DEBENHAMS

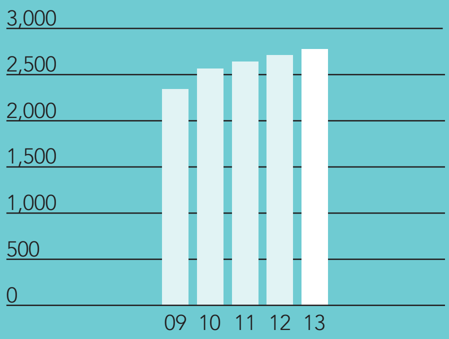
A leading international, multi-channel brand

Debenhams plc Annual Report and Accounts 2013

Highlights
Robust results during a challenging year

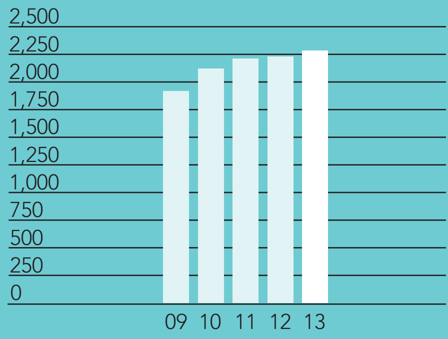
Gross transaction value

£2.8bn



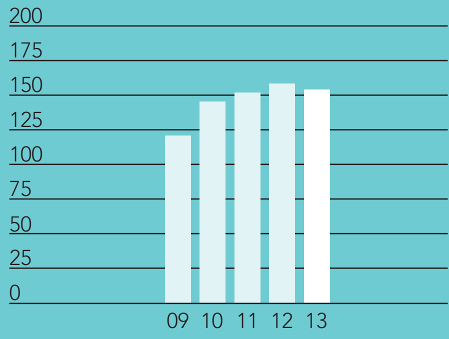
Revenue

£2.3bn



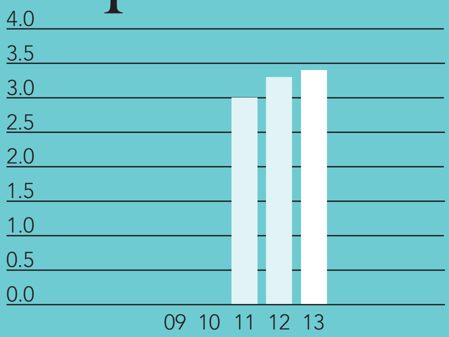
Profit before tax

£154.0m



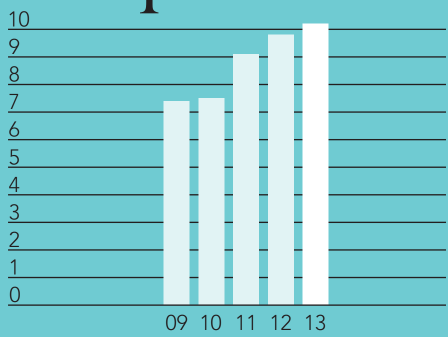
Dividend per share

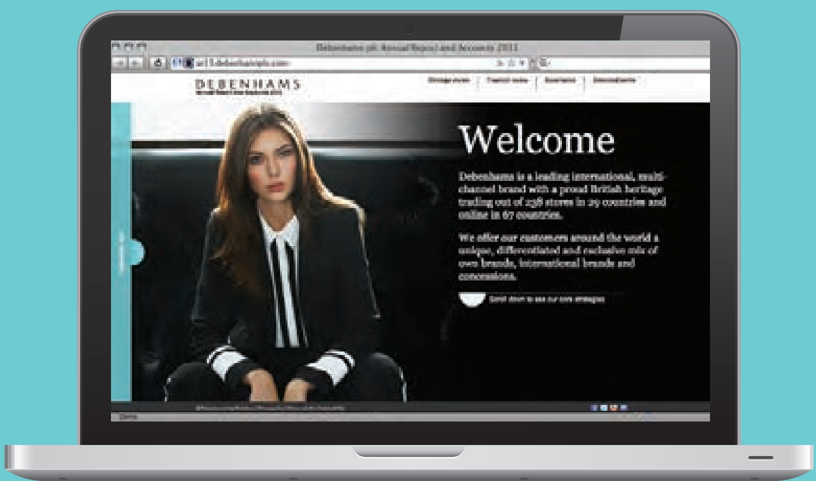
3.4p



Basic earnings per share

10.2p





To view our online report visit: **ar13.debenhamsplc.com**

Note: All numbers for 2011 on a 52 week basis. Profit before tax is stated before exceptional items.

Who we are

Debenhams is a leading international, multi-channel brand with a proud British heritage trading out of 238 stores in 29 countries and online in 67 countries.

We offer our customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions.

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Committed to a sustainable future

We have changed the way we talk about sustainability in this year's annual report in order to reflect better our approach. Rather than a separate report, sustainability is embedded in the strategic report because this is how we approach it as a business. For Debenhams, sustainability is part of everyone's role.

Chairman's letter
Focusing on what we do best

Ensuring we have robust governance processes in place is one of the important aspects of my role as your chairman.

Dear shareholder

2013 was a year of progress for Debenhams in many ways. Despite an extremely difficult trading environment, we focused on what we do best: giving our customers outstanding, innovative products and excellent service across all channels and geographies. As a result, we achieved increases in like-for-like sales and market share as well as growth in earnings per share.

December 2013 marks the bicentenary of the Debenhams name appearing on the British high street... We have endured by focusing on our customers and anticipating and adapting to their needs.

One of the most exciting projects undertaken in 2013 was the transformation of Oxford Street into our international flagship store (read more about this on page 10). The work will be completed during the first half of the 2014 financial year, in time for peak trading. I would encourage everyone who has the opportunity to visit the store to do so. The store modernisation programme has also continued elsewhere in the UK estate in line with our aspiration for all our customers to have a modern and contemporary place to shop.

Amongst the many benefits that we believe the transformed Oxford Street will bring is its role as a beacon for international expansion. Debenhams is one of very few department store concepts that has translated successfully into international markets. In 2013, international sales accounted for nearly 19% of Group gross transaction value and we expect this to continue to grow in future years.

Capital allocation continues to be an important issue for both the board and our shareholders. We have clear priorities for cash, the first of which is to invest in the business to deliver long-term, sustainable growth and you can read more about our capital expenditure in 2013 on page 40. Our second priority is the dividend and the board has recommended a final dividend for 2013 of 2.4p, taking the total dividend for the year to 3.4p, an increase of 3%.

Innovation is reflected in every part of our business, whether product development or making shopping easier using multi-channel technology. This is why we have followed the early adoption of some of the new BIS regulations on corporate reporting where the strategic report is followed by a directors' report, a corporate governance report and the remuneration report, which sets out both the remuneration policy and how it has been implemented. The financial statements follow this section. Although the regulations come into force after our year end, the demand for more context and a more holistic presentation of a company and its direction is consistent with our commitment to shareholders to operate an integrated and transparent business. Another change we have made is embedding our approach to sustainability throughout the report to show our commitment to having a sustainable business at every level.

Ensuring we have robust governance processes in place is one of the important aspects of my role as your chairman. You can read more about this in the corporate governance report starting on page 58. During 2013 we were delighted to welcome two new non-executive directors to the board. Peter Fitzgerald joined us in October 2012 and Stephen Ingham in January 2013.

We have changed the venue for the 2013 Annual General Meeting which will be held on 10 December 2013. We look forward to welcoming shareholders to our new head office located at 10 Brock Street, Regent's Place, London NW1 3FG. We moved in August and are already seeing benefits of having all our head office colleagues located in one purpose-built office for the first time.

December 2013 marks the bicentenary of the Debenhams name appearing on the British high street. During those 200 years our business has operated under many different structures and a myriad of different market conditions. Debenhams has endured by focusing on our customers and anticipating and adapting to their needs. We can only do this through the hard work and dedication of our people. As a board we do not take for granted the supreme effort that they make every day, especially in the difficult market conditions we have faced in the past couple of years. We thank each of them for the contribution they have made to Debenhams in the past year and look forward to success in 2014.

Nigel Northridge
Chairman

Committed to good governance

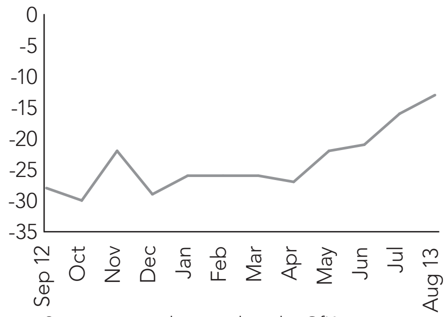
At Debenhams we are committed to high standards of corporate governance. We believe it is central to the continued strong performance of the business in a manner which is sustainable over the long-term and to maintaining the confidence of our shareholders.

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

See P55 for the Chairman's introduction to governance.

Market overview
Understanding the context

Figure 1: GfK Consumer Confidence Index



Source: research carried out by GfK on behalf of the European Commission

Figure 2: BRC-Springboard Footfall Monitor

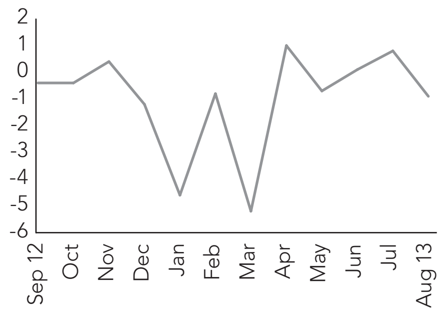


Figure 3: BRC-Nielsen Shop Price Index, clothing and footwear

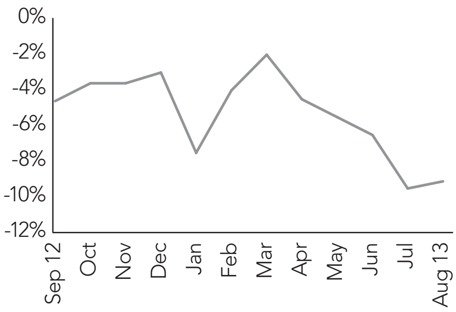
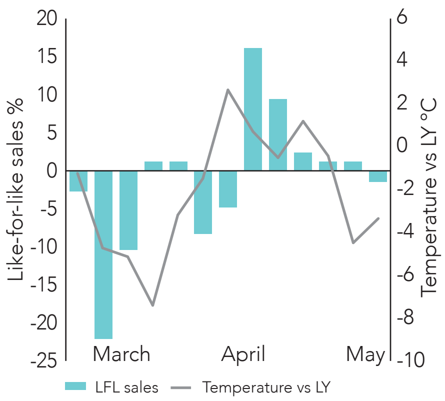


Figure 4: LFL sales and temperature chart



Q What was the wider market context that you operated in during 2013?

A The UK economy provided no benefit to the performance of the retail sector, including Debenhams, during 2013 even though a double dip recession was avoided. Inflation (CPI) was 2.7% in the year to August 2013. Consumers felt the impact of higher housing costs, food prices and fuel costs for their homes and vehicles which outstripped wage increases, resulting in a decline in real income (source: CEBR). Unemployment for the most recently available period (May to July 2013) remained high at 7.7% with many of the new jobs created during the year being part-time and/or at minimum wage.

Q Has there been any improvement in consumer confidence over the past year?

A Consumer confidence remained firmly in negative territory throughout the year (see figure 1), although there was some improvement in the last quarter with the GfK Consumer Confidence Index rising to its highest level in three years in August 2013. However, this has yet to drive any meaningful increase in retail sales. Nick Moon, Managing Director of Social Research at GfK, explains the paradox of rising confidence but falling real income thus: "The explanation probably lies in the fact that there has been a steady flow of economic good news over the past few months showing the economy growing – however anemically – and even the double dip recession revealed by revised ONS figures never to have existed. With these figures receiving far more prominence than reports about declining real incomes, it is perhaps not surprising that people react to all this good news by declaring themselves more optimistic."

Q What were the key market trends in 2013?

A The key trends centred around the growth in multi-channel shopping and the implications for both store and non-store sales. Overall market expenditure on clothing/footwear/accessories in the UK grew by 0.4% whilst online expenditure grew by 14.1%. Market data demonstrated a high degree of volatility throughout 2013 as evidenced by the BRC-KPMG Retail Sales Monitor. High street footfall remained under pressure as illustrated in figure 2 which in particular highlights the snow in January and prolonged cold snap in March. Shop vacancy rates remained high (estimated to be at 14.1% by the Local Data Company in June 2013), driven by a number of high profile exits. These factors, as well as the very cold spring, meant that the market remained highly competitive with discounts at elevated levels throughout 2013. This is evidenced by the BRC-Nielsen Shop Price Index (figure 3) which shows deflation in the clothing and footwear sector for the entire period, accelerating in the final months of the year as retailers sought to clear stock that remained unsold due to the cold spring. The deflation of 9.7% in July 2013 was the deepest since the series commenced in December 2006.

Q How did those trends affect Debenhams?

A Debenhams continued to take advantage of the shift into multi-channel shopping and our online sales grew well ahead of the market. We are making our stores more compelling places to shop through the modernisation programme, improving store standards and services and enhancing their role as a key channel in the multi-channel environment. We adjusted our promotional strategy in line with the highly competitive sector which impacted gross margin in the first half.

Q How did the adverse weather influence Debenhams' sales?

A We were affected by adverse weather in two ways during the year. First, in the last two weeks of January widespread snowfall across the UK impacted the ability of customers to visit our stores. As this is a key trading period for Debenhams, coinciding with the final weeks of the important post-Christmas sale period, it resulted in a significant reduction in sales volumes. We were unable to recover all of those lost sales during February which impacted the profitability of the UK segment, and in turn the Group, during the first half of the year. In addition, the coldest spring weather for 50 years resulted in depressed demand for spring/summer clothing in the UK, leading to highly volatile sales patterns, especially during March and April. This volatility is illustrated in figure 4 which plots our weekly like-for-like sales change against the average UK temperature compared to the prior year during March, April and May.

Debenhams continued to take advantage of the shift into multi-channel shopping and our online sales grew well ahead of the market.

Q How are the economies in your international markets performing?

A With activities in 28 different international markets, it is not surprising that we have seen a range of economic conditions. In the countries where we own stores, the Danish economy has shown signs of resilience whilst the Republic of Ireland remains weak.

In terms of our most important franchise market, the Middle East, there has been a narrowing in the economic performance of oil exporters and oil importers as the growth in the former moderates and the latter experience a modest recovery. The Cypriot banking system has recovered from the crisis seen in the spring of 2013, although we continue to monitor the performance of our franchise stores in Cyprus closely.

Independent market analysis

The changing nature of retail – Maureen Hinton, Research & Analysis Director, Verdict Research

Retail is entering a new era. Because of technology, the living room is becoming our favourite shopping location rather than the high street. The ease of shopping from our sofas, using our mobile devices, has replaced the need to visit shops. That said, physical stores still have a place in our shopping habits, albeit a different one from the past.

Technology, firstly through the internet, and now via the usability of tablets, has completely changed the way we shop. The combination of online researching, ordering and buying has become an integral part of how we purchase items now. The outcome of this changing technology is that the power has shifted from retailers to consumers; we live in a demand-led environment rather than the traditional supply-led one where a retailer only had to open another shop to increase its sales.

Crucially online shopping means shoppers are able to compare products and prices quickly and easily, therefore the importance of product relevance and differentiation has become even more vital. Having a completely integrated omni-channel operation, with fast delivery and outstanding customer service, is meaningless unless you have products people want to buy.

Furthermore, despite the signs of economic recovery, household budgets will continue to be squeezed as earnings lag behind price inflation for at least another couple of years. The result is that consumers will carry on being cautious with their spending and will be looking for value at all price levels. Therefore the pressure is even greater for retailers to offer products that will entice customers to spend.

Meanwhile the website is increasingly becoming the first point of contact a retailer has with its customers and there is very little time to make an impact on those visitors. It must appeal instantly, be fast, easy to navigate and relevant, to keep potential customers on site and convert them into buyers.

The result is even greater pressure on retailers. Apart from the demand for unique products, they have to adapt to a far more complex distribution model to satisfy customers' delivery and service requirements and retailers are no longer competing on a national level – they face global competition.

Despite the shift online (and we at Verdict expect online sales to be worth £50 billion by 2018) physical stores are still an asset but the nature of those stores is changing. Local convenience stores have been given a boost by becoming collection points for other retailers' products ordered online, while the growing attraction of click and collect as the preferred delivery/return option has given a boost to online sales and gets consumers into stores to pick up products.

But for the large multiples, having a store in every conurbation to pull in maximum footfall is no longer necessary, or profitable. Instead retailers are creating flagship hubs that showcase products and provide a customer experience that fulfils more than a shopping need; they also entertain. These are aligned with smaller concepts, which are just as likely to be affiliates, for collection and ordering points.

So while technology is making it easier for the consumer, for retailers life will continue to be challenging.

Market overview continued

Suzanne Harlow, Group Trading Director, and Ross Clemmow, Director – eCommerce, discuss our market share performance offline and online during 2013 and the ways in which what we sell and how we sell it are becoming increasingly co-dependent.

Where did you see the strongest market share growth during 2013?

Suzanne: We gained market share in all our key categories. Total clothing/footwear/accessories share increased by 20 basis points to 4.9% and included growth in womenswear (up 10 basis points to 5.3%) and menswear (up 60 basis points to 5.0%). Childrenswear share was flat at 3.1% but we started to see positive momentum in the last months of the year. In non-clothing categories, we continue to consolidate our strong market position in premium beauty. Our share of the homewares market grew, as did our furniture share.

How did your online market share growth compare with your overall performance?

Ross: Across the board, our online market share grew ahead of our total share. For example our total clothing/footwear/accessories online share increased by 70 basis points to 3.6%, with womenswear up 80 basis points to 3.9% and menswear up 60 basis points to 2.9%. Childrenswear online share is already ahead of our total share in this category and gained 10 basis points to 3.8% in 2013. We are very pleased with this performance and it demonstrates the significant opportunity for sales growth from closing the gap between total share and online share.

How did Debenhams' online performance compare with the market?

Ross: Our online sales grew by 46.2%, more than three times faster than the overall market which grew by 14.1%. Online sales as a percentage of our total sales increased from 9.3% in 2012 to 13.2% in 2013.

What are the main product areas where online is creating a real opportunity for Debenhams?

Suzanne: There are opportunities in all product categories, including those in which we already have a successful instore business and others where online provides a conduit for category extension. A good example is how online has revolutionised our ability to sell furniture. Our stores are generally too small to have anything but a token offer but online, supplemented by the home catalogue which we introduced in 2011, has led to our furniture sales more than doubling over the past three years. In clothing, online is allowing us to consolidate our strong position in areas such as occasionwear dresses and to meet demand for peripheral sizes in men's big and tall suits and in lingerie where some products may come in up to 48 size options. It also makes international brands which have only limited store presence available to all customers. Examples include beauty brands such as MAC and footwear brands such as Clarks.

How is the availability of other channels influencing how you stock your stores?

Suzanne: We are following the trend of how customers are choosing to shop areas such as homeware. Online penetration of homeware is one of the fastest growing categories in the market as customers take advantage of the convenience of having heavy or bulky items delivered to home. So we are reducing the space we give to homeware in store and increasing our offer online so it is now some 40% larger than the store offer.

Why is a wide choice online so important?

Ross: Whilst customers know that the instore offer is limited by the physical size of their local store, they expect online to have elastic walls. We need a wide choice to meet this expectation. But choice is also important because it drives natural search, thereby reducing the reliance on paid search and lowering the cost of customer acquisition. This is one of the ways we are seeking to improve the economics of our online business (you can read more about this on page 9). Our online choice is a third larger than that in our biggest store and five times larger than a small store.

What were the key multi-channel trends in 2013?

Ross: In terms of channel, 2013 was all about mobile and in particular tablets. In 2013 we saw a 5% increase in visits and 7% increase in sales through desktops whilst for tablets these were 205% and 238% respectively. Overall, tablets accounted for 19% of online sales in 2013 compared with just 7% in the prior year.

What should we be looking out for in 2014?

Suzanne: Having a unique and differentiated product offer will be more important than ever to give customers a compelling reason to shop with us and to reduce our exposure to online price comparison. We will therefore continue to focus on developing our core and designer own brands. As part of this we are investing in sourcing to reduce lead times, increase efficiency and improve both pricing and quality.

Ross: As Maureen Hinton from Verdict suggests in her commentary on page 5, the digital channel shift will clearly continue. We are ready to take advantage of this. Mobile will continue to be very important, powered by growth in tablet usage. We may even see a slowing of smartphone growth. The work we are doing to create a single customer view will start to allow us to communicate with customers in a tailored way and to offer them specific incentives that match their purchasing habits. A wider range of delivery options will be available in time for peak trading and we will be continuing to develop a single view of stock to improve availability and widen delivery options further.

Strategy

Chief Executive's strategic review
An interview with Michael Sharp

Michael Sharp talks about how we performed during 2013, the key challenges we are facing, how we are addressing those challenges through our strategy to build a leading international, multi-channel brand and how we are ensuring the long-term viability of our business.

Q Can you summarise your strategy for Debenhams?

A Our strategic goal is to create sustainable value through building a leading international, multi-channel brand. There are four pillars to this strategy: (1) focusing on UK retail, (2) delivering a compelling customer proposition, (3) increasing choice and availability through multi-channel and (4) expanding the brand internationally. I first articulated this strategy when I became Chief Executive in the autumn of 2011 and we are focused relentlessly on its execution.

Q What were your highs and lows of Debenhams' performance in 2013?

A I believe we made some solid progress in 2013 against the backdrop of a very tough environment characterised by weak consumer sentiment, a highly competitive marketplace and unhelpful weather conditions. We were clearly disappointed and frustrated by the impact of widespread snow during the crucial January sale period on our profitability in the first half of the year but I believe we did everything we could to mitigate its effect.

I was particularly pleased by our market share performance during the year. We gained share in key product categories and saw good growth in areas which we had particularly targeted for share growth, such as footwear where we gained share in women's, men's and children's shoes.

Our multi-channel business continued to grow well ahead of the market with online sales up 46.2% compared with market growth of 14.1%. We are on track to meet our medium-term online sales target of £600 million.

Retail in the UK is undergoing a profound change due to the channel shift between stores and online. We are addressing this challenge through the four pillars of our strategy.

Q **What are the key challenges you are facing in 2014 and beyond?**

A Retail in the UK is undergoing a profound change due to the channel shift between stores and online. The resultant decline in store footfall in addition to cost inflation means that store costs are growing faster than store sales, putting store profitability under pressure. The four pillars of our strategy are helping us to meet this challenge. By focusing on UK retail in the first pillar, we are managing store costs very closely and making prudent investment in core stores through the store modernisation programme. By driving sales and improving the economics of our multi-channel business in the third pillar, we are seeking to fill the gap in store profitability by building on our strong multi-channel credentials. Growth in profitability will come through expanding the brand internationally which is the focus of the fourth pillar of the strategy.

Q **What are you doing to address declining store profitability in the UK?**

A We are undertaking a number of initiatives. These include the own brand sales density trials in key womenswear brands Red Herring and Principles by Ben de Lisi as well as women's footwear which have shown some useful results in their first season and have therefore been continued into autumn/winter 2013. We are also reconfiguring stores for multi-channel through, for example, enhanced Click & Collect facilities. The model store programme to improve store standards is now well established and we are seeing results in terms of better product presentation and visual merchandising.

The current store modernisation programme commenced in summer 2010. Since then, 44 stores have been upgraded, including 12 in 2013. Our thorough planning and execution process results in modernisations delivering a strong IRR of c.15% with a sales uplift of c.6.0% in the first year post-modernisation.

Looking further ahead, we are conducting an estate-wide space review to ensure all space in being used in the most profitable way.

Q **Why do you believe it is right to open new stores in the UK given the channel shift?**

A Stores are an important part of our ability to meet customers' demands for multi-channel shopping and will remain our largest single sales channel for the foreseeable future. Our contracted store pipeline currently stands at 16 stores with four opening in each of the next four financial years. New stores have shorter lease lengths than existing stores, many with break clauses and capped rent reviews. They are configured for multi-channel services such as Click & Collect and at the same time emphasis is placed on hospitality and other services which cannot be replicated online to drive footfall. We know that there is a strong correlation between the opening of a new store and online sales in a particular area. You can read more about our experience in Chesterfield on page 19.

Let's not forget that we have a track record of delivering strong financial returns from new stores. The 37 stores opened in the past seven years have generated a return on investment averaging c.40%.

Q **How can you improve the economics of your multi-channel business?**

A The two main costs associated with multi-channel are customer acquisition and fulfilment. The first is principally around search. We have done a great deal of work to optimise paid search and measure the return on the words and phrases that we buy. We are now turning our attention to optimising natural search which can reduce the cost of customer acquisition significantly. Taking advantage of the growth in shopping through mobile devices is also an important tool to lower costs, particularly through apps which allow for communication through push notifications. Fulfilment principally comprises picking, packing, despatch and delivery. In the past year we have brought all fulfilment of all own bought products in-house through our two national distribution centres. We will see increased efficiency in fulfilment as we grow online sales towards our medium-term target of £600 million. We are also making changes to our delivery options which will enable us to recover a higher proportion of our fulfilment costs through offering next day delivery for a premium fee and raising the threshold for free standard delivery. The changes will be fully operational in time for Christmas 2013.

Chief Executive's strategic review continued

Transforming Oxford Street

The transformation of our Oxford Street store in central London into our international flagship is proceeding to plan. The entire store is being modernised, inside and out, including an innovative architectural facade and the addition of a new seventh floor of trading space. Working with leading retail design consultancy Dalziel & Pow, we are creating a store which redefines Debenhams in Oxford Street and beyond. We are building on our brand strengths and strong customer base to create a vibrant and relevant concept which brings personality, fashionability and quality to the shopping experience.

The interior will be completed in time for peak trading in 2013. A phased reveal of the facade commenced in September 2013 and will be completed in the spring of 2014.

Q You have been quoted in the past as saying that product is the lifeblood of your business. What new initiatives are you undertaking to ensure your product offer meets your customers' expectations?

A Our proposition is more relevant today than it ever has been and we are redefining the department store to meet the changing behaviour of today's consumers. Our product offer is unique through its combination of credible own brands (including Designers at Debenhams), international brands and concessions. It is differentiated by our multi-category and multi-brand approach which sees each brand clearly targeting a defined customer group or end use. And it is exclusive through our core and designer own brands which account for some 50% of everything we sell. These characteristics will continue to inform our product and brand strategy.

Designers at Debenhams lies at the heart of our own brand offer. New designers include our first new menswear designer for ten years Patrick Grant, Todd Lynn in womenswear and Stephen Jones in women's accessories.

Q What form do you expect international expansion to take?

A We use a different approach for different international markets – owned stores, franchise stores and online – which provides flexibility and matches our appetite for risk. We have owned businesses in Denmark and the Republic of Ireland which are a key part of our international division but I do not envisage opening owned stores in any other countries at this time. The majority of international growth will come from franchise stores and online which are lower cost, lower risk routes to take advantage of the demand we see from international customers. Our target for franchise stores is 150 in five years' time. There are 24 stores in the pipeline, starting with seven in 2014. New markets are likely to be those with a growing mid-market demographic where the department store market is under-represented. We are also seeing very strong growth in our international online activities, albeit from a low base.

Q You employ thousands of people directly in the UK and internationally with many thousands more working in your supply chain and franchise stores. What are you doing to ensure their wellbeing?

A We fully recognise the importance of our people to the success of our business and how vital it is to attract, retain and develop the very best talent in the industry. We are committed to ensuring the wellbeing of everyone connected with Debenhams. We want to make Debenhams a great place to work and to this end undertook our first ever employee engagement survey in the UK and Irish businesses during 2013 which all employees in our stores and head office were invited to take part in. The findings were extremely interesting and have influenced our thinking in a number of important areas. The survey will be repeated annually and its results have been adopted as a KPI of the Group (see page 33).

As members of the Ethical Trading Initiative since 2001, Debenhams has been working for many years to ensure those who work in our supply chain are treated fairly, with respect and dignity, and work in a safe environment. We shared the widely felt shock and horror of the Rana Plaza incident in Bangladesh on 24 April 2013. Debenhams did not source from that facility but we, along with many other retailers, have become a signatory to the accord agreement to help prevent another tragedy. The accord, which has been written by the European trade union IndustriALL, creates a unified retail collaboration to develop and implement a way to assess building and fire safety. The agreement binds all signatories to approach the way in which they assess factories in a new, positive light. The accord also sets a precedent for retailers to support a factory and its employees in the event it is deemed unsafe. The signatories also support unionisation of the factories by IndustriALL, continuing to support collaborative bargaining and freedom of association. It has been our long-standing practice that all our suppliers must adhere to our Supplier Code of Conduct and we conduct a full programme of monitoring, including auditing, and conduct regular unannounced factory visits across our supply chain.

Celebrating 200 years

In December 1813, William Debenham invested in a drapery business run by William Clark to form Clark & Debenham. We will be celebrating the bicentenary of the Debenhams name appearing on the British high street in many ways over the coming year.

DEBENHAMS
200
1813 – 2013

Read more about our KPIs
P32-33

Q Debenhams will celebrate its 200th anniversary in the 2014 financial year. What do you need to do to ensure the long-term viability of the business?

A Debenhams has prospered for the last 200 years by putting customers at the heart of everything we do and adapting to their changing needs and the wider market environment. Through our strategy, we are evolving from an operator of UK department stores to an international, multi-channel brand which can deliver sustainable value over the long-term. Supporting the four pillars of our strategy, and key to this evolution, are what I refer to as three enablers: people, supply chain and systems. I have already talked about how important our people are to us. Supply chain connects the business to its customers and includes sourcing and logistics. In terms of sourcing, we are working to improve speed to market and to become both more flexible and more efficient. We are changing our logistics activities to meet the needs of an international, multi-channel business and its customers, for example widening the range of delivery options available to online customers in the UK and shipping product direct from suppliers in China to our largest franchise partners. We are investing in our systems capabilities across the four pillars. I would highlight in particular the work we are undertaking to give us a single view of the customer which will give us a deeper understanding of our customers' behaviour and allow us to use that understanding to give customers a more personalised and relevant experience. Successful execution of the four pillars and the three enablers are therefore key to ensuring Debenhams' long-term success.

Q What is your outlook for the year ahead?

A We continue to deliver growth and additional customer benefits through our strong multi-channel capabilities. At the same time, we are working hard to ensure our UK stores adapt to the challenge of their changing role in a multi-channel world.

Looking ahead, we remain confident in our strategy and are excited about the upcoming November relaunch of our global flagship store on Oxford Street which coincides with the celebration of Debenhams' 200th anniversary.

More widely, whilst consumer confidence may be showing signs of improvement, we expect that household incomes will remain under pressure from inflation growing ahead of wage increases. We therefore remain cautious about the strength and pace of any consumer recovery in 2014 and expect the marketplace to remain highly competitive.

Michael Sharp
Chief Executive

Business model
Understanding our approach to business

Who is our customer
A family department store with something for everyone

We put our customers at the heart of everything we do. We are a family department store that operates at the heart of the community. Our customer base reflects our family orientation, spanning a broad range of age groups and demographics in line with the markets in which we operate. Our breadth of appeal is a key strength.

Customer profile by age

Age group	%
18-24	12
25-34	22
35-44	21
45-54	18
55-64	13
65+	14

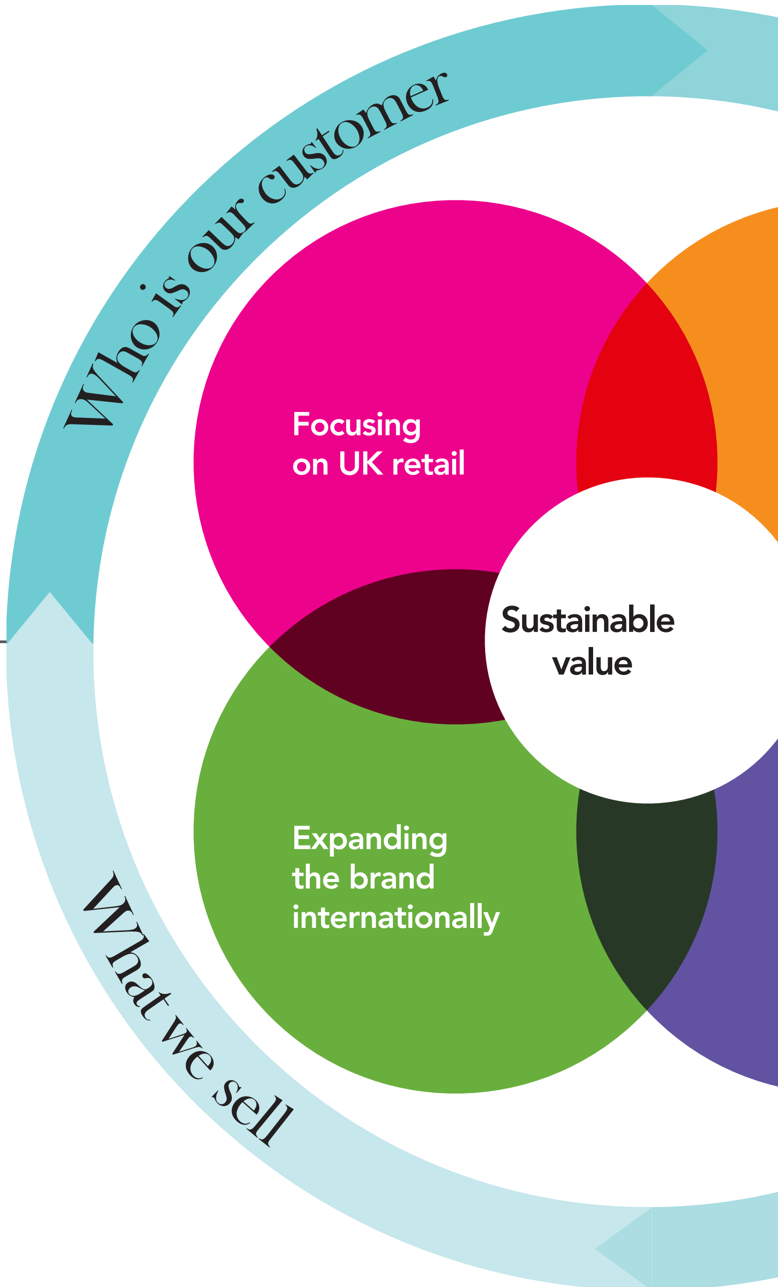
Customer profile by demographic

Demographic	%
AB	33
C1	32
C2	22
DE	13

Governance

Good governance is about responsible and effective management, demonstrating honesty, transparency and accountability.

Read more P55



What we sell
A unique, differentiated and exclusive proposition

Our proposition is unique through its combination of own brands, designer brands, international brands and concessions. It is differentiated through being both multi-brand and multi-category, with each brand clearly targeting a defined customer or end use. And it is exclusive through our core and designer own brands which account for nearly half of everything we sell. Our offer also provides balance and resilience through its 50/50 mix of clothing and non-clothing sales.

Sales by brand type

Brand type	%
Core own brands	28.4
Designer own brands	16.9
International brands	31.4
Concession/ consignment	23.3

Sales by category

Category	%
Womenswear	17.4
Menswear	13.5
Childrenswear	9.4
Lingerie	6.3
Accessories	14.0
Beauty	23.3
Home & furniture	12.0
Food services	3.3
Other	0.8

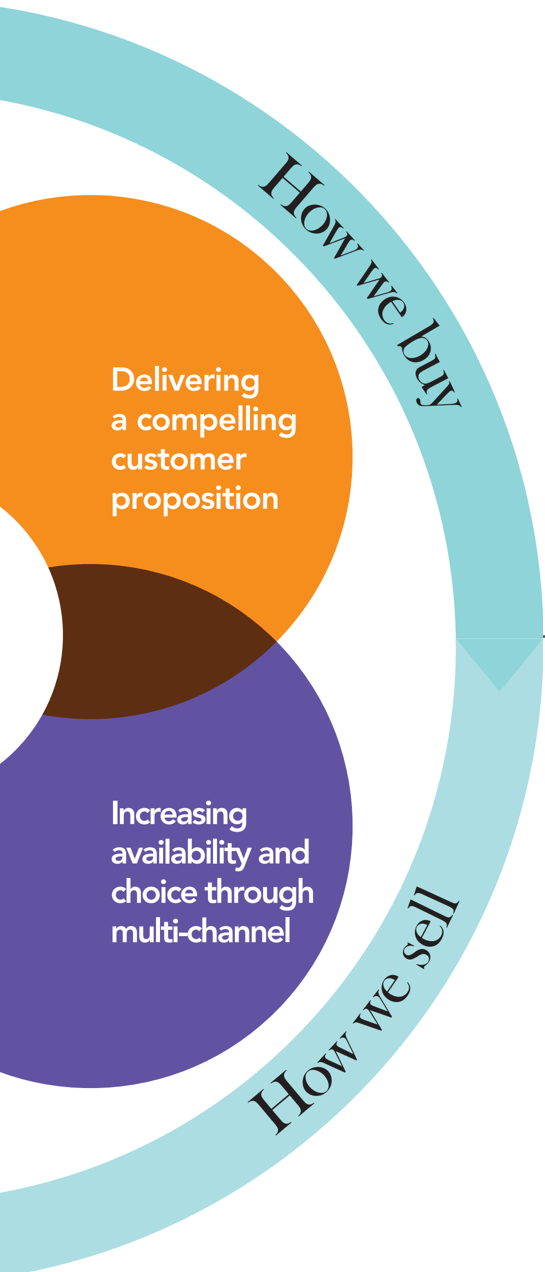
KPIs

The board assesses the performance of the business on a range of financial, strategic and sustainability key performance indicators.

Read more P32

A sustainable business

Sustainability is embedded into everyone's role. We have a deep understanding of the benefits of adopting sustainability measures.



How we buy

A diverse supply chain

Our sourcing strategy is based on "right product, right country". Our many years of direct sourcing have resulted in long-standing relationships with suppliers around the world. This helps us to meet our customers' expectations that every one of our products is manufactured in a factory that is socially ethical and quality assurance compliant.

Own brand sourcing by country

Country	%
China/Hong Kong	47
India	12
Bangladesh	10
Vietnam	6
Romania	5
Turkey	5
Other	15

Own brand direct vs indirect sourcing

	%
Direct	67
Indirect	33

How we sell

Giving customers more ways to browse, discover and buy

We are meeting the expectations of our customers around the world for more ways to shop. Stores will remain the largest sales channel for the foreseeable future and the Debenhams brand currently trades through 238 stores in 29 countries. Non-store sales channels are growing quickly and accounted for 13.2% of GTV in 2013. These include online, mobile, catalogues and telephone ordering. An increasing number of customers are enjoying a multi-channel shopping experience through which a single purchase uses two or more channels.

Sales by segment

	%
UK	81
International	19

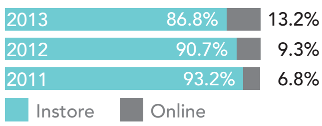
Store numbers

	No
UK	156
International – Denmark	6
International – Ireland	11
International – franchises	65

Sales by channel

Channel	£m	%
Store (UK and international)	2,410.5	86.8
Online (UK and international)	366.3	13.2

Sales by channel trend



Remuneration

We are committed to a remuneration policy that contributes to the continuing success of our long-term strategy.

Read more P67

Strategy at a glance
Building a leading international, multi-channel brand

Focusing on UK retail

Strategic priorities
- Addressing the challenge of lower footfall
- Continued investment in store modernisations
- Opening new stores to grow sales and market share

Performance 2013
- UK like-for-like sales under pressure in highly competitive market
- 12 stores modernised
- Transformation of Oxford Street into international flagship on plan
- Model store programme to improve instore standards now well established
- New stores in Chesterfield and Lichfield, adding 75,000 sq ft of new space
- New store pipeline stands at 16 over next four years

Challenges in delivering
- Highly competitive marketplace, weak consumer environment
- Declining high street footfall due to channel shift to online
- Ongoing inflation in store costs
- Limited availability of sites for new stores

Sustainability in action
- Store waste reduced by 200 tonnes, 91% diverted from landfill
- New building management system providing better data on electricity usage
- Increasing use of rail transport from distribution centres (DCs) to Scottish stores; 20% of inbound freight containers now shipped to Sherburn DC by rail
- All faulty/damaged products collected by charity partner for repair and resale
- Store charitable work now consolidated into the Debenhams Foundation

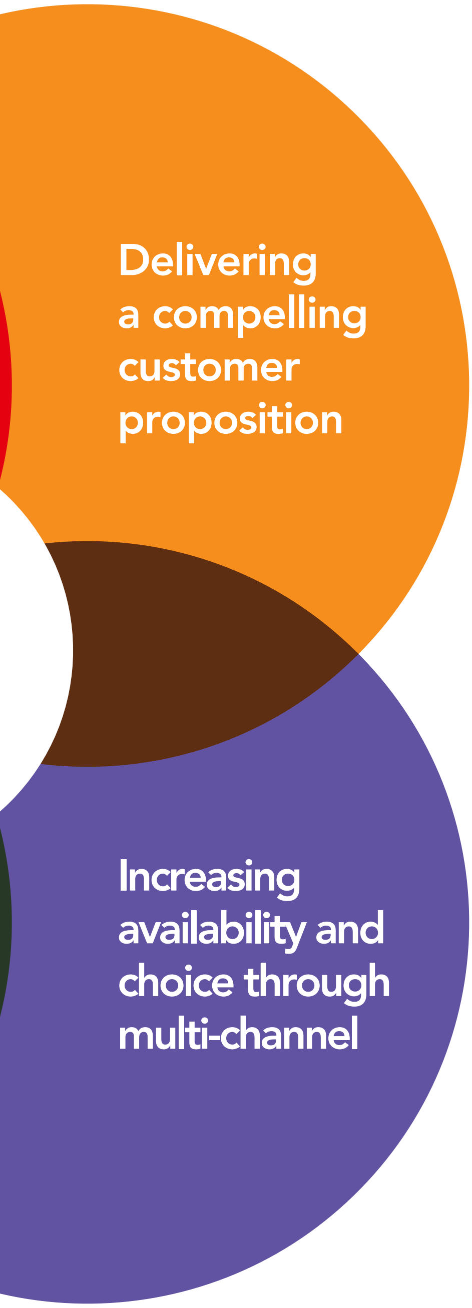
Expanding the brand internationally

Strategic priorities
- Increasing the number of international franchise stores
- Growing sales from owned international assets
- Expansion of international online

Performance 2013
- Six new franchise stores opened in year, including two new markets, and 12 stores closed
- Good performance from Magasin du Nord with like-for-like sales up 7.2% in DKK, 6.0% in GBP
- Magasin website operational since September 2012
- International online growing quickly from a small base, delivering to 66 countries outside the UK
- Awarded "International Growth Initiative of the Year" for overall international expansion

Challenges in delivering
- Essential to have right franchise partner in each market
- Successfully managed Cypriot banking crisis but ongoing monitoring of performance
- Republic of Ireland market continues to be a challenge
- How to gain momentum for online in markets where we have no store presence

Sustainability in action
- Overseas distribution hub in Singapore now fully operational, generating cost savings, lower emissions, better working capital usage and freeing up capacity in the UK DCs
- Strong response rate from employees in Republic of Ireland in employee engagement survey



Delivering a compelling customer proposition

Strategic priorities

- Developing our brand and product strategy
- Communicating the proposition under our "Life Made Fabulous" campaign to drive sales and improve brand perception

Performance 2013

- Market share growth in key product categories
- Sales density trials in womenswear showed useful results
- New Designers at Debenhams include Stephen Jones, Patrick Grant and Todd Lynn
- First Christmas brand advertising campaign for six years
- Brand awareness at all time high
- Single customer view launched to enable more personalised communication

Challenges in delivering

- Safeguarding sustainability of supply chain including need for more flexibility and shorter time to market
- Ongoing cost price inflation due to higher labour rates in Asia
- Ensuring effectiveness of brand and marketing programmes

Sustainability in action

- New third party supplier monitoring partners appointed
- Signatory to Bangladesh accord (read more on page 10)
- Ethical compliance team strengthened in UK, Hong Kong and Bangladesh
- Bangladesh sourcing office opened
- Increase in number of unannounced factory visits

Increasing availability and choice through multi-channel

Strategic priorities

- More choice, made easy to choose and easy to get
- More ways to browse, discover and buy
- Shopping experiences that recognise, reward and put customers in control

Performance 2013

- Strong growth in online sales, up 46.2%, representing 13.2% of total sales
- Online market share up 70bps to 3.6%
- Visitors up 36% to 241 million
- Sales from mobile devices up over 200%
- All own bought fulfilment brought in-house
- 270bps reduction in UK online costs as percentage of sales due to scale and efficiency improvements
- Awarded "Retail Technology Initiative of the Year" for Endless Aisle

Challenges in delivering

- Recovering higher proportion of fulfilment costs
- Optimising natural search to reduce cost of customer acquisition
- Offering enhanced range of delivery options
- Providing additional payment methods

Sustainability in action

- Number of parcels per order reduced as all own bought fulfilment in-house, reducing parcel miles and delivery costs
- Increasing number of Click & Collect parcels are being transported to stores on our own fleet, reducing parcel miles for each delivery
- Working to reduce amount of packaging used in online fulfilment

Focusing on UK retail...

Our stores in the UK will remain our largest single sales channel for the foreseeable future although their role is changing. We are investing in the modernisation of older stores and building new stores in target markets where we can deliver an acceptable level of return. The case for new stores is clearly demonstrated by our experience in Chesterfield, one of two new stores opened during 2013.

Strategy in action

...The case for stores

Stores are central to our strategy but their role is changing. They are not only a physical point of sale for products which customers want to see, touch and feel. They are also a collection and return point for multi-channel orders and they unlock sales in multi-channel catchments.

We are investing in our stores to support multi-channel growth through new instore ordering points which focus on self-service and access to choice and giving our Click & Collect facilities a stronger presence, with new collection points and new branding for increased visibility.

The case for opening new stores is demonstrated by Chesterfield which trades from 45,000 sq ft on a retail park and opened in September 2012. It is a store that is fully configured to operate in a multi-channel environment.

In Chesterfield's first year we have seen sales in the local area more than triple. The store itself has contributed the largest portion of this growth. Importantly, other stores where our Chesterfield customers may have shopped prior to opening have seen only a limited amount of deflection, suggesting that the overwhelming majority of store sales have been incremental.

We have also seen online sales in the Chesterfield area double, which demonstrates the close correlation between store sales and online sales.

We are scheduled to open 16 new stores in the UK during the next four years, starting with four in 2014. Many of these are located on retail parks, just like Chesterfield. Lease lengths on these new stores are generally shorter than we would have signed in the past and those on retail parks usually have a break clause. These variations ensure we have sufficient flexibility to meet the changing role of stores in a multi-channel world.

Delivering a compelling customer proposition...

A key feature of our offer is the balance and resilience provided by a 50/50 split of sales between clothing and non-clothing categories. Non-clothing includes footwear, handbags, swimwear, men's accessories, homeware, furniture and our strong premium beauty offer which encompasses some of the world's leading brands. Like our clothing ranges, we offer customers a broad choice of own core brands, Designers at Debenhams, international brands and concessions across a good/better/best price architecture. Non-clothing is an area ideally suited to large space retailers like Debenhams and is also seeing very strong growth online.

Strategy in action

...Putting our best foot forward

One of the non-clothing categories which we are targeting for growth is footwear. We saw good traction during 2013 with our market share of women's, men's and children's footwear up 10bps, 40bps and 30 bps respectively.

There is plenty more to do and our ambition is to double our footwear share over the next five years by closing the gap between our footwear share of 2.6% and our clothing market share of 5.5%.

Our shoe offer has been transformed in recent years as we have developed own brand ranges. In particular we have expanded our Designers at Debenhams shoe choice, especially for women, as we seek to emulate the success that many of the luxury brands have achieved in accessories. We have also seen good results from the Faith brand which was acquired out of administration in 2010.

New third party brands have also been added to our offer, including the UK's leading shoe brand Clarks.

Footwear is a category that sells extremely well online, accounting for nearly 25% of all UK footwear sales (source: BRC-KPMG Online Retail Sales Monitor, August 2013). Our online footwear share increased by 100 basis points to 3.3% in 2013 and 32% of our total own bought footwear sales are now online. Footwear is a great example of how online is enabling us to widen our product and price ranges for all customers.

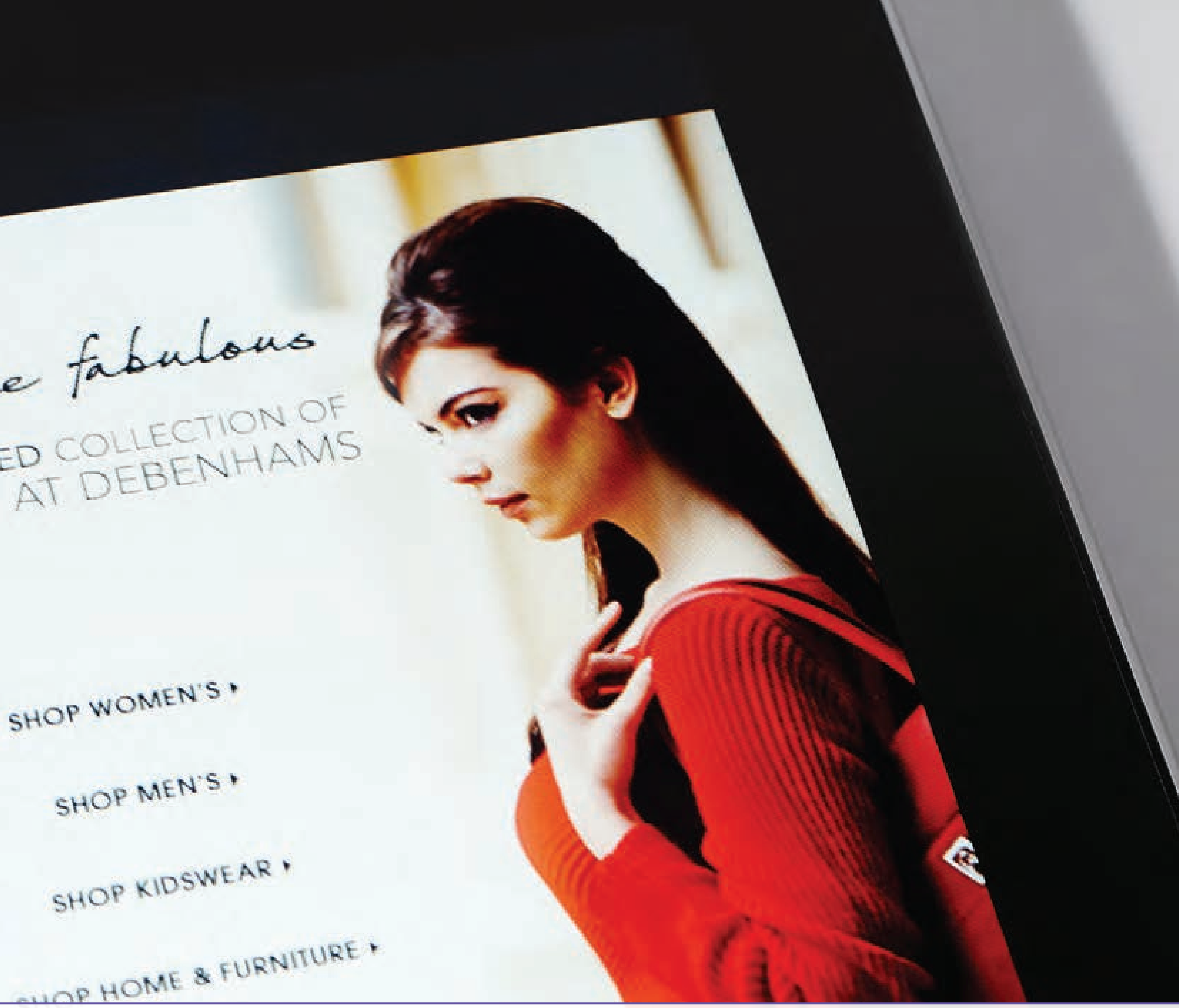
Our marketing campaign has been strengthened to support footwear more overtly – including a dedicated shoe and bag brochure for each new season.

Increasing availability and choice through multi-channel...

Our multi-channel strategy is predicated on "following the customer". Customers are firmly in control of the way they want to shop. We can't wrest that control from them so we must develop the most profitable way to provide the products and services they want. Fortunately we are very well positioned to take advantage of the growth of multi-channel because of who we are: our width of choice, our exclusive brands and the role all our channels can play – including our stores – in following the customer.

Strategy in action

...The rise of mobile



Our customers are increasingly "mobile". In 2013, 40% of our 241 million online visits came through tablets, smartphones and the instore ordering kiosks and these devices accounted for 25% of our £366 million online sales. Much of this growth came from tablets where visits increased by over 200%. Tablet customers also spend more, with the highest average order value of all channels. We have developed specific content for each mobile channel which reflects the part of the shopping journey customers use them for most.

Mobile is also important because it is more than just a direct sales channel. It can have a significant influence on sales through other channels, especially stores. Industry analysis suggests that for every £1 spent on mobile, a spend of a further £10 will be influenced instore. We help customers to use their mobile devices by providing free wi-fi in all our stores.

We actively encourage our mobile customers to engage with us through our suite of apps which have been downloaded more than 6 million times. We have won a number of awards for them and they have an average customer rating of 4 stars. Apps are important not only as a tool to make shopping easier but they can also reduce the cost of customer acquisition through the use of push notifications.

Looking forward, there are many ways that mobile will enhance our multi-channel offer even further. It has an important part to play in our planned developments for Click & Collect, for example by allowing customers to "check in" when they arrive in store to collect their parcel so we can have it ready for them.

Expanding the brand internationally...

The magnitude of the international department store market makes expansion outside the UK an attractive proposition for Debenhams and therefore an important strategic aim. We use a different approach for different markets, including franchise stores and international online sales. We also own stores in the Republic of Ireland and in Denmark through the country's leading department store chain Magasin du Nord which we acquired in November 2009.

Strategy in action

...Magasin du Nord

Magasin du Nord is a long established, well known brand in Denmark with strong customer awareness. Although it has a different customer base and product offer compared to our UK business, Magasin has benefited from leveraging the Group's expertise and experience in a number of important areas in the four years since acquisition, including sourcing, multi-channel and logistics. The business is now very profitable, having been loss-making when acquired, and delivered another year of strong sales growth in 2013.

Looking forward, we can grow sales and margins by introducing more Debenhams brands and developing the Magasin own label. Whilst Magasin will always have a lower penetration of own brands than the UK due to its more premium market positioning, we anticipate we can double the own brand mix over the medium-term.

We are investing in the Magasin stores including a substantial makeover of the flagship store in Kongens Nytorv in central Copenhagen and upgrades to the Aarhus and Odense stores.

Magasin also has the opportunity to become the leading online retailer in Denmark and even elsewhere in Scandinavia. Its trading website, www.magasin.dk, was launched during the course of 2013 and is already showing encouraging signs. A mobile site and app will be available in time for Christmas 2013. Multi-channel services such as click and collect are also under development.

Key performance indicators
Measuring our progress

Key performance indicators
The board uses a range of KPIs to assess performance. These include strategic KPIs which measure how we are meeting the goals for each pillar of our strategy. Financial KPIs measure the overall performance of the business and are aligned with those commonly used by shareholders. Sustainability KPIs recognise the importance of non-financial metrics to all our stakeholders.

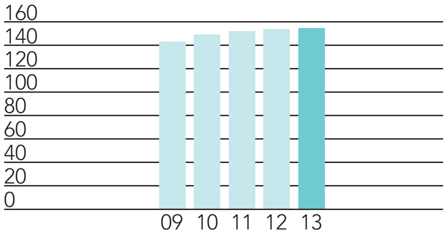
Directors' remuneration
Directors' remuneration is aligned to a number of KPIs. Profit before tax and like-for-like sales are metrics for the annual bonus. EPS is a metric for the Performance Share Plan. Please see the directors' remuneration report for details of all metrics related to executive remuneration.

Read more P67

Linked to executive remuneration

Strategic KPIs

Focusing on UK retail – number of UK stores



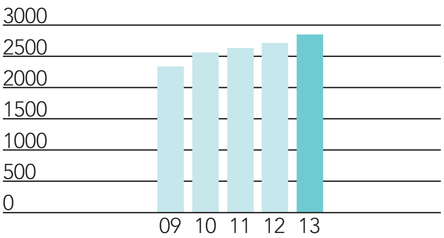
Definition
Opening new stores will continue to be a driver of sales growth as demonstrated by the example of our new Chesterfield store on page 19.

2013 performance
We opened new stores in Chesterfield and Lichfield taking the total to 156.

Looking forward
The UK store pipeline comprises 16 stores, four of which will open in each of the next four financial years.

Financial KPIs

Gross transaction value (£m)



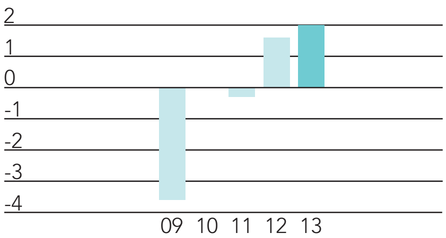
Definition
Gross transaction value (GTV) is a measure of overall sales in the business, including those from concession brands.

2013 performance
Group GTV increased by 2.5% with growth in both the UK (2.3%) and International (3.7%) segments.

Looking forward
We expect GTV to continue to grow as we build a leading international, multi-channel brand.

Like-for-like sales change (%)

Linked to executive remuneration



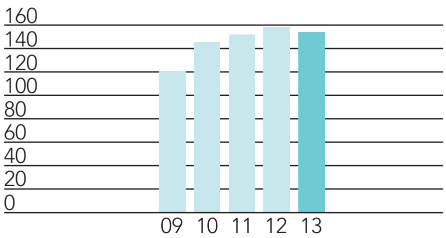
Definition
Like-for-like (LFL) sales is a measure of the annual performance of stores that have been open for at least one year.

2013 performance
Group LFL sales increased by 2.0%, building on the 1.6% growth achieved last year.

Looking forward
As in 2013, LFL sales will continue to be driven by online and international activities.

Profit before tax and exceptional items (£m)

Linked to executive remuneration



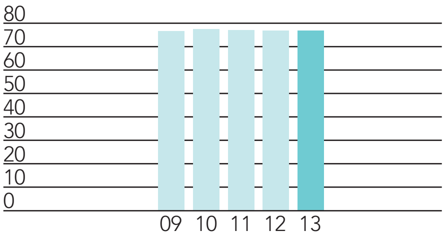
Definition
Profit before tax and exceptional items is our principal measure of profitability.

2013 performance
Profit before tax fell by 2.7%, largely due to the impact of poor weather in the UK during the first half as well a write-off related to closure of the Romanian franchise stores.

Looking forward
The board expects profit before tax to grow in the future.

Note: All numbers for 2011 on 52 week basis.

Delivering a compelling customer proposition – own bought sales mix (%)

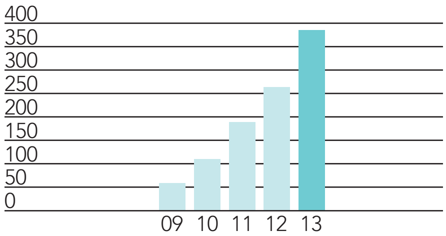


Definition
Own bought sales are a key component of our unique, differentiated and exclusive product offer, generating high margins.

2013 performance
Group own bought mix was flat at 76.7%. UK mix was 79.9% and International mix was 63.0%.

Looking forward
Own bought mix will grow gradually over time as we continue to develop our own brands.

Increasing availability and choice through multi-channel – online sales (£m)

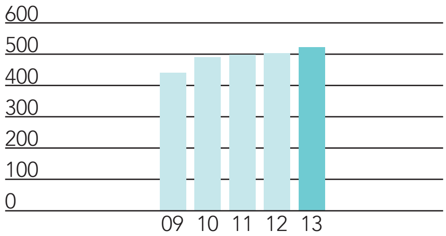


Definition
Online sales are a good indicator of the performance of our fast-growing multi-channel business. They include sales to customers in the UK and the 66 other countries to which we offer delivery.

2013 performance
Online sales increased by 46.2% to £366.3 million, 13.2% of total sales.

Looking forward
Our medium-term target for online sales is £600 million.

Expanding the brand internationally – international sales (£m)



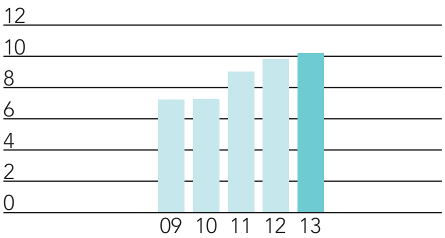
Definition
International sales comprise those from owned stores in Denmark and Ireland, the franchise stores and online orders delivered outside the UK.

2013 performance
International sales increased by 3.7% to £522.0 million, driven by growth in Denmark, the franchise stores and online.

Looking forward
Sales growth will continue to be driven by Denmark, new franchise stores and online.

Earnings per share (EPS) (pence)

Linked to executive remuneration



Definition
Basic EPS is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year (excluding shares purchased by the Company and transferred to treasury).

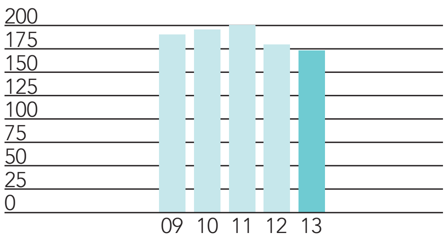
2013 performance
EPS increased by 4.1%, largely due to the share buyback scheme.

Looking forward
The board expects earnings per share to grow in the future.

Sustainability KPIs

Carbon emissions (000 tonnes)

New



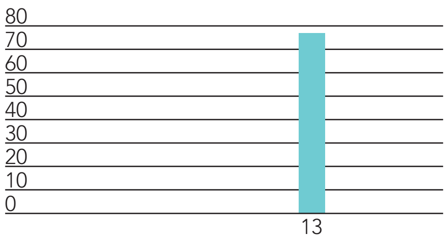
Definition
CO_2e is used as a measure of our environmental impact. It takes into account harmful emissions from the six greenhouse gases identified by the Kyoto protocol.

2013 performance
CO_2e fell by 3.7% due in part to continued investment in energy reduction.

Looking forward
We are aiming to continue reducing emissions. In 2014 the UK government is introducing mandatory greenhouse gas reporting.

Employee engagement (%)

New



Definition
During 2013 we conducted our first employee engagement survey, inviting all employees in our UK and Irish stores and head office to participate.

2013 performance
77% of the employees who participated feel engaged working at Debenhams. This will form the base for future surveys.

Looking forward
The survey will be repeated on an annual basis going forward.

Innovation
Leading the way in responsible retailing

Debenhams shows diversity is in fashion

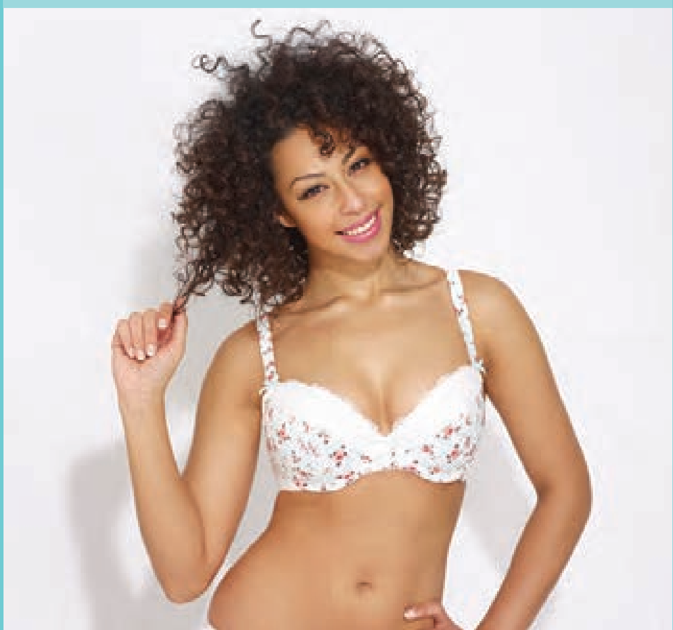
We have broken convention by becoming the first high street retailer in the UK to promote our latest fashion collection using models in a diverse variety of ages, size and looks.

The imagery features Kelly, who was born without her left forearm, Paralympian swimmer Stefanie Reid, size 18 model Jada, petite model Jess and a number of models aged over 40 including Valerie aged 69.

Fashion industry expert Caryn Franklin, who worked with us on the campaign, said: "I never underestimate the power of great clothes to bolster self-esteem or the impact of imagery that celebrates difference."

Debenhams vows not to retouch model shots

As part of our long-standing commitment to encourage positive body image, we use only minimal digital retouching because we know that the use of some digital techniques to create unrealistic body shapes can make women and men feel insecure about their natural looks and size. During 2013 we extended this commitment to our lingerie imagery and are now only using pictures which reflect the natural beauty of the models and help customers to feel confident about their own figures.



The Debenhams Foundation

The Debenhams Foundation was launched in 2012 to give us a clear focus for the money Debenhams customers, employees, designers and suppliers raise for good causes. A registered charity, the Foundation supports the charity partners that were chosen after we consulted our customers about what mattered to them most.

Since the launch of the Foundation, Debenhams has raised more than £1 million for Children in Need and the three breast cancer charities that sit under our "Think Pink" initiative: Breakthrough Breast Cancer, Breast Cancer Campaign and Pink Ribbon Foundation.

The first retailer to sign code of conduct for models

In May 2013, Debenhams became the first retailer to sign up to the Equity code for the fair treatment of models in all of our photo shoots, TV ads, PR imagery and photography for debenhams.com. The code provides assurances in relation to areas such as the maximum length of working hours, the provision of breaks and refreshments and the use of private changing areas. The move builds on our guidelines which ensure that no model under the age of 16 is used to represent an adult and that all female models must be at least a size 8. Model Dunja Knezevic who is Chair of Equity's Models Committee said: "Debenhams is not only positively employing models who represent the body image more typical of women but they are treating models with the same care as a good employer."

Financial review

Chief Financial Officer's report

Investing to support the four pillars of the strategy

Our close and careful management of all aspects of the business produced a good set of results despite the highly competitive market environment.

Figure 1: Financial summary

	52 weeks to 31 August 2013	52 weeks to 1 September 2012
Gross transaction value		
UK	£2,254.8m	£2,204.6m
International	£522.0m	£503.4m
Group	£2,776.8m	£2,708.0m
Increase in Group like-for-like sales	+2.0%	+1.6%
Revenue		
UK	£1,895.9m	£1,860.3m
International	£386.3m	£369.5m
Group	£2,282.2m	£2,229.8m
Operating profit		
UK	£139.8m	£144.3m
International	£28.2m	£30.7m
Group	£168.0m	£175.0m
Net interest	£14.0m	£16.7m
Profit before tax	£154.0m	£158.3m
Basic earnings per share	10.2p	9.8p
Diluted earnings per share	10.2p	9.8p
Dividend per share	3.4p	3.3p

We have a very clear order of priorities for capital allocation: to invest in the four pillars of the strategy; to pay a dividend to our shareholders; to reduce leverage over the medium-term; and to return any surplus cash over and above this to shareholders through a share buyback scheme.

Q **Can you summarise Debenhams' performance in 2013?**

A Our performance is summarised in figure 1. Our close and careful management of all aspects of the business meant that in a challenging market we delivered gross transaction value of £2.8 billion, revenue of £2.3 billion, operating profit of £168.0 million, profit before tax of £154.0 million and earnings per share of 10.2 pence. We consider this to be a solid performance in light of the highly competitive market environment which was also impacted by poor weather affecting the profitability of the UK and a write-off arising out of the closure of the Romanian franchise stores in the International business.

Q **What do you see as the key areas for investment over the next few years?**

A Investment will be targeted at supporting the four pillars of our strategy and the evolution of Debenhams from a UK department store operator to an international, multi-channel business.

Capital expenditure will continue to be invested behind the four pillars including the store modernisation programme and the 16 new UK stores scheduled to open during the next four years. We are also investing in systems across the business in particular to support our fast-growing multi-channel activities. Much of the revenue investment – primarily to support product development and our marketing activities – has been made now and our focus will be on achieving a return on this investment.

Q **Why have you changed the way you guide on the cost base?**

A In the past we gave guidance for key cost categories as a percentage of Group sales. This was useful when the business was principally a UK store model. However, with the growth of sales from multi-channel and international operations, this guidance became less useful. Starting at the interim results in April 2013, we now provide guidance by geographic segment and, within each segment, break the analysis down into store costs, online costs and other costs as appropriate.

Q **There has been a lot of commentary about the change to IAS 19. Can you explain what this accounting standard does and how the change will impact Debenhams?**

A In 2013, Debenhams benefited from a pension credit of £11.3 million under IAS 19 "Employee Benefits" (2012: £11.7 million). The purpose of this accounting standard is to put a notional impact of a defined benefit pension scheme onto the profit and loss account. From our financial year 2014, the method of calculating this impact is changing. Currently, IAS 19 calculates an income on a scheme's assets and an expense on its liabilities to give a net income or cost (where asset returns and interest rates can be different) which can be taken in either operating profit or the interest line. The revised IAS 19 requires an income or expense to be calculated by applying a single interest rate to a scheme's net surplus or net deficit. Under the revised standard, in 2014 there will be a charge to profit before tax of £2 million. Thus, there will be a negative impact on profit before tax of £13 million between 2013 and 2014 as a result of the change to IAS 19. It is important to note that the revision has no impact on the scheme, its members or the cash contribution that Debenhams has agreed with the trustees.

Q **Why did you have to take a write-off in Romania?**

A We took a write-off of £3.8 million in the first half of 2013 following the closure of the six franchise stores in Romania in February which related to some outstanding receivables dating back to 2011. We have since strengthened our controls and the financial support behind receivables.

Q **What are your priorities for capital allocation?**

A We have a very clear order of priorities for cash. The first is to invest in the four pillars of the strategy to build a leading international, multi-channel brand. In 2013 we spent £133.3 million on capital expenditure; you can see a breakdown of this spend on page 40. Secondly, we pay our shareholders a dividend and during 2013 spent £41.4 million of cash on the 2012 final dividend and 2013 interim dividend. Our third priority is to reduce net debt to a level around one times EBITDA over the medium-term. Finally, any spare cash generated over and above these requirements will be returned to shareholders through the share buyback scheme.

Chief Financial Officer's report continued

Sales and revenue

Group gross transaction value (GTV) increased by 2.5% to £2,776.8 million for the 52 weeks to 31 August 2013 (2012: £2,708.0 million) whilst Group revenue increased by 2.3% to £2,282.2 million from £2,229.8 million.

For the UK segment, GTV increased by 2.3% to £2,254.8 million (2012: £2,204.6 million) and revenue grew by 1.9% to £1,895.9 million. This was principally a result of:

- Continued strong growth in online sales to UK customers
- The benefits of the current store modernisation programme, under the first pillar of our strategy, which is delivering an increase of sales of c.6% in the first year following modernisation
- New stores opened during both 2012 and 2013

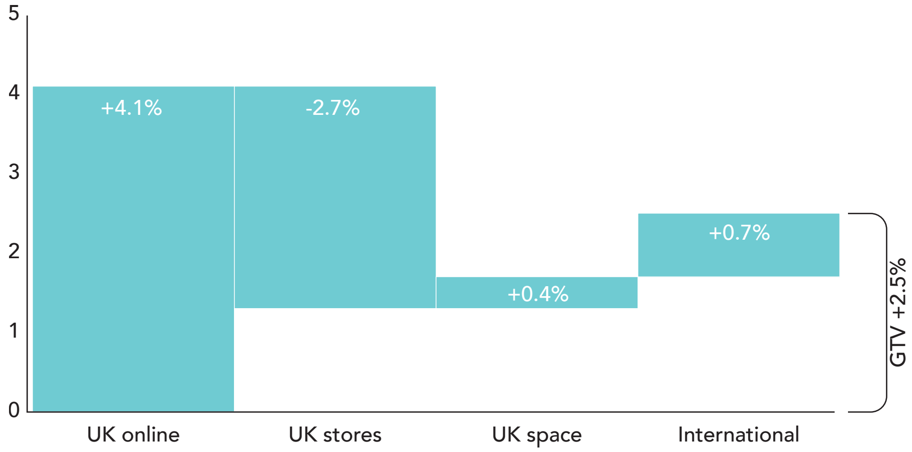
For the International segment, GTV of £522.0 million was 3.7% higher than last year and revenue increased by 4.5%. International growth was largely the result of:

- Increased trading with franchise partners
- A strong sales performance from the Danish business Magasin du Nord

Group like-for-like sales increased by 2.0%, principally driven by growth in online sales of 46.2% to £366.3 million (2012: £250.6 million) which offset the weather-impacted performance of the UK stores.

The components of sales growth in 2013 are shown in figure 2.

Figure 2: Components of sales growth in 2013



Own bought products accounted for 76.7% of the sales mix (2012: 76.7%). UK own bought sales mix was essentially unchanged at 79.9% (2012: 80.0%) whilst International increased to 63.0% (2012: 62.6%). Overall, own bought sales grew by 2.5% whilst concession sales were 1.9% higher than the previous year.

Operating profit

Group gross margin was unchanged from the prior year. This reflected a good recovery in the second half of the year due to a combination of better intake margin and mix which more than offset a decline of 20 basis points in the first half which was caused by increased promotional activity and the impact of bad weather in the UK.

In the UK, store costs increased by 1.6% to £585.9 million (2012: £576.7 million) largely due to inflationary increases in rent, energy and payroll offset by a number of cost saving initiatives. UK online costs grew by 34.0% to £83.5 million (2012: £62.3 million), driven entirely by higher volumes. Importantly, online costs as a percentage of sales decreased by 270 basis points to 23.9% due to greater warehousing and distribution efficiencies arising from increased scale and bringing all own brand fulfilment in-house at the start of the second half. Other UK costs, which comprise those not directly attributable to either stores or online and include buying and merchandising, marketing and central functions, increased by 1.5%, largely due to inflation.

International store costs increased by 4.8% and other international costs by 2.9%, supporting the revenue store increase and associated bonus payments in Magasin du Nord.

The IAS 19 pension credit contained within operating profit was £11.3 million (2012: £11.7 million). See note 23 starting on page 116 for further details.

Group depreciation and amortisation of £94.6 million increased by 3.3% (2012: £91.6 million) largely reflecting the store modernisation programme.

Group operating profit declined by 4.0% to £168.0 million (2012: £175.0 million) with the UK down 3.1% to £139.8 million (2012: £144.3 million) and International down 8.1% to £28.2 million (2012: £30.7 million) for the reasons described above.

Interest
The net interest cost of £14.0 million represented a decrease of 16.2% from last year (2012: £16.7 million). See notes 8 and 9 on page 100 for further details.

Profit before tax
Group profit before tax for the year decreased by 2.7% to £154.0 million (2012: £158.3 million), largely due to lower operating profit for the reasons described above.

Taxation and profit after tax
The Group's tax charge of £26.1 million on a profit of £154.0 million gave an effective tax rate of 16.9% compared with 20.8% for the prior year, due to a reduction in the headline rate of corporation tax, the resolution of historical issues in the current year and the recognition of tax losses at Magasin du Nord. See note 10 on page 101 for further details.

The lower taxation charge resulted in profit after tax increasing by 2.1% to £127.9 million (2012: £125.3 million).

Earnings per share
Total basic and diluted earnings per share were 10.2 pence, compared with 9.8 pence for the prior year. The weighted average number of shares in issue in 2013 was 1,254.5 million (2012: 1,281.3 million) largely due to the purchase of 23.9 million shares in the share buyback scheme.

Cash flow and uses of cash
Debenhams remains a highly cash generative business. Operating cash flow before financing and taxation was £107.8 million. Cash flow generation, the uses of cash and the movement in net debt are summarised in figure 3.

Figure 3: Cash flow and uses of cash

	52 weeks to 31 August 2013	52 weeks to 1 September 2012
EBITDA	£262.8m	£266.8m
Working capital	£(21.7)m	£(7.1)m
Capital expenditure	£(133.3)m	£(118.6)m
Operating cash flow before financing and taxation	£107.8m	£141.1m
Taxation	£(29.3)m	£(44.6)m
Financing	£(12.5)m	£(13.6)m
Dividends paid	£(41.4)m	£(38.5)m
Share buyback	£(25.1)m	£(20.1)m
Other	£(2.8)m	£(9.3)m
Change in net debt	£(3.3)m	£15.0m
Opening net debt	£368.7m	£383.7m
Closing net debt	£372.0m	£368.7m

Chief Financial Officer's report continued

Capital expenditure
Capital expenditure during the year was £133.3 million, an increase of 12.4% versus the previous year (2012: £118.6 million). The key components of capital expenditure in 2013 are detailed in figure 4. We expect capital expenditure in 2014 to be in the region of £135 million. Thereafter, we anticipate it will fall back towards depreciation and amortisation at c.£100 million.

Figure 4: Capital investment to support the four pillars of the strategy

	%
New UK stores	6
UK store modernisations	31
UK maintenance	15
International	7
Group systems	23
Group warehouse	5
Head office move	9
Other	4

Dividends
An interim dividend of 1.0 pence per share was paid to shareholders on 5 July 2013 (2012: 1.0 pence). The board has recommended a final dividend of 2.4 pence per share which will be paid to shareholders on 10 January 2014 taking the total dividend for the year to 3.4 pence (2012: 3.3 pence).

Share buyback
During the year 23.9 million shares were bought for a total expenditure of £25.1 million. All shares purchased since the share buyback programme commenced in 2012 have been transferred to treasury.

A further 14.3 million of shares were purchased after the year end, taking the total purchased over the 12 months to 23 October 2013 to £40.2 million (38.2 million shares), in line with our commitment.

Net debt
After taking into account £25.1 million of share buybacks, the Group's net debt position as at 31 August 2013 was £372.0 million (1 September 2012: £368.7 million). The ratio of reported net debt to EBITDA was 1.4 times, level with last year.

Balance sheet
Key balance sheet items are summarised in figure 5.

Figure 5: Balance sheet

	31 August 2013	1 September 2012
Intangible assets	£876.5m	£864.9m
Property, plant and equipment	£692.1m	£661.6m
Inventory	£357.9m	£332.3m
Other assets	£105.4m	£105.2m
Trade and other payables	£(545.8)m	£(525.4)m
Other liabilities	£(359.9)m	£(370.1)m
Retirement benefit obligations	£(20.0)m	£(57.3)m
Net deferred tax assets	£10.2m	£18.5m
Net debt	£(372.0)m	£(368.7)m
Reported net assets	£744.4m	£661.0m

Inventory
Stock levels were managed very tightly during the year given the difficult market conditions. Total stock increased by 7.7% to £357.9 million with almost all of this increase attributable to online expansion and international growth. The stock value into UK department stores fell by 0.7%. Terminal stock at year end was in line with the historical average at 3.1%.

Pensions
The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together the "Group's pension schemes") which both closed for future service accrual from 31 October 2006. Under IAS 19, the Group's pension schemes' net deficit as at 31 August 2013 was £20.0 million (1 September 2012: £57.3 million). Further information can be found in note 23 to the Group financial statements starting on page 116.

A triennial actuarial valuation was completed in March 2012 and discussions with the pension schemes' trustees were subsequently concluded. The contributions from the Group 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 schemes were set at £8.9 million, rising each year by RPI. The Group also pays the non-investment expenses and levies to the Pension Protection Fund.

Current pension arrangements for Debenhams' employees are provided by a defined contribution pension scheme which is administered by Legal & General.

Financial position
During the year, the Group extended £550.0 million of its £650.0 million senior credit facility from October 2015 to October 2016. At the same time, the Group repurchased £35.0 million of the £100.0 million facility that was not extended.

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 which 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 109.

Simon Herrick
Chief Financial Officer

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. The Group's management team 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).

Figure 1: Debenhams risk management framework

This framework highlights the central role that the management of risk plays in the successful delivery of strategic objectives, including the four pillars of our strategy to build a leading international, multi-channel brand, 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 the membership of industry bodies, environmental scanning (e.g. 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.

In addition to this, an extensive review was undertaken of the organisation's risk universe to verify that all key risks have been identified and to ensure that management has considered these as part of its control environment. This organisation-wide review is facilitated by the risk management team for each operating division on an ongoing cyclical basis. 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.

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 across rolling time periods and severity is determined by the degree of change across key performance indicators.

Figure 2: Risk ranking matrix

Frequency of event occurence			RISK RANKING MATRIX			
Event will probably occur at least once every year	Frequent	4	4	16	36	64
Event will probably occur once every 3 years	Common	3	3	12	27	48
Event will probably occur at least once every 10 years	Occasional	2	2	8	18	32
Event will probably occur less than once every 10 years	Unlikely	1	1	4	9	16
			1 (1^2)	4 (2^2)	9 (3^2)	16 (4^2)
			Low	Moderate	Serious	Critical

Severity of impact
(based on specific degrees of change across one or more financial or reputational key performance indicators)

Risk review continued

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.

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 committee
32, 36, 48 or 64	Red (Ultimate)	Yes	Treat, transfer or terminate	0-3 months	Main board

The risk score, derived from the risk ranking matrix, is 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 delivered to members of the executive committee and to the Audit Committee 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 by the board, executive committee, Audit Committee, business continuity management committee and at 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 the 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 standards of performance 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 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

The Group's risk management and internal audit function is made up of three discrete areas: risk management, internal audit and profit protection, all of which report into the Director of Internal Audit and Risk Management. 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.

Risk review continued

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 malpractice. 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 the 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 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 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 47 to 51 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 and internal factors are included in the risks and uncertainties that could substantially impact performance and therefore delivery of one or more of the four pillars of the strategy to build a leading international, multi-channel brand (focusing on UK retail, delivering a compelling customer proposition, increasing availability and choice through multi-channel and expanding the brand internationally). Relevant mitigation for each risk is also outlined. These risks are presented in no particular order but have been grouped by type of risk.

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.

External risks

Risk and impact	Example of mitigation	Change*
Continuing adverse economic conditions may have a material adverse effect on Debenhams' results A decline in sales on discretionary purchases and reduction in gross transaction value	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. The ongoing economic situation means that households generally remain cautious about non-discretionary spending.	↔
The sector in which Debenhams operates is highly competitive Place pressure on our pricing strategy, margins and profitability Failing to deliver business critical projects may divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems	Debenhams' brand and product strategy gives customers a unique, differentiated and exclusive choice of brands, 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 including the development of a "single customer view". Business critical projects are undertaken to support the delivery of strategic objectives. For each such project, a full investment appraisal is conducted as part of the decision making process and must be signed off by a member of the executive committee before any work is undertaken. As part of project governance, a steering committee monitors all key areas involved in delivery, a framework is used, selected projects will be reviewed by internal audit and post investment appraisals are undertaken. To strengthen the resilience of core systems and to enhance the overall governance framework, an information systems road map has been developed. This will also support the efficient and effective delivery of strategic projects.	↔
Factors influencing the sustainability of the supply chain Any of the risks associated with doing business in foreign markets and/or importing merchandise from these regions could place pressure on margins or require the Group to divert financial and management resources from more beneficial uses	Debenhams fosters excellent, mutually beneficial relationships with its suppliers. 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. This is a decreasing risk as Debenhams continues to develop its supplier base to mitigate the potential of cost price inflation without compromising the quality of its products. In addition, the sourcing division has been strengthened to include additional expertise which assists with sourcing decisions, production consolidation and lead time reduction, amongst other things.	↓
Factors outside Debenhams' control, such as increases in energy or fuel costs, may have an adverse effect on its results 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 in the short-term.	↔

*Change in severity and/or likelihood of risk during course of 2013.

Risk review continued

Financial risks

Risk and impact	Example of mitigation	Change*
Currency fluctuations and hedging risks could materially adversely affect Debenhams' earnings and cash flow 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 operates a treasury policy 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.	
An increase in the Group's funding needs or changes to obligations in respect of its pension schemes could have an adverse impact on its business in the longer term An increase in the Group's pension related liabilities could have a material adverse impact on the Group's profits and cash flow in the longer term	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.

Strategic risks

Risk and impact	Example of mitigation	Change*
Debenhams may not be able to predict accurately or fulfil customer preferences or demand Sales will be lower, market share will be reduced and may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortfalls on popular merchandise, any of which could have a material adverse effect on the business, financial condition and results of operations	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.	
Debenhams depends upon key management and other personnel and the departure of such management or personnel could adversely affect its business Could significantly delay or prevent the achievement of Debenhams' business plan and could have a material adverse effect on Debenhams' business, financial condition or results of operations	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.	
A failure to develop and implement Debenhams' new store rollout successfully may adversely affect its business 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, which may also take the form of an acquisition. 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.	

Strategic risks

Risk and impact	Example of mitigation	Change*
Any events that negatively impact the reputation of or value associated with Debenhams' brand could adversely affect its business Unfavourable publicity concerning Debenhams, its ethical trading policies, its business policies including health and safety, its corporate responsibility practices, any of its brands or products, its supply chain practices or any of its franchisees or manufacturers or a substantial erosion in the reputation of, or value associated with, the Debenhams brand may lead to a loss of stakeholder trust and confidence and could have a material adverse effect on Debenhams' ability to attract and retain third party brands, suppliers, designers, concessions and franchisees, which could consequently impact Debenhams' business, financial condition or results of operations	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 which is underpinned by Debenhams' robust policy on compliance with a real focus on social and ethical standards. As Bangladesh will continue to be a major source of production, Debenhams is in the process of opening a local presence to ensure that production is only carried out in appropriate factories. Debenhams has signed the Bangladesh Accord which commits the signatories to the goal of a safe and sustainable ready-made garment industry in that country in which no worker needs to fear fires, building collapses or other accidents that could be prevented with reasonable health and safety measures. A reliance on third party suppliers and franchisees, the challenges of the current economic environment and the complexity of the new and existing legislation makes this an ongoing risk which Debenhams and its suppliers/franchisees have to manage. An executive health and safety committee exists to review compliance with legal and regulatory obligations 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 retail operations. 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.	↔

*Change in severity and/or likelihood of risk during course of 2013.

Risk review continued

Hazard

Risk and impact	Example of mitigation	Change*
Factors outside Debenhams' control, such as damage or interruptions due to operational disruption, natural disaster, pandemics, terrorist activity, strikes or riots may have a material adverse effect on its results Unable to continue operations smoothly in the event of a major incident which may have an adverse effect on inventory and gross transaction value and divert financial and management resources from more beneficial uses. Any terrorist attacks, armed conflicts, social unrest or other geopolitical uncertainty could result in a significant reduction in consumer confidence and spending levels Risks associated with systems failure, external attack of systems, or data inaccuracy may also significantly damage ability to manage information technology systems or could cause inappropriate decisions to be made using wrong or ambiguous information	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. Monitoring processes are in place across a number of key business systems, alongside specialist teams and a disaster recovery site is in place where associated systems are tested to ensure that invocation would work if required. Insurance policies have been placed as appropriate to minimise the impact of specific risks. This is an increasing risk based on the unpredictable instability of various territories around the world.	↑
Debenhams' business could suffer as a result of weak sales during peak selling seasons or extreme or unseasonal weather conditions Adverse effect on inventory, gross transaction value and results of operations	Debenhams sells a diverse mix of product categories in order to reduce reliance on categories that may be weather dependent. To help mitigate the impact of this risk, should it occur, management would review the benefits of strengthening both planned and tactical promotional activity or marketing activity to drive sales. This has been separated out from the risk covering natural disasters (see above) in recognition of the impact that this risk has had and could have on Debenhams' business.	↔
Debenhams' business may be materially adversely affected by changes to, or a breach by the Group of, laws or 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 and specific business policies and procedures are in place to ensure roles and responsibilities are understood across the Group.	↔
Theft of customer data or breach of payment card industry (PCI) standards could adversely affect Debenhams' business operations, reputation and results 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	Steering groups exist for both data protection and PCI standards which review and report on compliance levels. Debenhams utilises external specialists as required to assist in achieving its compliance goals, with compliance to the PCI standard 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.	↔
Any disruption or other adverse event affecting Debenhams' relationship with any of its major suppliers, franchise partners, store card providers, designers, concessionaires or outsourcing partners 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 or franchise partners may adversely affect gross transaction value 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). Following the Cypriot financial crisis, management is closely monitoring the performance of the franchise business in this territory. Furthermore, controls and the financial support behind receivables have been strengthened to mitigate the risk of franchise partner failure.	↔

Hazard continued

Risk and impact	Example of mitigation	Change*
Acts of fraud, theft and industrial espionage could adversely affect Debenhams' business operations, reputation and results 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.	↔

Operational risks

Risk and impact	Example of mitigation	Change*
Ineffective brand awareness and marketing programmes could materially adversely affect Debenhams' business and sales 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 for a marketing campaign. A full investment appraisal is conducted and must be signed off by a member of the executive committee before any campaign is undertaken. Campaign effectiveness is monitored through external feedback and internal analysis.	↔
Risks associated with Debenhams' properties may have a material adverse effect on Debenhams' business, financial condition or results of operations 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 Following the sales of leases by members of the Group and guarantees which may have been given in respect of leases taken by former members of the Group, should an assignee or former member of the Group default under such a lease, then the relevant member of the Group would then be liable for the fulfilment of obligations under the lease	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.	↔

*Change in severity and/or likelihood of risk during course of 2013.

Directors' report

The directors present their report and the audited financial statements of Debenhams plc (the "Company") together with its subsidiary undertakings (the "Group") for the period ended 31 August 2013.

Principal activities
Debenhams is a leading international, multi-channel brand with a proud British heritage which trades from 238 stores across 29 countries. Customer reach is extended via online stores at www.debenhams.com, www.debenhams.ie, www.debenhams.de and www.magasin.dk and through mobile sites and apps. Debenhams gives its customers around the world a unique, differentiated and exclusive mix of own brands, international brands and concessions. In the UK, Debenhams has a top five market share in womenswear and menswear and a top ten share in childrenswear. It leads the market in premium health and beauty. Debenhams is the tenth biggest UK online retailer by traffic volume and has been awarded "International Growth Initiative of the Year" and "Retail Technology Initiative of the Year for Endless Aisle" at the Oracle Retail Week Awards.

A detailed review of the business of the Group during the financial year ended 31 August 2013, 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 are set out on pages 2 to 51 which constitute the strategic report and are therefore incorporated into this report by reference. Information about environmental matters, employees and social and community issues appear on the Company's Sustainability website http://sustainability.debenhamsplc.com.

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

- Opened international franchise stores in Estonia, Libya and Malaysia
- Received a statement of objections from the OFT in respect of sports bra products. Refer to note 32 of the financial statements on page 126 for further information
- Bought a further 14.3 million shares

Directors
Composition of the board
The following persons were directors of the Company during the period ended 31 August 2013 and unless otherwise stated at the date of this Annual Report:

- Nigel Northridge
- Michael Sharp
- Simon Herrick
- Dennis Millard
- Peter Fitzgerald (appointed 4 October 2012)
- Stephen Ingham (appointed 8 January 2013)
- Martina King
- Mark Rolfe
- Sophie Turner Laing

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. In accordance with the UK Corporate Governance Code, all directors will retire at the forthcoming Annual General Meeting of the Company and will offer themselves for re-election, except for Stephen Ingham who will offer himself for election. A formal evaluation of the performance of each director and of the board has been carried out and the performance of each of them continues to be effective and demonstrates commitment to his or her role. There is more information on the evaluation and its outcome within the corporate governance report on page 55.

In addition to the indemnity provisions in the Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the directors and with certain other officers or senior employees of the Group. These indemnities constitute qualifying indemnities for the purposes of the Companies Act 2006 and remain in force at the date of approval of this report without any payment having been made under them. The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Information relating to the remuneration and share interests of each director is given in the directors' remuneration report on pages 81 to 82. 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.

Profit and dividends
The profit after tax for the financial year ending 31 August 2013 was £127.9 million (2012: £125.3 million). The directors recommend the payment of a final dividend of 2.4 pence per ordinary share, to be paid on 10 January 2014 to members on the share register at the close of business on 6 December 2013. This, together with the interim dividend of 1.0 pence per share paid in July, gives a full year dividend of 3.4 pence per share.

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

As at 31 August 2013:

Shareholder	Number of shares	% of issued share capital (excluding shares held as treasury shares)
Schroders	248,368,031	20.02
Milestone Resources Group Ltd	89,183,155	7.19
Majedie Asset Management Ltd	66,480,510	5.36
Bestinver Gestion, S.A.	61,358,602	4.94

In accordance with Listing Rule 9.8.6 (2)(b), the following notifications have been received during the period 1 September 2013 to 11 October 2013:

Date of notification	Shareholder	Number of shares	% of issued share capital (excluding shares held as treasury shares)
17/9/2013	Majedie Asset Management Ltd	60,805,070	4.92
19/9/2013	BlackRock Inc	62,539,048	5.06
23/9/2013	GIC Private Ltd	37,156,695	3.01
24/9/2013	BlackRock Inc	N/A	below 5% threshold
07/10/2013	Schroders	243,990,254	19.83

Share buyback programme
The Company commenced its share buyback programme in April 2012. As at 31 August 2013 the Company has purchased 47,441,877 ordinary shares of 0.01p at a total cost of £45.2 million. of which 23,882,722 ordinary shares of 0.01p per share were purchased (representing 1.9% of the Company's share capital) at a cost of £25.1 million during the last financial year. All shares purchased by the Company are being transferred to treasury. 655,573 treasury shares were transferred out of treasury during the year to satisfy awards granted under the Company's share plans. Approval will be sought from shareholders at the forthcoming Annual General Meeting to renew the annual authority to purchase shares.

Share capital and control
The issued share capital of the Company and the number of shares held in treasury as at 31 August 2013 are shown in note 27 to the financial statements starting on page 121. In addition to the shares trading on the London Stock Exchange, the Company operates a Level 1 ADR programme. Each ADS represents four ordinary shares of 0.01p each. There are no known arrangements which may restrict the transfer of shares or voting rights.

The holders of ordinary shares are entitled to exercise voting rights, to receive dividends, 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 808,655 ordinary shares in the Company (0.06%). Of those shares, 335,118 shares are invested shares held by the Trust on behalf of the participants of the Deferred Bonus Matching Plan who exercise voting rights in relation to those shares. Any voting or other similar decisions relating to the balance of shares held by the Trust are 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 agreements dated 13 July 2011 and 22 May 2012) 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 73 of the directors' 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 and the e-commerce platform provider.

Employees
Debenhams directly employs around 30,000 people in the UK, Republic of Ireland, Hong Kong and Denmark with thousands more employed by our partners in our franchise stores worldwide and within our supply chain.

In December 2012, the Company launched "Your Voice", a survey which gave our employees in the UK and the Republic of Ireland the opportunity to share their opinions and feedback about working for Debenhams. The aim of the survey was to identify priority areas to improve employee engagement and ultimately drive business performance. The results of the first survey, which provided a benchmark to measure progress in future surveys, were evaluated by market leaders in engagement surveys, ETS. The results were very positive with 77% of employees feeling engaged working at Debenhams and actions plans are being implemented across divisions within the business to address the key concerns of our 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 executive committee 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.

Directors' report continued

Debenhams is committed to ensuring that employees or applicants for employment are treated equally regardless of gender, race, ethnic 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 talents.

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.

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 31 August 2013 was nil days (2012: 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 31 August 2013 was 60 days (2012: 59 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 114.

Environment

The Company has been reporting greenhouse gas (GHG) emissions online to the Carbon Disclosure project since 2010. The Company also participates in the UK government's CRC Energy Efficiency Scheme where Debenhams is in the top quartile of the CRC league table. Information on how the Company tackles climate change together with our latest CO_2e emissions for Scope 1 (direct emissions), Scope 2 (purchased electricity) and Scope 3 (indirect emissions) can be found on our website, http://sustainability.debenhamsplc.com/managing-climate-change/.

Charitable giving

During the year the Group raised £1.2 million (2012: £0.75 million). Following a customer survey in 2012, "breast cancer" and "children" were identified as the causes closest to the hearts of our customers and so our charity strategy is mainly focused on these two areas. The Debenhams Foundation ("Foundation") which was formally registered with the Charity Commission in June 2012 manages the donation of funds to charities supported by the Company. Further information on the Company's charitable activities can be found on our website: http://sustainability.debenhamsplc.com/our-charity-achievements/. Key donations made by the Group and Foundation during the year were to the NSPCC (£193,000), ISPCC (£10,000), Breast Cancer Campaign (£97,000) Pink Ribbon Foundation (£36,000), Breakthrough Promotions Ltd (£91,000), Children in Need (£159,000) and the Estée Lauder MAC Aids campaign (£46,000).

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, they have adopted the going concern basis in preparing the financial statements.

Corporate governance statement

In accordance with DTR 7.2.1R, the disclosures required by DTR 7.2.2R to DTR 7.2.7R and DTR 7.2.10R are within the corporate governance report and directors' remuneration report on pages 55 to 82 and risk review on pages 42 to 51 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; and

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.

Independent Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution dealing with their reappointment 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 Debenhams' Registered Office, 10 Brock Street, Regent's Place, London NW1 3FG on Tuesday 10 December 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
24 October 2013

Chairman's introduction to governance
Committed to high standards of corporate governance

Committed to a sustainable future

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

Learn more about our work in this area by visiting our sustainability website http://sustainability.debenhamsplc.com

or scan this QR code:

Dear shareholder

On behalf of the board, I am pleased to present the corporate governance report for the financial year ended 31 August 2013. As a UK listed company, Debenhams plc complies with the 2010 UK Corporate Governance Code (the Code) and an explanation as to how we have applied the principles of the Code is set out in the corporate governance report. In September 2012, a number of changes were made to the Code and those changes are applicable to companies with a UK premium listing with financial years beginning on or after 1 October 2012. Debenhams will therefore report on its compliance with the 2012 version of the Code in its 2014 Annual Report and Accounts.

Has the board of Debenhams changed?

Debenhams has continued to focus on building the right board to support our four pillared strategy. As reported last year, Peter Fitzgerald joined us on 4 October 2012 as an independent non-executive director. Growing our multi-channel business is a key part of Debenhams strategy and Peter's experience in helping a retail business realise its online ambitions will be invaluable to Debenhams. Stephen Ingham joined the board in January this year and his experience in building an international business supports our strategy to expand the Debenhams brand internationally.

What governance issues has the board focused on during the year?

The year has seen various changes to the narrative and remuneration reporting regulations. The board has therefore reviewed and discussed these new regulations and how they will impact Debenhams for 2014. In some instances we have chosen to embrace the regulations early – as evidenced by the new structure of the directors' remuneration report. We have also performed board, committee, external auditors and benefits consultants performance evaluations during the year and details regarding the process and outcomes of those evaluations can be found on pages 60, 64, 66 and 81.

Why should you vote to re-elect your board?

In accordance with the Code, the board, its committees and each individual director will be evaluated by an external facilitator during 2014. For the last two years, I have personally reviewed the performance of each board member by conducting individual interviews. I can confirm that following the evaluation this year all of the directors continue to perform effectively and demonstrate commitment to their roles. Accordingly, the directors will offer themselves for re-election at the Annual General Meeting in December this year. Stephen Ingham will offer himself for election having been appointed to the board on 8 January 2013.

Nigel Northridge
Chairman

Board of directors
Governed with experience

Nigel Northridge
Role: Chairman of the board and of the Nomination Committee. Nigel is also a member of the Remuneration Committee.

Key strengths: Nigel has vast experience of a range of businesses in both an executive role and non-executive capacity. He spent 32 years with Gallaher Group plc including seven years as chief executive between 2000 and 2007 when he oversaw a successful sale of that business. In addition to his current non-executive roles, Nigel has also served as a non-executive director of Aggreko plc and Thomas Cook Group plc.

External current directorships:
Chairman of Paddy Power plc and a non-executive director of Inchcape plc.

Michael Sharp
Role: Chief Executive since September 2011, Deputy Chief Executive from 2008 and Chief Operating Officer from 2006.

Key strengths: Michael is one of the UK's most experienced retailers and has spent his entire career in the industry. He has worked for Debenhams or its predecessor, the Burton Group, since 1985. Michael joined Debenhams in 1997 and was appointed to the board in 1999. Before this, his senior roles in the Burton Group included Managing Director of Principles and Racing Green and Buying and Merchandising Director of Topshop and Topman.

External current directorships:
None.

Dennis Millard CA (SA), MBA
Role: Senior Independent Director since May 2010 following appointment as an independent non-executive director in May 2006. Dennis is also Chairman of the Remuneration Committee and a member of the Nomination and Audit Committees.

Key strengths: As chairman of another retail company, non-executive director of other UK public companies and past experience as a finance director, Dennis brings relevant and broad experience to his role as Senior Independent Director and Chairman of the Remuneration Committee.

External current directorships:
Chairman of Halfords Group plc and Smiths News PLC and a non-executive director of Premier Farnell plc.

Simon Herrick ACA
Role: Chief Financial Officer since January 2012.

Key strengths: Simon has strong financial experience gained in a range of companies and business environments. He previously held the role of Group Finance Director and Acting Chief Executive at Northern Foods plc and Finance Director of Kesa Electricals plc.

External current directorships:
None.

Mark Rolfe FCA
Role: Independent non-executive director since October 2010. Mark is also chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Key strengths: Mark is a chartered accountant and has considerable financial and accounting experience including 20 years spent with Gallaher Group plc in various finance and executive roles including that of Finance Director.

External current directorships:
Non-executive director of Barratt Developments plc, Hornby plc and The Sage Group plc. He is also chairman of Lane, Clark & Peacock LLP.

Sophie Turner Laing
Role: Independent non-executive director since August 2009 and a member of the Remuneration, Audit and Nomination Committees.

Key strengths: Sophie's experience in management and media issues is invaluable to a consumer facing business like Debenhams. She is currently Managing Director, Content, at British Sky Broadcasting Group plc. Prior to joining Sky in 2003, Sophie held senior roles at the BBC and was a founder of HIT Entertainment.

External current directorships:
Director of AETN UK and NGC Network International LLC. In addition, Sophie is a trustee of BAFTA, The Media Trust and the National Film & TV School.

Martina King
Role: Independent non-executive director since August 2009 and a member of the Remuneration, Audit and Nomination Committees. Martina also chairs the Sustainability Committee.

Key strengths: Martina has accumulated extensive experience in management and marketing through holding a number of senior positions in marketing and online media including Managing Director of Aurasma, Yahoo! and Capital Radio. As Chief Executive Officer of Featurespace Limited, Martina also has data analytic experience.

External current directorships:
Non-executive director of Capita plc and Cineworld Group plc and Chief Executive Officer of Featurespace Limited.

Peter Fitzgerald
Role: Independent non-executive director since October 2012 and a member of the Audit Committee.

Key strengths: Peter's experience as a leading e-commerce executive is invaluable to Debenhams as we grow our multi-channel business. He is Country Sales Director for Google UK/Eire having worked for that business since 2007. From 1999 to 2007 Peter worked for Amazon both in Europe and the USA.

External current directorships:
None.

Stephen Ingham
Role: Independent non-executive director since January 2013 and a member of the Remuneration Committee.

Key strengths: Stephen has been Chief Executive Officer of Michael Page International plc since 2006 having worked for that business since 1987. His experience of building an international business at Michael Page supports our strategy to expand the Debenhams brand internationally.

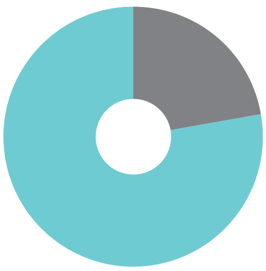
External current directorships:
Chief Executive Officer of Michael Page International plc. Stephen is also a member of the Great Ormond Street Hospital's Corporate Partnership.

Committee membership

	Remuneration Committee	Nomination Committee	Audit Committee	Sustainability Committee
Nigel Northridge	●	■		
Michael Sharp				
Simon Herrick				
Mark Rolfe	●	●	■	
Dennis Millard	■	●	●	
Martina King	●	●	●	■
Peter Fitzgerald			●	
Sophie Turner Laing	●	●	●	
Stephen Ingham	●			

● Committee membership ■ Committee chairman

Composition of the board



Directors	No.
Executive	2
Non-executive	7

Length of tenure of non-executive directors

Directors	No.
Less than one year	2
One to three years	1
Three to six years	3
More than six years	1

Corporate governance report
An integrated approach

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 31 August 2013 and as at the date of this Annual Report it was compliant with all the relevant provisions as set out in the 2010 UK Corporate Governance Code ("the Code") copies of which can be downloaded from the Financial Reporting Council website (see www.frc.org.uk).

Leadership
The board
The board of Debenhams is collectively responsible for the long-term success of the Company by directing and supervising the affairs of the Company and is accountable to its shareholders for the Group's strategic aims, risk management and performance. No individual or small group of individuals dominate the board's decision-making process.

Biographical details of the board of directors are on pages 56 to 57. The board currently has nine members; the chairman, six independent non-executive directors and two executive directors.

Chairman	Executive directors		Non-executive directors	
	Chief Executive	Chief Financial Officer	Senior Independent Director	Independent non-executive directors
Nigel Northridge	Michael Sharp	Simon Herrick	Dennis Millard	Peter Fitzgerald
				Stephen Ingham
				Martina King
				Mark Rolfe
				Sophie Turner Laing

The Chairman
The main responsibility of the chairman is the effective running of the board ensuring that all directors maximise their contributions in the development and implementation the Company's strategy whilst ensuring that the nature and extent of the significant risks the company is willing to embrace in the implementation of its strategy is determined and challenged. The Chairman is also responsible for promoting the highest standards of corporate governance, the induction of new directors and their continual development and succession planning. The Chairman holds regular meetings with the non-executive directors without the executive directors being present.

Nigel Northridge has been Chairman since April 2010 and is also the Chairman of the Nomination Committee.

The Chief Executive
The Chief Executive is responsible for the day-to-day management of the business and for developing and implementing the Group's strategic aims. He is assisted by the executive committee which meets on a weekly basis. The Chief Executive does not hold any external directorships.

Michael Sharp has been Chief Executive since September 2011.

The Chief Financial Officer
The Chief Financial Officer is responsible for the financial reporting and management of the Debenhams Group. In addition to the finance, audit, tax and treasury teams, the Chief Financial Officer is also responsible for systems and logistics, legal and secretariat and investor relations. The Chief Financial Officer does not hold any external directorships.

Simon Herrick has been Chief Financial Officer since January 2012.

The Senior Independent Director
Any concerns which shareholders may have which are not appropriate for discussion through the normal channels of Chairman, Chief Executive or Chief Financial Officer would be dealt with by the Senior Independent Director. The Senior Independent Director also leads the Chairman's appraisal, serves as an intermediary for the other directors with the Chairman as necessary and acts as a sounding board for the Chairman as required.

Dennis Millard has been Senior Independent Director since May 2010 and is also chairman of the Remuneration Committee.

Executive committee

Michael Sharp
Chief Executive

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

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, customer strategy and insight.

Nikki Zamblera
HR Director
HR, pay and reward, learning & development, recruitment, pensions and facilities.

Chairman's responsibilities

- The effective running of the board ensuring the directors receive accurate and timely information to enable debate and high quality decision making
- Promoting high standards of corporate governance
- Ensuring the board agendas take full account of the important issues facing the Company and the concerns of all board members
- 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

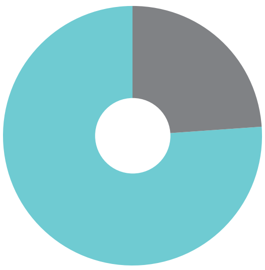
Chief Executive's responsibilities

- Running the Company business
- Implementing the business strategy
- Regularly updating the board on progress against approved plans
- Ensuring the Executive Committee complies with all business policies, delegated authorities and regulations in achieving the objectives of the businesses

Gender ratios

Board	%
Male	78
Female	22

Senior management team	%
Male	56
Female	44



Employee workforce	%
Male	24
Female	76

Board experience

Our board has a wealth of experience and expertise to govern and advise an international, multi-channel brand like Debenhams.

Consumer

Number of directors with consumer experience: 9

Digital business

Number of directors with digital business experience: 5

International

Number of directors with international experience: 7

Marketing

Number of directors with marketing experience: 6

Corporate governance report continued

Performance evaluation

This year an evaluation of the performance of the board, its committees and the individual directors was conducted internally. This was led by the Chairman who interviewed all board members individually and discussed the results collectively with the board. The Remuneration Committee evaluated the Committee advisors and the Audit Committee evaluated the external auditors. In addition, the non-executive directors evaluated the Chairman's performance at a meeting chaired by the Senior Independent Director.

Non-executive directors

As detailed in their biographies on pages 56 to 57 our non-executive directors have a diverse range of skills, experience and backgrounds. They provide constructive challenge and assistance in developing the Group's strategy. 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.

The table below details the length of service for the Chairman and each of our non-executive directors:

Director	Date of appointment	Current length of service as a non-executive director at 31 August 2013
Nigel Northridge	1 January 2010	3 years 8 months
Dennis Millard	9 May 2006	7 years 4 months
Martina King	1 August 2009	4 years 1 month
Sophie Turner Laing	1 August 2009	4 years 1 month
Mark Rolfe	1 October 2010	2 years 11 months
Peter Fitzgerald	4 October 2012	11 months
Stephen Ingham	8 January 2013	8 months

Board activity throughout the year

September 2012	October 2012	January 2013	February 2013	April 2013	June 2013
Presentation on women's accessories performance	Presentation on lingerie performance	Property presentation	Annual strategy meeting	Approval of interim results and resolved to pay interim dividend	Presentation on logistics
Reviewed the marketing strategy	Approved full year results, report and accounts and recommended the final dividend	Met with shareholders at the Annual General Meeting			Reviewed budget
	Debated and approved the corporate risk map				Reviewed investor perception study
	Reviewed the annual performance evaluation of the board and its committees				

Board induction
To complement the Company's induction programme, Amrop Augmentum (Amrop) was appointed to assist with the induction of Peter Fitzgerald. In addition to the operational items covered in Peter's induction, the programme also covered finance, corporate governance, board behaviour, audit and risk issues. On legal and governance matters, Peter's induction was dealt with by the Company Secretary with input from Allen & Overy as part of the Amrop programme.

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

The Chairman, together with the Company Secretary, 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. All information is published in advance via a secure web portal. If directors are not able to attend meetings due to conflicts in their schedule, they review the papers for consideration at that meeting and relay any comments to the Chairman in advance of the meeting where possible which are then passed on to the other directors.

Paul Eardley has been Company Secretary since October 2007.

Time commitment
All directors are aware of the need to allocate sufficient time to the Company to discharge their responsibilities effectively. The board monitors the extent of their external interests and any conflicts on a continuing basis. The letters of appointment for non-executive directors set out the time commitment expected to be necessary to perform their duties. The time required by directors will fluctuate depending on the demands of the business and other events but the expected number of days required for each non-executive director for meetings is ten days.

Induction and ongoing development
On appointment, a director is provided with an induction programme which is tailored to their listed company and retail experience. The induction includes the provision of relevant current and historical information about the Company together with applicable business policies. Meetings are arranged with advisors and visits to operations around the Group are arranged. One-to-one meetings are also held with members of the executive committee and other senior executives in the business as appropriate. Ongoing development is made available including specific training for Audit Committee members.

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

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 and indemnities for its directors.

Corporate governance report continued

2013 board programme

The board held six meetings during 2013 which were fully attended by all the board members. 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.

Each board meeting covers presentations from the executive directors and from each of the other members of the executive committee. Presentations are also received on a rotating basis from the trading divisions and other business areas including investor relations, treasury, taxation and health and safety. In addition, the board receives regular updates on the key group risks and ensures that the risk management framework and profile supports the four pillared strategy. In accordance with the Code, there is a formal schedule of matters reserved for the board's decision which is reviewed annually in October.

The board also holds an off site meeting annually in February to focus specifically on the Company's strategy.

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 on our website at www.debenhamsplc.com. The members and the role of each committee are disclosed on pages 64, 65, 66, 79 and 80 of this report. In addition there is a Sustainability Committee which is a committee of the board and is chaired by Martina King. Details of the role and achievements of the Sustainability Committee are available on our website: http://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 page 53 of the directors' report.

Shareholder engagement

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 6 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 also organised at appropriate times during the year at which the Chief Executive and Chief Financial Officer comment on Company performance and respond to any issues raised by investors. In addition Debenhams arranges visits to its stores for analysts and shareholders and holds regular capital markets days dedicated to specific pillars of the strategy.

The major shareholders of the Company are listed on page 53 of the directors' report.

Investor relations calendar

September 2012	October 2012	November 2012	January 2013	February 2013
Capital markets day: "Focusing on UK retail"	Full year results presentation	US shareholder roadshow	First half interim management statement	European shareholder roadshows
Full year trading update	UK shareholder roadshow	European shareholder roadshows	AGM	
			Capital markets day: "Delivering a compelling customer proposition"	

January 2013 AGM – key highlights
- Full director attendance
- 805.6 million to 899.7 million votes cast for each resolution
- All directors retired and were re-elected to the board receiving at least 98.4% of votes cast in favour
- Remuneration report resolution passed with 99.36% of votes cast in favour

Shareholders by geography

	%
England	59
USA	15
UAE	7
Scotland	4
Singapore	3
Spain	3
Norway	3
Other	6

Latest investor information

You can find all our latest investor news and financial reports online, as well as our financial calendar and regulatory announcements. You can also monitor the share price and calculate the value of your shareholding.

Visit our investor relations section of our website http://debenhamsplc.com

or scan this QR code:

March 2013	April 2013	May 2013	June 2013
First half trading update	First half results	US shareholder roadshow	Capital markets day: "Oxford Street transformation"
	UK shareholder roadshow		Second half interim management statement

Nigel Northridge
Chairman, Nomination Committee

"Board appointments are made against objective criteria to support the four pillars of our strategy to build a leading international, multi-channel brand."

Nomination Committee

The membership of the Nomination Committee, together with appointment dates and attendance at meetings is set out below:

Members	Date appointed committee member	Attendance at meetings during year
Nigel Northridge (Chairman)	1 April 2010	3/3
Martina King	1 May 2010	3/3
Dennis Millard	9 May 2006	3/3
Mark Rolfe	1 October 2010	3/3
Sophie Turner Laing	1 May 2010	3/3

Main activities during the year

- Recommended the appointment of Peter Fitzgerald and Stephen Ingham
- Reviewed its terms of reference and its own effectiveness
- Conducted a review of the board size and composition and the composition of the committees
- Reviewed the time commitment and length of service of the Chairman and each non-executive director
- Monitored directors' conflicts of interest

The Committee is scheduled to hold one meeting a year. As shown above, the Committee met on a quorate basis on two further occasions. Other attendees who may be invited to attend for all or part of any meeting are the Chief Executive, the HR Director and external advisers. The Company Secretary also attends meetings in his capacity of Secretary of the Committee.

Board and committee changes

During the year the board composition was enhanced by the appointments of Peter Fitzgerald and Stephen Ingham as independent non-executive directors. Peter Fitzgerald joined the board in October 2012 and brings a wealth of experience in online retailing. Stephen Ingham was appointed in January 2013 and we look forward to his contribution with regard to our international expansion. Peter is a member of the Audit Committee and Stephen a member of the Remuneration Committee.

Both appointments were facilitated by external search consultants, the Miles Partnership in respect of Peter and the Lygon Group in respect of Stephen, who provided a shortlist of candidates for consideration by the Committee. The candidates selected by the Committee were then interviewed by the majority of the board. The Committee, having assessed the candidates following feedback from the interviewees and against objective criteria, then recommended the potential candidate to the board. When recruiting non-executive directors, 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 well balanced and appropriate for the needs of the business. The board's policy on diversity will be formalised during 2014 and will be disclosed in next year's annual report.

Committee evaluation

The annual evaluation of the Committee's effectiveness was undertaken by the Chairman and it was concluded that the Committee continues to operate effectively.

As last year, the Nomination Committee is, in line with the 2010 UK Corporate Governance Code, recommending that the directors of the Company stand for re-election/election at the next Annual General Meeting.

Nigel Northridge
Chairman, Nomination Committee

Mark Rolfe
Chairman, Audit Committee

"The Audit Committee comprises members with a broad range of business and financial experience to fulfil its programme of work effectively."

Audit Committee

The Membership of the Audit Committee, together with appointment dates and attendance at meetings, is set out below:

Members	Date appointed committee member	Attendance at meetings during year
Mark Rolfe (Committee Chairman)	1 October 2010 (appointed Committee Chairman 2 September 2012)	3/3
Peter Fitzgerald	18 October 2012	2/2*
Martina King	1 August 2009	3/3
Dennis Millard	9 May 2006	3/3
Sophie Turner Laing	1 May 2010	3/3

* Peter Fitzgerald was invited to join the Audit Committee in October 2012 and therefore was only eligible to attend two meetings during the period.

Main activities during the year

- Recommended to the board the approval of all financial statements released by the Company
- Monitored the effectiveness of the system of internal controls and risk management
- Appointed a new external audit partner
- Approved the external auditors' plan and fees
- Approved the internal audit plan
- Reviewed the independence of the external auditors and the fees paid to them for non-audit work
- Reviewed its terms of reference

Following a review by the board of the Audit Committee composition, it was decided that Peter Fitzgerald be appointed to the Audit Committee. The Committee comprises members with a broad range of business and financial experience to fulfil its programme of work effectively. The board regards Dennis Millard and myself to have recent and relevant financial experience.

As usual, our activities this year have included financial reporting, risk management, monitoring internal controls and reviewing and approving external and internal audits. We have also considered the changes to the Corporate Governance Code which will apply to Debenhams in 2014 relating to financial reporting and audit and the guidance on Audit Committees issued by the Financial Reporting Council in September 2012.

The Committee met three times during the financial year. In addition to the members of the Committee, the Chairman, the Chief Financial Officer, the Director of Internal Audit and Risk and senior representatives of the Company's external auditors, PricewaterhouseCoopers LLP, attended and received papers for each meeting. The Group Treasurer and Head of Personal Finance and the Head of Tax delivered an annual presentation to the Committee. The Company Secretary, who is supported on this committee by the Deputy Company Secretary, attends all meetings in his capacity as Secretary of the Committee but also reports on any material litigation and corporate governance issues including an ongoing review of external auditor independence. After each meeting the Chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

The Committee also met privately with the Company's external auditors twice during the year and once with the Director of Internal Audit and Risk and the Chief Financial Officer.

Corporate governance report continued

The Committee's primary responsibilities are to monitor the integrity of financial statements, review changes in accounting principles, review internal and external audit activity and monitor effectiveness of the risk management and internal control environment.

Audit Committee continued

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, 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' 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 reviewed annually. The policy covers matters such as that auditors and their staff must 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 board in respect of re-appointment annually for inclusion in the Notice of 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 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 by the Company Secretary.

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 auditor auditing its own work, or making management decisions for the Company, and those where some mutuality of interest is created or where the external auditor is 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.

£0.2 million was paid by the Company to PricewaterhouseCoopers for non-audit services in respect of advisory services. The audit fees paid by the pension schemes were £30,700.

External auditors' evaluation
The performance evaluation of PricewaterhouseCoopers was conducted internally through the circulation of a questionnaire to members of the Audit Committee and to key customers within the business. The results of the evaluation were very satisfactory.

External auditors' appointment
In accordance with auditing standards and to protect independence and objectivity, Martin Hodgson, the current audit partner who has served on the Debenhams account for the last five years, was succeeded at the start of the new financial year, 1 September 2013, by John Ellis. Mr Ellis has already conducted a review of the external audit plan for 2014 and is undergoing an induction programme with the Company to enhance his knowledge of Debenhams' business.

Having considered the external auditors' performance, effectiveness, resource, objectivity, independence, including the extent of non-audit services provided, the Committee has recommended to the board that PricewaterhouseCoopers LLP, who have served as auditors of the Company since May 2006, be re-elected auditors for 2014.

Mark Rolfe
Chairman, Audit Committee

Introduction to Remuneration Committee
Embracing transparent remuneration reporting

Remuneration Committee:
Main activities during the year
- Reviewed revised reporting regulations and prepared a new look directors' remuneration report
- Reviewed performance against targets for the executive directors' 2013 bonuses
- Reviewed the executive remuneration strategy for 2014
- Approved the executive directors' bonus plan for 2014
- Reviewed its terms of reference
- Reviewed the Company pension contribution for the Chief Executive

Dear shareholder
On behalf of the Remuneration Committee, I am pleased to present our remuneration report for 2013. The new remuneration reporting regulations do not apply to Debenhams until 2014. However, the Committee decided to include a number of the required disclosures this year to improve transparency and enhance the quality of our communication with shareholders. We hope shareholders find this new format useful.

We have made good progress this year in implementing our four pillar strategy to build a leading international, multi-channel brand:

- Modernised and new stores are performing well
- We have grown or maintained market share in all key categories
- Online sales grew by 46.2%
- International sales increased by 3.7% and six new franchise stores opened in the year including two new markets

The retail marketplace, however, remains highly competitive and the profit before tax (PBT) target set for the 2013 annual bonus was not met. Threshold levels of like-for-like sales and gross margin performance were met, however, in light of the overall profit performance, the executive directors elected not to receive any bonus for 2013.

The annual bonus criteria – PBT and like-for-like sales growth and gross margin performance – will remain unchanged but any pay-out in respect of the like-for-like sales growth and gross margin percentage matrix will be subject to meeting threshold levels of PBT performance. The executive directors have elected not to take a pay increase this year and the Committee concurred. PSP awards for 2014 will be made once targets have been finalised.

During the year, the Committee reviewed the Chief Executive's pension allowance and determined that the current pension allowance of 15% of base salary was at the lower end of market practice compared to our retail peers and practice for the FTSE 250. The Committee therefore considered that it was appropriate to increase his pension allowance to 20% of base salary.

The Committee continues to believe that executive remuneration arrangements are structured to support the delivery of our four pillar strategy and no changes are proposed at this time. The Committee will continue to keep the structure of remuneration arrangements under review.

Dennis Millard
Chairman, Remuneration Committee

Remuneration policy

Remuneration at a glance

Salary	**Chief Executive** – £615,000 **CFO** – £410,000	
Annual bonus	Maximum of 100% of base salary	80% based on PBT. 20% based on a performance matrix of like-for-like sales growth and gross margin percentage performance.
PSP	**Chief Executive** – Usual award of 150% of base salary **CFO** – Usual award of 100% of base salary	75% of the award granted may vest dependent on EPS performance and 25% dependent upon ROCE performance versus cost of capital. Both performance metrics are measured over a three year performance period.
Pension allowance	**Chief Executive** – A cash payment of 20% of base salary **CFO** – A cash payment of 15% of base salary	
Benefits	Flexible benefits allowance and other core benefits	

Introduction

This remuneration report for the year ended 31 August 2013, 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.

Although Debenhams is not formally required to comply with the new executive remuneration reporting regulations (The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013) until the year ending 30 August 2014, we have provided additional disclosure in anticipation of the new requirements in order to help our shareholders better understand our remuneration policy and practice.

This report will be put to an advisory shareholder vote at the Annual General Meeting in December 2013.

Directors' remuneration policy

Link between remuneration and strategy

Our executive remuneration policy has been designed to support our Group strategy:

- **Reward philosophy** – Our reward philosophy is that remuneration arrangements should be set at a level that is sufficient to recruit and retain an individual of the calibre required to run the business without paying more than is necessary to do so.
- **Alignment with our business strategy** – 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 pillars of our business strategy. These are an annual focus on profitability and increasing sales volume while improving margin, and a long-term focus on growing earnings and delivering a sustainable level of return on capital. Market conditions are also taken into consideration when setting pay.
- **Alignment with shareholders** – Variable remuneration opportunity is delivered in Debenhams shares through the PSP and through the annual bonus. The Committee operates a shareholding guideline policy for executive directors which aligns the interests of executives with our shareholders and demonstrates the executives' on-going commitment to the business.

Remuneration policy table

The table below sets out a summary of our remuneration policy for executive directors:

Element	Purpose and link to remuneration policy	Key features / operation	What is the maximum potential value?	Performance metrics
Base salary	• Supports the recruitment and retention of executive directors of the calibre required to fulfil the role without paying more than is necessary to do so • Rewards executives for the performance of their role	• Paid in cash • Normally reviewed annually • In determining base salaries, the committee considers: – Pay levels at companies of a similar size and complexity and other FTSE 350 retailers – External market conditions – Pay and conditions elsewhere in the Group – Contribution to corporate performance – Personal performance	• The Committee's policy is to set base salary at an appropriate level taking into account the factors outlined in this table • Current salaries are: – Chief Executive – £615,000 – CFO – £410,000 • No base salary increases were awarded to executive directors from 1 September 2013	N/A
Pension	• Provides funds to allow executives to save for retirement • Provides a market competitive retirement benefit • Incentive and retention tool	• In determining pension arrangements, the Committee takes into account relevant market practice and practice throughout the Group • Executive directors are provided a cash allowance in lieu of a pension provision • The Chief Executive is a deferred member of the Debenhams Executive Pension Plan and he ceased to accrue benefits under that plan on 31 March 2006	• The Chief Executive's cash pension allowance is 20% of base salary with the cash pension allowance for the CFO being set at 15% of base salary	N/A
Benefits	• To provide a market-competitive level of benefits for executive directors	• Executive directors have a benefits allowance which can be used to fund a range of benefits. This approach is used also for the wider management population • Executive directors receive life assurance. The Chief Executive also receives a financial planning allowance, travel allowance and a fuel card • Executive directors are eligible to receive a staff discount in line with other senior executives • Executive directors may participate in any all employee share plans which may be operated by the Company on the same terms as other employees • The Committee may determine that executive directors should receive other reasonable benefits if appropriate taking into account typical market practice	N/A	N/A

Remuneration policy continued

Element	Purpose and link to remuneration policy	Key features / operation	What is the maximum potential value?	Performance metrics
Annual bonus	• Rewards and incentivises the achievement of annual financial objectives which are aligned with key strategic goals and supports the enhancement of shareholder value	• Paid in cash following year end • Bonuses are not pensionable	• Maximum opportunity of 100% of base salary • The bonus starts accruing from threshold levels of performance	• Bonus payouts 100% based on financial metrics – 80% based on PBT and 20% based on a matrix of like-for-like sales growth and gross margin percentage performance • The Committee determines appropriate performance metrics to support the annual business strategy, external expectations and the enhancement of shareholder value • Targets are set by the Committee on an annual basis
Performance Share Plan ("PSP")	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value • Enhances shareholder value by motivating growth in earnings and maintenance of an efficient and sustainable level of return on capital • Aligns with shareholder interests through the delivery of shares • Acts as a retention tool	• Awards vest after three years based on Group financial targets • Awards can be in the form of free shares or 0.01p options. Where awards are in the form of 0.01p options, participants have six months from vesting to exercise awards	• Maximum plan award of 200% of base salary (250% of base salary in exceptional circumstances) • Usual award levels are: – Chief Executive: 150% of base salary – CFO: 100% of base salary • 30% of award vests for target levels of performance	• PSP awards are subject to a combination of EPS (75%) and ROCE (25%) • The Committee sets three year performance targets each year, taking into account the business plan, external expectations and market practice

The table below sets out details of other plans that the Company has in place. It is not currently intended that these plans will be operated during 2014. However, the Committee retains the discretion to operate these plans if it considers it to be appropriate and in the best interests of shareholders.

Element	Purpose and link to remuneration policy	Key features/operation	What is the maximum potential value?	Performance metrics
Deferred Bonus Matching Plan ("DBMP")	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value • Aligns executives' interests with shareholders through the investment of their cash bonus into shares	• The Committee can invite participants to invest up to 100% of their net bonus into shares • If the participant remains in employment and retains the invested shares for three years they may receive matching shares of up to the gross amount of the bonus deferred subject to performance conditions being met over a three year period	• The Committee would operate this plan when it considers it to be appropriate and in the best interests of shareholders	• If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award
Executive Share Option Plan ("ESOP")	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value	• Market value share options • Three year vesting period • 10 year exercise period from the date of grant • 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)	• The Committee may operate this plan in the future if it considers it to be appropriate and in the best interests of shareholders • The maximum award that can be made under the plan is 100% of base salary. Options may, in exceptional circumstances, be granted with a market value in excess of this amount at the discretion of the Remuneration Committee	• If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award

Recruitment remuneration arrangements

In the event that the Company recruits a new executive director (either from within the organisation or externally) when determining appropriate remuneration arrangements, the Committee will take into consideration all relevant factors (including but not limited to quantum, the type of remuneration being offered and the jurisdiction the candidate was recruited from) to ensure that arrangements are in the best interests of both the Company and its shareholders without paying more than is necessary to recruit an executive of the required calibre.

The Committee would generally seek to align the remuneration package offered with our remuneration policy outlined in the table above. However, the Committee retains discretion to make proposals on hiring a new executive director which are outside the standard policy. In the first year of appointment, the Committee may offer additional remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual. Such remuneration may be made in the form of cash or share based awards which may vest immediately or at a future point in time. Vesting may be subject to performance conditions selected by the Committee.

The Committee may make awards on appointing an executive director to "buy-out" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Generally buy-out awards will be made on a comparable basis to those forfeited.

In the event of recruitment, the Committee may also grant awards to a new executive director under the Listing Rule 9.4.2 which allows for the granting of awards, specifically to facilitate, in unusual circumstances, the recruitment or retention of an executive director, without seeking prior shareholder approval.

Remuneration policy continued

Remuneration outcomes in different performance scenarios
The charts below set out an illustration of the remuneration policy for 2014 in line with the remuneration policy. The charts provide an illustration of the proportion of total remuneration made up of each component of the remuneration policy and the value of each component.

Three scenarios have been illustrated for each executive director:

Below threshold performance	• Fixed remuneration • No annual bonus payout • No vesting under the Performance Share Plan
Mid-range performance	• Fixed remuneration • 50% annual bonus payout • 50% vesting under the Performance Share Plan
Maximum performance	• Fixed remuneration • 100% annual bonus payout • 100% vesting under the Performance Share Plan

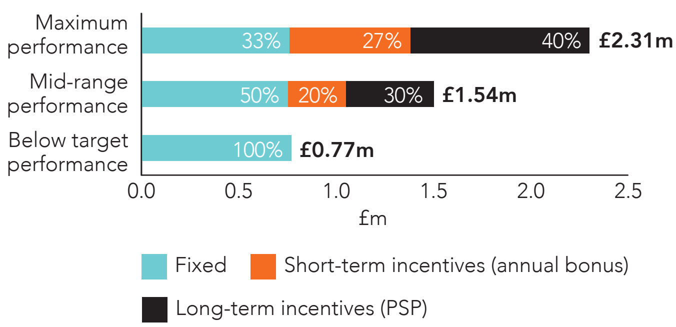
Fixed pay for 2013 comprised the following elements:

	Salary	Benefits	Pension	Total
Chief Executive – Michael Sharp	£615,000	£36,896	£123,000	£774,896
CFO – Simon Herrick	£410,000	£18,375	£61,500	£489,875

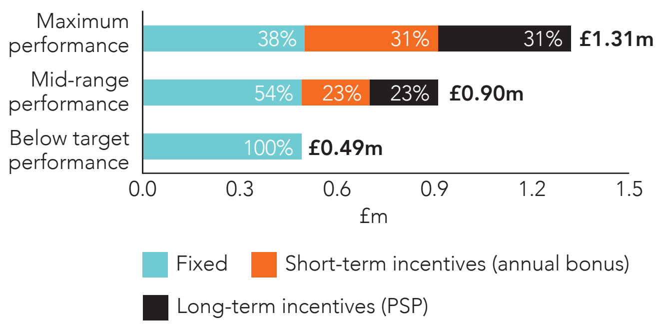
- Base salary is the base salary with effect from 1 September 2013 which remains unchanged from the prior year
- Benefits are the value of benefits for 2013 as disclosed in the emoluments table
- Pension is based on the cash contribution of 20% of base salary for the Chief Executive (annualised for illustrative purposes) and 15% of base salary for the CFO

The scenarios below do not take into account share price appreciation or dividends.

Chief Executive



CFO



Executive director service 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 basic salary and the value of any contractual benefits for the notice period including any accrued but untaken holiday.

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 including any accrued but untaken holiday.

The Committee generally seeks to apply practical mitigation in respect of termination payments where appropriate.

The service agreements are available to shareholders to view on request from the Company Secretary.

Incentive plan – leaver provisions

In the event of cessation of employment, outstanding unvested awards typically lapse. However, the Committee may determine in certain exceptional circumstances, and in accordance with the plan rules, that awards/options may vest taking into account performance against targets and the time elapsed between grant and cessation of employment.

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.

Considering employee remuneration arrangements

Debenhams employs a large number of colleagues in a variety of roles; from store sales advisors to sales directors, buyers and support staff, across a range of geographies. Our reward structure for executive directors to store sales advisors is built around a set of common reward principles but our reward framework is altered as necessary to suit the needs of the business for our different employee groups across the Company. Reward packages therefore differ taking into account a number of appropriate factors including seniority, impact on the business, local practice, custom and legislation.

The remuneration policy for the executive directors reflects the overall remuneration philosophy and principles of the wider Group. 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.

When considering salary increases for the executive directors, the Committee considers the general level of salary increase across the Group. Typically, salary increases will be aligned with those received elsewhere in the Group unless the Committee considers that specific circumstances require a different level of salary increase for executive directors.

The remuneration arrangements for the members of the executive committee who are not executive directors fall within the Committee's remit ensuring a common approach to the design of reward and determining reward outcomes for the most senior people within the organisation.

Considering shareholder views

The Committee is committed to an on-going dialogue with shareholders and seeks shareholder views when any significant changes are being made to remuneration arrangements. Over the last few years the committee has consulted with shareholders regarding the use of the Deferred Bonus Matching Plan and the performance measures for the annual bonus plan and Performance Share Plan. The Committee takes into account the views of shareholders when formulating and implementing the policy.

Remuneration policy for non-executive directors

Fees for non-executive directors are set at an appropriate level to recruit and retain directors of a sufficient calibre without paying more than is necessary to do so.

Fees are set taking into account the following factors: the time commitment required to fulfil the role; typical practice at other companies of a similar size and complexity to Debenhams; and salary increases awarded to employees throughout the Group.

Our non-executive director fees policy is to pay a basic fee for membership of the board, and additional fees for the Senior Independent Director, chairmanship of a committee and membership of a committee to take into account the additional responsibilities and time commitment of these roles. The non-executive directors are also eligible for a staff discount.

Fees are reviewed at appropriate intervals (normally once every year) by the board. There is no increase in fees planned for 2014.

Our current fee policy is as follows:

- Basic fee – £40,000
- Senior Independent Director – £10,000
- Committee chairmanship fee (Audit and Remuneration) – £10,000
- Committee chairmanship fee (Sustainability) – £7,500
- Committee membership fee (per committee) – £2,500

The fees for the Chairman's role are set taking into account the time commitment of the role, the skills and experience of the individual and typical market practice for other companies of a similar size and complexity. The Chairman is also eligible for a staff discount.

Remuneration policy continued

The table below sets out the fees payable to each director not performing an executive function in respect of 2013.

Director	Roles	Date of joining the Company	Basic fee	Additional fees: Committee member fee	Additional fees: Committee Chairman fee	Additional fees: SID fee	Total
Nigel Northridge	Non-executive Chairman, Chairman of Nomination Committee, member of Remuneration Committee	1 January 2010	£175,000	–	–	–	**£175,000**
Dennis Millard	SID, Chairman of the Remuneration Committee, member of Audit and Nomination Committees	9 May 2006	£40,000	£5,000	£10,000	£10,000	**£65,000**
Martina King	Chairman of the Sustainability Committee, member of Remuneration, Audit and Nomination Committees	1 August 2009	£40,000	£7,500	£7,500	–	**£55,000**
Mark Rolfe	Chairman of the Audit Committee, member of Remuneration and Nomination Committees	1 October 2010	£40,000	£5,000	£10,000	–	**£55,000**
Sophie Turner Laing	Member of Remuneration, Audit and Nomination Committees	1 August 2009	£40,000	£7,500	–	–	**£47,500**
Peter Fitzgerald	Member of Audit Committee	4 October 2012	£40,000	£2,500	–	–	**£42,500**
Stephen Ingham	Member of Remuneration Committee	8 January 2013	£40,000	£2,500	–	–	**£42,500**

Non-executive directors do not participate in the annual bonus plan or any long-term incentive plans.

Terms and conditions for Chairman and non-executive directors
Nigel Northridge was appointed as 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 his initial appointment was for three years ending on 31 March 2013. This was extended by mutual agreement for a further three years to 31 March 2016 and may be extended by further terms of three years by mutual agreement.

The Chairman's appointment may be terminated by the Company in accordance with the Company's Articles of Association, the Companies Act 2006 or upon the Chairman's resignation. In the event of early termination of contract there will be no payment for loss of office or for the unexpired appointment term. 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 are 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 to 31 July 2015 following the end of their initial engagement on 31 July 2012. Mark Rolfe has been appointed for a further three years to 1 October 2016 following the end of his initial engagement on 1 October 2013. Dennis Millard was appointed on 9 May 2006 and following two three-year terms his appointment has been extended on an annual basis.

Non-executive director appointments may be terminated by the Company in accordance with the Company's Articles of Association, the Companies Act 2006 or upon the director's resignation. In the event of early termination of contract there will be no payment for loss of office or for the unexpired appointment term. Dennis Millard's appointment may be terminated by either party giving one month's notice. Mr Millard is not eligible for any payment in lieu of notice.

All appointments are subject to the Company's Articles of Association and the annual shareholders' re-election.

What did executive directors earn in respect of 2013?
The table below sets out a single figure of remuneration for each executive director for 2013.

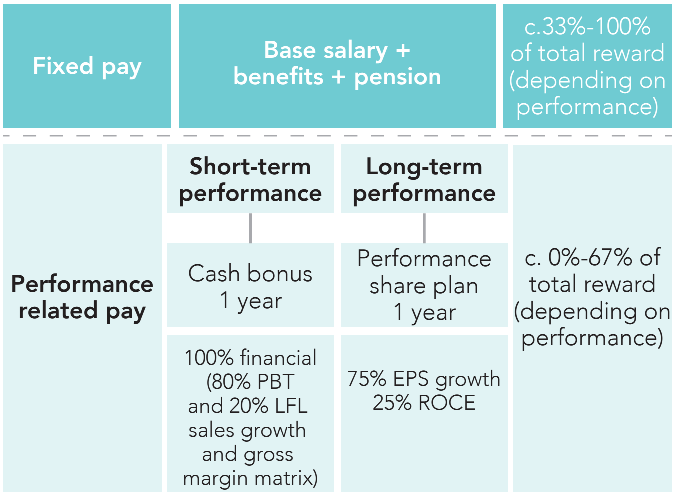
					Long-term incentives			
		Base salary	Benefits	Annual bonus	PSP	ESOS	Retirement benefits	Total
Michael Sharp – Chief Executive	2013	£615,000	£36,896	Nil	N/A	N/A	£102,500	**£754,396**
Simon Herrick – CFO	2013	£410,000	£18,375	Nil	N/A	N/A	£61,500	**£489,875**

The following provides details of how the single number has been calculated:

- **Base salary** – The executive directors elected not to take a pay increase this year.
- **Benefits** – Executive directors receive a benefits allowance which can be used to purchase benefits under the Group scheme. In addition, the executive directors receive life assurance. The Chief Executive also receives a financial planning allowance, a travel allowance and a fuel allowance. The value of the benefits allowance and the additional benefits is included in the table above.
- **Annual bonus** – The maximum bonus for the year was 100% of base salary. The bonus for the period was based on 80% PBT and 20% on a like-for-like sales growth and gross margin percentage matrix. 40% of salary would have been payable for meeting threshold levels of performance with the maximum bonus only being payable for achieving performance significantly in excess of this level.

  PBT targets were not met and therefore no portion of the annual bonus based on those targets paid out. Threshold levels of like-for-like sales growth and gross margin performance were met which triggered a bonus of 2% of salary. In light of the overall profit performance, however, the executive directors elected not to take any bonus for 2013.
- **PSP** – No PSP awards were granted in 2010 and therefore no awards will vest in respect of performance delivered in the year.
- **ESOP** – No ESOP awards were granted in 2010 and therefore no awards will vest in respect of performance delivered in the year.
- **Retirement benefits** – Michael Sharp is a deferred member of the Debenhams Executive Pension Plan. The increase in his accrued pension, calculated using the methodology set out in the revised remuneration reporting regulations, was nil. Mr Sharp received a cash contribution in lieu of pension of 15% of base salary from 2 September 2012 to 30 April 2013 and of 20% of base salary from 1 May 2013 to 31 August 2013 (totalling £102,500). Simon Herrick received a cash contribution in lieu of pension of 15% of base salary (£61,500).

Components of remuneration
The following chart provides a summary of the different elements of pay that will be operated for 2014.



Base salary
Executive directors did not receive a salary increase with effect from 1 September 2013 in line with the executive committee.

Chief Executive	£615,000
CFO	£410,000

Strategic report
Directors' report
Corporate governance report
Directors' remuneration report
Financial statements

Remuneration policy continued

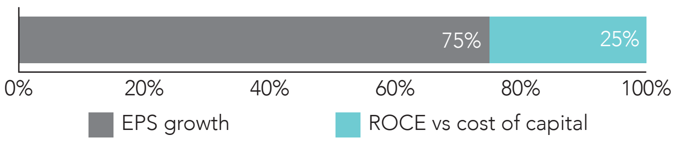
Annual bonus
The annual bonus for 2014 will be based on the same criteria as 2013 with 80% based on PBT and 20% on a matrix of like-for-like sales growth and gross margin percentage performance. The Committee considers that these measures are the most appropriate to create a strong alignment with shareholder value creation and effectively incentivise executives to meet profit and like-for-like sales growth targets on an annual basis whilst ensuring focus on the level of gross margin. These criteria also create alignment with the longer term four-pillared strategy. The proportion of the bonus based on like-for-like sales growth and gross margin will only pay out if threshold performance is achieved under the PBT measure. In addition to considering performance against targets, the Committee will consider the overall quality of the Company's financial performance when determining annual bonus payments.

	%
PBT	80
LFL sales growth and gross margin matrix	20

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

Debenhams' Performance Share Plan ("PSP")
It is intended that a PSP award will be granted to executive directors in 2014 with a face value of 150% of base salary for the Chief Executive and 100% of base salary for the CFO.

Performance for PSP awards granted in 2011 and 2012 was based on stretching earnings per share (EPS) and return on capital employed (ROCE) performance targets. This is illustrated below:



The Committee considers that EPS and ROCE versus the cost of capital 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 is closely aligned with the creation of shareholder value.

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. Cost of capital is calculated based on the weighted average cost of capital as determined by the Committee following advice from the Company's brokers.

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.

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.

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.

2014 PSP awards
PSP awards for 2014 will be made once targets have been finalised. Details of the performance measures and targets will be provided in the RNS announcement released at the time of the grant of awards.

2013 PSP awards
In November 2012, the Chief Executive received an award of 200% of base salary (994,341 shares with a face value of c.£1,230,000) and the CFO received an award of 100% of base salary (331,447 shares with a face value of c.£410,000).

Date of grant	Performance period	Performance measures	75% based on absolute EPS growth	25% based on ROCE performance vs. cost of capital
1 November 2012	2 September 2012 to 29 August 2015	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%

2012 PSP awards
The table below sets out the performance conditions for the 2012 PSP awards:

Date of grant	Performance period	Performance measures	75% based on absolute EPS growth	25% based on ROCE performance vs. cost of capital
1 November 2011	4 September 2011 to 30 August 2014	Threshold (30% vesting)	Absolute EPS growth of 6% per annum	Average ROCE 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%

The Debenhams Deferred Bonus Matching Plan (the "DBMP")
It is not intended to operate the DBMP this year unless exceptional circumstances arise that, in the Committee's view, warrant the operation of this plan.

Debenhams' Executive Share Option Plan ("ESOP")
It is not intended to operate the ESOP this year unless exceptional circumstances arise that, in the Committee's view, warrant the granting of options.

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 Retail Employee Trust 2004 (the "Trust")
The Debenhams Retail Employee Trust 2004 currently holds 808,655 shares in the Company. 200,000 shares are held in the Trust to satisfy potential awards made under The Debenhams 2008 Share Incentive Plan (a plan for employees who are not executive directors) and 335,118 represent the invested shares of participants of the DBMP. 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 utilising shares held as treasury shares, acquiring shares in the market or issuing new shares. Where the awards are satisfied by newly issued shares or treasury shares, the Company will comply with ABI guidelines on shareholder dilution.

Current levels of shareholder dilution are 0.83% (2012: 0.69%) of share capital.

Remuneration policy continued

Pension entitlements

Michael Sharp participated in the Debenhams Executive Pension Plan until 2006 (a defined benefit plan) and is now a deferred member of this scheme. His normal retirement date under this plan is 31 March 2017. Michael Sharp is not entitled to any additional benefits if he retires prior to this date; any benefits drawn will be actuarially reduced to reflect early retirement. Full details are disclosed on page 82 of this report.

During the year, the Committee reviewed the Chief Executive's current remuneration package and pension allowance and determined that the current pension allowance of 15% of base salary was at the lower end of market practice compared to our retail peers and other FTSE 250 companies. The Committee therefore considered that it was appropriate to increase his pension allowance to 20% of base salary. The revised allowance is in-line with the level of pension allowance received by other senior executives at Debenhams of a similar age and with a similar length of service who historically participated in the defined benefit pension plan. In making this decision, the Committee considered the impact of the overall positioning of the package and the pay and conditions for other employees in the Group and determined that this increase was appropriate.

The CFO is entitled to a salary supplement in lieu of pension provision of 15% of base salary, in line with other senior executives who joined the Company since 2004. These amounts are disclosed in the directors' emoluments table on page 81.

Directors' shareholdings

The interests of the directors in the share capital of the Company as at 31 August 2013 are shown below.

Directors	Ordinary shares held as at 2 September 2012	Ordinary shares held as at 31 August 2013	Ordinary shares held as at 11 October 2013
Nigel Northridge	100,000	100,000	100,000
Michael Sharp	5,954,579	6,360,067	6,360,067
Simon Herrick	26,250	34,900	34,900
Peter Fitzgerald	0	0	0
Stephen Ingham	0	0	0
Martina King	10,000	10,000	10,000
Dennis Millard	69,445	69,455	69,455
Mark Rolfe	30,000	30,000	30,000
Sophie Turner Laing	20,000	20,000	20,000

Executive directors' shareholding guidelines

In order to align the interests of executive directors with those of shareholders and to demonstrate the executive directors' ongoing personal financial commitment to the business, the Committee introduced a shareholding guideline policy in 2012. Executive directors are expected to build 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.

The following shows details of the executive directors' shareholding compared to their requirement:

	Number of shares	Value (based on 3 month average share price at year end 100.8246p)	Shareholding as % of salary	Shareholding requirement	Requirement met?
Chief Executive	6,360,067*	£6,412,513	1,043%	100%	Yes
CFO	34,900	£35,188	9%	100%	The CFO was appointed on 10 January 2012 and has a period of five years to meet this guideline

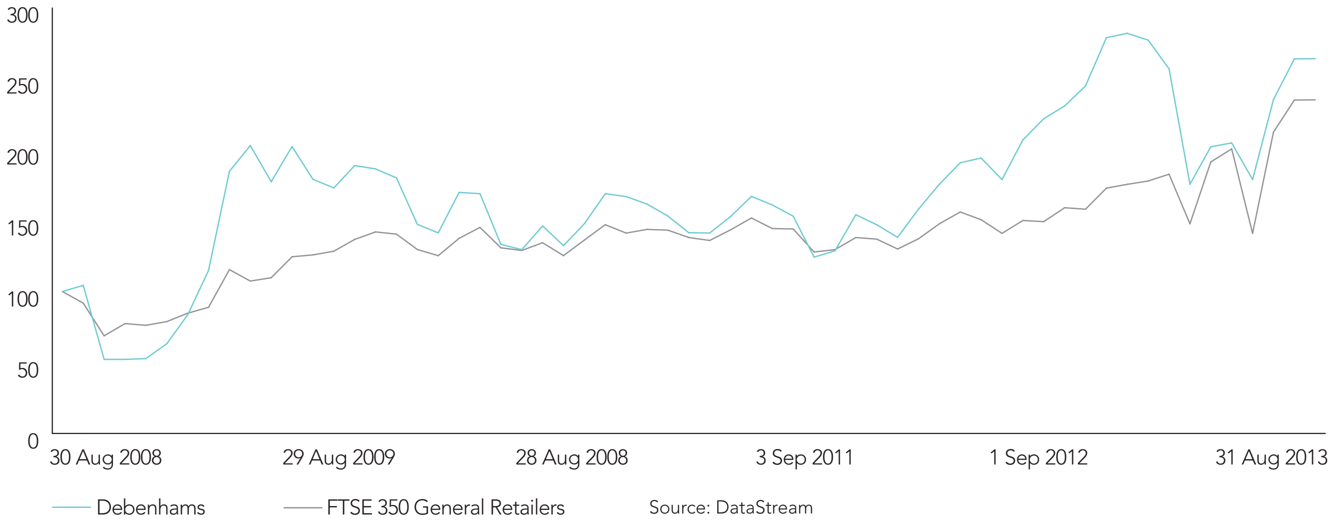
* Includes 155,488 vested PSP shares that were exercised in November 2012 which the Chief Executive paid the tax on without sale of any of the shares.

Outside appointments for executive directors

Executive directors may undertake external directorships with the consent of the board. 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.

TSR performance graph

The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from 30 August 2008 to 31 August 2013. The 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 comparators) in the principal product areas in which the Company trades.



Historical Chief Executive pay

The table below sets out details of the Chief Executive's pay for the current year and the previous four years and the payout of incentive awards as a proportion of the maximum opportunity for each period. The Chief Executive's pay is calculated as per the single figure of remuneration shown on page 75.

	2009*	2010*	2011*	2012	2013
Single figure of total remuneration	£1,245,642	£ 1,477,607	£1,044,515	£1,288,857	£754,396
Annual variable element award rates against maximum opportunity	63.6%	100%	33.3%	40%	0%
Long term incentive vesting rates against maximum opportunity	PSP: 0%	N/A	N/A	PSP: 32% ESOP: 100%	N/A

* The Chief Executive position for the period 2009-2011 was held by Rob Templeman. The Chief Executive position for 2012 and 2013 was held by the current incumbent Michael Sharp who previously held the role of Deputy Chief Executive.

Details of the Remuneration Committee and advisors to the Committee

Committee members

The Committee Chairman, Dennis Millard, is joined by Nigel Northridge, Stephen Ingham, Martina King, Mark Rolfe and Sophie Turner Laing to form the Remuneration Committee. Details of the members' background and experience is provided within their biography on pages 56 to 57.

Director	Position	Number of meetings held and attended during the year (of those eligible to attend)
Dennis Millard Committee Chairman	Senior independent director	4/4
Stephen Ingham	Independent non-executive director	1/1*
Martina King	Independent non-executive director	4/4
Nigel Northridge	Independent non-executive Chairman	4/4
Mark Rolfe	Independent non-executive director	4/4
Sophie Turner Laing	Independent non-executive director	4/4

* Stephen Ingham joined the Company and the Remuneration Committee on 8 January 2013 and therefore was only eligible to attend one meeting during the period.

Remuneration policy continued

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 the executive committee, 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.

During the year the Committee considered the following:

Meeting	Items considered
September 2012	• Review of performance under bonus scheme for the financial year 2012 • Approval of bonus structure proposals for the executive directors and Company schemes for financial year 2013 • Discussion of 2013 Performance Share Plan awards for the Chief Executive, Chief Financial Officer and senior executives • Salary benchmarking and proposals for executive directors
18 October 2012	• Approval of bonus payments for executive directors for the financial year 2012 • Approval of award under the Performance Share Plan for the Chief Executive and Chief Financial Officer • Review of share plan maturity in 2012 • Approval of bonus scheme for the financial year 2013 • Approval of the remuneration report • Review of remuneration consultants' voluntary code of conduct (Deloitte) • Treatment of leavers under the PSP
22 October 2012	• Approval of vesting of share based awards in 2012
April 2013	• Review of Company pension contribution for the Chief Executive • Update on the new directors' remuneration report regulations • Preliminary discussions for arrangements in the financial year 2014 • Appraisal of the performance of the remuneration consultants
September 2013	• Review of performance under bonus schemes for the financial year 2013 • Review of share plan maturity in 2013 • Bonus structure proposals for the executive directors and Company schemes for financial year 2014 • Discussion of 2014 Performance Share Plan awards for the executive directors and senior executives • Review of the draft 2013 directors' remuneration report
October 2013	• Review of performance against bonus targets for executive directors for the financial year 2013 • Approval of the 2013 directors' remuneration report

The September and October 2013 meetings took place after the year end but prior to the publication of the report and accounts.

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. The fees for advice provided to the Committee during the financial year were £18,500.

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 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.

Deloitte was appointed by the Committee. It is the view of the Committee that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Debenhams that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

During the year the Committee undertook an evaluation of the remuneration committee advisors and concluded that the advice received is independent and straightforward and that the Committee has confidence in its advisors.

The Chief Executive, CFO and HR Director have attended certain 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.

Summary of shareholder voting
Debenhams remains committed to ongoing shareholder dialogue and takes an active interest in voting outcomes. In the event of a substantial vote against a resolution in relation to directors' remuneration, Debenhams would seek to understand the reasons for any such vote and would set out in the following Annual Report and Accounts any actions in response to it.

The following table sets out actual voting in respect of our previous report:

	For	Against
2012 directors remuneration report (January 2013 Annual General Meeting)	99.36%	0.64%

18,594,763 votes were withheld in relation to this resolution (c.1.5% of share capital).

Audited information
Directors' emoluments
The remuneration of each director who served during the year is set out in the table below:

Director	Salary/fees (£)	Benefits (£)	Bonus (£)	Annual allowance in lieu of pension (£)	Total 2013 (£)	Total 2012 (£)
Nigel Northridge	175,000	–	–	–	175,000	175,000
Michael Sharp	615,000	36,896	–	102,500	754,396	969,361
Simon Herrick	410,000	18,375	–	61,500	489,875	532,782
Martina King	55,000	–	–	–	55,000	55,000
Dennis Millard	65,000	–	–	–	65,000	65,000
Mark Rolfe	54,971	–	–	–	54,971	47,500
Sophie Turner Laing	47,500	–	–	–	47,500	47,500
Peter Fitzgerald*	38,494	–	–	–	38,494	–
Stephen Ingham**	27,734	–	–	–	27,734	–
Total	**1,488,699**	**55,271**	**–**	**164,000**	**1,707,970**	**1,892,143**

Notes:
* Mr Fitzgerald joined the Company on 4 October 2012.
** Mr Ingham joined the Company on 8 January 2013.

Remuneration policy continued

Pensions

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.

	Increase in accrued pension during the year (£)	Increase in accrued pension during the year (net of inflation) (£)	Accumulated total accrued pension at 31 August 2013 (£)	Transfer value as at 1 September 2012 of accrued pension as at 1 September 2012 (£)	Transfer value as at 31 August 2013 of accrued pension as at 31 August 2013 (£)	Increase in transfer value during the period (£)
Michael Sharp	5,343	152	205,016	5,172,559	5,656,919	484,360

Directors' interest in the Performance Share Plan

Director	Date of award	Number of shares held at 1 September 2012	Shares awarded during the year	Shares lapsed during the year	Shares exercised during the year	Number of shares held at 31 August 2013	Market value on date of award	Earliest date of vesting	Expiry date of options
Michael Sharp	24 November 2009	485,902	0	330,414	155,488*	0	83.35p	24 November 2012	–
	1 November 2011	1,396,973	0	0	0	1,396,973	64.43p	1 November 2014	1 May 2015
	1 November 2012	0	994,341	0	0	994,341	123.7p	1 November 2015	1 May 2016
Simon Herrick	1 November 2011	620,877	0	0	0	620,877	64.43p	1 November 2014	1 May 2015
	1 November 2012	0	331,447	0	0	331,447	123.7p	1 November 2015	1 May 2016

* In respect of the performance share award granted on 24 November 2009, Mr Sharp exercised 155,488 shares on 18 April 2013 with a market value per share of 84.4p.

Directors' interest in the Executive Share Option Plan

	Date of award	Number of shares held at 1 September 2012	Shares granted during the year	Shares lapsed during the year	Shares vested during the year	Option price	Number of shares held at 31 August 2013	Earliest date of exercise	Expiry date of options
Michael Sharp	Approved scheme 24 November 2009	35,108	0	0	35,108	85.45p	35,108	24 November 2012	24 November 2019
	Unapproved scheme 24 November 2009	438,853	0	0	438,853	85.45p	438,853	24 November 2012	24 November 2019

The closing mid-market price of the Company's shares on 30 August 2013 was 107.1p and ranged from 78.8p to 123.7p during the period from 2 September 2012 to 31 August 2013.

On behalf of the board

Dennis Millard
Chairman of the Remuneration Committee
24 October 2013

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' 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
- 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 directors' 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
- 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

On behalf of the board

Michael Sharp
Chief Executive

Simon Herrick
Chief Financial Officer

24 October 2013

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

We have audited the Group financial statements of Debenhams plc for the year ended 31 August 2013 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 83, 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 31 August 2013 and of its profit and cash flows for the year 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 financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the risk review set out on pages 42 to 51 with respect to internal control and risk management systems and the information given in the directors report on page 53 about share capital structures 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; or
- 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 54, 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 year ended 31 August 2013 and on the information in the directors' 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

24 October 2013

Consolidated Income Statement

For the financial year ended 31 August 2013

	Note	52 weeks ended 31 August 2013 £m	52 weeks ended 1 September 2012 £m
Revenue	3, 4	**2,282.2**	2,229.8
Cost of sales		**(1,972.1)**	(1,927.5)
Gross profit		**310.1**	302.3
Distribution costs		**(97.4)**	(81.0)
Administrative expenses		**(44.7)**	(46.3)
Operating profit	6	**168.0**	175.0
Finance income	8	**1.5**	1.2
Finance costs	9	**(15.5)**	(17.9)
Profit before taxation		**154.0**	158.3
Taxation	10	**(26.1)**	(33.0)
Profit for the financial year attributable to owners of the parent		**127.9**	125.3

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

		Pence per share	Pence per share
Basic	12	**10.2**	9.8
Diluted	12	**10.2**	9.8

Consolidated Statement of Comprehensive Income

For the financial year ended 31 August 2013

	Note	52 weeks ended 31 August 2013 £m	52 weeks ended 1 September 2012 £m
Profit for the financial year		**127.9**	125.3
Other comprehensive income/(expense)			
Items that will not be reclassified to profit and loss			
Actuarial gains/(losses) recognised in the pension schemes	23	**15.6**	(82.3)
Deferred tax (charge)/credit on actuarial losses or gains	24	**(6.3)**	16.9
Current tax credit on the pension schemes		**2.5**	2.3
Items that may be reclassified to profit and loss			
Currency translation differences		**3.6**	(6.7)
Change in the valuation of the available-for-sale investments	15	**(0.8)**	(0.7)
Gains on cash flow hedges		**11.9**	5.0
Gains on cash flow hedges – tax charge		**(2.7)**	(1.6)
Transferred to the income statement on cash flow hedges	9	**3.3**	2.0
Transferred to the income statement on cash flow hedges – tax charge		**(0.8)**	(0.4)
Recycled and adjusted against cost of sales		**(7.6)**	(1.9)
Recycled and adjusted against cost of sales – tax charge		**1.7**	0.5
Total other comprehensive income/(expense)		**20.4**	(66.9)
Total comprehensive income for the year		**148.3**	58.4

Consolidated Balance Sheet
As at 31 August 2013

	Note	31 August 2013 £m	1 September 2012 £m
Assets			
Non-current assets			
Intangible assets	13	**876.5**	864.9
Property, plant and equipment	14	**692.1**	661.6
Available-for-sale investments	15	**1.1**	1.9
Derivative financial instruments	22	**1.9**	0.8
Trade and other receivables	17	**16.8**	19.3
Retirement benefit surplus	23	**4.6**	–
Deferred tax assets	24	**69.3**	83.2
		1,662.3	1,631.7
Current assets			
Inventories	16	**357.9**	332.3
Trade and other receivables	17	**78.3**	75.4
Derivative financial instruments	22	**7.3**	7.8
Cash and cash equivalents	18	**27.0**	44.0
		470.5	459.5
Liabilities			
Current liabilities			
Bank overdraft and borrowings	20	**(163.1)**	(163.4)
Derivative financial instruments	22	**(2.1)**	(1.9)
Trade and other payables	19	**(545.8)**	(525.4)
Current tax liabilities		**(25.3)**	(31.0)
Provisions	26	**(5.6)**	(5.3)
		(741.9)	(727.0)
Net current liabilities		**(271.4)**	(267.5)
Non-current liabilities			
Bank overdraft and borrowings	20	**(235.9)**	(249.3)
Derivative financial instruments	22	**(3.7)**	(8.9)
Deferred tax liabilities	24	**(59.1)**	(64.7)
Other non-current liabilities	25	**(322.1)**	(321.9)
Provisions	26	**(1.1)**	(1.1)
Retirement benefit obligations	23	**(24.6)**	(57.3)
		(646.5)	(703.2)
Net assets		**744.4**	661.0
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		**3.2**	(2.6)
Other reserves		**(7.7)**	(10.5)
Retained earnings		**64.9**	(9.9)
Total equity		**744.4**	661.0

The financial statements on pages 85 to 126 were approved by the board on 24 October 2013 and were signed on its behalf by:

Simon Herrick
Chief Financial Officer

Consolidated Statement of Changes in Equity

As at 31 August 2013

	Note	Share capital and share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total equity £m
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)
Gains on cash flow hedges (net of tax)		–	–	–	3.4	–	–	3.4
Reclassification adjustments								
– transferred to the income statement on cash flow hedges (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
Profit for the financial year		–	–	–	–	–	127.9	127.9
Actuarial gain on pension schemes	23	–	–	–	–	–	15.6	15.6
Deferred tax charge on pension schemes	24	–	–	–	–	–	(6.3)	(6.3)
Current tax credit on pension schemes		–	–	–	–	–	2.5	2.5
Change in the value of available-for-sale investments	15	–	–	–	–	(0.8)	–	(0.8)
Currency translation differences		–	–	–	–	3.6	–	3.6
Gains on cash flow hedges (net of tax)		–	–	–	9.2	–	–	9.2
Reclassifications adjustments								
– transferred to the income statement on cash flow hedges (net of tax)		–	–	–	2.5	–	–	2.5
– recycled and adjusted against the cost of inventory (net of tax)		–	–	–	(5.9)	–	–	(5.9)
Total comprehensive income and expense for the financial year		**–**	**–**	**–**	**5.8**	**2.8**	**139.7**	**148.3**
Share-based payment charge	28	–	–	–	–	–	1.5	1.5
Share option receipts		–	–	–	–	–	0.1	0.1
Purchase of treasury shares	27	–	–	–	–	–	(25.1)	(25.1)
Dividends paid	11	–	–	–	–	–	(41.4)	(41.4)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(64.9)**	**(64.9)**
Balance at 31 August 2013		**683.0**	**1,200.9**	**(1,199.9)**	**3.2**	**(7.7)**	**64.9**	**744.4**

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 31 August 2013

	Note	**52 weeks ended 31 August 2013 £m**	52 weeks ended 1 September 2012 £m
Cash flows from operating activities			
Cash generated from operations	30	**241.1**	259.7
Finance income		**0.4**	0.2
Finance costs		**(12.9)**	(13.8)
Tax paid		**(29.3)**	(44.6)
Net cash generated from operating activities		**199.3**	201.5
Cash flows from investing activities			
Purchase of property, plant and equipment		**(113.7)**	(101.4)
Purchase of intangible assets		**(19.6)**	(17.2)
Net cash used in investing activities		**(133.3)**	(118.6)
Cash flows from financing activities			
Repurchase of term loan facility	20	**(13.3)**	–
Drawdown/(repayment) of facility		**6.0**	(10.0)
Purchase of treasury shares		**(25.1)**	(20.1)
Dividends paid	11	**(41.4)**	(38.5)
Share option receipts		**0.1**	–
Finance lease payments		**(2.3)**	(2.2)
Debt issue costs	20	**(0.5)**	–
Net cash used in financing activities		**(76.5)**	(70.8)
Net (decrease)/increase in cash and cash equivalents		**(10.5)**	12.1
Net cash and cash equivalents at beginning of financial year		**34.6**	22.8
Foreign exchange losses on cash and cash equivalents		**–**	(0.3)
Net cash and cash equivalents at end of financial year	31	**24.1**	34.6

Notes to the financial statements

For the financial year ended 31 August 2013

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 10 Brock Street, Regent's Place, London NW1 3FG.

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.

The principal companies within the Group during the financial year ended 31 August 2013 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 31 August 2013 and 1 September 2012 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

Finance income and finance costs are recognised in the period to which they relate 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.

Retirement benefit costs
The Group operates various defined benefit and defined contribution or money purchase schemes for its employees.

A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. The Group accounts for pensions and other post-employment benefits under IAS 19 "Employee Benefits". The pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. This surplus or deficit is actuarially calculated on an annual basis using the projected unit credit method. The income statement charge/(credit) is the net of interest cost on pension scheme liabilities and expected return on plan assets. Actuarial gains and losses are recognised immediately in the statement of comprehensive income.

A defined contribution scheme is a pension plan under which the Group pays fixed contributions to a separate entity. Payments to defined contribution pension schemes are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual as at that date. The Group has no further payment obligations once the contributions have been paid.

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 of each award using the Black-Scholes model where appropriate.

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. Non-market performance and service conditions are included in assumptions about 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, utilise shares held as treasury shares or those held within the Debenhams Retail Employee Trust. 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 in other comprehensive income and accumulated as a separate component of equity.

Gains or losses on intra group loans regarded as permanent are transferred to other comprehensive income and offset gains or losses on translation of the net investments that are recorded in equity.

2 Accounting policies continued

Foreign exchange continued

c) Transactions and balances
Transactions denominated in foreign currencies are translated into the respective functional currency at the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the balance sheet date exchange rate, of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges.

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates ruling at the balance sheet date.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income and accumulated as a separate component of 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 costs with the exception of permanent intra group loans which are reclassified to other comprehensive income. All other foreign exchange gains and losses are presented in the income statement within cost of sales.

Taxation

Taxation expense represents the sum of current tax and deferred tax. Tax which relates to items recognised in other comprehensive income or equity is recognised in other comprehensive income or equity respectively.

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.

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 asset 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 costs 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 initially 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, liabilities and contingent liabilities 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 and may include capitalised borrowing costs. 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%

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.

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. This may include capitalised borrowing costs.

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% to 25%
Office equipment	10% to 12.5%
Computer equipment	10% to 33.3%
Vehicles	25% or life of lease

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 or modernisation, 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 depreciation and are tested annually for impairment. Assets that are subject to depreciation 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.

Capitalisation of finance costs
Finance costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use.

Available-for-sale investments

Purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. 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 that are either designated in this category or are not classified in the other financial instrument categories being "Fair value through the profit or loss" or "Loans and receivables". 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 initially recognised at fair value plus any transaction costs and subsequently at fair value.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. 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. Changes in the fair value of securities classified as "available for sale" are recognised in other comprehensive income.

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 the income statement.

Inventories
Inventories are stated at the lower of cost and net realisable value using the retail method and represent goods for resale. Cost includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. This method intrinsically takes into account any stock loss or markdown to goods sold below cost. Concession inventories are not included within inventory held by the Group.

Trade and other receivables
Trade receivables are initially recognised at fair value and subsequently held 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.

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.

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 ("Financial Instruments"), 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.

2 Accounting policies continued

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.

New standards and interpretations
New or revised standards or interpretations which were mandatory for the first time in the financial year beginning 2 September 2012 did not have a material impact on the net assets or results of the Group.

IAS 1 (amended) "Financial Statement Presentation" regarding other comprehensive income is effective from periods that commenced on or after 1 July 2012. The amendments do not address which items are presented in "other comprehensive income" ("OCI"), but require entities to group items presented in OCI on the basis of whether they are or can be reclassified to the Group income statement subsequently (reclassification adjustments).

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, except for IAS 19 (revised).

IAS 19 "Employee Benefits" has been revised and was endorsed by the EU in June 2012. It is effective from periods that commenced on or after 1 January 2013. The directors anticipate that the adoption of IAS 19 (revised) in the financial year that started 1 September 2013 would result in an increase in the pension charge of approximately £13.3 million in the year ending 30 August 2014 with a corresponding increase in net actuarial gains on pension schemes before tax.

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. 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.

Segmental analysis of results

	UK £m	International £m	Total £m
Financial year ended 31 August 2013			
Gross transaction value	**2,254.8**	**522.0**	**2,776.8**
Concessions, consignments and staff discounts	**(358.9)**	**(135.7)**	**(494.6)**
External revenue	**1,895.9**	**386.3**	**2,282.2**
Operating profit	**139.8**	**28.2**	**168.0**
Other segment items			
– Depreciation	**75.3**	**9.1**	**84.4**
– Amortisation	**8.7**	**1.5**	**10.2**
Financial year ended 1 September 2012			
Gross transaction value	2,204.6	503.4	2,708.0
Concessions, consignments and staff discounts	(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	7.7	1.5	9.2

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

	31 August 2013 £m	1 September 2012 £m
Total operating profit	**168.0**	175.0
Finance income	**1.5**	1.2
Finance costs	**(15.5)**	(17.9)
Total profit before taxation	**154.0**	158.3

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

	31 August 2013 £m	1 September 2012 £m
United Kingdom	**1,895.9**	1,860.3
Denmark	**157.8**	142.7
Republic of Ireland	**134.3**	136.5
Rest of the world	**94.2**	90.3
Total external revenue	**2,282.2**	2,229.8

3 Segmental reporting continued

Segmental analysis of results continued

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

	31 August 2013 £m	1 September 2012 £m
United Kingdom	**1,515.6**	1,476.1
Denmark	**38.7**	33.3
Republic of Ireland	**30.3**	32.1
Rest of the world	**0.8**	4.3
Total non-current assets	**1,585.4**	1,545.8

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 and staff discounts, represents a good guide to the overall activity of the Group.

	31 August 2013 £m	1 September 2012 £m
Gross transaction value	**2,776.8**	2,708.0

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.

Estimated useful life of property, plant and equipment and intangible assets

At the date of capitalising property, plant and equipment and intangible assets, the Group estimates the useful life of the asset based on management's judgement and experience. Due to the significance of capital investment to the Group, variances between actual and estimated useful economic lives could impact results both positively and negatively.

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 markdown to goods sold below cost. Concession inventories are not included within inventory held by the Group.

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.

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 developers' 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.

6 Operating profit

	31 August 2013 £m	1 September 2012 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**12.0**	13.0
Cost of inventory recognised as an expense	**1,150.2**	1,131.2
Employment costs (note 7)	**362.6**	360.0
Depreciation of property, plant and equipment (note 14)	**84.4**	82.4
Amortisation of intangible assets (note 13)	**10.2**	9.2
Loss on disposal of property, plant and equipment	**0.2**	0.2
Operating lease rentals	**206.9**	203.6
Foreign exchange gains	**(7.9)**	(14.8)
Auditors' remuneration	**0.5**	0.4

Services provided by the Company's auditors and network firms

During the financial year the Group obtained the following services from the Company's auditor and its associates as detailed below:

	31 August 2013 £m	1 September 2012 £m
Audit services		
Annual audit fees for the Company and the consolidated accounts	**0.2**	0.2
Other services		
Audit of subsidiary companies	**0.1**	0.1
Tax advisory services	**0.1**	0.1
Other services	**0.1**	–

It is cost effective for the Group that such other services are provided by its auditors in view of their knowledge of the Group's affairs.

7 Employees

	31 August 2013 £m	1 September 2012 £m
Wages and salaries	**337.6**	336.1
Social security costs	**21.4**	21.9
Pension costs (note 23)	**2.1**	0.4
Share-based payments (note 28)	**1.5**	1.6
Total employment costs	**362.6**	360.0

	Number	Number
Average number of employees (including key management):		
– Full time	**8,086**	8,355
– Part time	**22,077**	21,762
Total	**30,163**	30,117

Information concerning directors' remuneration, interest in shares and share options is included in the directors' remuneration report on pages 67 to 82, which forms part of these financial statements.

Key management compensation

	31 August 2013 £m	1 September 2012 £m
Salaries and short-term employee benefits	**2.9**	2.8
Post-employment benefits	**0.4**	0.5
Share-based payments	**1.1**	0.5
Termination payments	**–**	1.0
	4.4	4.8

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 13 members (2012:12 members).

8 Finance income

	31 August 2013 £m	1 September 2012 £m
Interest on bank deposits	**0.4**	0.1
Other financing income	**1.1**	1.1
	1.5	1.2

9 Finance costs

	31 August 2013 £m	1 September 2012 £m
Bank loans and overdrafts	**10.8**	11.7
Cash flow hedges reclassified and reported in the income statement	**3.3**	2.0
Amortisation of issue costs on loans (note 20)	**2.7**	2.9
Interest payable on finance leases	**0.1**	0.1
Other financing costs	**–**	1.2
Capitalised finance costs – qualifying assets	**(1.4)**	–
	15.5	17.9

10 Taxation

Analysis of tax charge in the financial year

	31 August 2013 £m	1 September 2012 £m
Current tax		
UK corporation tax charge on profit for the financial year	**36.7**	43.4
Adjustments in respect of prior periods	**(10.8)**	(8.9)
Current tax expense	**25.9**	34.5
Deferred taxation		
Origination and reversal of temporary differences	**(4.4)**	(3.8)
Pension cost relief in excess of pension charge	**2.9**	2.9
Adjustments in respect of prior periods	**1.7**	(0.6)
Deferred tax charge/(credit) (note 24)	**0.2**	(1.5)
Tax charge for the financial year	**26.1**	33.0

The effective tax rate for the financial year is lower at 16.9% (2012: 20.8%) than the rate of corporation tax in the UK of 23.6% (2012: 25.2%). The differences are explained below:

	31 August 2013 £m	1 September 2012 £m
Profit on ordinary activities before tax	**154.0**	158.3
Profit on ordinary activities at standard rate of corporation tax in the UK of 23.6% (2012: 25.2%)	**36.3**	39.9
Effects of:		
Permanent differences	**–**	4.0
Overseas tax rates	**0.5**	1.5
Utilisation of tax losses	**(4.7)**	(3.1)
Non-qualifying depreciation and lease transactions	**1.5**	0.4
Effect on deferred taxation of the change in corporation tax rate	**1.6**	(0.2)
Adjustments in relation to prior periods	**(9.1)**	(9.5)
Tax charge for the financial year	**26.1**	33.0

The Finance Act 2013, which became substantively enacted on 2 July 2013, included legislation reducing the main rate of corporation tax from 23.0% to 21.0% from 1 April 2014 with a further reduction in the main rate of corporation tax to 20.0% from 1 April 2015.

The effect of the reduction in the corporation tax rate enacted in the Finance Act 2013 has been to reduce the net deferred tax asset recognised at 1 September 2012 by approximately £2.2 million. This £2.2 million decrease has been recognised in line with the treatment of the assets and liabilities giving rise to the net deferred tax asset.

The prior year adjustment of £9.1 million relates to the reassessment of historic tax liabilities no longer considered likely to arise.

11 Dividends

	31 August 2013 £m	1 September 2012 £m
Final paid 2.3 pence (2012: 2.0 pence) per £0.0001 share		
– Settled in cash	**28.9**	25.6
Interim paid 1.0 pence (2012: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.5**	12.9
	41.4	38.5

A final dividend of 2.3 pence per share (2012: 2.0 pence per share) was paid during the financial year in respect of the financial year ended 1 September 2012, together with an interim dividend of 1.0 pence per share (2012: 1.0 pence per share) in respect of the financial year ended 31 August 2013. The directors are proposing a final dividend in respect of the financial year ended 31 August 2013 of 2.4 pence per share (2012: 2.3 pence per share), which will absorb an estimated £29.4 million (2012: £28.9 million) of shareholders' funds. It will be paid on 10 January 2014 to shareholders who are on the register of members at close of business on 6 December 2013. 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 in issue during the financial year, excluding any shares purchased by the Company and held as treasury shares. For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. The Group has one class of dilutive potential ordinary shares, those share options granted to employees where the exercise price is less than the market price of the Company's ordinary shares during the financial year.

Basic and diluted earnings per share

	31 August 2013		1 September 2012	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit for the financial year after taxation	**127.9**	**127.9**	125.3	125.3
	Number m	**Number m**	Number m	Number m
Weighted average number of shares	**1,255.1**	**1,255.1**	1,282.0	1,282.0
Shares held by ESOP (weighted)	**(0.6)**	**(0.6)**	(0.7)	(0.7)
Shares issuable (weighted)	**–**	**2.1**	–	1.4
Adjusted weighted average number of shares	**1,254.5**	**1,256.6**	1,281.3	1,282.7
	Pence per share	**Pence per share**	Pence per share	Pence per share
Earnings per share	**10.2**	**10.2**	9.8	9.8

13 Intangible assets

	Goodwill £m	**Acquired licences and trademarks £m**	**Internally generated software £m**	**Purchased software £m**	**Total £m**
Cost					
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
Additions	–	–	19.3	1.7	21.0
Exchange rate movement	0.5	–	0.5	0.1	1.1
Disposals	–	–	(2.8)	(0.2)	(3.0)
At 31 August 2013	**819.0**	**7.2**	**101.3**	**13.7**	**941.2**
Accumulated amortisation					
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
Charge for the financial year	–	0.7	8.0	1.5	10.2
Exchange rate movement	–	–	0.4	(0.1)	0.3
Disposals	–	–	(2.8)	(0.2)	(3.0)
At 31 August 2013	**–**	**3.0**	**52.4**	**9.3**	**64.7**
Net book value					
At 31 August 2013	**819.0**	**4.2**	**48.9**	**4.4**	**876.5**
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

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

	31 August 2013 £m	1 September 2012 £m
Assets in the course of construction	**15.4**	9.1

Amortisation of intangible assets
Amortisation on the Group's intangible assets has been charged to the income statement as follows:

	31 August 2013 £m	1 September 2012 £m
Included within:		
– Cost of sales	**8.4**	7.7
– Distribution costs	**0.2**	0.2
– Administrative expenses	**1.6**	1.3
	10.2	9.2

Intangible assets includes the following assets held under finance leases:

	Purchased software	
	31 August 2013 £m	1 September 2012 £m
Cost	**1.5**	1.5
Accumulated amortisation	**(1.3)**	(0.8)
Net book value	**0.2**	0.7

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 – 31 August 2013	155.7	180.1	176.0	181.1	100.6	25.5	**819.0**

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% (2012: 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 post-tax discount rate used to calculate the value-in-use was 7.4% (2012: 8.2%) and reflects the specific risks in the retail business. The pre-tax discount rate is 7.6% (2012: 8.4%).

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 post-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 31 August 2013 no impairment of goodwill has been required (2012: £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 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
Additions	–	0.6	12.2	99.8	112.6
Exchange rate movements	–	–	1.0	5.5	6.5
Disposals and write-offs	–	–	(0.1)	(61.3)	(61.4)
At 31 August 2013	**1.6**	**7.7**	**365.7**	**926.1**	**1,301.1**
Accumulated depreciation					
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
Charge for the financial year	–	0.3	15.1	69.0	84.4
Exchange rate movements	–	–	0.4	3.6	4.0
Disposals and write-offs	–	–	(0.1)	(61.1)	(61.2)
At 31 August 2013	**0.2**	**1.0**	**127.5**	**480.3**	**609.0**
Net book value					
At 31 August 2013	**1.4**	**6.7**	**238.2**	**445.8**	**692.1**
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

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

	31 August 2013 £m	1 September 2012 £m
Assets in the course of construction	**53.9**	49.9

Property, plant and equipment includes the following assets held under finance leases included primarily in vehicles, fixtures and equipment was as follows:

	31 August 2013 £m	1 September 2012 £m
Cost	**9.1**	10.7
Accumulated depreciation	**(2.7)**	(3.5)
Net book value	**6.4**	7.2

Contractual commitments at 31 August 2013 were £3.8 million (2012: £14.9 million).

Capitalised finance costs
Finance costs capitalised on qualifying assets included in additions amounted to £1.4 million (2012: £nil). Accumulated finance costs capitalised included in the cost of property, plant and equipment net of disposals amounted to £1.4 million (2012: £nil). In previous years there were no qualifying assets available for capitalisation. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 3.1% (2012: not applicable).

15 Financial assets – available-for-sale investments

	£m
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
Decrease in the market value charged to the statement of comprehensive income	(0.8)
At 31 August 2013	**1.1**

The Group holds 10% (2012: 10%) of the issued shares of Ermes Department Stores Limited ("Ermes"), a company listed on the Cyprus Stock Exchange whose shares are quoted in Euros. The market value of the shares at 31 August 2013 was £1.1 million (2012: £1.9 million). Ermes is a company that is registered and trades in Cyprus.

16 Inventories

	31 August 2013 £m	1 September 2012 £m
Items held for resale	**357.9**	332.3

17 Trade and other receivables

	31 August 2013 £m	1 September 2012 £m
Non-current		
Other receivables	**16.8**	19.3

Other receivables include contractual lease deposits of £16.6 million (2012: £15.5 million).

	31 August 2013 £m	1 September 2012 £m
Current		
Trade receivables	**20.5**	21.4
Allowance for doubtful debts	**(0.7)**	(0.5)
	19.8	20.9
Other receivables	**1.1**	2.3
Prepayments and accrued income	**57.4**	52.2
	78.3	75.4

At the year end, £18.1 million (2012: £19.1 million) of the trade receivables were denominated in sterling, £0.2 million (2012: £0.2 million) were denominated in Euros and £2.2 million (2012: £2.1 million) in Danish krone.

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

	£m
At 3 September 2011	(0.2)
Increase in provision	(0.3)
At 1 September 2012	(0.5)
Increase in provision	(0.2)
At 31 August 2013	**(0.7)**

Trade receivables which are past their due date but not impaired amount to £1.9 million (2012: £4.0 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 31 August 2013, £0.7 million (2012: £0.5 million) of trade receivables were past their due date and impaired.

18 Cash and cash equivalents

	31 August 2013 £m	1 September 2012 £m
Cash at bank and in hand	**27.0**	28.7
Short-term bank deposits	**–**	15.3
	27.0	44.0

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19 Trade and other payables

	31 August 2013 £m	1 September 2012 £m
Trade payables	**345.0**	318.3
Other payables	**67.9**	65.3
Taxation and social security	**24.4**	24.7
Accruals	**103.7**	115.0
Deferred income	**4.8**	2.1
	545.8	525.4

20 Bank overdraft and borrowings

	31 August 2013 £m	1 September 2012 £m
Current		
Bank overdraft	**2.9**	9.4
Revolving credit facility[1]	**158.4**	151.8
Lease obligations	**1.8**	2.2
Total current borrowings	**163.1**	163.4
Non-current		
Term loan facility[2]	**232.8**	244.8
Lease obligations	**3.1**	4.5
Total non-current borrowings	**235.9**	249.3
Total current and non-current borrowings	**399.0**	412.7

[1] Revolving credit facility is stated net of unamortised issue costs of £2.5 million (2012: £3.2 million).
[2] Term loan facility is stated net of unamortised issue costs of £3.7 million (2012: £5.2 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. £100.0 million of these facilities expire in October 2015 (of which a group company holds £35.0 million), with the balance extending to October 2016. At 31 August 2013, the Group's facilities outstanding comprised the term loan of £236.5 million (2012: £250.0 million) and RCF drawings of £160.9 million (2012: £155.0 million).

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 2016 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 for the financial year ended 31 August 2013 was £2.7 million (2012: £2.9 million).

20 Bank overdraft and borrowings continued

Finance lease obligations

Finance lease obligations relate mainly to software, vehicles, fixtures and equipment leased under hire purchase contracts.

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

	31 August 2013 £m	1 September 2012 £m
Not later than one year	**2.0**	2.4
Later than one year but not later than five years	**3.2**	4.7
	5.2	7.1
Interest element of future instalments	**(0.3)**	(0.4)
Present value of finance lease obligations	**4.9**	6.7

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

	31 August 2013 £m	1 September 2012 £m
Not later than one year	**1.8**	2.2
Later than one year but not later than five years	**3.1**	4.5
	4.9	6.7

Maturity of borrowings

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

	31 August 2013 £m	1 September 2012 £m
Amounts falling due:		
In one year or less or on demand	**163.1**	163.4
In more than one year but not more than two years	**1.8**	1.7
In more than two years but not more than five years	**234.1**	247.6
	399.0	412.7

Interest rates

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

	31 August 2013 %	1 September 2012 %
Bank overdraft	**1.88**	1.88
Term loan facility	**2.24**	2.29
Revolving credit facility	**2.24**	2.29
Lease obligations	**4.09**	3.57

Borrowing facilities

The Group has the following undrawn committed facilities available at 31 August 2013, in respect of which all conditions precedent had been met as at that date:

	31 August 2013 £m	1 September 2012 £m
Expiring within one year	**–**	–
Expiring between one and two years	**–**	–
Expiring between two and five years	**217.6**	245.0
	217.6	245.0

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 reports 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. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash or working capital facility to meet the cash flow and covenant requirements of the Group and the current business plan.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group treasury. Group treasury invests surplus cash in interest bearing current accounts, term deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts.

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 31 August 2013				
Non-derivative financial liabilities				
Borrowings	**(163.7)**	**–**	**(236.5)**	**–**
Interest payments due on borrowings	**(5.3)**	**(5.3)**	**(6.2)**	**–**
Finance lease liabilities	**(2.0)**	**(1.9)**	**(1.3)**	**–**
Trade and other payables	**(483.0)**	**–**	**–**	**–**
Derivative financial assets and liabilities				
Interest rate swaps				
– Net settled derivative contracts – payments	**(2.9)**	**(2.2)**	**(2.8)**	**–**
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	**343.8**	**84.2**	**–**	**–**
– Gross settled derivative contracts – payments	**(337.9)**	**(83.2)**	**–**	**–**
Total	**(651.0)**	**(8.4)**	**(246.8)**	**–**

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 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)

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 Group considers its maximum credit risk to be £75.0 million (2012: £97.0 million) being the Group's total financial assets as shown in note 22.

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 £7.6 million (2012: £1.9 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 31 August 2013 was £420.4 million (2012: £503.7 million). The net fair value gains on open forward foreign exchange contracts at 31 August 2013 were £5.3 million (2012: £5.0 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 (2012: £330.0 million), being 81.4% (2012: 78.3%) of the Group's total borrowings.

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	0.94%-1.865%	October 2013 to October 2015

The notional principal amount of interest rate swaps at 31 August 2013 was £330.0 million (2012: £330.0 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 £3.3 million (2012: £2.0 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:

	31 August 2013			1 September 2012		
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Financial liabilities						
Sterling[1]	**(334.9)**	**(70.3)**	**(405.2)**	(336.7)	(84.4)	(421.1)

[1] Debt issue costs of £6.2 million (2012: £8.4 million) are excluded from the financial liabilities above.

Fixed sterling financial liabilities comprise the hedged portion of the debt facility of £330.0 million (2012: £330.0 million) and finance lease liabilities of £4.9 million (2012: £6.7 million) at 31 August 2013. The weighted average interest rate on the fixed rate borrowings as at 31 August 2013 was 3.3% (2012: 3.3%), with the weighted average time for which rates are fixed being 3.2 years (2012: 3.2 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.

21 Financial risk management continued

a) Financial risks and treasury management continued

iv) Interest rate risk continued

The interest rate profiles of financial assets were as follows:

	31 August 2013			1 September 2012		
	Floating £m	**Non-interest bearing £m**	**Total £m**	Floating £m	Non-interest bearing £m	Total £m
Financial assets						
Sterling	**0.1**	**22.8**	**22.9**	13.4	23.8	37.2
Euro	**0.4**	**1.8**	**2.2**	1.3	1.9	3.2
US dollar	**0.1**	**0.5**	**0.6**	0.3	0.5	0.8
Danish krone	**–**	**–**	**–**	–	1.9	1.9
Chinese yuan	**0.7**	**–**	**0.7**	0.3	–	0.3
Other	**0.2**	**0.4**	**0.6**	–	0.6	0.6
Total financial assets	**1.5**	**25.5**	**27.0**	15.3	28.7	44.0

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 of equity investments had been 10% higher/lower, when all other variables were held constant:

- Net profit would have been unaffected as the equity investments were classified as available-for-sale investments
- Other reserves would decrease/increase by £0.1 million (2012: £0.2 million) for the Group as a result of the changes in the fair value of available-for-sale investments

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

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.

Note 22 shows the carrying value and fair value of financial assets and liabilities.

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 interest rates in relation to all the Group's financial instruments that are expressed in currencies different to that of the functional currency. The analysis has been produced assuming no changes in the borrowings and existing interest rate swaps portfolio when considering the interest rate movement.

	31 August 2013		1 September 2012	
	Income statement loss £m	**Equity gain £m**	Income statement loss £m	Equity gain £m
1% increase in interest rate	**(0.7)**	**7.5**	(0.7)	7.5

A 1% decrease in interest rate would result in an equal and opposite change in the income statement and equity respectively.

The table below illustrates the estimated impact on the Group as a result of market movements in foreign exchange rates in relation to all the Group's financial instruments.

	31 August 2013		1 September 2012	
	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	**1.6**	**10.6**	0.1	12.1
5% weakening in sterling compared to the Euro	**(0.6)**	**(1.5)**	(0.3)	(2.4)
5% weakening in sterling compared to Danish krone	**(0.4)**	**–**	(0.4)	–
5% weakening in sterling compared to Chinese yuan	**0.3**	**1.6**	–	1.7

A 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. The following table sets out the classification, carrying value and fair value of each class of financial assets and liabilities within the financial statements:

	Total fair value £m	Total carrying value £m	Available-for-sale £m	Held for trading £m	Derivatives designated as cash flow hedges £m	Loans and receivables and financial liabilities at amortised cost £m
At 31 August 2013						
Assets						
Current assets						
Cash and cash equivalents	**27.0**	**27.0**	**–**	**–**	**–**	**27.0**
Trade and other receivables	**20.9**	**20.9**	**–**	**–**	**–**	**20.9**
Forward foreign currency contracts	**7.3**	**7.3**	**–**	**1.5**	**5.8**	**–**
Non-current assets						
Trade and other receivables	**16.8**	**16.8**	**–**	**–**	**–**	**16.8**
Available-for-sale financial assets	**1.1**	**1.1**	**1.1**	**–**	**–**	**–**
Interest rate swaps	**0.7**	**0.7**	**–**	**–**	**0.7**	**–**
Forward foreign currency contracts	**1.2**	**1.2**	**–**	**–**	**1.2**	**–**
Total financial assets	**75.0**	**75.0**	**1.1**	**1.5**	**7.7**	**64.7**
Liabilities						
Current liabilities						
Trade and other payables	**(516.8)**	**(516.8)**	**–**	**–**	**–**	**(516.8)**
Current borrowings	**(163.1)**	**(163.1)**	**–**	**–**	**–**	**(163.1)**
Interest rate swaps	**(0.5)**	**(0.5)**	**–**	**–**	**(0.5)**	**–**
Forward foreign currency contracts	**(1.6)**	**(1.6)**	**–**	**(0.1)**	**(1.5)**	**–**
Non-current liabilities						
Non-current borrowings	**(235.9)**	**(235.9)**	**–**	**–**	**–**	**(235.9)**
Interest rate swaps	**(3.4)**	**(3.4)**	**–**	**–**	**(3.4)**	**–**
Forward foreign currency contracts	**(0.3)**	**(0.3)**	**–**	**–**	**(0.3)**	**–**
Total financial liabilities	**(921.6)**	**(921.6)**	**–**	**(0.1)**	**(5.7)**	**(915.8)**
Total	**(846.6)**	**(846.6)**	**1.1**	**1.4**	**2.0**	**(851.1)**
At 1 September 2012						
Assets						
Current assets						
Cash and cash equivalents	44.0	44.0	–	–	–	44.0
Trade and other receivables	23.2	23.2	–	–	–	23.2
Forward foreign currency contracts	7.8	7.8	–	1.2	6.6	–
Non-current assets						
Trade and other receivables	19.3	19.3	–	–	–	19.3
Available-for-sale financial assets	1.9	1.9	1.9	–	–	–
Forward foreign currency contracts	0.8	0.8	–	–	0.8	–
Total financial assets	97.0	97.0	1.9	1.2	7.4	86.5
Liabilities						
Current liabilities						
Trade and other payables	(498.5)	(498.5)	–	–	–	(498.5)
Current borrowings	(163.4)	(163.4)	–	–	–	(163.4)
Forward foreign currency contracts	(1.9)	(1.9)	–	(0.1)	(1.8)	–
Non-current liabilities						
Non-current borrowings	(249.3)	(249.3)	–	–	–	(249.3)
Interest rate swaps	(8.3)	(8.3)	–	–	(8.3)	–
Forward foreign currency contracts	(0.6)	(0.6)	–	–	(0.6)	–
Total financial liabilities	(922.0)	(922.0)	–	(0.1)	(10.7)	(911.2)
Total	(825.0)	(825.0)	1.9	1.1	(3.3)	(824.7)

Fair value measurement

The Group has adopted the amendment to IFRS 7 ("Financial Instruments: Disclosures") 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 that are measured at fair value:

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
At 31 August 2013				
Assets				
Available-for-sale financial assets	**1.1**	**–**	**–**	**1.1**
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**0.7**	**–**	**0.7**
– Forward foreign currency contracts held as cash flow hedges	**–**	**7.0**	**–**	**7.0**
– Other forward foreign currency contracts	**–**	**1.5**	**–**	**1.5**
Total assets	**1.1**	**9.2**	**–**	**10.3**
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**(3.9)**	**–**	**(3.9)**
– Forward foreign currency contracts held as cash flow hedges	**–**	**(1.8)**	**–**	**(1.8)**
– Other forward foreign currency contracts	**–**	**(0.1)**	**–**	**(0.1)**
Total liabilities	**–**	**(5.8)**	**–**	**(5.8)**

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 1 September 2012				
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)

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 to the pension schemes £8.9 million per annum, on 1 April each year, for the period from 1 April 2012 to 31 August 2021 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.

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 31 August 2013 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 31 August 2013.

The major assumptions used by the actuary were:

	31 August 2013 per annum %	1 September 2012 per annum %
Inflation assumption	**3.30**	2.90
General salary and wage increase	**3.30**	2.90
Rate of increase in pension payments and deferred payments	**3.30**	2.90
Pension increase rate	**3.00**	2.80
Discount rate	**4.60**	4.70

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.

	31 August 2013		1 September 2012	
	Long-term rate of return expected per annum %	**£m**	Long-term rate of return expected per annum %	£m
Assets				
Delegated liability fund	**–**	**129.3**	–	105.5
Delegated growth fund	**–**	**539.6**	–	464.2
Legacy holdings	**–**	**0.9**	–	1.7
Equities	**–**	**–**	–	–
Bonds	**–**	**–**	–	–
Property	**–**	**–**	–	–
Cash and other assets	**–**	**3.8**	–	12.3
Total market value of assets	**7.0-7.4**	**673.6**	7.0-7.4	583.7
Present value of scheme liabilities		**(693.6)**		(641.0)
Net deficit in schemes		**(20.0)**		(57.3)
Analysed as:				
DEPP scheme surplus/(deficit)		**4.6**		(4.8)
DRS scheme deficit		**(24.6)**		(52.5)

The expected rates of return on assets for the schemes 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% (2012: 7.0%) for the DEPP and 7.4% (2012: 7.4%) for the DRS.

The current life expectancies of a pensioner retiring aged 65 underlying the mortality tables for each of the schemes above are as follows:

	31 August 2013		1 September 2012	
	Years Male	Years Female	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**22.4**	**24.4**	22.4	24.3
Member aged 65 in 15 years	**23.4**	**25.5**	23.4	25.4

	31 August 2013		1 September 2012	
	Years Male	Years Female	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**24.5**	**25.8**	24.4	25.8
Member aged 65 in 15 years	**25.5**	**27.0**	25.4	26.9

The actual return on scheme assets was as follows:

	31 August 2013 £m	1 September 2012 £m
Return on scheme assets	**102.7**	42.4

The amounts recognised in the income statement are as follows:

	31 August 2013 £m	1 September 2012 £m
Interest on pension scheme liabilities	**29.6**	30.9
Expected return on pension scheme assets	**(40.9)**	(42.6)
Total credit included within staff costs	**(11.3)**	(11.7)

The total credits included are as follows:

	31 August 2013 £m	1 September 2012 £m
Cost of sales	**(9.4)**	(9.7)
Distribution costs	**(0.1)**	(0.1)
Administrative expenses	**(1.8)**	(1.9)
Total credit	**(11.3)**	(11.7)

Changes in the present value of the defined benefit obligations are as follows:

	31 August 2013 £m	1 September 2012 £m
Present value of obligations at start of the financial year	**641.0**	547.6
Interest on pension scheme liabilities	**29.6**	30.9
Benefit payments by the fund	**(21.9)**	(18.2)
Actuarial losses	**44.9**	80.7
Present value of obligations at end of the financial year	**693.6**	641.0

23 Retirement benefit obligation continued
Changes in the fair value of pension scheme assets are as follows:

	31 August 2013 £m	1 September 2012 £m
Fair value of pension scheme assets at start of the financial year	**583.7**	551.5
Benefits paid	**(21.9)**	(18.2)
Company contributions	**10.4**	9.4
Expected return on pension scheme assets	**40.9**	42.6
Actuarial gains/(losses)	**60.5**	(1.6)
Fair value of pension scheme assets at end of the financial year	**673.6**	583.7

Movement in (deficit)/surplus during the financial year:

	31 August 2013 £m	1 September 2012 £m
(Deficit)/surplus in the schemes at start of the financial year	**(57.3)**	3.9
Movement in the financial year:		
– Pension credit	**11.3**	11.7
– Company contributions	**10.4**	9.4
– Net actuarial gains/(losses)	**15.6**	(82.3)
Net deficit in the schemes at end of the financial year	**(20.0)**	(57.3)

Cumulative actuarial gains and losses recognised in the statement of comprehensive income:

	31 August 2013 £m	1 September 2012 £m
At start of the financial year	**(133.0)**	(50.7)
Net actuarial gains/(losses) recognised in the financial year	**15.6**	(82.3)
Net actuarial losses recognised at end of the financial year	**(117.4)**	(133.0)

History of experience gains and losses:

	31 August 2013 £m	1 September 2012 £m	3 September 2011 £m	28 August 2010 £m	29 August 2009 £m
Actuarial (gains)/losses arising on scheme assets	**(60.5)**	1.6	(6.6)	(12.0)	62.7
Experience losses/(gains) arising on defined benefit obligation	**2.4**	6.9	(5.1)	7.6	(18.2)
Present value of scheme liabilities	**(693.6)**	(641.0)	(547.6)	(604.5)	(542.0)
Fair value of scheme assets	**673.6**	583.7	551.5	523.8	488.4
Net (deficit)/surplus	**(20.0)**	(57.3)	3.9	(80.7)	(53.6)

The contributions expected to be paid during the financial year ending 30 August 2014 amount to £10.8 million.

Other Debenhams defined contribution schemes
The Group contributions to other defined contribution schemes during the financial year were £13.4 million (2012: £12.0 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 22.2% (2012: 23.0%) for temporary differences expected to reverse within 12 months of the balance sheet date and 20.0% for temporary differences expected to reverse more than one year after the balance sheet date (2012: 23.0%) for the UK differences. Local tax rates have been used for overseas differences.

	31 August 2013 £m	1 September 2012 £m
Non-current		
Deferred tax assets	**69.3**	83.2
Deferred tax liabilities	**(59.1)**	(64.7)
	10.2	18.5

Deferred tax expected to be reversed within 12 months of the balance sheet date:

	31 August 2013 £m	1 September 2012 £m
Deferred tax assets	**2.8**	1.9
Deferred tax liabilities	**(5.9)**	(9.1)
	(3.1)	(7.2)

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	**Developers' contributions received £m**	**Fair value losses £m**	**Other provisions £m**	**Retirement benefit asset £m**	**Total £m**
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)/credited 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
Credited/(charged) to the income statement	0.1	0.1	4.3	(2.6)	1.9
Result of the change in the standard rate of corporation tax charged to the income statement	(4.5)	–	(4.4)	(0.3)	(9.2)
Charged to the statement of comprehensive income	–	(1.2)	–	(5.4)	(6.6)
At 31 August 2013	**29.9**	**1.0**	**33.5**	**4.9**	**69.3**

24 Deferred tax assets and liabilities continued

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit liability £m	Total £m
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 credited 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)
Credited to the income statement	0.9	0.5	–	1.4
Prior year adjustment to the income statement	(1.7)	–	–	(1.7)
Result of the change in the standard rate of corporation tax credited to the income statement	7.3	0.1	–	7.4
Charged to the statement of comprehensive income	–	(0.6)	(0.9)	(1.5)
At 31 August 2013	**(56.3)**	**(1.9)**	**(0.9)**	**(59.1)**

Within other provisions is a deferred tax asset of £4.3 million (2012: £1.7 million) in relation to overseas operations which has been recognised. In addition to this there is an unrecognised deferred tax asset of £8.4 million (2012: £11.5 million) relating to operations in Denmark and the Republic of Ireland.

25 Other non-current liabilities

	31 August 2013 £m	1 September 2012 £m
Other liabilities	**322.1**	321.9

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	Other provisions £m	Total £m
At 1 September 2012	0.1	4.8	1.5	6.4
Charged to the income statement	–	15.2	–	15.2
Utilised during the financial year	–	(14.5)	(0.4)	(14.9)
At 31 August 2013	**0.1**	**5.5**	**1.1**	**6.7**

Provisions have been analysed between current and non-current as follows:

	31 August 2013 £m	1 September 2012 £m
Current	**5.6**	5.3
Non-current	**1.1**	1.1
	6.7	6.4

Closure provision
Relating to one vacated building which will be utilised over the term of the lease, being the next year.

Promotional activities provision
Provisions for promotional activities represent the cost to the business of operating an internal cosmetics loyalty scheme, cardholder loyalty scheme and the reward scheme in the Republic of Ireland and they are expected to be utilised during the next 12 months.

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. These provisions are expected to be utilised within the next three years.

27 Share capital and reserves

	31 August 2013		1 September 2012	
	£	Number	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299
Allotted under share option schemes	**4**	**37,142**	–	–
At end of year	**128,684**	**1,286,843,441**	128,680	1,286,806,299

During the financial year ended 31 August 2013, 23,882,722 (2012: 23,559,155) of the above shares were purchased by the Company and transferred to treasury. 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:

	31 August 2013 Ordinary shares Number	1 September 2012 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**473,537**	723,536

The market value of the shares on 31 August 2013 was £0.5 million for DRET (2012: £0.7 million). The cost of the shares held at the year end is £0.4 million (2012: £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.

27 Share capital and reserves continued

Other reserves

The other reserves represent 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 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)
Currency translation differences	3.6	–	3.6
Change in the fair value of available-for-sale investments	–	(0.8)	(0.8)
At 31 August 2013	**(4.6)**	**(3.1)**	**(7.7)**

Retained earnings

The Company commenced its share buyback programme in April 2012. As at 31 August 2013 the Company had purchased 47,441,877 ordinary shares of £0.0001 at a total cost of £45.2 million of which 23,882,722 (2012: 23,559,155) ordinary shares of £0.0001 were purchased (representing 1.9% of the Company's share capital) at a cost of £25.1 million (2012: £20.1 million) during the financial year. All shares purchased by the Company are transferred to treasury. During the year 655,573 treasury shares were transferred out of treasury to satisfy awards granted under the Company's share plans.

28 Share-based payments

The total charge to operating profit relates to the following equity settled schemes:

	31 August 2013 £m	1 September 2012 £m
Performance Share Plan ("PSP")	**1.3**	1.4
Executive Share Option Plan ("ESOP")	**–**	0.1
Share Incentive Plan ("SIP")	**0.1**	–
Deferred Bonus Matching Plan ("DBMP")	**0.1**	0.1
Charge for the financial year	**1.5**	1.6

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 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
Granted	–	200,000	4,380,833	–	–
Exercised	–	(250,000)	(549,358)	(143,357)	85.5
Lapsed	–	–	(1,167,435)	–	–
Forfeited	(17,604)	(200,000)	(406,300)	–	–
Outstanding at 31 August 2013	**569,679**	**200,000**	**9,734,625**	**688,266**	**85.5**
Exercisable at 31 August 2013	–	–	–	688,266	
Weighted average remaining contractual life (years)	–	–	–	6.25	

i) The 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 vested on 24 November 2012. 32% of the awards vested based on an EPS growth of 6.1% during the applicable performance period.

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 lapses. Where growth is 6% per annum, 30% of the shares awarded vests; where growth is 12% per annum, the EPS element of the awards vests 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 lapses. If average ROCE is equal to the cost of capital over the three year period, then 30% of the shares awarded vests. If average ROCE is equal to the cost of capital plus 5% then the ROCE element of the awards vests in full. Between these two points, awards vest on a straight line basis between 30% and 100%.

Awards granted on 1 November 2012 and 1 May 2013
The vesting of the shares granted under these awards is dependent upon the growth of both EPS and 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 lapses. Where growth is 6% per annum, 30% of the shares awarded vests; where growth is 12% per annum, the EPS element of the awards vests 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 plus 1% over the three year period, this element of the awards lapses. If average ROCE is equal to the cost of capital plus 1% over the three year period, then 30% of the shares awarded vests. If average ROCE is equal to the cost of capital plus 5% then the ROCE element of the awards vests in full. Between these two points, awards vest on a straight line basis between 30% and 100%.

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 2013	1 Nov 2012
Number of shares under award (number)	580,036	3,800,797
Expected term (years)	3.0	3.0
Share price at grant (pence)	84.5	123.7
Exercise price (pence)	–	–
Risk free rate	0%	0%
Expected volatility	N/A	N/A
Expected dividend yield	3.5%	2.4%
Fair value of award (pence)	76.0	115.0

Volatility is a measure of the amount by which the Company's share price is expected to fluctuate in the period. Where volatility has been used in the calculation of the fair value of the award, it has been estimated by using the most recent historical share price volatility which is commensurate with the expected term of the option taking into account its contractual life.

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. The options granted on 24 November 2009 became exercisable in full based on ROCE performance exceeding the cost of capital by 7.8% during the applicable performance period. There are no unvested options under this plan.

28 Share-based payments continued

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.

The option granted on 16 November 2010 over 250,000 shares vested on 16 November 2012.

The option granted on 21 May 2012 over 200,000 shares was forfeited on 30 November 2012.

Options granted on 6 December 2012

The option granted 6 December 2012 has a 24 month vesting period based on the employee's continued employment and performance targets specific to the employee's role within the business and is 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	6 December 2012
Number of shares under option (number)	200,000
Expected term (years)	2.0
Share price at grant (pence)	114.8
Exercise price (pence)	–
Risk free rate	0%
Expected volatility	N/A
Expected dividend yield	2.6%
Fair value of option (pence)	109.0

Volatility is a measure of the amount by which the Company's share price is expected to fluctuate in the period. Where volatility has been used in the calculation of the fair value of the award, it has been estimated by using the most recent historical share price volatility which is commensurate with the expected term of the option taking into account its contractual life.

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.

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%.

29 Operating lease commitments

	31 August 2013		1 September 2012	
	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	**199.9**	**1.5**	195.0	1.4
Later than one year and less than five years	**830.0**	**2.4**	787.4	2.3
After five years	**4,080.5**	**–**	4,173.8	–
	5,110.4	**3.9**	5,156.2	3.7

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

	31 August 2013 £m	1 September 2012 £m
Profit before taxation	**154.0**	158.3
Depreciation (note 14)	**84.4**	82.4
Amortisation (note 13)	**10.2**	9.2
Loss on disposal of property, plant and equipment	**0.2**	0.2
Employee options granted during the financial year (note 28)	**1.5**	1.6
Fair value losses/(gains) on derivative instruments	**2.0**	(3.1)
Net movements in provisions (note 26)	**0.3**	(1.0)
Finance income	**(1.5)**	(1.2)
Finance costs	**15.5**	17.9
Difference between pension credit and contributions paid (note 23)	**(21.7)**	(21.1)
Net movement in other long-term receivables	**3.6**	(2.6)
Net movement in other non-current liabilities	**0.2**	2.9
Changes in working capital		
Increase in inventories	**(25.5)**	(11.5)
Increase in trade and other receivables	**(2.9)**	(4.7)
Increase in trade and other payables	**20.8**	32.4
Cash generated from operations	**241.1**	259.7

In the cash flow statement, proceeds from the disposal of property, plant and equipment and finance leases comprise:

	31 August 2013 £m	1 September 2012 £m
Net book value (note 14)	**0.2**	0.2
Loss on disposal of property, plant and equipment	**(0.2)**	(0.2)
Cash proceeds from the disposal of property, plant and equipment	**–**	–

Non-cash transactions
Other non-cash changes comprise:

	31 August 2013 £m	1 September 2012 £m
Amortisation of issue costs relating to debt issues	**2.7**	2.9
Non-cash movements associated with term loan facility	**(0.3)**	(0.1)
Revaluation of cash and cash equivalents	**–**	0.3
Non-cash movements associated with finance lease obligations	**0.5**	6.2
Non-cash transactions	**2.9**	9.3

31 Analysis of changes in net debt

	1 September 2012 £m	Cash flow £m	Non-cash movements £m	**31 August 2013 £m**
Analysis of net debt				
Cash and cash equivalents	44.0	(17.0)	–	**27.0**
Bank overdrafts	(9.4)	6.5	–	**(2.9)**
Net cash and cash equivalents	34.6	(10.5)	–	**24.1**
Debt due within one year	(151.8)	(5.5)	(1.1)	**(158.4)**
Debt due after one year	(244.8)	13.3	(1.3)	**(232.8)**
Finance lease obligations due within one year	(2.2)	2.3	(1.9)	**(1.8)**
Finance lease obligations due after one year	(4.5)	–	1.4	**(3.1)**
	(368.7)	(0.4)	(2.9)	**(372.0)**

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 than not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

In September 2013, Debenhams plc received a Statement of Objections from the Office of Fair Trading ("OFT") addressing the possibility of anti-competitive behaviour with respect to retail selling prices for the Shock Absorber range of sports bra products in the UK during the years of 2009, 2010 and 2011. Debenhams is reviewing the Statement of Objections, will be responding to the OFT in due course as required and continues to dispute the OFT's findings. However, whilst the matter is still under review the possibility cannot be ruled out that the Group's performance, cash flows or financial condition could be affected by the outcome of this matter.

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 Group.

33 Principal subsidiary undertakings

The principal subsidiary undertakings of Debenhams plc at 31 August 2013 were as follows:

Company	Share of issued ordinary share capital and voting rights	Country of incorporation	Country of registration	Activity
Debenhams Retail plc	100%	UK	England	Department store retailing
Debenhams Group Holdings Limited*	100%	UK	England	Holding company
Debenhams Retail (Ireland) Limited	100%	Ireland	Ireland	Department store retailing
Aktieselskabet Th. Wessel & Vett Magasin du Nord	100%	Denmark	Denmark	Department store retailing
Debenhams Properties Limited	100%	UK	England	Property investment
Debenhams Hong Kong Limited	100%	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 31 August 2013 whose results or financial position, in the opinion of the directors, principally affected the financial statements. Unless otherwise stated all of these operate predominantly in the UK.

All subsidiary companies are consolidated. A full list of subsidiary and other associated undertakings as at 31 August 2013 will be annexed to the Company's next annual return filed with the Registrar of Companies.

Five year record income statements

	52 weeks 2013 £m	52 weeks 2012 £m	53 weeks 2011 £m	52 weeks 2010 £m	52 weeks 2009 £m
Gross transaction value	**2,776.8**	2,708.0	2,679.3	2,564.3	2,339.7
Revenue	**2,282.2**	2,229.8	2,209.8	2,119.9	1,915.6
Cost of sales	**(1,972.1)**	(1,927.5)	(1,913.1)	(1,829.5)	(1,650.7)
Gross profit	**310.1**	302.3	296.7	290.4	264.9
Distribution costs	**(97.4)**	(81.0)	(70.2)	(55.1)	(45.3)
Administrative expenses	**(44.7)**	(46.3)	(42.8)	(40.2)	(37.4)
Operating profit before exceptional items	**168.0**	175.0	183.7	195.1	182.2
Exceptional items	**–**	–	–	(5.4)	–
Operating profit	**168.0**	175.0	183.7	189.7	182.2
Net finance costs	**(14.0)**	(16.7)	(23.4)	(49.8)	(61.4)
Profit before taxation	**154.0**	158.3	160.3	139.9	120.8
Taxation	**(26.1)**	(33.0)	(43.1)	(42.9)	(25.7)
Profit for the financial year attributable to owners of the parent	**127.9**	125.3	117.2	97.0	95.1

Five year record balance sheets

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Assets					
Non-current assets					
Intangible assets	**876.5**	864.9	858.1	846.2	839.9
Tangible assets	**692.1**	661.6	634.6	676.1	669.2
Financial assets	**3.0**	2.7	4.0	8.7	9.0
Other receivables	**16.8**	19.3	18.3	17.2	–
Retirement benefit assets	**4.6**	–	3.9	–	–
Deferred tax assets	**69.3**	83.2	75.7	92.0	80.6
Total non-current assets	**1,662.3**	1,631.7	1,594.6	1,640.2	1,598.7
Net current liabilities	**(271.4)**	(267.5)	(292.0)	(636.5)	(74.4)
Non-current liabilities	**(646.5)**	(703.2)	(643.0)	(500.3)	(1,099.0)
Net assets	**744.4**	661.0	659.6	503.4	425.3
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	**(3.5)**	(12.1)	(8.3)	(3.4)	288.9
Retained earnings	**64.9**	(9.9)	(15.1)	(176.2)	(546.6)
Total equity	**744.4**	661.0	659.6	503.4	425.3

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

We have audited the parent company financial statements of Debenhams plc for the year ended 31 August 2013 which comprise the 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 83, 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 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 parent company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 August 2013;
- 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 directors' 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 directors' 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 year ended 31 August 2013.

Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

24 October 2013

Company Balance Sheet

Company number 5448421
As at 31 August 2013

	Note	31 August 2013 £m	1 September 2012 £m
Assets			
Total fixed assets			
Investments	4	**2,248.0**	2,745.9
Derivative financial instruments	5	**0.7**	–
		2,248.7	2,745.9
Current assets			
Debtors	6	**89.9**	135.5
Cash at bank and in hand	7	**0.9**	–
		90.8	135.5
Current liabilities			
Creditors: amounts falling due within one year	8	**(715.7)**	(1,175.3)
Derivative financial instruments	5	**(0.5)**	–
		(716.2)	(1,175.3)
Net current liabilities		**(625.4)**	(1,039.8)
Total assets less current liabilities		**1,623.3**	1,706.1
Non-current liabilities			
Bank overdraft and borrowings	9	**(246.3)**	(244.8)
Derivative financial instruments	5	**(3.4)**	(8.3)
		(249.7)	(253.1)
Net assets		**1,373.6**	1,453.0
Shareholders' equity			
Called-up share capital	12	**0.1**	0.1
Share premium account	13	**682.9**	682.9
Hedging reserve	13	**(2.5)**	(6.4)
Retained earnings	13	**693.1**	776.4
Total equity	14	**1,373.6**	1,453.0

The financial statements on pages 130 to 137 were approved by the board on 24 October 2013 and were signed on its behalf by:

Simon Herrick
Chief Financial Officer

Notes to the Company financial statements

For the financial year ended 31 August 2013

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 principal accounting policies, which have been applied consistently for each financial year unless stated otherwise, are set out below.

Exemptions
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 alone. However, the Company's profit and loss account has been produced for approval by the board.

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 consolidated financial statements of the Group include a consolidated cash flow statement which includes the cash flows of the Company.

Investments
Investments comprise the Company's investment in subsidiaries and are shown 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.

Revenue recognition
i) Interest income
Interest receivable and interest payable are recognised in the period to which they relate using the effective interest method.

ii) Dividend income
Dividend income is recognised when the right to receive payment is established.

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.

1 Accounting policies continued

Share-based payments
The Company 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 Company measures the fair value of each award using the Black-Scholes model where appropriate.

The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Company'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 Company revises its estimates of the number of options that are expected to vest. Non-market performance and service conditions are included in assumptions about the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

When the options are exercised, the Company may issue new shares or utilise shares held as treasury shares or within the Debenhams Retail Employee Trust. 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.

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.

Foreign exchange
Transactions denominated in foreign currencies are translated into the respective functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated into sterling at the closing rates ruling at the balance sheet date.

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
A loss of £18.3 million is attributable to shareholders for the financial year ended 31 August 2013 (2012: profit of £112.4 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 (2012: £0.1 million) is borne by another Group undertaking and relates to the audit of the Company financial statements.

3 Dividends

	31 August 2013 £m	1 September 2012 £m
Final paid 2.3 pence (2012: 2.0 pence) per £0.0001 share		
– Settled in cash	**28.9**	25.6
Interim paid 1.0 pence (2012: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.5**	12.9
	41.4	38.5

A final dividend of 2.3 pence per share (2012: 2.0 pence per share) was paid during the year in respect of the financial year ended 1 September 2012, together with an interim dividend of 1.0 pence per share (2012: 1.0 pence per share) in respect of the financial year ended 31 August 2013. The directors are proposing a final dividend in respect of the financial year ended 31 August 2013 of 2.4 pence per share (2012: 2.3 pence per share), which will absorb an estimated £29.4 million (2012: £28.9 million) of shareholders' funds. It will be paid on 10 January 2014 to shareholders who are on the register of members at close of business on 6 December 2013. No liability is recorded in the financial statements in respect of the final dividend as it was not approved at the balance sheet date.

4 Investments

	Investments in subsidiary undertakings £m
Cost	
At 1 September 2012	4,068.8
Group reorganisation	(692.9)
At 31 August 2013	**3,375.9**
Provision for impairment	
At 1 September 2012	1,322.9
Release of impairment on Group reorganisation	(195.0)
At 31 August 2013	**1,127.9**
Net book value	
At 31 August 2013	**2,248.0**
At 1 September 2012	2,745.9

Investment in subsidiary undertakings
During the year the Company reduced its investments in various subsidiary companies as part of a legal entity reorganisation in the normal course of business which resulted in a reduction in the level of investments of £497.9 million (2012: £nil).

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 (2012: £nil). The discount rate used in the calculation to arrive at the valuation was 7.4% (2012: 8.2%) on a post-tax basis. The directors consider that the carrying value of the investments is supported by their underlying net assets. The pre-tax rate was 7.6% (2012: 8.4%).

The principal subsidiary undertakings of the Company at 31 August 2013 are shown in note 33 of the Debenhams Group financial statements.

Notes to the Company financial statements continued

5 Derivative financial instruments

	31 August 2013 £m	1 September 2012 £m
Non-current assets		
Interest rate swaps – cash flow hedges	**0.7**	–
Current liabilities		
Interest rate swaps – cash flow hedges	**(0.5)**	–
Non-current liabilities		
Interest rate swaps – cash flow hedges	**(3.4)**	(8.3)
	(3.2)	(8.3)

Information relating to the derivatives held by the Company is shown in note 22 of the Debenhams Group financial statements.

6 Debtors

	31 August 2013 £m	1 September 2012 £m
Deferred tax asset (note 11)	**0.7**	1.9
Amounts owed by Group undertakings	**88.5**	133.6
Prepayments	**0.7**	–
	89.9	135.5

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.5% (2012: 3.0%).

7 Cash at bank and in hand

	31 August 2013 £m	1 September 2012 £m
Cash at bank and in hand	**0.9**	–

8 Creditors: amounts falling due within one year

	31 August 2013 £m	1 September 2012 £m
Bank borrowings (note 10)	**167.5**	151.8
Amounts owed to Group undertakings	**547.3**	1,022.9
Accruals	**0.9**	0.6
	715.7	1,175.3

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.5% (2012: 3.0%) or are interest free.

9 Creditors: amounts falling due after more than one year

	31 August 2013 £m	1 September 2012 £m
Bank borrowings (note 10)	**246.3**	244.8

10 Borrowings

	31 August 2013 £m	1 September 2012 £m
Creditors: amounts falling due within one year		
Revolving credit facility	**170.0**	155.0
Less: issue costs	**(2.5)**	(3.2)
	167.5	151.8
Creditors: amounts falling due in more than one year		
Term loan facility	**250.0**	250.0
Less: issue costs	**(3.7)**	(5.2)
	246.3	244.8

Maturity of debt

	31 August 2013 £m	1 September 2012 £m
Amounts falling due:		
In one year or less or on demand	**170.0**	155.0
In more than two years but not more than five years	**250.0**	250.0
	420.0	405.0

Information relating to the borrowings of the Company is shown in note 20 of the Debenhams Group financial statements.

The Company 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. £100.0 million of these facilities expire in October 2015, with the balance extending to October 2016. At 31 August 2013 the Company's facilities outstanding comprised the term loan of £250.0 million (2012: £250.0 million) and RCF drawings of £170.0 million (2012: £155.0 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 2016 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 Company's credit facilities for the financial year ended 31 August 2013 was £2.7 million (2012: £2.9 million).

11 Deferred taxation

	Fair value gains £m
At 1 September 2012 – asset	1.9
Credited to reserves	(1.2)
At 31 August 2013 – asset	**0.7**

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 22.2% (2012: 23.0%) for temporary differences expected to reverse within 12 months of the balance sheet date and 20.0% for temporary differences expected to reverse more than one year after the balance sheet date (2012: 23.0%) for the UK differences. The Finance Act 2013, which became substantively enacted on 2 July 2013, included legislation reducing the main rate of corporation tax from 23.0% to 21.0% from 1 April 2014 with a further reduction in the main rate of corporation tax to 20.0% from 1 April 2015.

The effect of the reduction in the corporation tax rate enacted in the 2013 Act has been to reduce the net deferred tax asset recognised at 3 September 2012 by approximately £0.2 million.

Deferred tax provided on the fair value gains represents the deferred tax on the derivatives that qualify for cash flow hedges.

12 Called-up share capital

	31 August 2013		1 September 2012	
	£	Number	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299
Allotted under share option schemes	**4**	**37,142**	–	–
At end of year	**128,684**	**1,286,843,441**	128,680	1,286,806,299

The Company commenced its share buyback programme in April 2012. As at 31 August 2013 the Company had purchased 47,441,877 ordinary shares of £0.0001 at a total cost of £45.2 million of which 23,882,722 (2012: 23,559,155) ordinary shares of £0.0001 were purchased (representing 1.9% of the Company's share capital) at a cost of £25.1 million (2012: £20.1 million) during the financial year. All shares purchased by the Company are transferred to treasury. During the year 655,573 treasury shares were transferred out of treasury to satisfy awards granted under the Company's share plans.

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:

	31 August 2013 Ordinary shares Number	1 September 2012 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**473,537**	723,536

The market value of the shares at 31 August 2013 was £0.5 million for the DRET (2012: £0.7 million). The cost of the shares held at the year end was £0.4 million (2012: £0.6 million).

Share option schemes
At 31 August 2013 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").

For further information on these schemes please see note 28 of the Debenhams Group financial statements.

13 Reserves

	Share premium account £m	Hedging reserve £m	Profit and loss account £m
At 1 September 2012	682.9	(6.4)	776.4
Loss for the financial year	–	–	(18.3)
Cash flow hedges – net fair value gains (net of tax)	–	3.9	–
Employee share ownership plans (net of tax)	–	–	1.5
Purchase of treasury shares	–	–	(25.1)
Dividends to shareholders (note 3)	–	–	(41.4)
At 31 August 2013	**682.9**	**(2.5)**	**693.1**

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.

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 £41.4 million (2012: £38.5 million) was paid by the Company during the financial year ended 31 August 2013.

14 Reconciliation of movements in shareholders' funds

	31 August 2013 £m	1 September 2012 £m
(Loss)/profit for the financial year	**(18.3)**	112.4
Dividends paid (note 3)	**(41.4)**	(38.5)
(Accumulated deficit)/retained profit for the year	**(59.7)**	73.9
Cash flow hedges:		
– Net fair value gains/(losses), net of tax	**3.9**	(3.5)
Purchase of treasury shares	**(25.1)**	(20.1)
Employee share ownership plans, net of tax	**1.5**	1.6
Net (decrease)/increase to shareholders' funds	**(79.4)**	51.9
Opening shareholders' funds	**1,453.0**	1,401.1
Closing shareholders' funds	**1,373.6**	1,453.0

15 Contingent liabilities

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.

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
Lichfield
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
Yerevan

Azerbaijan
Baku

Bahrain
Manama

Bulgaria
Sofia – Bulgaria Mall

Cyprus
Apollon
Central
Engomi
Kinyras
Korivos
Ledra
Nicosia
Olympia
Zenon

Czech Republic
Prague

Egypt
Alexandria

Estonia
Tallinn*

Georgia
Tblisi

Iceland
Reykjavik

India
Bangalore
Mumbai

Indonesia
Jakarta Senayan City
Karawaci
Kemang Village

Iran
Mashad
Shiraz
Tehran
Tehran Jame Jam

Jordan
Amman

Kuwait
Airport
Avenues
Souq Sharq

Libya
Tripoli*

Malaysia
Kuala Lumpur – Star Hill
Kuala Lumpur – The Curve
Penang*

Malta
Paola
Tigne Point

Philippines
Davao Abreeza Mall
Manila – Glorieta
Manila – Shangri La
Manila – Trinoma
Paeso Santa Rosa

Qatar
Doha

Russia
Moscow

Pakistan
Karachi

Saudi Arabia
Dhahran Mall
Jeddah – Bin Homran
Jeddah – Mall of Arabia
Madinah Al Noor
Mecca Abra Al Bait
Riyadh – Gallery Mall
Riyadh – Granada Mall
Riyadh – Kingdom Mall
Riyadh – Rabwa
Riyadh – Sahara Mall

Turkey
Istanbul

UAE
Abu Dhabi – Dalma
Abu Dhabi – Khalidja Mall
Dubai – Deira
Dubai – Ibn Battuta
Dubai – Dubai Mall
Dubai – Mall of Emirates
Dubai – Mirdiff
Sharjah Sahara Centre

Vietnam
Ho Chi Minh City

*Opened after 31 August 2013.

Glossary and references

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 by 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 Jasper Conran, John Rocha and Julien Macdonald.

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.

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 (GTV)
Sales (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts. All references to sales in this report refer to GTV. All references to revenue refer to statutory revenue.

International brands
Brands such as Levis, Ben Sherman, Clarins and Estée Lauder for which Debenhams owns the stock.

International segment
Comprises sales to international franchise partners, stores in Denmark and the Republic of Ireland and online orders delivered outside the UK.

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.

Market share references
All references to clothing/footwear/accessories, womenswear, menswear, childrenswear and online market share relate to Kantar Worldpanel Fashion 24 weeks market share to 1 September 2013 vs. 2012. All references to beauty market share relate to NPD 52 weeks to August 2013. All references to home and furniture market share relate to GfK EPOS panel 52 weeks to September 2013.

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.

Own brands
Debenhams' exclusive brands, comprising core brands and Designers at Debenhams.

Shareholder information

Registered office and head office
10 Brock Street
Regent's Place
London NW1 3FG
Registered in England and Wales
Company number: 5448421

Financial advisors
Lazard
50 Stratton Street
London W1J 8LL

Stockbrokers
Citigroup Global Markets Limited
Citigroup Centre
Canada Square
London E14 5LB

Oriel Securities Limited
150 Cheapside
London EC2V 6ET

Solicitors
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London WC2N 6RH

Registrars
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone: 0871 384 2766*
www.shareview.co.uk

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