the Company share schemes and the weighted average exercise price ("WAEP") for the ESOP scheme. Grants under the PSP, SIP and DBMP all comprise a right to acquire shares for no or nominal consideration.

	DBMP	SIP	PSP	ESOP	
	Number	Number	Number	Number	WAEP Pence
Outstanding at 28 August 2010	-	715,000	5,382,579	2,414,374	95.1
Granted	849,130	650,000	191,250	-	-
Exercised	-	(690,000)	-	-	-
Lapsed	-	-	(3,410,092)	(1,451,682)	103.0
Forfeited	(12,927)	(25,000)	-	-	-
Outstanding at 3 September 2011	836,203	650,000	2,163,737	962,692	85.5
Granted	-	200,000	5,947,558	-	-
Forfeited	(248,920)	(400,000)	(634,410)	(131,069)	85.5
Outstanding at 1 September 2012	**587,283**	**450,000**	**7,476,885**	**831,623**	**85.5**

i) The Debenhams Performance Share Plan
The PSP allows the company to grant awards of shares to senior management. An award under the PSP will normally vest on the third anniversary of date of grant and must be exercised within six months of vesting. No payment is required for the grant of an award. An award under the PSP comprises a right to receive free shares or a nil cost option with performance conditions attached.

Awards granted on 24 November 2009 and 23 May 2011
The vesting of the shares granted under these PSP awards is dependent on Earnings Per Share ("EPS") growth.

Where growth is less than 6% per annum over the three year period, the awards lapse. Where growth is 6% per annum, 30% of the shares awarded vest, where growth is 10% per annum, awards vest in full. Between these two points, awards vest on a straight line basis between 30% and 100%.

Awards granted on 1 November 2011 and 1 May 2012
The vesting of the shares granted under these awards is dependent upon the growth of both EPS and Return on Capital Employed ("ROCE").

75% of the awards is based upon EPS growth. Where growth is less than 6% per annum over the three year period, this element of the awards lapse. Where growth is 6% per annum, 30% of the shares awarded vest, where growth is 12% per annum, the EPS element of the awards vest in full. Between these two points, awards vest on a straight line basis between 30% and 100%.

The remaining 25% of the awards is dependent upon ROCE. If average ROCE is below the cost of capital over the three year period, this element of the awards lapse. If average ROCE is equal to the cost of capital over the three year period, then 30% of the shares awarded vest. If average ROCE is equal to the cost of capital plus 5% then the ROCE element of the awards vest in full. Between these two points, awards vest on a straight line basis between 30% and 100%.

28 Share-based payments continued

i) The Debenhams Performance Share Plan continued

Awards granted on 1 November 2011 and 1 May 2012 continued

In accordance with IFRS 2 "Share-Based Payments", the vesting conditions attached to the PSP are classified as non-market conditions and therefore the shares have been fair valued at face value with a discount to take into account the non-entitlement to dividends in the vesting period where relevant. The fair value of these PSP awards is calculated based on a Black-Scholes model assuming the inputs shown in the table below:

Grant date	1 May 2012	1 November 2011	23 May 2011	24 November 2009
Number of shares under award (number)	391,987	5,137,864	191,250	1,755,784
Expected term (years)	3.0	3.0	3.0	3.0
Share price at grant (pence)	84.0	64.0	72.0	83.3
Exercise price (pence)	–	–	–	–
Risk free rate	0%	0%	0%	2.3%
Expected volatility	40%	40%	N/A	70.0%
Expected dividend yield	3.5%	7.4%	5.0%	0%
Fair value of award (pence)	75.0	59.0	62.0	83.3

Where volatility has been used in the calculation of fair value it has been estimated by taking the historical volatility in the Company's share price.

ii) Executive Share Option Plan

The ESOP allows the Company to grant options to acquire shares to eligible employees. These options will normally become exercisable following a three year performance period, only if and to the extent that the performance conditions to which they are subject have been satisfied. Once the options have vested, the employees have a seven year period in which to exercise. Options are granted with an exercise price equal to the middle market value of the shares on the day immediately preceding the date of grant.

Options granted on 24 November 2009

The vesting of options granted under this plan is dependent on the Company's ROCE exceeding the cost of capital. Where the ROCE is less than or equal to the cost of capital over a three year period, no options will vest. Where the ROCE is greater than the cost of capital, 30% will vest, where the ROCE is greater than the cost of capital plus 5%, 100% will vest. Between these two points the options will vest on a straight line basis between 30% and 100%. The fair value of the share options has been calculated using a Black-Scholes model. The key assumptions are set out in the table below.

Grant date	24 November 2009
Number of shares under option (number)	831,623
Expected term (years)	3.0
Share price at grant (pence)	85.5
Exercise price (pence)	85.5
Risk free rate	2.3%
Expected volatility	70.0%
Expected dividend yield	0%
Fair value of option (pence)	40.7

Volatility has been estimated by taking the historical volatility in the Company's share price.

The weighted average exercise price of the ESOP at 1 September 2012 was 85.5 pence (2011: 85.5 pence).

iii) Share incentive plan

The SIP allows the Company to grant options to key senior managers below board level, whom the Company wishes to retain and incentivise in the short to medium term. Once the options have vested the employee has six months in which to exercise.

28 Share-based payments continued

iii) Share incentive plan continued

Options granted on 16 November 2010 and 21 May 2012

The options granted on 16 November 2010 and on 21 May 2012 have 24 month and 30 month vesting periods respectively, based on the employee's continued employment and performance targets specific to the employee's role within the business, and are granted with no exercise price.

The fair value of the SIP options granted is calculated based on a Black-Scholes model assuming the inputs shown below:

Grant date	21 May 2012	16 November 2010
Number of shares under option (number)	200,000	250,000
Expected term (years)	2.5	2.0
Share price at grant (pence)	80.0	70.0
Exercise price (pence)	–	–
Risk free rate	0%	0%
Expected volatility	40.0%	100.0%
Expected dividend yield	3.8%	5.0%
Fair value of option (pence)	73.0	63.3

The option over 150,000 shares granted under the SIP on 23 May 2011 was forfeited.

iv) Deferred Bonus Matching Plan

The DBMP allows the Company to invite eligible employees to invest up to 100% of their net annual bonus earned into shares ("invested shares"). If the participant remains in service for three years and retains the beneficial ownership of all the invested shares s/he will, subject to the satisfaction of certain performance conditions be entitled to a matching share award equal to the amount of the pre-tax bonus that has been invested. Once the options have vested they will be released to the employee within one month of the vesting date.

28 Share-based payments continued

iv) Deferred Bonus Matching Plan continued

Options granted on 26 November 2010

All bonus eligible employees were offered the opportunity to invest up to 50% of their 2010 bonus into invested shares. The entitlement to the matching award is subject to the participant retaining beneficial ownership of their invested shares during the performance period and to the achievement of the following performance conditions. The Group's ROCE must exceed the cost of capital by 2% over this period otherwise the options will not vest. The Group's EPS growth must then exceed 6% per annum over the three year period or the options will not vest. If the Group's EPS growth is 6% or more per annum over the three year period 30% of the options will vest; if the growth is 12% or more per annum over the three year period, 100% of the options will vest. Between these two points the options will vest on a straight line basis between 30% and 100%.

The fair value of the DBMP options granted is calculated based on a Black-Scholes model assuming the inputs shown below:

Grant date	26 November 2010
Number of shares under option (number)	587,283
Expected term (years)	3.0
Share price at grant (pence)	74.0
Exercise price (pence)	–
Risk free rate	0%
Expected volatility	100.0%
Expected dividend yield	5.0%
Fair value of option (pence)	63.7

29 Operating lease commitments

	1 September 2012		3 September 2011	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Within one year	**195.0**	**1.4**	193.9	1.1
Later than one year and less than five years	**787.4**	**2.3**	779.9	2.0
After five years	**4,173.8**	**–**	4,193.5	–
	5,156.2	**3.7**	5,167.3	3.1

The Group leases department stores and warehouses under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles and fixtures and equipment under non-cancellable operating leases.

30 Cash generated from operations

	1 September 2012 £m	3 September 2011 £m
Profit for the financial year	**125.3**	117.2
Taxation (note 10)	**33.0**	43.1
Depreciation (note 14)	**82.4**	83.5
Amortisation (note 13)	**9.2**	8.5
Loss on disposal of property, plant and equipment	**0.2**	0.1
Profit on disposal of available-for-sale investment	**–**	(2.0)
Employee options granted during the financial year (note 28)	**1.6**	1.4
Fair value (gains)/losses on derivative instruments	**(3.1)**	2.7
Net movements in provisions (note 26)	**(1.0)**	1.0
Finance income	**(1.2)**	(3.9)
Finance costs	**17.9**	27.3
Difference between pension credit and contributions paid (note 23)	**(21.1)**	(8.8)
Net movement in other long-term receivables	**(2.6)**	0.1
Net movement in other non-current liabilities	**2.9**	33.2
Changes in working capital		
Increase in inventories	**(11.5)**	(25.4)
Increase in trade and other receivables	**(4.7)**	(4.6)
Increase/(decrease) in trade and other payables	**32.4**	(5.8)
Cash generated from operations	**259.7**	267.6

In the cash flow statement, proceeds from the disposal of property, plant and equipment and finance leases comprise:

	1 September 2012 £m	3 September 2011 £m
Net book value (note 14)	**0.2**	55.5
Less non-cash movement in long-term finance leases	**–**	(42.8)
Loss on disposal of property, plant and equipment	**(0.2)**	(0.1)
Cash proceeds from the disposal of property, plant and equipment	**–**	12.6

Non-cash transactions

Other non-cash changes comprise:

	1 September 2012 £m	3 September 2011 £m
Amortisation of issue costs relating to debt issues	**2.9**	5.8
Non-cash movements associated with term loan facility	**(0.1)**	(2.4)
Revaluation of cash and cash equivalents	**0.3**	(1.0)
Less offset to long-term loan	**–**	(42.8)
Non-cash movements associated with finance lease obligations	**6.2**	1.2
Non-cash transactions	**9.3**	(39.2)

31 Analysis of changes in net debt

	3 September 2011 £m	Cash flow £m	Non-cash movements £m	**1 September 2012 £m**
Analysis of net debt				
Cash and cash equivalents	29.0	15.3	(0.3)	**44.0**
Bank overdrafts	(6.2)	(3.2)	–	**(9.4)**
Net cash and cash equivalents	22.8	12.1	(0.3)	**34.6**
Debt due within one year	(160.6)	10.0	(1.2)	**(151.8)**
Debt due after one year	(243.2)	–	(1.6)	**(244.8)**
Finance lease obligations due within one year	(1.3)	2.2	(3.1)	**(2.2)**
Finance lease obligations due after one year	(1.4)	–	(3.1)	**(4.5)**
	(383.7)	24.3	(9.3)	**(368.7)**

32 Contingent liabilities

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and where it is more likely that not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Since these provisions, which are reflected in the Group's consolidated financial statements, represent estimates, the final resolution of any such matters could have a material effect on the Group's operating results and cash flows for a particular reporting period.

33 Principal subsidiary undertakings

The principal subsidiary undertakings of Debenhams plc at 1 September 2012 were as follows:

Company	Country of incorporation	Country of registration	Activity
Debenhams Retail plc	UK	England	Department store retailing
Debenhams Group Holdings Limited*	UK	England	Holding company
Debenhams Retail (Ireland) Limited	Ireland	Ireland	Department store retailing
Aktieselskabet Th. Wessel & Vett Magasin du Nord	Denmark	Denmark	Department store retailing
Debenhams Properties Limited	UK	England	Property investment
Debenhams Hong Kong Limited	Hong Kong	Hong Kong	Sourcing of goods

*Denotes investments held by the Company. All other investments are held by subsidiary undertakings.

The Company has taken advantage of section 410(2) of the Companies Act 2006 to list only its principal subsidiary and associated undertakings at 1 September 2012. Unless otherwise stated, all of these are wholly owned by the Company or its subsidiary undertakings, registered in England and Wales, and operate predominantly in the United Kingdom.

All subsidiary companies are consolidated. A full list of subsidiaries is available from the registered office.

Five year record income statements

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	52 weeks 2012 £m	53 weeks 2011 £m	52 weeks 2010 £m	52 weeks 2009 £m	52 weeks 2008 £m
Gross transaction value	**2,708.0**	2,679.3	2,564.3	2,339.7	2,336.0
Revenue	**2,229.8**	2,209.8	2,119.9	1,915.6	1,839.2
Cost of sales	**(1,927.5)**	(1,913.1)	(1,829.5)	(1,650.7)	(1,571.6)
Gross profit	**302.3**	296.7	290.4	264.9	267.6
Distribution costs	**(81.0)**	(70.2)	(55.1)	(45.3)	(50.0)
Administrative expenses	**(46.3)**	(42.8)	(40.2)	(37.4)	(41.5)
Operating profit before exceptional items	**175.0**	183.7	195.1	182.2	176.1
Exceptional items	**–**	–	(5.4)	–	–
Operating profit	**175.0**	183.7	189.7	182.2	176.1
Net finance costs	**(16.7)**	(23.4)	(49.8)	(61.4)	(70.2)
Profit before taxation	**158.3**	160.3	139.9	120.8	105.9
Taxation	**(33.0)**	(43.1)	(42.9)	(25.7)	(28.8)
Profit for the financial year attributable to equity shareholders	**125.3**	117.2	97.0	95.1	77.1

Gross transaction value

Revenue from concessions and consignment sales is required to be shown on a net basis, being the commission received rather than the gross value achieved by the concessionaire on the sale. Management believes that gross transaction value, which presents revenue on a gross basis before adjusting for concessions, consignments, staff discounts and the cost of loyalty scheme points, represents a good guide to the overall activity of the Group.

Five year record balance sheets

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Assets					
Non-current assets					
Intangible assets	**864.9**	858.1	846.2	839.9	840.8
Tangible assets	**661.6**	634.6	676.1	669.2	693.3
Financial assets	**2.7**	4.0	8.7	9.0	19.2
Other receivables	**19.3**	18.3	17.2	–	–
Retirement benefit assets	**–**	3.9	–	–	25.0
Deferred tax assets	**83.2**	75.7	92.0	80.6	57.4
Total non-current assets	**1,631.7**	1,594.6	1,640.2	1,598.7	1,635.7
Net current liabilities	**(267.5)**	(292.0)	(636.5)	(74.4)	(296.7)
Non-current liabilities	**(703.2)**	(643.0)	(500.3)	(1,099.0)	(1,213.7)
Net assets	**661.0**	659.6	503.4	425.3	125.3
Shareholders' equity					
Share capital	**0.1**	0.1	0.1	0.1	0.1
Share premium account	**682.9**	682.9	682.9	682.9	682.9
Other reserves	**(12.1)**	(8.3)	(3.4)	288.9	16.9
Retained earnings	**(9.9)**	(15.1)	(176.2)	(546.6)	(574.6)
Total equity	**661.0**	659.6	503.4	425.3	125.3

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

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We have audited the Parent Company financial statements of Debenhams plc for the financial year ended 1 September 2012 which comprise the Parent Company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 75, the directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 1 September 2012;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the Parent Company financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Debenhams plc for the financial year ended 1 September 2012.

Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London
25 October 2012

Company Balance Sheet

Company number 5448421
As at 1 September 2012

	Note	1 September 2012 £m	3 September 2011 £m
Fixed assets			
Investments	4	**2,745.9**	2,745.9
Current assets			
Debtors	6	**135.5**	115.1
Derivative financial instruments	5	**-**	0.1
		135.5	115.2
Creditors: amounts falling due within one year	7	**(1,175.3)**	(1,212.7)
Derivative financial instruments	5	**-**	(0.3)
Net current liabilities		**(1,039.8)**	(1,097.8)
Total assets less current liabilities		**1,706.1**	1,648.1
Creditors: amounts falling due after more than one year	8	**(244.8)**	(243.2)
Derivative financial instruments	5	**(8.3)**	(3.8)
Net assets		**1,453.0**	1,401.1
Capital and reserves			
Called-up share capital	11	**0.1**	0.1
Share premium account	12	**682.9**	682.9
Hedging reserve	12	**(6.4)**	(2.9)
Profit and loss account	12	**776.4**	721.0
Total shareholders' funds	13	**1,453.0**	1,401.1

The financial statements on pages 122 to 128 were approved by the board on 25 October 2012 and were signed on its behalf by:

Simon Herrick
Chief Financial Officer

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Notes to the Company Financial Statements

For the financial year ended 1 September 2012

1 Accounting policies

Basis of preparation

These financial statements have been prepared on the going concern basis and in accordance with UK GAAP using the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. These financial statements have been prepared in accordance with applicable accounting standards within the United Kingdom and the Companies Act 2006.

The Company is also exempt under the terms of FRS 8 "Related Party Disclosures" from disclosing related party transactions with entities that are wholly owned subsidiaries.

The principal accounting policies, which have been applied consistently during the financial year, are set out below.

Investments

Investments are held at cost less any provision for impairment.

Impairment testing

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value-in-use.

Borrowings

All borrowings are stated at the fair value of the consideration received after deduction of issue costs. Issue costs, together with finance costs, are charged to the profit and loss account over the term of the borrowings. Finance costs represent a constant proportion of the balance of capital repayments outstanding.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates that are in force during the period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates which are expected to apply in the periods in which the timing differences are expected to reverse, based upon tax rates and laws which have been enacted or substantively enacted by the balance sheet date.

Dividend distribution

A final dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

Share-based payments

Where the Company has granted options over the Company's shares to employees of its subsidiaries, a capital contribution has been deemed made by the Company. This is then recharged to the subsidiary and is based on the fair value of the options issued spread over the options vesting period. At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, with a corresponding adjustment to equity.

1 Accounting policies continued

Derivatives

The derivative instruments used by the Company to manage its interest rate risk are interest rate swaps.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as an effective hedging instrument and the nature of the item being hedged. The Company designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objectives and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at the inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

i) Cash flow hedges

The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the profit and loss account which will be affected by the underlying hedged item.

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the balance sheet or in the profit and loss account.

When a hedged instrument expires, is sold or when a hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued. Any cumulative gain or loss existing in equity at that time is held in equity until the forecast transaction occurs. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to the relevant line of the profit and loss account which would have been affected by the forecasted transaction.

ii) Derivatives that do not qualify for hedge accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown as a deduction, net of tax, from the proceeds.

Where the Company purchases its own ordinary shares the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs together with the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Profit and loss account

The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company however the Company's profit and loss account has been produced for approval by the board. A profit of £112.4 million is attributable to shareholders for the financial year ended 1 September 2012 (2011: £120.2 million).

The contracts of employment for all the executive directors are held by Debenhams plc. The total cost of employing the directors is disclosed in the remuneration report.

Auditors' remuneration of £0.1 million (2011: £0.1 million) is borne by another Group undertaking.

3 Dividends

	1 September 2012 £m	3 September 2011 £m
Final paid 2.0 pence (2011: nil pence) per £0.0001 share		
– Settled in cash	**25.6**	–
Interim paid 1.0 pence (2011: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.9**	12.9
	38.5	12.9

A final dividend of 2.0 pence per share (2011: nil pence per share) was paid during the year in respect of the financial year ended 3 September 2011, together with an interim dividend of 1.0 pence per share (2011: 1.0 pence per share) in respect of the financial year ended 1 September 2012. The directors are proposing a final dividend in respect of the financial year ended 1 September 2012 of 2.3 pence per share (2011: 2.0 pence per share), which will absorb an estimated £29.0 million (2011: £25.6 million) of shareholders' funds. It will be paid on 11 January 2013 to shareholders who are on the register of members at close of business on 7 December 2012. No liability is recorded in the financial statements in respect of the final dividend as it was not approved at the balance sheet date.

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4 Investments

	Investments in subsidiary undertakings £m
Cost	
At 3 September 2011 and at 1 September 2012	**4,068.8**
Provision for impairment	
At 3 September 2011 and at 1 September 2012	**1,322.9**
Net book value	
At 3 September 2011 and at 1 September 2012	**2,745.9**

The directors consider that the carrying value of the investments is supported by their underlying net assets.

Investment in subsidiary undertakings

In accordance with FRS 11 "Impairment of fixed assets and goodwill" the carrying values of the Company's subsidiary undertakings have been compared to their recoverable amounts represented by the value-in-use to the Company. The review has resulted in an impairment of nil (2011: nil). The discount rate used in the calculation to arrive at the valuation was 8.2% (2011: 8.9%) on a pre-tax basis.

The principal subsidiary undertakings of the Company at 1 September 2012 are shown in note 33 of the Debenhams Group financial statements.

5 Derivative financial instruments

	1 September 2012 £m	3 September 2011 £m
Current assets		
Interest rate swaps – cash flow hedges	**–**	0.1
Current liabilities		
Interest rate swaps – cash flow hedges	**–**	(0.3)
Non-current liabilities		
Interest rate swaps – cash flow hedges	**(8.3)**	(3.8)
	(8.3)	(4.0)

Information relating to the derivatives held by the Company are shown in note 21 of the Debenhams Group financial statements.

6 Debtors

	1 September 2012 £m	3 September 2011 £m
Deferred tax asset (note 10)	**1.9**	1.1
Amounts owed by Group undertakings	**133.6**	114.0
	135.5	115.1

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 3.0% (2011: 2.8%).

7 Creditors: amounts falling due within one year

	1 September 2012 £m	3 September 2011 £m
Bank borrowings (note 9)	**151.8**	160.6
Amounts owed to Group undertakings	**1,022.9**	1,051.5
Accruals	**0.6**	0.6
	1,175.3	1,212.7

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 3.0% (2011: 2.8%) or are interest free.

8 Creditors: amounts falling due after more than one year

	1 September 2012 £m	3 September 2011 £m
Bank borrowings (note 9)	**244.8**	243.2

9 Borrowings

	1 September 2012 £m	3 September 2011 £m
Creditors: amounts falling due within one year		
Revolving credit facility	**155.0**	165.0
Term loan facility	**–**	0.1
Less: issue costs	**(3.2)**	(4.5)
	151.8	160.6
Creditors: amounts falling due in more than one year		
Term loan facility	**250.0**	250.0
Less: issue costs	**(5.2)**	(6.8)
	244.8	243.2

Maturity of debt

	1 September 2012 £m	3 September 2011 £m
Amounts falling due:		
In one year or less or on demand	**155.0**	165.1
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**250.0**	250.0
	405.0	415.1

Information relating to the borrowings of the Company is shown in note 20 of the Debenhams Group financial statements.

The Group has a £650.0 million credit facility comprising a term loan of £250.0 million and a Revolving Credit Facility ("RCF") of £400.0 million. These facilities expire in October 2015, with an option to extend further to October 2016. At 1 September 2012 the Group's facilities outstanding comprised the term loan of £250 million (2011: £250.0 million) and RCF drawings of £155.0 million (2011: £165.0 million). During the current and prior financial years the Company has complied with its covenants relating to its credit facilities.

Issue costs, which mainly relate to facility costs, are being amortised over the term of the facilities to October 2015 at the effective interest rate based on the committed amount of the term loan. The total amortisation charge relating to the issue costs of the Group's credit facilities cancelled and current for the financial year ended 1 September 2012 was £2.9 million (2011: £5.8 million).

10 Deferred taxation

	Fair value gains £m
At 3 September 2011 – asset	1.1
Credited to reserves	0.8
At 1 September 2012 – asset	**1.9**

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 23.0% (2011: 25.0%).

The Finance Act 2012, which became substantially enacted on 3 July 2012, included legislation reducing the main rate of corporation tax from 26% to 24% from 1 April 2012 and also reducing the main rate of corporation tax from 24% to 23% from 1 April 2013. A further reduction to the main rate is proposed to reduce the rate to 22% by 1 April 2014. This further change has not been substantially enacted at the balance sheet date and is therefore not included in these financial statements.

The effect of the reduction in the corporation tax rate enacted in the 2012 Act has been to reduce the net deferred tax asset recognised at 3 September 2011 by approximately £0.1 million.

The proposed reduction of the main rate of corporation tax to 22% from 1 April 2014 is expected to be enacted separately next year. The overall effect of the further change from 23% to 22%, if applied to the deferred tax balances at 1 September 2012, would be to reduce the net deferred tax asset be approximately £0.1 million.

Deferred tax provided on the fair value gains represents the deferred tax on the derivatives that qualify for cash flow hedges.

11 Called-up share capital

	1 September 2012		3 September 2011	
	£	**Number**	£	Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start and end of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

The Company acquired 23,559,155 of its own shares through purchases on the London Stock Exchange during the financial year. The total amount paid to acquire the shares net of income tax was £20.1 million. The shares are held as treasury shares. The Company has the right to reissue these shares at a later date. All shares acquired by the Company were fully paid.

The number of ordinary shares in the Company held by the Debenhams Retail Employee Trust 2004 ("DRET") in connection with the Group's employee ownership plan described is as follows:

	1 September 2012 Ordinary shares Number	3 September 2011 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**723,536**	723,536

The market value of the shares at 1 September 2012 was £0.7 million for the DRET (2011: £0.4 million). The cost of the shares held at the year end was £0.6 million (2011: £0.6 million).

Share option schemes

At 1 September 2012 the Group had four schemes in operation: the Performance Share Plan ("PSP"), the Executive Share Option Plan ("ESOP"), the Share Incentive Plan ("SIP") and the Deferred Bonus Matching Plan ("DBMP"). The following table reconciles the movement in share options and the weighted average exercise price ("WAEP") for the ESOP scheme. Grants under the PSP, SIP and DBMP share options all comprise a right to acquire shares for no or nominal consideration.

For further information on these schemes please see note 28 of the Debenhams Group financial statements.

				ESOP	
	DBMP Number	SIP Number	PSP Number	Number	WAEP Pence
Outstanding at 28 August 2010	–	715,000	5,382,579	2,414,374	95.1
Granted	849,130	650,000	191,250	–	–
Exercised	–	(690,000)	–	–	–
Lapsed	–	–	(3,410,092)	(1,451,682)	103.0
Forfeited	(12,927)	(25,000)	–	–	–
Outstanding at 3 September 2011	836,203	650,000	2,163,737	962,692	85.5
Granted	–	200,000	5,947,558	–	–
Forfeited	(248,920)	(400,000)	(634,410)	(131,069)	85.5
Outstanding at 1 September 2012	**587,283**	**450,000**	**7,476,885**	**831,623**	**85.5**

12 Reserves

	Share premium account £m	Hedging reserve £m	Profit and loss account £m
At 3 September 2011	682.9	(2.9)	721.0
Profit for the financial year	–	–	112.4
Cash flow hedges – net fair value losses (net of tax)	–	(3.5)	–
Employee share ownership plans (net of tax)	–	–	1.6
Purchase of treasury shares	–	–	(20.1)
Dividends to shareholders (note 3)	–	–	(38.5)
At 1 September 2012	**682.9**	**(6.4)**	**776.4**

Hedging Reserve

The hedging reserve represents the change in fair value of the interest rate swaps which have been designated as cash flow hedges.

Profit and Loss Account

A dividend of £38.5 million (2011: £12.9 million) was paid by the Company during the financial year ended 1 September 2012.

13 Reconciliation of movements in shareholders' funds

	1 September 2012 £m	3 September 2011 £m
Profit for the financial year	**112.4**	120.2
Dividends paid (note 3)	**(38.5)**	(12.9)
Retained profit	**73.9**	107.3
Cash flow hedges:		
– Net fair value (losses)/gains (net of tax)	**(3.5)**	1.0
Purchase of treasury shares	**(20.1)**	–
Employee share ownership plans (net of tax)	**1.6**	1.4
Net increase to shareholders' funds	**51.9**	109.7
Opening shareholders' funds	**1,401.1**	1,291.4
Closing shareholders' funds	**1,453.0**	1,401.1

14 Contingent liabilities

The Company is also liable for the pension schemes' contributions and deficits, where relevant, for both the Debenhams Executive Pension Plan and the Debenhams Retirement Scheme. The liability in the schemes at 1 September 2012 was £57.3 million (2011: asset of £3.9 million).

There are a number of contingent liabilities that arise in the normal course of business which, if realised are not expected to result in a material liability to the Company. The Company recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

Store list

UK
Aberdeen
Altrincham
Ashford
Ayr
Ballymena
Banbury
Bangor
Barrow
Basildon
Basingstoke
Bath
Bedford
Belfast
Birmingham
Birmingham Fort
Blackburn
Blackpool
Bolton
Bournemouth
Brighton
Bristol
Bromley
Bury (Gtr Manchester)
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Carmarthen
Chatham
Chelmsford
Cheltenham
Chester
Chesterfield*
Clapham
Colchester
Coventry
Crawley
Croydon
Derby
Doncaster
Dumfries
Dundee
Dunfermline
East Kilbride
Eastbourne
Edinburgh
Eltham
Exeter
Falkirk
Fareham
Farnborough
Folkestone
Foyleside
Gateshead - Metro Centre
Glasgow
Glasgow Silverburn
Gloucester
Gravesend
Great Yarmouth
Guildford
Hanley
Harrogate
Harrow
Hastings
Hemel Hempstead
Hounslow
Hull
Ilford
Inverness
Ipswich
Kidderminster
King's Lynn
Kirkcaldy
Lakeside
Leeds - City Centre
Leeds - White Rose
Leicester
Leith
Lincoln
Liverpool
Livingston
Llandudno
Llanelli
London - Oxford Street
London - Westfield
Luton
Manchester
Manchester - Trafford Park
Mansfield
Merryhill
Merthyr Tydfil
Middlesbrough
Milton Keynes
Monks Cross
Newbridge
Newbury - Outlet
Newbury - Parkway
Newcastle-upon-Tyne
Newry
Northampton
Norwich
Nottingham
Nuneaton
Oldham
Orpington
Oxford
Perth
Plymouth
Portsmouth
Preston
Reading
Redditch
Romford
Rushmere
Salisbury
Scarborough
Sheffield
Sheffield - Meadowhall
Slough
Southampton
Southend
Southport
Southsea
South Shields
Staines
Stirling
Stockport
Stockton
Stratford-upon-Avon
Sunderland
Sutton
Swansea
Swindon
Taunton
Telford
Torquay
Truro
Uxbridge
Wakefield
Walsall
Walton
Warrington
Welwyn Garden City
Westwood Cross
Weymouth
Wigan
Wimbledon
Winchester
Witney
Woking
Worcester
Workington
Worthing
Wrexham
York

International

Magasin du Nord
Århus
Field's - Copenhagen
Kgs Nytorv - Copenhagen
Lyngby
Odense
Rødovre

Republic of Ireland
Cork - Mahon Point
Cork - Patrick Street
Dublin - Blackrock
Dublin - Blanchardstown
Dublin - Henry Street
Dublin - Tallaght
Galway
Limerick
Newbridge
Tralee
Waterford

Franchise stores

Armenia
SAS Home Store
SAS Home Store (Komitas)
Yerevan

Azerbaijan
Baku

Bahrain
Manama

Cyprus
Avenue
Apollon
Central
Engomi
Kinyras
Korivos
Ledra
Nicosia
Olympia
Zenon

Czech Republic
Prague

Egypt
Alexandria

Georgia
Tblisi*

Hungary
Budapest

Iceland
Reykjavik

India
Bangalore
Delhi
Mumbai

Indonesia
Jakarta Senayan City
Karawaci
Kemang Village*

Iran
Mashad
Shiraz
Tehran
Tehran Jame Jam

Jordan
Amman

Kazakhstan
Astana

Kuwait
Airport
Avenues
Souq Sharq

Malaysia
Kuala Lumpur
Kuala Lumpur - The Curve

Malta
Tigne Point

Philippines
Davao Abreeza Mall
Manila Glorieta
Manila Shangri La
Manila Trinoma

Qatar
Doha

Romania
Banessa
Bucharest
Constanta
Oradea
Plaza
Sun Plaza

Russia
Moscow

Pakistan
Karachi

Saudi Arabia
Gallery
Jeddah
Jeddah Airport
Khobar
Madinah Al Noor
Mecca
Riyadh Granada Mall
Riyadh Kingdom Mall
Riyadh Sahara Mall

Turkey
Istanbul

UAE
Abu Dhabi
Abu Dhabi Dalma*
Dubai Deira
Dubai Ibn Battuta
Dubai Mall
Dubai Mall of Emirates
Dubai Mirdiff
Sharjah

Vietnam
Ho Chi Minh City

*Opened after 1 September 2012

Glossary

Concessions
Brands which are sold through our stores where the stock belongs to a third party concessionaire. They are found chiefly in womenswear (e.g. Wallis, Oasis, Warehouse) and accessories (e.g. Tripp luggage).

Core brands
Brands designed and produced exclusively for Debenhams. They include brands such as Collection, Mantaray, Maine New England and Red Herring. They are found in all product categories.

Designers at Debenhams
Exclusive diffusion ranges designed for Debenhams by leading international designers including Julien Macdonald, Jasper Conran and John Rocha.

Earnings per share ("EPS")
The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue.

EBITDA
Earnings before interest, taxation, depreciation and amortisation.

Flagship store
A large store, typically over 100,000 sq ft, in a major city. They include Oxford Street and Westfield in London, Henry Street in Dublin, Birmingham, Liverpool and Newcastle-upon-Tyne.

Footfall
The number of people who visit our stores.

Free cash flow
Cash generated from operations before exceptional items less net cash used in investing activities.

Gross margin
Gross transaction value less the cost of goods sold, as a percentage of gross transaction value.

Gross transaction value
Revenue (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts.

International brands
Brands such as Levis, Ben Sherman, Clarins and Estée Lauder for which Debenhams owns the stock.

Market share
The percentage of the market or market segment that is being serviced by Debenhams. For instance, if 100 T-shirts were sold a year in the UK and Debenhams sold ten of them, it would have 10% market share.

Multi-channel
Multi-channel sales comprise those from online, mobile, instore ordering and click and collect. We use online sales as a measure of the growth of the multi-channel business as it is the largest of these sales channels.

Own bought brands
Brands for which Debenhams owns the stock. They include core brands, Designers at Debenhams and international brands.

Uninvested core store
A store which is neither new nor modernised. All remaining uninvested core stores will be modernised by Christmas 2014.

Shareholder information

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*Calls to this number cost 8p per minute from a BT landline; other providers' costs may vary.
Lines are open 8.30am to 5.30pm, Monday to Friday.

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Designed and produced by luminous.co.uk
Printed in-house by Debenhams


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1 Welbeck Street, London, W1G 0AA
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