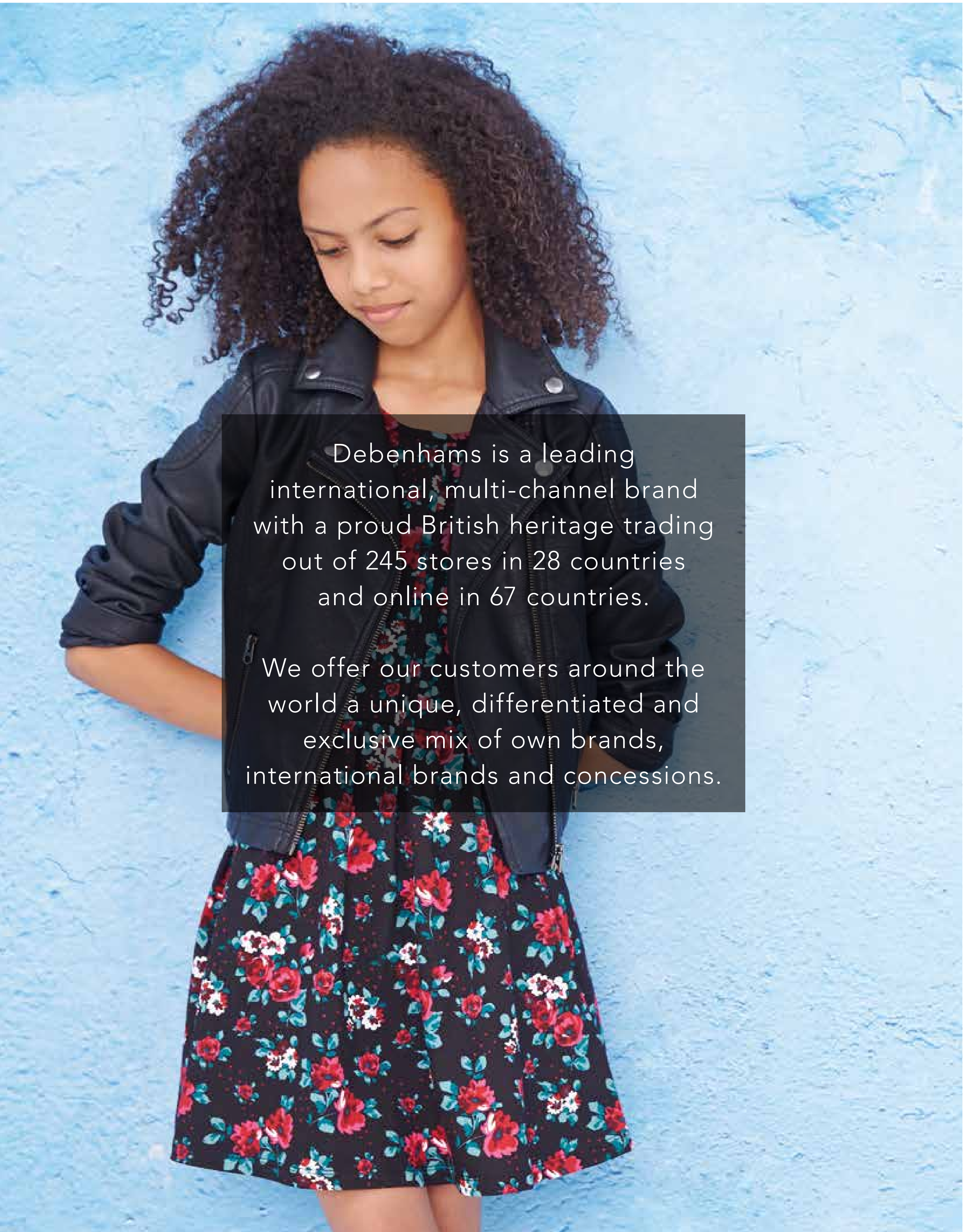
Annual Report & Accounts 2014

DEBENHAMS



Debenhams is a leading international, multi-channel brand with a proud British heritage trading out of 245 stores in 28 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.

FINANCIAL RESULTS

Gross transaction value (GTV)

£2.8bn

Revenue

£2.3bn

Underlying profit before tax*

£110.3m

*Before non-recurring finance cost of £4.5m.

Basic earnings per share

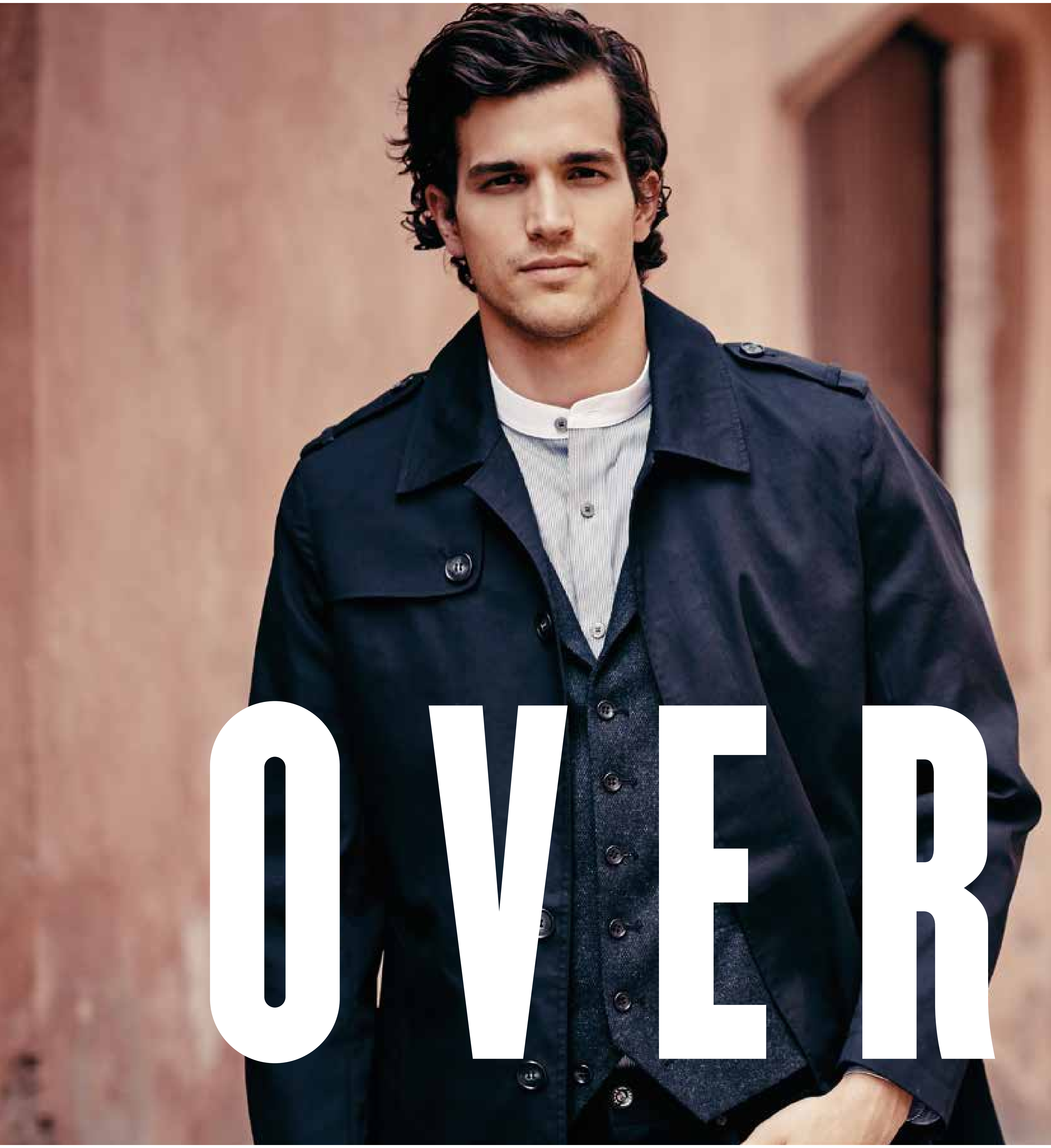
7.1p

Dividend per share

3.4p

Please refer to the glossary on page 148 for explanations of financial and retail industry terms.

In this section



In this section our Chairman Nigel Northridge shares his thoughts on 2014 and we provide some context on the markets in which we operate, as well as independent views of the UK retail market and economy.

VIEW

CHAIRMAN'S LETTER

A solid base on which we can build

Despite the challenges we faced in 2014, we have focused on making progress in our strategy to build a leading international, multi-channel brand. We have also diversified our sources of funding, maintained the dividend and strengthened our board.

Dear Shareholder

2014 saw the bicentenary of the Debenhams name appearing on the British high street. At the same time it was one of the most challenging years we have encountered in those 200 years. Whilst the results for the first half of the year were very disappointing, we are clear about the issues that we faced and are taking decisive action to address them. As a consequence, we saw a much better performance in the second half. I am therefore confident we have a solid base on which we can build in 2015 and beyond.

Our strategy

The board firmly believes that the four pillars of our strategy to build a leading international, multi-channel brand remain the right way to create value for our shareholders.

You can see a visual representation of our strategy on page 14. Our customers are at the heart, reflecting the importance of continuing to deliver a compelling customer proposition across all sales channels. During 2014 we also worked hard to improve the performance of our sales channels in the UK by making our multi-channel service offer more competitive and by seeking to improve the return on the UK stores by increasing sales densities. International has also been at the forefront of our thinking during the year as we aim to leverage our expertise from the UK into other markets. You can read more about this work and the progress made under each of the four pillars in the strategic report on pages 16 and 17.

Our finances

At the start of July we refinanced our borrowing facilities. We issued £225 million of seven year senior notes and refinanced our bank funding through a £425 million revolving credit facility to October 2018. The refinancing has allowed us to achieve two goals. First, it reduces our reliance on traditional bank funding and secondly it diversifies our sources of funding. Over the life of the notes we also expect to achieve a material saving in interest costs compared with the anticipated cost of bank funding alone.

Our dividend

Debenhams remains a cash generative business and the board has therefore decided to maintain the total cash dividend at 3.4 pence per share for 2014 despite lower profits. It is our intention to rebuild dividend cover over time as earnings increase. The share buyback has been discontinued.

Our board

We welcomed Suzanne Harlow to the board in December 2013. Suzanne has 20 years' experience with Debenhams. She has held the role of Group Trading Director since 2008 and leads the design, buying and merchandising functions of the business.

Matt Smith will join the board as Chief Financial Officer during the course of 2015 and we look forward to the benefits that his extensive experience of international and multi-channel retailing will bring to our business.

Matt succeeds Simon Herrick who left the business in February 2014. Neil Kennedy has done an excellent job as Acting Chief Financial Officer since this time, for which we extend our sincere thanks.

The governance section starting on page 40 provides more information on how the board carries out its duties.

Our people

Our colleagues around the world coped admirably with the difficult trading conditions we saw in 2014. During the year we undertook our second annual engagement survey and were pleased that more people took part and that last year's engagement score was maintained given the challenging year faced by the business.

On behalf of the board I offer all of our people my gratitude for their hard work and dedication in 2014 and thank them in advance for their ongoing support in 2015.

Nigel Northridge
Chairman

200 years

In December 2013 we celebrated the 200th anniversary of the Debenhams name appearing on the high street for the very first time. We marked the occasion with special instore events and a limited edition collection of products designed by some of the Designers at Debenhams.

MARKET OVERVIEW

Putting our performance in context

Market conditions in 2014

In the UK, market conditions remained challenging. The number of people visiting Britain's shops declined, as seen in figure 1 which shows high street footfall on a monthly basis compared with the previous year. High street locations were impacted most by the decrease in footfall whilst out of town locations generally fared better.

Lower store footfall was in part due to the continuing channel shift from stores to online. The percentage of the UK total clothing, footwear and accessories market sold online grew from 17% in September 2013 to 19% in August 2014 (source: Kantar Worldpanel market share data 24 weeks to 3 August 2014, 24 weeks to 29 September 2013). Total online sales in non-food categories increased by 14.6% (source: BRC-KPMG Retail Sales Monitor July 2014, 12 month average).

Consumers began to feel better about their financial circumstances and so UK consumer confidence started to increase during the second half of the year (see figure 2). In June 2014 consumer confidence recorded a score of +1, the first positive score since March 2005. The last four months of the year saw the index within a range of 0 plus or minus 2, prompting Nick Moon of GfK to comment: "It looks like we might be in a new period of relative stability for the index."

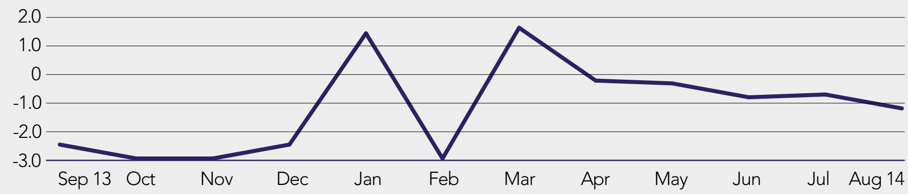
However, many consumers were not feeling any better off because wage growth was lower than inflation throughout the year (as shown in figure 3). In June 2014 wages fell for the first time since the recession in 2009, despite a fall in unemployment to its lowest since 2008. There was some recovery in subsequent months.

Further, the UK remained highly competitive and promotional as evidenced by price deflation throughout the year, the longest period of deflation since 2006 (source: BRC-Nielsen Shop Price Index).

The trading environment in our international markets was mixed. The Danish economy is growing but the Republic of Ireland remained difficult. Our franchise markets generally performed in line with the prevailing economic conditions.

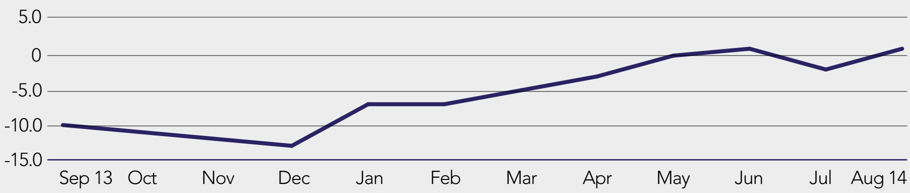
Market metrics

Figure 1: UK retail footfall (% change versus last year)



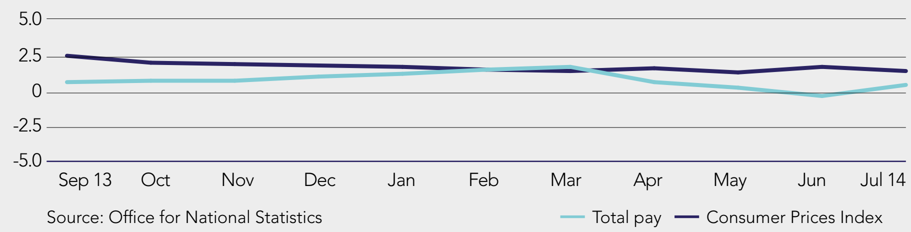
Source: BRC/Springboard Footfall Monitor

Figure 2: UK consumer confidence



Source: GfK Consumer Confidence Barometer on behalf of the European Commission

Figure 3: Average earnings and consumer prices annual growth rates (%)



Source: Office for National Statistics

An independent view of the UK retail market

From a general retail perspective, 2014 has so far been the best year since before the recession. The market context has improved as the fragile economic recovery strengthens, employment grows, consumer sentiment improves and the housing market accelerates, releasing pent up demand for home-related products. This has led to a raft of retailers floating as they take advantage of investors' improving attitude to the retail sector.

Yet there are nevertheless brakes on spending. Despite more people in work, wage growth is still below price inflation and this, combined with high living costs and the likelihood of interest rate rises and a new government in 2015, is dampening expenditure. Consumers have a completely different attitude to spending to that of the pre-recession period. Instead of buying lots of low price product and fuelling spending with credit, consumers are more considered in their buying habits. Now it is about value; price is still important but they would rather buy fewer items and spend more on each for quality and longevity.

Hence not every retailer is benefiting from improving conditions. With consumers buying fewer items, volumes are down and this, combined with a mature market and relatively low growth rates, means that not everyone can gain. This is most evident in the grocery sector where inflation has slowed, shoppers are buying less, and less often, and are offsetting indulgences with value-led ranges, hitting sales and profits.

Indeed the retail landscape has changed significantly. Being market leader and having the benefit of scale with stores in more locations than competitors is no longer an advantage. Competitors have expanded as well giving consumers a greater choice of retailers within easy access, and of course the big disrupter has been the internet and online shopping sites, giving everyone access to an infinite choice of retailers and products.

The buying process has become much more complex with the integration of online and physical stores giving shoppers endless options on how they research, buy and have goods delivered. Retailers have far more interaction with the customer, which demands consistent levels of service on many more touch points. And of course social media is having an even greater impact on the buying process through recommendations and reviews. The result is the role of the physical store has changed fundamentally – it is now more of a step in the buying journey, whether for inspiration, purchasing or collection.

We are in an era where truly the consumer is king. Consumers have unlimited choice and access. They want brands that are in tune with them and their needs, inspire them and value them as customers, editing the choice to fit their lifestyles, income and specific needs. In retail being in tune with your customer is even more essential to thrive and survive.

Maureen Hinton
Global Research Director

conlumino
illuminating retail

An independent view of the UK economy

Having been unusually gloomy for an unusually long time, the outlook for the UK consumer has started to brighten. Over the past year, the number of people in work has risen to record highs, the unemployment rate has fallen back to its lowest level in more than five years and real consumer spending has recovered to within a whisker of pre-recession levels. Consumer confidence, meanwhile, is approaching levels last seen in the late 1990s and early 2000s.

Headwinds to growth still persist, however. In particular, average earnings growth has remained extremely weak, both in absolute terms and relative to inflation. The squeeze on real wages that has dogged consumers since the beginning of the financial crisis persists, albeit to a lesser degree now than in the recent past. Furthermore, at around 60% of take-home pay, non-discretionary spending remains at elevated levels for a significant number of households. Higher levels of indebtedness have also made consumers more sensitive to potential changes in interest rates.

The so-called "cost of living crisis" has resulted in consumers becoming more careful with their spending, shopping around more than they would have done in the past. This has particularly been the case where non-discretionary spending is concerned: the striking rise of discounters in the food retail space and, more recently, the growing market share for smaller players in the utilities industry is testament to this. The increase in competition which this has engendered has helped to limit the extent of any price increase for consumers.

Consumer price inflation, which has acted as a significant drag on growth in recent years, has fallen materially in recent months. In particular, inflation for non-discretionary spending is now hovering at close to zero. This level of inflation has helped to offset some of the weakness in real wage growth, with emerging evidence that, in at least some parts of the market, declining inflationary pressures have started to boost retail sales volumes.

Over the shorter term, this discounting may have contributed to downward pressure on margins for retailers. This has certainly been the case for a number of listed retail companies, especially in the food retail space. In non-food stores, the rate of downward revisions to consensus estimates has actually moderated since the start of the year.

Looking forward, diminishing slack in the labour market should support some recovery in earnings growth. Coupled with falling food prices and lower energy bills, the picture for household cash flow – and discretionary spending more generally – over the next couple of years in the UK is likely to be one of steady improvement.

Darren Winder
LAZARUS

In this section

In this section you can read an interview with Chief Executive Michael Sharp, see how we create value through our business model and our strategy, review our KPIs, learn how we build relationships and manage scarce resources and how we approach risk.

TEGY

CHIEF EXECUTIVE'S REPORT

Taking decisive action to improve performance

Michael Sharp has been Chief Executive of Debenhams since 2011. Here he discusses the issues that impacted our performance in 2014 and the decisive action being taken to address them.

Q: What were your highs and lows in 2014?

2014 was a challenging year for Debenhams. I was extremely frustrated and disappointed by our performance in the first half of the year and its impact on the results for the year as a whole. But it is a mistake to think that the year was without positives, not least that we saw a much more encouraging performance in the second half. Our brand remains in good shape and customers continue to like our product ranges. The Oxford Street transformation project was completed on plan and the flagship store is meeting our expectations. We opened four new stores in the UK and a net six new international franchise stores. Our online sales continued to grow. We refinanced our borrowing facilities, taking advantage of highly attractive credit markets to secure longer-term and more diversified funding.

Q: What went wrong in the first half of the year?

Our performance in the first half was impacted by lower than expected sales in our UK clothing business before Christmas. This meant we had to clear significantly more stock during the post-Christmas sale, resulting in a 100 basis point (bps) decline in gross margin for the first half. I believe that three factors contributed to this disappointing performance. First, in hindsight we set our sales expectation too high and as a result bought too much stock. Weak market conditions in September and October exacerbated the problem. Second, the clothing market was extremely promotional in the run-up to Christmas, meaning that our own long-established promotional events were less successful than they had been in the past. Finally, Christmas 2013 was the first truly multi-channel Christmas. Convenience had a much greater influence on customer behaviour and the winners were retailers who could offer services such as next day click and collect. We were not able to do this and, whilst our online sales continued to grow, in reality we fell further behind some of our competitors.

Q: What are you doing to address these issues?

We have taken decisive action to address these issues. In April we set out five clear priorities under the pillars of our strategy to build a leading international, multi-channel brand. These priorities are underpinned by the setting of more prudent sales targets and buying a lower level of stock which will make us more resilient going forward. The first of these priorities, in terms of delivering a compelling customer proposition, is to refocus our approach to promotions. Second, for multi-channel, we are continuing to build a more competitive and economic business. Third, the priority for UK retail is to drive a better return from our stores. Next, in the international business, our aim is to accelerate growth across all channels. Finally, we are investing in operational effectiveness which I think of as the "glue" which connects the four pillars together.

Q: How can you refocus your promotional activity without disengaging your customers? And how will you measure your success?

Promotions are part of Debenhams' DNA. Customers like them and recognise the great value they offer. But in the run-up to Christmas the increased intensity of our activity started to cause some confusion. Our emphasis is now on the important promotional events such as spectaculars, sales and blue cross. We are removing from the calendar some of the smaller events which create promotional "noise" with only limited reward. Overall, we are reducing the number of days we are on promotion and the depth and breadth of product participation within promotions. This is a journey, predicated on the more prudent sales targets mentioned above, which will not be achieved in one season. We are making these changes at a pace which makes sense to our customers so they do not become disengaged. At the same time we are improving clarity around value on a more general basis, for example by tightening price points in categories such as childrenswear. We are measuring our success in a number of ways. Clearly gross margin is the key metric and it grew by 10 bps in the second half compared with a decline of 100 bps in the first half. We also saw a 10.6% increase in own brand full price sell-through in the second half compared with the previous year and an improvement in the markdown to sales ratio of 3.9%.

Q: When will your multi-channel service proposition be as good as your competitors'? How are you improving multi-channel profitability?

We are confident in our online product offer, but we have not been as competitive as our best-in-class peers in the range of delivery options available to multi-channel customers. Many of these issues have now been addressed. The cut-off for next day delivery to home has been extended from 2pm to 10pm. Customers can now elect for evening delivery or delivery on a nominated day including Saturday and Sunday. Next day click and collect is also available. We expect these new services to

MICHAEL SHARP

Chief Executive

10.6%+

Increase in own brand full price sell-through in second half of year

10pm

Order cut-off for next day delivery to home from October 2014

CHIEF EXECUTIVE'S REPORT CONTINUED

We have a lot to do and we do not underestimate the challenge ahead. I am confident that we can deliver our goals and that we have the right strategy, team and resources in place to do so.

drive sales and to improve profitability. They will drive sales by appealing to customers for whom convenience is the most important reason why they choose to shop with a retailer. They will drive profitability by enabling us to recover a higher proportion of delivery costs.

We are aiming to improve online profitability further by reducing our fulfilment costs which we know are higher than our competitors'. We have made progress in the last two years, reducing UK online costs as a percentage of sales by some 500 bps. There is more to come over the medium term, particularly through the automation of our distribution centres, as detailed on the next page.

Q: How are you improving the return on your UK stores?

Our UK stores will continue to be our largest single sales channel for the foreseeable future. However, the role of the store is changing in the multi-channel world. Store footfall has been impacted by the ongoing channel shift from store-based shopping to online. The ongoing modernisation programme and the work to improve store standards are providing a better shopping experience than five years ago. However, sales densities have declined due to the channel shift and the closure of a number of concession brands, particularly in larger stores. This has contributed to a fall in UK store like-for-like sales which we are seeking to address. I said last year that we were conducting an estate-wide space review to ensure all space is being used in the most profitable way. This has been completed and we have now moved into a phase of trials which aim to increase sales densities by offering a wider choice of product categories, brands and services. Trials have commenced with brands including Sports Direct, Monsoon, Mothercare and Costa. Early results have been encouraging. Decisions on future roll-out will be made after peak trading.

Q: How will you accelerate growth in your international business?

With an estimated size of more than £300 billion, the global department store market provides an opportunity for our International segment to become a substantial part of Debenhams over the next five years, accounting for some 30% of sales. In the past year international has become much more front of mind in our organisation. There is much closer integration between our international and buying/merchandising teams and we have improved the management of the international supply chain. Looking forward, we expect growth will come in the main from our franchise stores, where we are aiming to double the number of stores and countries. We are contracted to open 14 new stores over the next three years with another 12 in final negotiation. International online is growing quickly with sales up by 41.6% in 2014. It accounted for 4.3% of total international sales and we are aiming to increase this to c.15% in five years. In addition to our existing international models, we are looking at alternative routes to market for our own brands which will help us expand our reach into more markets and continue to grow the profitability of our international business.

Executive Committee members from left to right. Back row: Richard Cristofoli (Marketing Director), Peter Swann (Operations Director), Michael Sharp (Chief Executive), Suzanne Harlow (Group Trading Director), Neil Kennedy (Acting Chief Financial Officer). Front row: Ross Clemmow (E-Commerce Director), Nikki Zamblera (HR Director), Mike Goring (Retail Director).

Q: You are increasing your focus on operational effectiveness. What are the priorities for the medium term?

As Debenhams changes from a UK department store model to an international, multi-channel model, we are evolving the systems, supply chain and processes that support the business. We have a clear roadmap to achieve this which focuses on four areas of operational effectiveness. We are developing our buying and merchandising capabilities to facilitate a joined up approach to buying, range planning and merchandising across geographies and channels. The supply chain is being restructured to provide more flexible and scalable supply and logistics. The quality of our decision making is improving through enhanced data analytics and reporting capability for all channels. Finally, we are upgrading our systems infrastructure to provide the platform and tools to sustain us as we grow. One project which is worth dwelling on for a moment is the automation of our Peterborough and Sherburn distribution centres. This will not only give us the capacity for future growth but will enable us to achieve a significant reduction in the cost per unit of picking and packing, thereby contributing to a meaningful increase in the profitability of online sales.

Q: What is your approach to store expansion in the UK?

Our store estate will continue to be our largest channel and plays a vital part in driving our multi-channel business. The vast majority of customers touch a store in some way. When we open a store in a new location we see an increase in online sales in the catchment area.

However, I believe it is useful to clarify our position on new UK stores. We have 160 stores today. The contracted pipeline is comprised of 12 stores. Borehamwood and Scunthorpe will open during October 2014 and ten stores are scheduled to open in the following three years. There are another ten priority markets where we would like to open a store if we can obtain the right space on the right deal. They include the shopping malls at Bluewater and Westfield Stratford City. Beyond this, we are not looking to open any more stores in the UK.

Q: You have a lot to do. Do you have the team and the resources to deliver?

We do have a lot to do and I do not underestimate the challenge ahead. I am confident that we can deliver. I am fortunate in having what I believe is one of the most talented retail management teams in the UK. We strengthened the Executive Committee during 2014 with the appointments of Peter Swann as Operations Director, adding responsibility for supply chain and logistics to his existing systems brief, and Ross Clemmow as E-Commerce Director. These appointments recognise the importance of these disciplines to our future success. I would also like to make special mention of Neil Kennedy who has fulfilled the role of Acting Chief Financial Officer admirably ahead of Matt Smith's arrival.

We also have the financial wherewithal to deliver. Debenhams remains a cash generative business with clear priorities for the uses of cash. The first priority is to invest in the four pillars of our strategy. Capital expenditure amounted to £128 million in 2014 and is expected to be in the region of £130 million in 2015. We remain focused on return on capital employed.

Q: What is your outlook for 2015?

We expect the market to remain highly competitive because customers tell us that although they are encouraged by economic improvements, this has yet to translate into higher disposable income. We therefore remain cautious about the strength and timing of a UK consumer recovery and are planning prudently.

Whilst this has been a challenging year for Debenhams, the brand is strong and our improved second half performance demonstrates that we have taken decisive action to address the issues we faced in the first half. The progress we have achieved so far gives me confidence that we are ready and prepared for the key Christmas period and that we have a clear strategy to deliver long-term sustainable growth and shareholder value.

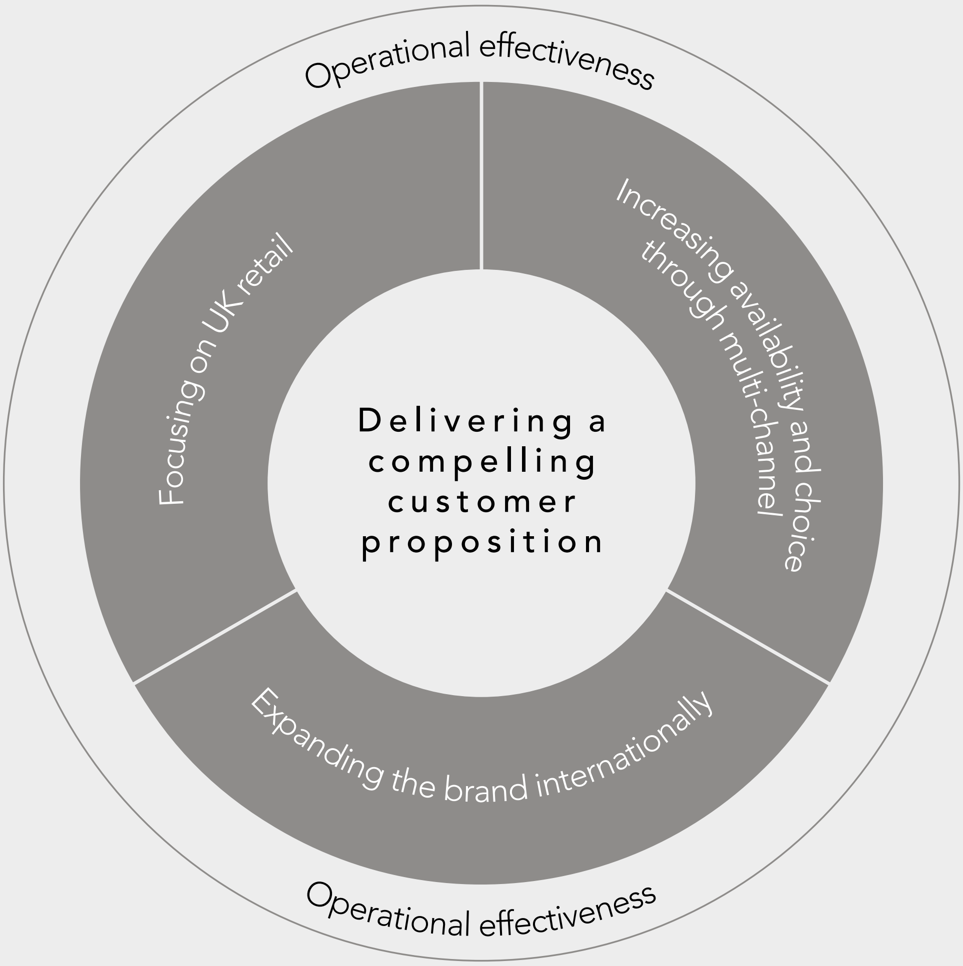
Our 2014 strategic report, from page 10 to page 31, has been reviewed and approved by the board of directors on 23 October 2014.

Michael Sharp
Chief Executive
23 October 2014

BUSINESS MODEL AND STRATEGY

Our place in the value chain

We create value through a business model which has a clear understanding of who our customer is and what they want from us, combined with expertise in how we source and sell products. Our strategy is to build a leading international, multi-channel brand and has four inter-related pillars with delivering a compelling customer proposition at their heart. Operational effectiveness provides the processes, systems and supply chain which connect our strategy with our customers.



Corporate governance

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

READ MORE ON PAGES 40 TO 53

Key performance indicators

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

READ MORE ON PAGES 24 AND 25

Directors' remuneration

We have set strategic targets in the management performance share plan to reflect our focus on key priorities under each pillar of our strategy.

READ MORE ON PAGES 54 TO 77

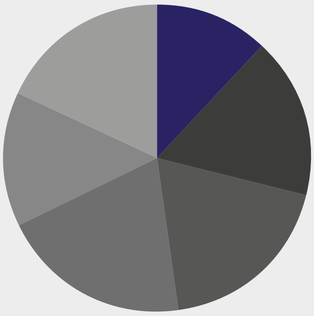
Who is our customer

We put our customer at the heart of everything we do. Debenhams is a family oriented brand which has a broad appeal across our store estate and websites. Our core shopper is female, ABC1 and aged 35-55. In 2014, 12 million customers visited our UK stores and our websites received 276 million visits.

What we sell

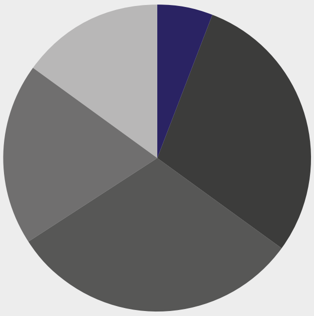
Our customer proposition is differentiated by a unique combination of exclusive, credible core and Designers at Debenhams own brands, international brands and concessions within a good/better/best price architecture. Half of everything we sell is exclusive to Debenhams. A wide choice of clothing and non-clothing categories provides balance and resilience.

Customer profile by age



- 15-24 – **12%**
- 25-34 – **17%**
- 35-44 – **19%**
- 45-54 – **20%**
- 55-64 – **14%**
- 65+ – **18%**

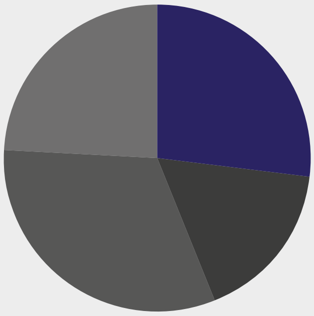
Customer profile by demographic*



- A – **6%**
- B – **29%**
- C1 – **31%**
- C2 – **19%**
- DE – **15%**

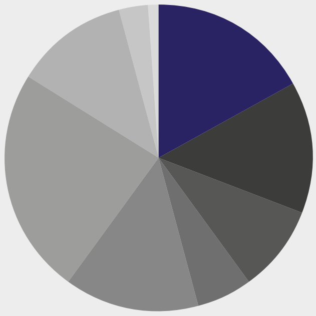
*National Readership Survey (NRS) demographic categories

Sales by brand type



- Core own brands – **27%**
- Designers at Debenhams own brands – **17%**
- International brands – **32%**
- Concessions – **24%**

Sales by category



- Womenswear – **17%**
- Menswear – **14%**
- Childrenswear – **9%**
- Lingerie – **6%**
- Accessories – **14%**
- Beauty – **24%**
- Home & furniture – **12%**
- Food – **3%**
- Other – **1%**

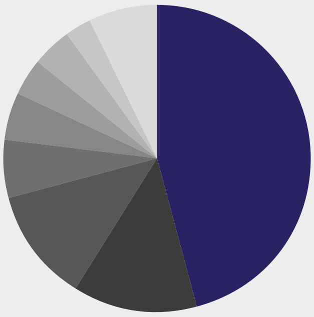
How we buy

Our sourcing strategy is based on "right product, right country". We have been sourcing our own brand products directly for many years and have built long-standing relationships with suppliers. Our global sourcing activities meet our customers' and our own expectations that every one of our products is manufactured in a factory that meets high ethical, safety and quality standards.

How we sell

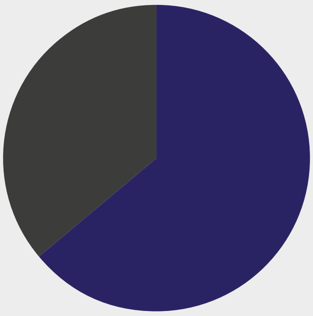
Convenience is becoming an increasingly important factor in how and where customers shop. We therefore give customers a wide range of shopping channels, including our stores, online, mobile, apps, instore kiosks, catalogues and telephone ordering. Multi-channel customers can collect their products from one of our stores or have them delivered to home.

Own brand sourcing by country



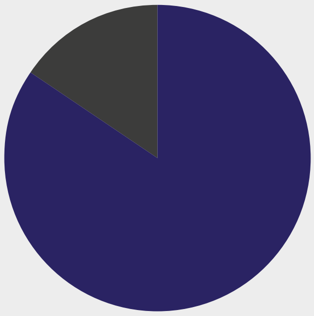
- China/Hong Kong – **46%**
- India – **13%**
- Bangladesh – **12%**
- Vietnam – **6%**
- Romania – **5%**
- Cambodia – **4%**
- Turkey – **4%**
- UK – **3%**
- Other – **7%**

Own brand direct vs indirect sourcing



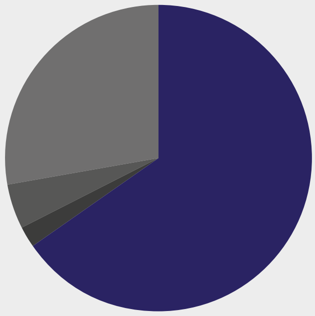
- Direct – **64%**
- Indirect – **36%**

Sales by channel



- Stores – **84.7%**
- Online – **15.3%**

Store numbers



- UK – **160**
- Denmark – **6**
- Republic of Ireland – **11**
- International franchises – **68**

OUR STRATEGY AT A GLANCE

Building a leading international, multi-channel brand

Delivering a compelling customer proposition

Strategic priorities

- Investing in our product and brand strategy to ensure our proposition remains competitive
- Refocusing our promotional strategy to drive gross margin improvement
- Developing buying and merchandising capability to create greater alignment between buying teams and our international and online operations
- Effective communication of the proposition across all media

2014 performance

- Ongoing returns were achieved from the investment made in Red Herring and Principles by Ben de Lisi buying teams
- Recent brand launches were rolled out to more stores including menswear Designers at Debenhams brand Hammond & Co. by Patrick Grant which grew from 20 stores to 80 stores
- The value proposition was sharpened in key categories including childrenswear
- New brand development included Racing Green which will be launched in menswear in 2015
- Work to refocus the promotional strategy commenced, leading to a 10.6% increase in own brand full price sell-through in the second half
- Stock efficiency improved, leading to a 5.3% reduction in like-for-like stock at year end
- "Single customer view" is now fully operational, driving greater return from CRM and eCRM programmes

2015 challenges

- Our markets remain highly competitive with new store and online entrants, especially in clothing
- Managing availability in light of lower stock commitment
- Achieving another step change in return from marketing activity across all channels
- Ensuring strong communication of new delivery services
- Managing the potential impact of political unrest on sourcing and supply chain

Increasing availability and choice through multi-channel

Strategic priorities

- Giving customers a relevant choice of inspiring products and brands which are made easy to choose and easy to shop
- Increasing the competitiveness of our multi-channel delivery options
- Improving the economics of multi-channel through higher recovery of delivery costs and reduction in cost per unit of fulfilment

2014 performance

- Online sales grew by 17.6% to £430.7 million with the online mix increasing from 13.2% of Group GTV to 15.3%. However progress was restricted by the uncompetitiveness of our fulfilment offer
- Total online visits increased by 15% to 276 million
- Mobile continued to be the fastest growing channel with mobile visits up by 58% and mobile sales up by 81%
- Next day delivery to home launched in the UK in September 2013
- Demand for click and collect in the UK grew to 22.3% of all online orders compared with 7.4% in the prior year
- Key customer pain points were addressed, particularly around checkout and returns
- Efficiencies in fulfilment resulted in a 230bps reduction in the UK online cost to sales ratio

2015 challenges

- Launching the new multi-channel delivery services in time for peak trading to drive sales and achieve higher recovery of fulfilment costs
- Integrating new carriers for evening and weekend delivery options
- Supporting next day click and collect service levels and at the same time protecting margins through fulfil-from-store and changes to the transport network
- Developing a flagship online experience through improved product presentation, search and navigation
- Achieving a further reduction in cost per unit of fulfilment
- Finalising plans for automation of fulfilment centres

We made progress within each of the four pillars of our strategy in 2014 despite the difficult trading conditions. Here we review the key elements of our performance and outline the key challenges we will be facing in 2015.

Focusing on UK retail

Strategic priorities

- Addressing the impact of the channel shift on UK store performance including the optimisation of inefficient space
- Improving store standards
- Opening new stores in target markets to grow sales and market share

2014 performance

- UK store like-for-like sales declined in a highly competitive market and performance continued to be impacted by the channel shift
- Trials to improve sales densities commenced with Sports Direct, Monsoon, Mothercare and Costa
- New instore projection for click and collect rolled out to all stores
- The transformation of Oxford Street into our international flagship store was completed on plan and the store is performing in line with expectations
- Store operating standards continued to benefit from the model store programme
- New stores were opened in Cheshire Oaks, Haverfordwest, Hereford and Leamington Spa, adding 169,000 sq ft of trading space
- New store pipeline stands at 12 stores over next four years

2015 challenges

- UK consumer confidence has improved but the cost of living is still rising faster than real income
- Highly competitive marketplace in an environment of declining store footfall due to the channel shift
- Need to ensure efficient handling of expected increase in demand for click and collect following launch of the next day service, including fulfil-from-store
- Managing continued inflation in store costs
- Execution of new brand trials and the subsequent roll-out of all trial brands
- Successful opening of new stores in Borehamwood and Scunthorpe

Expanding the brand internationally

Strategic priorities

- Accelerating growth in international activities, building on our existing credible, exportable proposition
- Leveraging our core strength in own brand products into global markets
- Employing the appropriate operating model for each market based on our preference for prudent investment and risk management

2014 performance

- International segment GTV and operating profit increased by 5.1% and 14.5% respectively
- Good performance from Magasin du Nord
- Eight franchise stores opened including three new markets (Latvia, Libya, Estonia), two stores closed
- Contracted new franchise store pipeline stands at 14 stores in seven countries over next three years, 12 more are in final negotiation
- International online sales increased by 41.6%
- Trading conditions in the Republic of Ireland remained challenging
- Ship direct was extended to cover deliveries to franchise partners in Indonesia, Malaysia and the Philippines taking five weeks out of lead times and halving the cost per unit of shipping
- Closer organisational integration between international business and core activities including buying and merchandising, supply chain and logistics

2015 challenges

- Geopolitical issues are a concern in franchise markets such as Russia and Libya
- The Republic of Ireland is expected to remain a difficult market
- We must ensure the systems, supply chain and processes are in place to support a growing international business
- Successful development of alternative routes to market
- Gaining momentum in online markets where we have no store presence

RESOURCES, RELATIONSHIPS AND SUSTAINABILITY

Ensuring our ability to endure

WE RECOGNISE THAT WE CANNOT RUN OUR BUSINESS IN ISOLATION. THEREFORE OUR MODEL IS UNDERPINNED BY A SERIES OF RELATIONSHIPS WITH STAKEHOLDERS AT LOCAL, NATIONAL AND INTERNATIONAL LEVEL, WHICH CONTRIBUTE TO THE LONG-TERM SUCCESS AND SUSTAINABILITY OF THE BUSINESS.

Building strong relationships

Our customers

We put our customers at the heart of everything we do, which is why the first pillar of our strategy is delivering a compelling customer proposition. We take our customers' views very seriously and listen carefully to what they think about what we are doing. Members of the Executive Committee participate in customer closeness sessions where we meet eight to ten customers at a time to talk to them about their experiences of shopping at Debenhams. We have a customer panel of 15,000 customers to whom we send weekly surveys on a variety of topics. Quarterly brand tracking research helps us to understand how customers perceive our brand against our competitor set. Every customer is invited to participate in an online customer voice scheme. We also operate an online website satisfaction study. Our single customer view system also allows us to survey specific customers based on their purchase history.

Putting our customers first is also about making sure we give them great value every day. As well as refocusing our promotional strategy (as described on pages 10 and 11), we have improved value in key categories such as childrenswear.

Our employees

Our relationship with our employees is crucial to our success as a business. In 2014 over 80% of our 28,000 employees participated in the second annual engagement survey. The engagement score was the same as last year at 77%. The results of the survey make it very clear that if you work at Debenhams it really is all about the people and the pride in doing a good job. The commitment and loyalty of our team is evidenced by the long service of many of our employees, some of whom have dedicated more than 40 years to the Company.

The organisation continues to evolve in order to support our changing business model and this year has seen the opening of an office in Bangladesh to support our growing sourcing activities in that country. Our London head office is enjoying the benefits afforded by our move to a single location from five previous buildings. The continued focus on operational effectiveness is being supported by a new performance appraisal system and the roll-out of a simple behaviour-based programme to stores. It is called "Pride, Passion & People" and embodies the values important to us and our customers.

We endeavour to keep our employees up to date with our strategy and performance in a number of ways, including personal briefings from the Chief Executive.

Local communities

The pride and passion of our employees extends into the communities we serve. In 2014 we raised £1.4 million for the causes supported by the Debenhams Foundation. Our charity partners reflect the causes that our people and our customers hold dear. During the year we added Help for Heroes to our existing partners Children in Need and Think Pink which comprises three breast cancer charities.

The first Debenhams Foundation Ball was held in September 2013 in honour of the 200th anniversary of the Debenhams name appearing on the high street. It was supported by our long-standing supplier base and our champion fundraisers.

RESOURCES, RELATIONSHIPS AND SUSTAINABILITY CONTINUED

We were pleased to receive the Silver Award for Payroll Giving 2014 from the Charities Aid Foundation in recognition of the generosity of many of our employees.

Our suppliers

As the business model on page 14 shows, nearly half of everything we sell is exclusive to Debenhams. In the 25 years we have been working on our own brand programme, we have developed relationships with suppliers around the world. We work with more than 500 own brand suppliers to ensure that our customers are provided with exceptional quality at great value. We require our suppliers to ensure that their own employees are paid a fair wage, are treated with dignity, are not discriminated against or exploited in any way and have a safe working environment. The standards we expect are embedded in our policies and set out in our supplier code of conduct which is incorporated into suppliers' conditions of trading and to which they are expected to adhere.

We operate a comprehensive factory approval and audit process for the 1,150 factories we source from around the world. During 2014, half of these factories were audited as part of our ongoing monitoring programme. We have compliance teams in Hong Kong and Bangladesh in addition to using third party audit partners. Having worked with a single third party partner for the last five years, in October 2013 we opened up our programme to other major independent providers in order to increase flexibility. Our two preferred independent audit companies are Intertek and UL. Whilst our standard audit programme continues, we have also increased our focus on training, guidance and encouraging transparency to enable positive change by way of open dialogue and more frequent visits to our suppliers and manufacturers.

We participated in a number of projects during 2014, including working closely with WRAP to educate and raise awareness about fire prevention and safety, particularly in Bangladesh, India and Pakistan. We are working with Impactt, a leading specialist in ethical trade, human rights and labour standards, on a project in Bangladesh with a reach of 200 factories and more than 250,000 employees. It is helping ready-made garment factories to become better businesses which provide better employee practices, aim to reduce overtime, improve production efficiency, reduce absenteeism and improve skills. The results have been very positive so far and during 2015 we will start the same programme in India. During 2014 we also started to work with ILO Better Factories Cambodia to improve compliance with labour standards in that country. Further, we became a signature to the Sustainable Clothing Action Plan (SCAP). More information on all of these projects can be found on our sustainability website at http://sustainability.debenhamsplc.com/.

Business partners

Our business model and our strategy lead us to work with many organisations. They include the Designers at Debenhams, third party brands and concessions whose ranges we sell and the companies who own and operate our international franchise stores. We have a number of partners within our multi-channel business including the provider of the website platform, the operator of our fulfilment centres, our key search engines and the carriers who deliver our products. We also work closely with our store landlords.

It is important that we know that all of our partners are doing the right things and are adhering to the same high standards that we set for ourselves and our suppliers. This is partly done through contractual arrangements but also through building relationships with our partners at all levels of our organisation so they understand what our strategy is and the part they can play in executing it. For example, during 2014 we hosted strategy briefings with audiences including the Designers at Debenhams, the beauty houses, property companies and landlords and our international franchisees.

Managing resources

Our success depends upon the availability of scarce resources such as power and fuel, raw materials and water. We are also a producer of waste, whether carbon emissions, waste water, packaging or general waste streams. It is our responsibility to ensure that our use of resources and waste is proportionate and efficient, as well as being compliant with all relevant environmental legislation and regulation.

Greenhouse gas emissions

We have reported greenhouse gas (GHG) emissions for our UK, Irish and Danish operations since 2008. Since then the footprint boundary has evolved to include areas such as our international offices, packaging, hangers and waste. This section provides a breakdown of our GHG emissions for 2014. Further details of our GHG emissions can be found on our website at http://sustainability.debenhamsplc.com/.

With the support of Ricardo-AEA, we have applied the GHG Protocol Corporate Accounting and Reporting Standard 2013 and the UK government conversion factors to calculate our carbon emissions. We report GHG emissions in line with our financial year.

In 2014, based on the data provided, our overall carbon footprint has increased by 11%, from 174,080 tonnes CO_2e in 2013 to 193,365 tonnes CO_2e. A breakdown of this is shown in table 1 overleaf. This includes UK GHG emissions which have increased by 16% from 140,866 tonnes CO_2e in 2013 to 163,890 tonnes CO_2e in 2014. The increase is due to two main reasons. The predominant factor is the 10% increase in the UK grid electricity GHG intensity. This has led to an increase in our UK electricity carbon emissions, even though our actual electricity consumption, in kWh, reduced by 2%. The second reason for the increase in this year's footprint is an increase in the number of GHG sources which have been included within the footprint compared with previous years.

Whilst the overall footprint has increased, many other component sources have reduced including total oil and gas, Irish and Danish electricity, UK water use, UK road freight, air freight and international road freight.

RESOURCES, RELATIONSHIPS AND SUSTAINABILITY CONTINUED

Table 1: Group scope 1, 2 and 3 absolute GHG emissions shown in tonnes CO_2e

	2012	2013	2014
Scope 1	14,850	17,786	**15,989**
Scope 2	144,536	139,607	**149,068**
Scope 3	19,071	16,687	**28,308**
Total	178,457	174,080	**193,365**

This year we have captured more emission sources than in previous years and we will continue to endeavour to do so going forward.

In addition, we are investing in projects that will reduce our footprint and environmental impacts. In 2014 we invested £1 million in energy efficiency projects and plan to spend a further £2.7 million on energy efficient lighting, heating, cooling and control projects in 2015.

Emissions data are made more meaningful when compared to a core business variable. We have developed intensity ratios for the total footprint using both annual GTV and premises floor area.

Table 2 shows the total annual GTV and floor area for the whole business. The total absolute emissions are then divided by these figures to provide tonnes CO_2e per £million of turnover and tonnes CO_2e per m^2 of floor area, respectively, as shown in table 3.

Table 2: Group data used for intensity measures

	2012	2013	2014
GTV (£m)	2,700	2,777	**2,824**
Total floor area* (m^2)	1,829,856	1,898,203	**1,850,874**

*Total floor area includes back of house in stores, offices and distribution centres as well as store trading space.

Table 3: Assessment of absolute footprint emissions

	2012	2013	2014
Absolute emissions (tCO_2e)	178,457	174,080	**193,365**
Absolute tCO_2e/£m GTV	66	63	**68**
Absolute tCO_2e/m^2	0.097	0.096	**0.104**

Table 3 shows that intensity metrics have grown ahead of the increases in the Group's GTV and floor space. This is largely due to the same reasons for the increase in absolute emissions, in particular the increase in UK grid electricity GHG intensity.

Energy efficiency

Energy efficiency is a key component of our store expansion and modernisation programmes. In 2015 we are investing £2.7 million on initiatives. This will result in a better environment for customers and employees in our stores through advanced control of heating, lighting and air conditioning. New stores in Borehamwood and Scunthorpe will benefit from full LED lighting schemes on the shop floor and back of house which will reduce total energy usage by some 20% compared with conventional lighting.

Transportation

We are committed to driving down the impacts of deliveries to and from our distribution centres through the use of more efficient vehicles and trailers and through more effective planning of deliveries.

The anticipated growth in click and collect following the introduction of the next day service will lead to increased delivery frequency to stores as we seek to fulfil click and collect orders in the most cost effective way. We are introducing a new planning tool to assist us, building on the benefits we have already seen over the past year through better planning and vehicle utilisation.

To support our growing international franchise business, we opened a distribution hub in Singapore in April 2013 which ships product manufactured in Asia direct to our Middle East franchise partner. Since then, we have added shipments to our partners in Indonesia, Malaysia and the Philippines and are now processing 5 million units per year through the facility, taking up to five weeks out of lead times.

Other resources

You can find out how we manage other resources online at http://sustainability.debenhamsplc.com/.

Sustainability in the 21st century

Our work in the area of sustainability is overseen by a cross-function Sustainability Committee which is chaired by Martina King, non-executive director.

The primary goal of the Sustainability Committee is to take a long-term view of the world in which we trade, to ensure that we will continue to be a successful retailer for the next 150 years. We need to consider our relationships with our stakeholders. These relationships have changed dramatically over the past 20 years, primarily as a result of the advancement of technologies, from global trading and distribution of goods at a mass scale to the launch of the internet, new payment methodologies and mobile advancements, to name a few.

There is a huge amount of debate still raging regarding the role of the high street in the future. In a world of fast moving and developing technologies, it is well understood that content creators will always have a role, as long as the content is demanded and available. Debenhams is in an enviable position; our commitment to affordable "designer" collections, which are celebrating their 21st anniversary, means that we are creators of our own content, not just a showcase of others' creations, although that remains core to our customer proposition as a contemporary department store. It is this dual approach that delivers increased margin, delighted customers and greater long-term security.

Our committee has a watching brief to monitor long-term consumer and technology trends, as well as ensuring our responsible approach to the consumption of the world's resources, including looking after the interests of the broadest description of our stakeholder group.

THE UNRIVALLED COLLECTION OF DESIGNERS AT DEBENHAMS
CELEBRATING
21YEARS
1993 - 2014

KEY PERFORMANCE INDICATORS (KPIs)

Measuring our progress

Key performance indicators

The board uses a range of KPIs to assess performance.

Given the disappointing performance of the business in the first half of the year, we did not meet our expected targets for the strategic and Group financial KPIs in 2014.

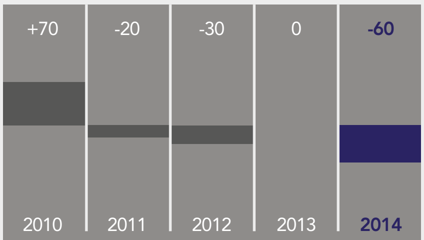
Directors' remuneration

New KPIs have been introduced this year for delivering a compelling customer proposition and focusing on UK retail to align them with performance criteria under the performance share plan (PSP). Annual bonus is awarded on the basis of profit before tax. PSP awards are granted according to performance against targets set for earnings per share, gross margin movement, online EBITDA growth rate, UK GTV and International EBITDA growth rate. More information can be found in the directors' remuneration report starting on page 54.

Linked to executive remuneration

Strategic KPIs

Delivering a compelling customer proposition – Group gross margin movement (bps)



Rationale
Gross margin is defined as GTV less the cost of goods sold, as a percentage of GTV. Key drivers include intake margin, sales mix and markdown.

2014 performance
Gross margin fell by 60 bps due to high levels of markdown in the UK in H1. Performance was better in H2.

Looking forward
We expect gross margin to recover over time as the work to refocus the promotional strategy delivers higher full price sell-through and lower markdown.

Group financial KPIs

Gross transaction value (£m)

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

2014 performance
Group GTV increased by 1.7% with growth in both the UK (up 0.9%) and International (up 5.1%) segments.

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

Like-for-like sales change (%)

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

2014 performance
Group LFL sales increased by 1.0%, driven mainly by UK and International online sales and by our Danish stores.

Looking forward
We expect continued LFL sales growth despite setting more prudent sales targets to build resilience.

Underlying profit before tax* (£m)

Rationale
Underlying profit before tax (PBT) is our principal measure of profitability. It excludes items which are one-off in nature.

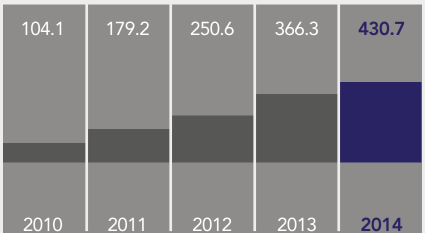
2014 performance
Underlying PBT fell by 20.6% due to a number of factors which affected the UK segment in the first half (see page 10).

Looking forward
The board expects underlying PBT to grow in future years from the £110.3 million achieved in 2014.

All numbers for 2011 on 52 week basis.

*Before exceptional items and non-recurring finance cost (2014: £4.5 million). 2013-14 under IAS 19 R, 2010-12 under IAS 19.

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

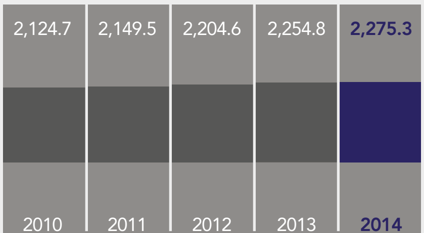


Rationale
Online GTV is a good indicator of the performance of our multi-channel activities. It includes sales to customers in the UK and internationally.

2014 performance
Online GTV increased by 17.6% to £430.7 million, representing 15.3% of total GTV.

Looking forward
Online GTV will continue to grow and we expect to see a benefit from the introduction of new delivery options in time for Christmas 2014.

Focusing on UK retail – UK GTV (£m)

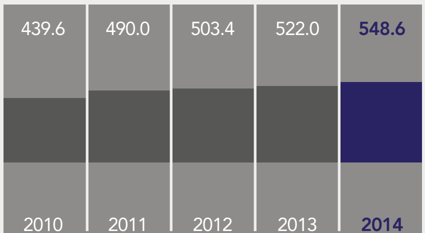


Rationale
The use of UK segment GTV reflects the performance of our UK stores as well as recognising the importance of stores in generating multi-channel sales.

2014 performance
UK GTV grew by 0.9% to £2,275.3 million. Store performance continues to be impacted by the channel shift.

Looking forward
Our space optimisation programme aims to increase sales densities within the UK store estate which will lead to GTV growth.

Expanding the brand internationally – International GTV (£m)



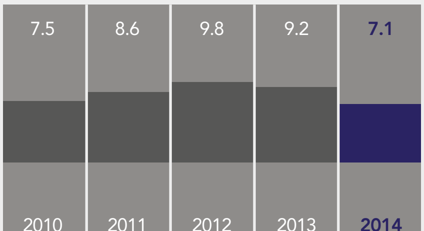
Rationale
International GTV comprises sales from the 17 owned stores in Denmark and Ireland, sales to the franchise stores and online orders delivered outside the UK.

2014 performance
International GTV increased by 5.1% to £548.6 million, driven by growth in Denmark, the franchise stores and online.

Looking forward
The key drivers of International growth will continue to be Denmark, franchise stores and online.

Sustainability KPIs

Earnings per share* (pence)



Rationale
Basic earnings per share divides 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 held in treasury).

2014 performance
Lower profits resulted in a 22.8% decline in EPS to 7.1 pence.

Looking forward
The board expects EPS to grow in future years as profits recover.

*2013-14 under IAS 19 R, 2010-12 under IAS 19.

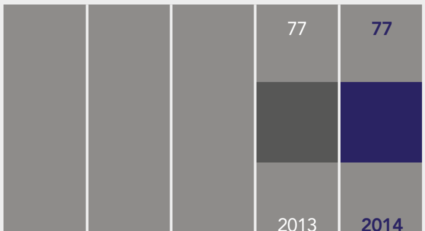
Carbon emissions (CO_2e 000 tonnes)

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

2014 performance
Carbon emissions increased by 11% largely due to an increase in the emissions intensity of UK grid electricity (see page 21 for more details).

Looking forward
We are investing in energy efficiency measures to reduce our carbon emissions.

Employee engagement (%)



Rationale
We conduct an annual engagement survey, inviting all employees in our UK and Irish stores and head office to participate.

2014 performance
Our engagement score remained at 77%, a good result given a significant increase in the number of participants and the challenging year faced by the business.

Looking forward
Measures are in place to address issues raised by employees during the 2014 survey and drive the engagement score going forward.

RISK REVIEW

Safeguarding future returns

The board of Debenhams, 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.

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

To support this system for internal control, the Group has a risk management framework (figure 1) that highlights the central role that the management of risk plays in strategic planning and the successful delivery of strategic objectives and the fact that this process is dependent upon people fulfilling their clearly defined roles and responsibilities.

Roles and responsibilities

The board

The board 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 of, and compliance with, the risk management framework; reporting on the management of risk to stakeholders; and signing off public disclosures relating to risk and risk management.

In addition, the Audit Committee satisfies itself that key risks are monitored by senior management and the internal audit plan is focused on high priority areas.

Heads of function

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, including the use of segregation of duties to protect against management override of controls.

Figure 1: Debenhams risk management framework

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 internal stakeholders; and providing assurance regarding risk management within the Group.

The team also manages corporate insurance, business continuity planning, travel risk management and the whistleblowing line, amongst other things.

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; and the reliability of assurances provided by management.

Whistleblowing

Two main routes are available to employees to raise concerns over malpractices. The first encourages employees to talk to their line manager, their manager's manager or, if still concerned, to call the central human resources team directly. The second route is a confidential reporting line where employees can speak to the Group's anti-fraud team. If an employee feels that the matter is so serious 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 are published on the intranet and on posters. The policy is reviewed annually by the Audit Committee and any serious matters identified are raised with the chairman of the Audit Committee.

Risk management activities

Risk identification

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

In addition, an extensive review of the organisation's risk universe has been undertaken to verify that all key risks have been identified and to ensure that management has considered these as part of its control environment review.

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 this exercise, including the Executive Committee. It considers strategy, objectives and risks to their achievement together with the existing and new controls required to mitigate risk.

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 on the Group, each risk is evaluated based on the likelihood of occurrence and its severity using a risk ranking matrix (figure 2) for consistency, which considers the degree of change across one or more key performance indicators.

Risk treatment

The risk score, derived from the risk ranking matrix, is compared to the risk appetite matrix (figure 3), which provides guidance on the expected level of treatment, timeframes and authority levels. The four methods used to treat risk are:

- Tolerate (take no further action)
- Treat (improve or implement controls)
- Transfer (via insurance/contract)
- Terminate (eliminate/re-engineer)

Risk reporting

The outputs from these processes are collated into the risk register and linked together to define the principal risks faced by the Group. These are taken into consideration when setting the annual internal audit plan.

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

Performance is also reviewed by the board, Executive Committee, Audit Committee, business continuity management committee and executive health and safety committee.

Principal risks and uncertainties

The risks detailed on pages 28 to 31 are the principal risks and uncertainties that may impact the Group's ability to achieve its strategic and operational goals.

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

Figure 2: Risk ranking matrix

Frequency of event occurrence						
Event will probably occur at least once every year	Frequent	4	4	16	36	64
Event will probably occur at least 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 specified degrees of change across one or more financial or reputational key performance indicators)

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	Board

PRINCIPAL RISKS AND UNCERTAINTIES

Risk[1]	Impact	Examples of mitigation	Change[2]
Continuing adverse economic conditions may have a material adverse effect on Debenhams' results	A decline in sales on discretionary purchases leading to a reduction in profit This is a decreasing risk because the gap between inflation and wage growth has started to narrow. However the consumer environment remains volatile and we remain cautious about the outlook	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 and the operational effectiveness of the processes and systems which link the pillars of the strategy together.	↓
Debenhams' business could be impacted as a result of weak sales during peak selling seasons or extreme or unseasonal weather conditions	Adverse effect on inventory and profit	Debenhams' product and brand strategy involves selling a diverse mix of products in order to reduce reliance on those 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 or marketing activity in order to drive sales.	↔
Theft of customer data or breach of payment card industry 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 profitability as well as diverting financial and management resources from more beneficial uses This is a decreasing risk because of the ongoing work and progress made around payment card industry (PCI) compliance	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 levels versus 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.	↓
Debenhams' business could be impacted as a result of failing to compete effectively	Place pressure on our pricing strategy, margins and profitability Divert financial and management resources from more beneficial uses	Debenhams' product and brand 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 and promotional activity is appropriate. Debenhams continues to invest additional resources in customer analytics and insight using tools such as the single customer view. A number of initiatives have been put in place to address the causes of lower than expected sales in the first half of the year and to improve competitiveness. More details can be found in the Chief Executive's report starting on page 10. In addition, a robust systems infrastructure is required to support the delivery of our strategic objectives. To support the efficient and effective delivery of strategic and business critical projects, a business change roadmap has been developed, the governance framework has been enhanced and a series of projects are under way to strengthen business continuity to maintain and protect performance.	↔

[1] Ranked based on overall risk to the business.

[2] Change in severity and/or likelihood of risk during course of 2014.

Risk[1]	Impact	Examples of mitigation	Change[2]
Debenhams' business may suffer if it is unable to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels	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 Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability, or even impairment, of store assets Any of the above could have a material adverse effect on Debenhams' business, financial condition or profitability	Delivering a compelling customer proposition is at the heart of Debenhams' strategy. In developing our product and brand strategy, we take into consideration market, trend and customer research to help us predict likely demand for our products and services. We continue to invest in our product and brand strategy to ensure it remains competitive. We are also investing in buying and merchandising systems capability to achieve greater alignment across all sales channels and geographies. A number of specific actions are being taken to address the issues of the channel shift. These include: • Building a more competitive and economic multi-channel business to drive sales, increase the recovery of fulfilment costs and reduce the cost per unit of fulfilment. To this end, a range of competitive delivery options has been introduced. • Driving a better return on UK store assets through the introduction of additional products, brand and services as well as ensuring stores are fully configured for multi-channel shopping.	
Factors influencing the sustainability of the supply chain	Any of the risks associated with doing business in international markets and/or importing merchandise from these regions could place pressure on margins and profitability or require the Group to divert financial and management resources from more beneficial uses This is a decreasing risk as Debenhams is developing multiple sourcing routes to ensure that pricing remains competitive and that demand can be supplied	Debenhams fosters 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. You can read more about how we build relationships with our suppliers on page 20. 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.	

[1] Ranked based on overall risk to the business.

[2] Change in severity and/or likelihood of risk during course of 2014.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk[1]	Impact	Examples of mitigation	Change[2]
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	Any of the following factors could impact or reduce profitability: • 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 • The loss of a number of important concession or franchise partners • 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 This is an increasing risk based on unpredictable instability of various territories around the world	In order to minimise the impact of any third party relationship or performance issues, Debenhams' objectives are to: maintain mutually beneficial 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 (eg conversion of space to own bought for concessionaire failure, multiple sourcing routes for supplier failure, shipment embargos for franchise failure). Policies, controls and financial support behind receivables are in place to help mitigate the risk of franchise partner failure. Management is closely monitoring any potential impact on our Russian franchise market as a result of the situation within Ukraine.	↑
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 profitability	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. All suppliers are expected to adhere to Debenhams' own supplier code of conduct, which is underpinned by Debenhams' robust policy on compliance which includes a real focus on social and ethical standards. A reliance on third party suppliers and franchisees, the challenges of the current economic environment and the complexity of the new and existing legislation make this an ongoing risk which Debenhams and its suppliers and 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.	↔

[1] Ranked based on overall risk to the business.

[2] Change in severity and/or likelihood of risk during course of 2014.

Risk[1]	Impact	Examples of mitigation	Change[2]
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 profitability 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 This is an increasing risk based on unpredictable instability of various territories around the world and the increased threat level within the UK	The business continuity management 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 to build organisational resilience to known threats is in place and that the framework has the capability to deliver an effective response to safeguard the Group. A business continuity policy, describing roles and responsibilities across the Group, ensures that an effective framework is in place to enable the recovery and continuation of normal business operations as soon as possible in the event of any disruptive incidents. Key business systems are managed and monitored by specialist teams. Insurance policies have been placed as appropriate to minimise the impact of specific risks.	↑
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 profitability and will divert financial and management resources from more beneficial uses	Debenhams has specialist accounting, taxation, information systems 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.	↔
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 profitability, will also divert financial and management resources from more beneficial uses This is an increasing risk due to the current situation in Ukraine and management is currently monitoring energy costs even more closely	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.	↑
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, reducing profitability	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 to ensure, for example, that the retail methodology for valuing stock remains appropriate; 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.	↔

[1] Ranked based on overall risk to the business.

[2] Change in severity and/or likelihood of risk during course of 2014.

In this section


MANCE

FINANCIAL REVIEW

Figure 1: Financial summary	52 weeks to 30 August 2014	52 weeks to 31 August 2013[1]
Gross transaction value		
UK	£2,275.3m	£2,254.8m
International	£548.6m	£522.0m
Group	£2,823.9m	£2,776.8m
Increase in Group like-for-like sales	+1.0%	+2.0%
Revenue		
UK	£1,902.1m	£1,895.9m
International	£410.6m	£386.3m
Group	£2,312.7m	£2,282.2m
Operating profit		
UK	£96.3m	£127.2m
International	£32.3m	£28.2m
Group	£128.6m	£155.4m
Underlying net finance costs[2]	£18.3m	£16.4m
Underlying profit before tax[2]	£110.3m	£139.0m
Non-recurring finance cost	£4.5m	–
Reported profit before tax	£105.8m	£139.0m
Basic earnings per share	7.1p	9.2p
Diluted earnings per share	7.1p	9.2p
Dividend per share	3.4p	3.4p

1 Operating profit, net finance costs, profit before tax, basic earnings per share and diluted earnings per share adjusted for IAS 19 "Employee benefits" revised ("IAS 19 R") (see page 102 for more details)
2 Before non-recurring finance cost (2014: £4.5m).

UK performance

The UK sector includes sales from UK stores and online sales to UK addresses. The inter-dependency between stores and online continues to grow.

GTV increased by 0.9% and revenue by 0.3%. This was principally a result of continued growth in online sales to UK customers, a good performance from Oxford Street following the completion of its transformation into our flagship store and the benefit of two new stores opened in 2013 and four stores in 2014. The UK experienced difficult trading conditions during the first half (as outlined on page 10). Stores continued to be impacted by the channel shift into online. Own bought mix decreased from 79.9% to 79.3% due to strong concession performance.

Operating profit decreased by 24.3% to £96.3 million due to the impact on first half gross margin of lower than expected pre-Christmas sales resulting in high levels of markdown during the January sale period. The action taken to refocus our promotional strategy in the second half led to a better performance during that period. UK profitability was also impacted by a £7.1 million increase in costs following the move into the new London head office.

International performance

The sector comprises our Danish and Irish stores, the franchise stores and online sales to non-UK addresses.

GTV was 5.1% higher than last year and revenue increased by 6.3%. Magasin du Nord had a strong year. We increased revenue in our franchise business with the addition of a net six new stores. International online sales continued to grow. Trading conditions in Ireland stores remained difficult. Own bought mix increased from 63.0% to 63.4% due to growth in Magasin.

International operating profit increased by 14.5%. In line with sales, the main contributors to this growth were Magasin and the franchise business which more than offset lower profits in the Irish stores.

The Group's performance for the 52 weeks to 30 August 2014 is summarised in figure 1. Whilst the first half of the year was extremely challenging, we saw a better performance in the second half as a result of the decisive action taken to address the key issues which impacted the business in the first six months of the year.

Income statement

Sales and revenue

Group GTV increased by 1.7% to £2,823.9 million for the 52 weeks to 30 August 2014 whilst Group revenue increased by 1.3% to £2,312.7 million.

Group like-for-like sales increased by 1.0%.

The components of the Group GTV growth and like-for-like sales growth are shown in figure 2 below.

Group own bought sales mix decreased to 76.2% (2013: 76.7%) largely as a result of the movement in the UK mix which more than offset growth in the international mix.

Operating profit

The Group's profitability in 2014 was significantly impacted by the disappointing performance of the UK business during the first half of the year which was the principal cause of a 100 bps decline in Group gross margin (which we define as GTV less the cost of goods sold, as a percentage of GTV) for the first half. The first stage of our work to refocus our promotional strategy, which is detailed on pages 10 and 11, delivered a better gross margin in the second half, increasing by 10 bps. On a full year basis, gross margin declined by 60 bps.

Costs were managed tightly throughout the year. Total costs increased by 2.7% over the prior year to £2,184.1 million. Cost of sales (defined as product costs associated with gross margin, together with related buying, marketing and store costs) of £2,033.4 million increased by 2.6% in line with sales growth and additional markdown required in the first half. Distribution costs increased by 1.0% to £98.5 million, principally due to the increase in variable costs associated with higher online sales. Administrative expenses increased by 11.8% to £52.2 million largely as a consequence of a £7.1 million increase in costs associated with the new London head office. These costs include rent, rates and service charge and will be incurred on an ongoing basis.

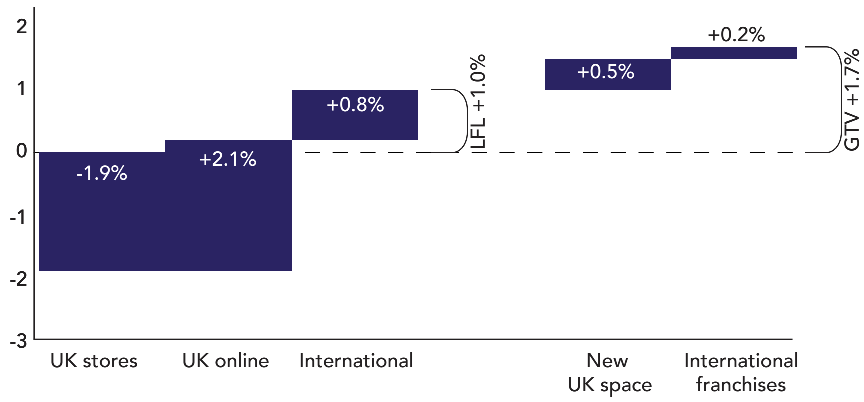
Depreciation and amortisation, including losses on disposal of property, plant and equipment, increased by 7.8% to £102.2 million, reflecting higher capital expenditure in 2014 and 2013 of £128.0 million and £133.3 million respectively.

As a result of the foregoing, Group operating profit declined by 17.2% to £128.6 million from £155.4 million in the previous year.

Net finance costs

Underlying net finance costs increased by 11.6% to £18.3 million as a result of higher debt levels in the first half of the year and increased interest in the final quarter following the refinancing of borrowing facilities, including the issue of £225.0 million of senior notes at the start of July.

Figure 2: Components of sales growth (%)



FINANCIAL REVIEW CONTINUED

This refinancing resulted in a non-recurring write-off to the income statement of £4.5 million of unamortised issue costs. Including the impact of this write-off, net finance costs increased by 39.0% to £22.8 million.

Profit before tax

Lower operating profit and higher finance costs resulted in a 20.6% decrease in underlying profit before tax (before the non-recurring finance cost) from £139.0 million to £110.3 million.

Reported profit before tax (after the non-recurring finance cost of £4.5 million) decreased by 23.9% to £105.8 million (2013: £139.0 million).

Taxation

The Group's tax charge of £18.6 million equates to an effective tax rate of 17.6% compared with 16.6% (restated for IAS 19 R) for the prior year. The 2013 effective tax rate benefited from the resolution of one-off historic issues in that year, the absence of which in 2014 resulted in an increase in the effective rate year-on-year.

This increase was partially offset by the impact that the adoption of FRS 101 "Reduced disclosure framework" (FRS 101) by one of the Group's UK subsidiaries has had on the 2014 effective tax rate. This has resulted in a temporary reduction in the 2014 charge alongside the reduction in profits in the year and the reduction in the UK corporation tax headline rate.

Profit after tax

Profit after tax fell by 24.8% to £87.2 million.

Earnings per share

Lower profits resulted in a 19.6% decline in underlying basic and diluted earnings per share (before the non-recurring finance cost) to 7.4 pence.

Reported basic and diluted earnings per share (after the non-recurring finance cost) fell by 22.8% to 7.1 pence.

The weighted average number of shares in issue decreased from 1,254.5 million last year to 1,226.8 million. This was due to the purchase of 14.4 million shares in the share buyback scheme in the first half of the year and the full year impact of 23.9 million shares purchased in the prior year.

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

	52 weeks to 30 August 2014	52 weeks to 31 August 2013*
EBITDA	£230.8m	£250.2m
Working capital	£9.7m	£(9.1)m
Cash generated from operations	£240.5m	£241.1m
Capital expenditure	£(128.0)m	£(133.3)m
Operating cash flow before financing and taxation	£112.5m	£107.8m
Taxation	£(20.6)m	£(29.3)m
Financing	£(13.1)m	£(12.5)m
Dividends paid	£(41.7)m	£(41.4)m
Share buyback	£(15.1)m	£(25.1)m
Other movements	£(11.5)m	£(2.8)m
Change in net debt	£10.5m	£(3.3)m
Opening net debt	£372.0m	£368.7m
Closing net debt	£361.5m	£372.0m

*Adjusted for IAS 19 R.

Cash flow and uses of cash

Debenhams is a highly cash generative business and has clear priorities for the uses of cash.

The first priority for cash is to invest in our strategy to build a leading international, multi-channel brand. Second, we pay our shareholders a dividend. Third, we have a medium-term target for net debt to earnings before tax, interest, depreciation and amortisation ("EBITDA") of 1.0 times.

Operating cash flow before financing and taxation increased from £107.8 million to £112.5 million despite lower profits as a result of a working capital inflow of £9.7 million in 2014 compared with a £9.1 million outflow in 2013. The swing in working capital is largely associated with the strategy to reduce stock levels in the business.

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

Capital expenditure

In line with the first priority for cash, capital expenditure amounted to £128.0 million during the year, broadly in line with last year's expenditure of £133.3 million. Whereas capital expenditure during the last couple of years has focused on the store modernisation programme, including Oxford Street, in 2014 a greater proportion of capital was spent on Group systems, particularly those to support the Group's growing multi-channel and international activities, as shown in figure 4.

It is expected that capital expenditure will be in the region of £130 million for 2015. Management remains focused on return on capital employed.

Figure 4 : Capital expenditure

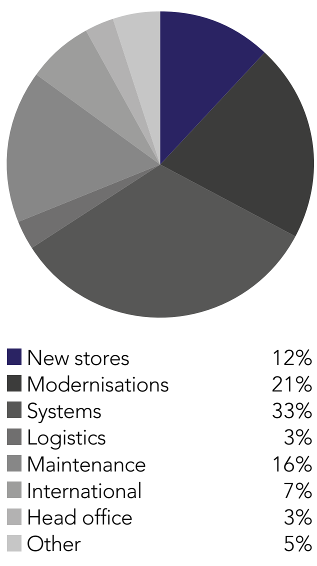


Figure 5: Key balance sheet items

	30 August 2014	31 August 2013
Intangible assets	£892.8m	£876.5m
Property, plant and equipment	£689.2m	£692.1m
Inventory	£345.7m	£357.9m
Other assets	£98.4m	£105.4m
Trade and other payables	£(529.3)m	£(545.8)m
Other liabilities	£(363.1)m	£(359.9)m
Retirement benefit obligations	£(2.4)m	£(20.0)m
Net deferred tax (liabilities)/assets	£(2.4)m	£10.2m
Net debt	£(361.5)m	£(372.0)m
Reported net assets	£767.4m	£744.4m

Dividends
Despite lower profits in 2014, the cash generative nature of the business and confidence in future performance has enabled the board to maintain the 2013 cash dividend and to resolve to rebuild dividend cover over time as earnings increase. To this end, an interim dividend of 1.0 pence per share was paid to investors on 4 July 2014 (2013: 1.0 pence). The board has recommended a final dividend of 2.4 pence per share which will be paid to shareholders on 9 January 2015, taking the total dividend for the year to 3.4 pence, in line with that paid last year.

Share buyback programme
During the early part of the year, 14.4 million shares were acquired for a total expenditure of £15.1 million. Shares bought and retained by the Company as part of the share buyback programme are held in treasury.

On 31 December 2013 the board announced that the share buyback programme would cease with immediate effect in order to concentrate on the first three priorities for cash.

Net debt
The Group's net debt position on 30 August 2014 was £361.5 million, £10.5 million better than at the same point a year ago (31 August 2013: £372.0 million). The ratio of reported net debt to EBITDA of 1.6 times compared with last year of 1.5 times (as restated for IAS 19 R). The year end net debt position demonstrates an improved performance during the second half of the year as net debt was £49.3 million higher at the end of the first half compared with the previous year.

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

Inventory
Stock levels were managed tightly during the second half of the year in line with our aim of setting more prudent sales targets and reducing our level of stock buy. Total stock decreased by 3.4% to £345.7 million reflecting a 5.3% decline in like-for-like stock densities. Terminal stock at year end of 3.2% was in line with internal targets.

Financial position
During the year, the Group strengthened its capital structure through the refinancing of its borrowing facilities.

On 2 July 2014 we completed the offering of £225.0 million senior notes due 2021 at 5.25%. The offering was well subscribed, reflecting the strength of investor confidence in the business. As a result it was upsized from the original £200.0 million principal amount.

At the same time, the Group's bank funding arrangements were refinanced to October 2018 in the form of a £425.0 million revolving credit facility.

The refinancing has enabled us to reduce our reliance on traditional bank funding and meet the board's desire to diversify the sources of the Group's funding. In addition, we expect to achieve a material saving in interest costs over the life of the notes compared with anticipated cost of bank funding alone.

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 for managing financial risks are disclosed in note 21 of the Group financial statements starting on page 117.

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 pension schemes") which both closed for future service accrual from 31 October 2006. Under IAS 19 R, the net deficit on the Group's pension schemes as at 30 August 2014 was £2.4 million (31 August 2013: £20.0 million). Further information can be found in note 23 to the Group financial statements starting on page 124.

An actuarial valuation as at 31 March 2014 is under way. Following the previous actuarial valuation as at March 2011, a funding plan was agreed with the pension schemes' trustees intended to restore the schemes to a fully funded position on an ongoing basis by 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 of the pension schemes, including those payable 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.

Neil Kennedy
Acting Chief Financial Officer
23 October 2014

In this section

In this section you can find details of our approach to corporate governance, biographies of the board of directors, how our board functions and the reports of the Nomination, Audit and Remuneration Committees.

NANCE

CHAIRMAN'S INTRODUCTION

Committed to high standards of corporate governance

The board of Debenhams believes that maintaining the highest standards of corporate governance is essential to creating and protecting shareholder value. It is an integral part of ensuring the whole Group does the right things in the right way.

Dear Shareholder

On behalf of the board, I am pleased to present the corporate governance report for the financial year ended 30 August 2014 and to confirm that Debenhams plc complies with the UK Corporate Governance Code (September 2012) ("the Code"). This report, together with the Audit Committee report, the directors' remuneration report and the directors' report, reviews the operation of the Company by reference to the Code.

The board remains committed to promoting the highest standards of corporate governance and understands that an efficient, challenging and diverse board is essential to enable the business to deliver its strategy.

With that in mind we were delighted to welcome Suzanne Harlow to the board in December 2013. Suzanne joined Debenhams in 1994 and since 2008 has held the role of Group Trading Director. We have made significant improvements to our customer proposition under her direction and we look forward to her continued contribution to all aspects of the business as a member of the board.

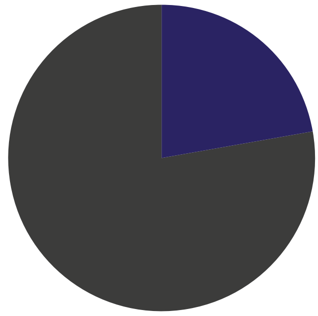
I am also delighted that we will be welcoming Matt Smith to the board as Chief Financial Officer. Matt has previously served as Chief Financial Officer of Mothercare plc and held a number of senior finance roles within Home Retail Group plc, including Finance Director of Argos, as well as having worked for KPMG. I am confident that his wealth of retail and financial expertise will allow him to make a significant contribution to Debenhams. Matt will join Debenhams during 2015 upon the satisfaction of his existing contractual obligations.

In accordance with the Code, Lintstock Ltd has performed an evaluation of the board, its committees and each individual director. Details of the review and the findings are included in this report and the reports of each of the Nomination, Audit and Remuneration Committees. I confirm that following the evaluation, all of the directors continue to perform effectively and to demonstrate commitment to their roles. Accordingly, all directors will offer themselves for re-election at the Annual General Meeting in December this year. Suzanne Harlow will offer herself for election having been appointed to the board during the year.

The Annual General Meeting will be held on Tuesday 9 December at 2.00pm at our head office 10 Brock Street, London NW1 3FG. The board and I look forward to meeting shareholders at the meeting.

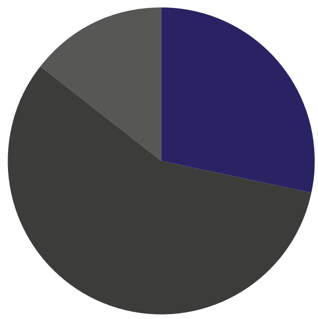
Nigel Northridge
Chairman

Composition of the board



Executive	2
Non-executive	7

Length of non-executive service



One to three years	2
Three to six years	4
More than six years	1

BOARD OF DIRECTORS

Governed with experience

Nigel Northridge

Role: Chairman of the board since April 2010 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 and a non-executive capacity. He spent 32 years with Gallaher Group plc including seven years as chief executive between 2000 and 2007 where he drove consistent and significant growth in shareholder value, ultimately concluding 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.

Current external directorships: Chairman of Paddy Power PLC and a non-executive director of Inchcape plc and Aer Lingus Group plc.

Michael Sharp

Role: Chief Executive since September 2011.

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. He was appointed Chief Operating Officer in 2006 and Deputy Chief Executive in 2008. Michael is an honorary professor of Glasgow Caledonian University.

Current external directorships: None.

Suzanne Harlow

Role: Group Trading Director since December 2013.

Key strengths: Suzanne had led Debenhams' design, buying and merchandising activities in the role of Group Trading Director since 2008 and was appointed to the board in December 2013. Suzanne has worked for Debenhams since 1994 and her roles have included Trading Director for Womenswear, Lingerie and Beauty between 2005 and 2008 and Buying and Merchandising Director of various divisions between 1999 and 2005.

Suzanne is a member of the Advisory Council of the British Fashion Council and the Development Council of Ballet Rambert.

Current external 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 with 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.

Current external directorships: Chairman of Halfords Group plc and Connect Group PLC (formerly Smiths News PLC), Deputy Chairman of Pets at Home Group plc and a non-executive director of Premier Farnell plc.

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 and is also a member of the Digital High Streets Advisory Board. From 1999 to 2007 Peter worked for Amazon both in Europe and the USA.

Current external 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.

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

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. She has also served as a non-executive director of Capita. As Chief Executive Officer of Featurespace Limited, Martina also has data analytic experience.

Current external directorships: Chief Executive Officer of Featurespace Limited and a non-executive director of Cineworld Group plc.

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. He has also served as a non-executive director of Hornby plc and The Sage Group plc and as chairman of Lane Clark & Peacock LLP.

Current external directorships: Non-executive director of Barratt Developments plc.

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 such as Debenhams. Until September 2013 she was Managing Director, Content at British Sky Broadcasting Group plc and a director of AETN UK and NGC Network International LLC. Prior to joining Sky in 2003, Sophie held senior roles at the BBC and was a founder of HIT Entertainment.

Current external directorships: Sophie is a trustee of BAFTA, The Media Trust and the National Film & TV School.

Committee membership

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

● Committee member ■ Committee chairman

Left to right: Mark Rolfe, Martina King, Suzanne Harlow, Dennis Millard, Michael Sharp, Nigel Northridge, Peter Fitzgerald, Sophie Turner Laing and Stephen Ingham.

CORPORATE GOVERNANCE REPORT

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 30 August 2014 and as at the date of this Annual Report it was compliant with all the relevant provisions as set out in the UK Corporate Governance Code (September 2012) ("the Code"), copies of which can be downloaded from the Financial Reporting Council website (www.frc.org.uk).

Chairman	Executive directors		Non-executive directors	
	Chief Executive	Group Trading Director	Senior Independent Director	Independent non-executive directors
Nigel Northridge	Michael Sharp	Suzanne Harlow	Dennis Millard	Peter Fitzgerald
				Stephen Ingham
				Martina King
				Mark Rolfe
				Sophie Turner Laing

Leadership

The board

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

Biographical details of the board of directors are on pages 42 and 43. The board currently has nine members: the Chairman, two executive directors and six independent non-executive directors.

The Chairman

The Chairman is responsible for the effective leadership, operation and governance of the board and its committees. He ensures that all directors contribute effectively in the development and implementation of 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 are determined and challenged. The Chairman is also responsible for the induction of new directors and their continual development, acting on the results of board evaluations 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 management of the Group's business and for implementing the Group's strategic aims. He also chairs the Executive Committee and ensures that it achieves the delegated objectives within the parameters set by the Company's business policies. The roles and responsibilities of the Executive Committee are detailed below. The Chief Executive also chairs an annual strategy event to focus on the Group's overall performance and the developments within each of the four pillars of the business strategy.

Michael Sharp has been Chief Executive of Debenhams since September 2011.

The Chief Financial Officer

The Chief Financial Officer is responsible for the financial reporting and management of the Group. In addition to the finance, audit, tax and treasury teams, the role is also responsible for legal and secretariat and investor relations.

As announced on 28 July 2014, Matt Smith will join the board as Chief Financial Officer during 2015. Neil Kennedy has carried out the role of Acting Chief Financial Officer since 2 January 2014.

Group Trading Director

The Group Trading Director leads the buying and merchandising activities and is responsible for the development of the Debenhams product and brand strategy with the overriding objective of delivering a compelling customer proposition. The role is also responsible for the Group's sourcing function.

Executive Committee

Michael Sharp
Chief Executive

Neil Kennedy Acting Chief Financial Officer	Suzanne Harlow Group Trading Director	Ross Clemmow E-Commerce Director	Richard Cristofoli Marketing Director	Mike Goring Retail Director	Peter Swann Operations Director	Nikki Zamblera HR Director
Financial reporting and management, tax, treasury and internal audit.	Design, buying, merchandising, distribution, sourcing and external business.	UK and International online sales and development.	Product marketing, advertising, PR, visual and creative, customer strategy and insight.	UK and international store operations and store development.	Systems, supply chain and logistics.	Pay and reward, learning and 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 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 when conducting the objectives of the business

Board experience

The board has a wealth of relevant experience and expertise to govern and advise an international, multi-channel brand such as Debenhams.

Consumer and retail

Number of directors with consumer and retail experience: **9**

Digital business

Number of directors with digital business experience: **5**

International

Number of directors with international experience: **7**

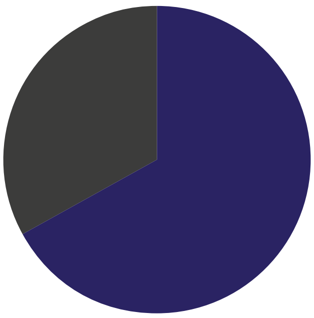
Marketing

Number of directors with marketing experience: **6**

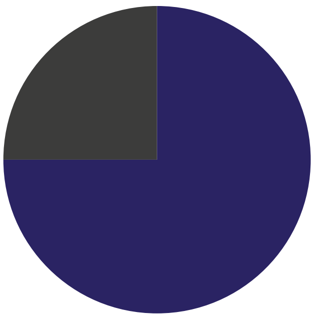
Significant financial expertise

Number of directors with significant financial expertise: **3**

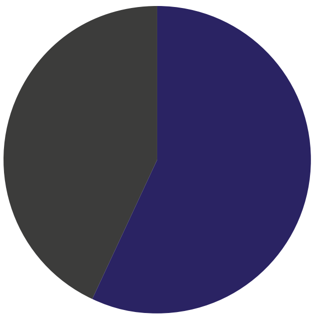
Gender ratios as at 30 August 2014



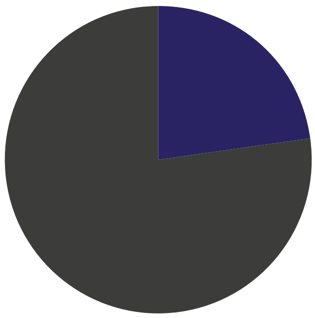
Board
- Male – **67%** (6)
- Female – **33%** (3)



Executive Committee
- Male – **75%** (6)
- Female – **25%** (2)



Senior executives*
- Male – **57%** (78)
- Female – **43%** (60)



All employees
- Male – **23%** (5,563)
- Female– **77%** (18,136)

*Excluding non-executive directors.

CORPORATE GOVERNANCE REPORT CONTINUED

Director	Date of appointment	Length of service as a non-executive director at 30 August 2014
Nigel Northridge	1 January 2010	4 years 8 months
Dennis Millard	9 May 2006	8 years 4 months
Peter Fitzgerald	4 October 2012	1 year 11 months
Stephen Ingham	8 January 2013	1 year 8 months
Martina King	1 August 2009	5 years 1 month
Mark Rolfe	1 October 2010	3 years 11 months
Sophie Turner Laing	1 August 2009	5 years 1 month

Suzanne Harlow has been Group Trading Director of Debenhams since November 2008 and was appointed to the board in December 2013.

Senior Independent Director

Any concerns that 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 this director. The Senior Independent Director serves as an intermediary for the other directors with the Chairman as necessary and acts as a sounding board for the Chairman as required. The role also has responsibility for leading the annual appraisal of the Chairman's performance and this appraisal was conducted in October 2014.

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

Non-executive directors

As detailed in their biographies on pages 42 and 43 our non-executive directors have a diverse range of skills, experience and backgrounds and provide constructive challenge within the boardroom. They are well informed about the Company and have a strong command of the issues relevant to the business. 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 opposite details the length of service for each non-executive director.

Company Secretary

The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the board and its committees to function efficiently. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Company to ensure they remain fit for purpose and considers any improvements that could strengthen the governance of the Company. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. The Company Secretary acts as secretary to the board and each of its committees.

Board activity throughout the year

September 2013	October 2013	December 2013	January 2014	February 2014	April 2014	June 2014
Visit to Danish operation Magasin du Nord	Presentation on systems	Met with shareholders at the Annual General Meeting	Pension scheme presentation	Annual strategy meeting	Approved interim results and resolved to pay interim dividend	Reviewed five year plan
Presentation on the strategy and performance of Magasin	Approved full year results, report and accounts and recommended the final dividend				Presentation on the five priorities under the pillars of the strategy	Reviewed budget
	Debated and approved the corporate risk map				Adopted diversity policy	Approved refinancing
	Reviewed the annual performance evaluation of the board and its committees					

The appointment or removal of the Company Secretary is a matter for the board as a whole.

Paul Eardley has been Company Secretary since October 2007.

Board diversity

Following the publication of Lord Davies' report in February 2011, the Code was amended in 2012 to require listed companies to establish a policy concerning boardroom diversity. Our policy was formally adopted by the board in April 2014. It is the responsibility of the Nomination Committee to implement and monitor the achievement of the objectives set out in the policy and to review it annually. The most recent annual review was carried out in September 2014. Debenhams believes that diversity, in all its aspects, is important in order for a board to operate effectively. The main objectives under the policy are to ensure that the board is well balanced and appropriate for the needs of the business and that the board comprises directors who are sufficiently experienced and independent in character and judgement. In doing the above, the Company will also seek to maintain a composition of at least 25% of women on the board. The charts on page 45 demonstrate the gender split at board level, within the Executive Committee and senior management and for the workforce as a whole.

Time commitment

All directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The board monitors the extent of directors' 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 is ten days per annum.

Induction and ongoing development

On appointment, a director is provided with an induction programme which is tailored to his or her experience of being a director of a listed company and based on his or her knowledge of the retail sector.

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 of the business as appropriate. The Company Secretary assists in the induction of new directors and their ongoing development as required and also undertakes a review with new directors following induction to consider any new initiatives which would improve the induction process.

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 2014. 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. We recognise that 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 42 and 43. Non-executive directors are required to obtain the approval of the Chairman before accepting any further appointments.

A register of "related parties" is also maintained by the Company Secretary.

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 directors' and officers' liability insurance for its directors and other officers.

Board meetings

The board held six scheduled meetings and two ad hoc meetings during 2014 which were fully attended by all the board members except for one meeting which Dennis Millard was unable to attend due to a family bereavement. In addition to the directors, board meetings were attended by the members of the Executive Committee and the Company Secretary. Details of the principal items discussed at each meeting are shown on page 46.

The presentation of timely, high quality information to the board and its committees is essential to ensure that there is 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. The Company Secretary ensures relevant information flows within the board, its committees and to senior management. Each board meeting covers presentations from the executive directors and from each of the other members of the Executive Committee. Presentations are also requested by the board on an ad hoc basis from the trading divisions and other business areas including investor relations, treasury, taxation, health and safety and human resources. In addition, the board receives regular updates on the key Group risks and ensures that the risk management framework and profile support the four pillared strategy. In accordance with the Code, the formal schedule of matters reserved for the board's decision is reviewed annually, usually at the October board meeting.

CORPORATE GOVERNANCE REPORT CONTINUED

Board committees

The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference of each committee (which are reviewed annually) can be found on our website at http://debenhamsplc.com. The members and the role of each committee are disclosed within each Committee report. In addition there is a sustainability committee which is a committee of the board and is chaired by Martina King.

Performance evaluation

This year's formal evaluation of the performance of the board, its committees, the individual directors and the Chairman was conducted by Lintstock Ltd, an external facilitator which has no other connection with Debenhams.

The first stage of the review involved Lintstock engaging with the Chairman and the Company Secretary to set the context of the evaluation and to tailor the questionnaires to the business's current challenges and opportunities.

All participants were then requested to complete an online questionnaire addressing the performance of the board and its committees. The anonymity of all participants was ensured in order to promote the open and frank exchange of views.

The questionnaires addressed issues such as:

- Board composition and expertise
- Relationships between the board and management
- Board oversight
- Risk management
- Priorities for change

A 360° review of individual performance was also conducted which was provided in confidence to the Chairman.

Lintstock's report was discussed at the board meeting held on 16 October 2014. The review concluded that the level of interaction between the board and senior management is good and that the board's ability to test and develop the Company's strategy is highly rated. Several priorities for the future were identified. The importance of the board remaining focused on the key priorities and big issues was stressed.

Share capital and control

Information which the directors are required to disclose pursuant to section 992 of the Companies Act 2006 can be found on page 79 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 four 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. Analyst research is 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 business strategy.

The key elements of the Group's investor relations calendar in 2014 are shown below.

The major shareholders of the Company are listed on page 79 of the directors' report.

The geographical analysis of shareholders is shown on page 49.

Investor relations calendar

September 2013	October 2013	November 2013	December 2013
Full year trading update	Capital markets day: "Increasing choice and availability through multi-channel"	US shareholder roadshow	Annual General Meeting
European shareholder roadshow	Full year results UK shareholder roadshow		First half interim management statement

December 2014 AGM – key highlights

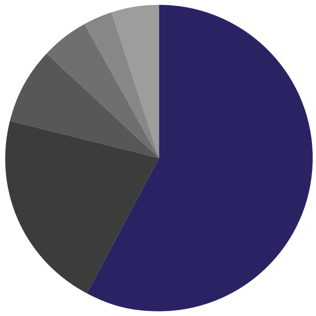
- Full director attendance
- Between 720,482,084 and 726,430,430 votes were cast for each resolution
- All directors retired and were elected/re-elected to the board receiving at least 99.08% of votes cast in favour
- The remuneration report resolution was passed with 99.58% of votes cast in favour

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 our share price and calculate the value of your shareholding.

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

Shareholders by geography



England	58%
USA	21%
UAE	8%
Singapore	5%
Norway	3%
Other	5%

February 2014	April 2014	May 2014	June 2014
European shareholder roadshows	First half results	US shareholder roadshow	Second half interim management statement
	UK shareholder roadshow		European shareholder roadshows

NOMINATION COMMITTEE REPORT

Composition

The individuals who served on the Committee during the year under review are set out below:

Members	Date appointed Committee member	Attendance at meetings during the 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

Dear Shareholder

I am pleased to set out the report of the Nomination Committee for the year to 30 August 2014.

Responsibilities

The key responsibilities of the Committee are:

- Identifying and nominating, for the approval of the board, candidates to fill board vacancies as and when they arise together with leading the process for such appointments
- Putting in place plans for succession, in particular with respect to the Chairman, the Chief Executive and the Senior Independent Director
- Reviewing regularly the board structure, size and composition and making recommendations to the board of adjustments that are deemed necessary
- Annually reviewing the time required from and spent by a non-executive director in fulfilling his or her duties

The full terms of reference of the Committee are available on the Company's website and are reviewed annually by the Committee.

Activities during the year

The Committee held three meetings during the year at which the following matters were considered:

- Evaluated the balance of skills, experience, independence, diversity and knowledge on the board and recommended the appointment of Suzanne Harlow as an executive director of the Company, with effect from 11 December 2013
- Reviewed the non-executive directors' time commitments and lengths of service and recommended to the board the re-appointment of Mark Rolfe for a further three year term with effect from 1 October 2013
- Carried out an annual review of the directors' conflicts of interest register and the Committee's terms of reference
- Adopted a formal diversity policy
- Recommended the appointment of Matt Smith as Chief Financial Officer. The appointment was facilitated by external search firm, MWM Consulting, which has no connection to the Company. MWM worked with the Chairman to devise a long list of candidates and then a short list. Candidates met with members of the Committee and the Chief Executive after which the Committee was able to formulate its recommendation

Diversity of the board

Our goal is to ensure that the board is well balanced and appropriate for the needs of the business, comprising directors who are sufficiently experienced and independent of character and judgement. When recommending new directors to the board, the Nomination Committee has regard to the balance of skills, knowledge, experience and diversity of psychological type, background and gender. However, all board appointments will always be made on merit. Debenhams currently exceeds the 25% minimum target of women on boards as recommended by the Davies Report with women representing a third of its board.

Committee evaluation

The annual evaluation of the Committee's effectiveness was, in accordance with the Code, undertaken by Lintstock Ltd, an external facilitator, which has no other connection with Debenhams. It was concluded that the Committee uses its time effectively and the information provided to the Committee is clear and concise.

This year, when reviewing the re-election of directors at the forthcoming Annual General Meeting, the Committee took account of the fact that Dennis Millard will have served nine years in May 2015. The Committee believes that he continues to demonstrate the qualities of independence and judgement in carrying out his role and that his length of service and resulting experience and knowledge of the Company are of great benefit to the board. However, Dennis Millard has indicated that he is likely to step down from the board sometime during the 2015 financial year.

The Nomination Committee is, in line with the UK Corporate Governance Code, recommending that all the directors of the Company stand for re-election at the next Annual General Meeting along with Suzanne Harlow who will stand for election to the board having been appointed as a director during the year.

Nigel Northridge
Chairman, Nomination Committee

AUDIT COMMITTEE REPORT

Dear Shareholder

I am pleased to set out the report of the Audit Committee for the year to August 2014.

The Audit Committee's report has been modified this year to reflect the responsibilities and reporting obligations of the Audit Committee as set out in the UK Corporate Governance Code (September 2012). This report sets out the significant issues that the Committee has considered and addressed in relation to the financial statements and outlines how we have assisted the board in making its statement on page 81, which confirms that Debenhams' 2014 annual report and accounts is fair, balanced and understandable.

In addition to the members of the Committee, the Chairman, the Chief Financial Officer, the Director of Internal Audit and Risk Management and senior representatives of the Company's external auditors, PricewaterhouseCoopers LLP, attend and receive papers for each meeting. The Company Secretary is secretary to the Committee. After each meeting I report to the board on the matters discussed, on recommendations and on actions to be taken.

The Committee met with the Company's auditors twice during the year without management being present and once with each of the Chief Financial Officer and the Director of Internal Audit and Risk Management without other management being present.

Composition

The individuals who served on the Committee during the year under review are set out below:

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

*Dennis Millard was unable to attend the meeting in June 2014 due to a family bereavement.

Responsibilities

The role and responsibilities of the Audit Committee are set out in its terms of reference which are reviewed annually by the Committee, taking into account relevant legislation and recommended good practice. The terms of reference of the Committee are available on the Company's website.

In accordance with the terms of reference, the Committee's responsibilities include, but are not limited to, the following matters:

- To monitor the integrity of financial statements (including any related information presented with the financial statements) and any formal announcements relating to the Company's financial performance
- To review any changes in accounting principles and consider the appropriateness of accounting policies adopted by the Company
- To review the internal audit programme and ensure that the internal audit function is properly resourced
- To agree with the external auditors the nature and scope of the audit and to review the output
- To review and monitor the effectiveness of the risk management and internal control systems within the business
- To consider the appointment of the external auditors and their independence and to make recommendations to the board in relation to their appointment, remuneration and terms of engagement
- To review the Company's plans for the prevention and detection of fraud, bribery and corruption
- To provide advice to the board on whether the Company's annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

Activities during the year

Governance

This year's formal evaluation of the Committee was conducted by Lintstock Ltd, an external facilitator. The Committee considered the results of the review at its meeting in October 2014 and concluded that its composition is appropriate and that it is effective in reviewing and testing the work of the internal audit function and the external auditors. It was felt that the Committee makes good use of its time and that it is effective at reviewing the quality of the Group's financial reporting, at assessing the system of internal controls and at monitoring the management of risk. The Committee has identified its priorities for the coming year and these include supporting the incoming Chief Financial Officer and providing some oversight of information systems development.

AUDIT COMMITTEE REPORT CONTINUED

The Committee started planning the process for this year's annual report and accounts early in the year. The early planning included a preliminary but detailed discussion on the likely significant issues, the establishment of a compliance committee and agreement of that committee's terms of reference. The compliance committee, chaired by the Acting Chief Financial Officer, comprises representatives from the finance, investor relations, risk and secretarial functions. The compliance committee met on two occasions, carrying out a full review of the draft report and made some significant adjustments to it. The compliance committee also reviewed feedback from external parties on our prior year report and other external communications. It reported to the Audit Committee at its meeting in October 2014. In addition the Committee also received assurances from all members of the Executive Committee that they had reviewed the draft. The Committee assessed at its October meeting whether the annual report and accounts were fair, balanced and understandable and reviewed all the processes that had underpinned this assessment. The formal statement on the annual report and accounts is set out on page 81.

The Committee continually assesses the need for training and sessions are provided to its members by internal experts. During the year, training was provided on: revenue recognition; margin and stock valuation; property leases; and pensions accounting.

Financial reporting

The Committee reviewed the annual and interim financial statements during the year. It considered significant accounting policies, financial reporting issues and judgements together with the findings as set out in the reports from the external auditors. The Committee considered the clarity and completeness of the disclosures within the financial reports reviewed.

Internal audit

The Committee received updates from the Director of Internal Audit and Risk Management at each of its meetings during the year covering, amongst other matters, updates on the Group's significant risks and internal financial controls, progress against the approved audit plan, the key findings from reviews undertaken and management's implementation of its recommendations.

External audit

The scope of the audit for 2014 was agreed together with the fees and terms of engagement. Details of the amounts paid to the external auditors for the audit services for 2014 are given in note 6 on page 106 of the financial statements.

Effectiveness of internal audit

The effectiveness of the internal audit function was reviewed during the year using an external facilitator with input from the function's key customers within the Group, in addition to the Committee, the Executive Committee and the Company Secretary. The questionnaire covered areas including internal audit's understanding of the business, the Audit Committee's expectations and the robustness of the audits.

The review concluded that the internal audit function has a strong understanding of its responsibilities, the business and its risks. It is firm in its challenges, liaises effectively with external audit and delivers efficiently executed audits. It demonstrates good technical knowledge, integrity, good judgement and a robust attitude.

Effectiveness of external audit

The Committee assessed the effectiveness of the external audit process using an external facilitator with input from the Committee, the Company Secretary, the Acting Chief Financial Officer, the Director of Finance and Support Services and the Director of Internal Audit and Risk Management. The questionnaires circulated focused on the quality of the audit team, their understanding of the business, the audit approach and their relationship with management.

The review concluded that the external auditors are effective, objective, understand the business and its risks and that communication with them is good. They are firm in their challenges to management where appropriate.

Significant issues

The Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results or the level of complexity, judgement or estimation involved in their application on the Group's financial statements. The significant issues considered in relation to the Group's financial statements for the year ended 30 August 2014 are set out below together with a summary of the actions taken. In addition, the Committee and the external auditors have discussed the significant risks and the other risks described in the independent auditors' report on pages 85 to 87.

Revenue recognition

As with most companies there is a risk that, in order to achieve the planned results, revenue may be recognised in contravention of the Group's policy for revenue recognition.

Actions: In a retail business, the vast majority of sales are settled immediately and the process for allocating such revenue into individual accounting periods is straightforward and tightly controlled. Risks mostly arise around accounting adjustments applied to revenue and the recognition of credit sales, largely relating to international franchise operations. Here, controls are in place to monitor, reconcile and check balances, with clear authority limits in place. The Committee received a presentation from finance management during the course of the year setting out the accounting principles relating to revenue recognition and discussed the related audit procedures with the external auditors. The Committee also reviewed reports from both internal and external auditors in relation to their examination of controls in this area, the findings of which were satisfactory.

Inventory valuation

The Company uses the retail method in respect of valuation of inventory in the UK and Ireland which is reliant on a number of judgemental components, details of which are set out in note 5 to the financial statements on pages 104 and 105.

Actions: The Committee received a presentation from financial management in the course of the year setting out the accounting principles relating to inventory valuation and discussed the related audit procedures with the external auditors. The Committee also reviewed reports from both internal and external auditors setting out inventory risk metrics and findings from the examination of controls in this area, which indicated that inventory was valued satisfactorily.

External auditor appointment

PricewaterhouseCoopers LLP ("PwC") has served as the Company's auditors since 2006. In accordance with auditing standards and to protect independence and objectivity, John Ellis was appointed as the audit partner on 1 September 2013. The Audit Committee is satisfied that PwC remains appropriately independent and is best placed to conduct the Company's audit for 2015. The Committee therefore recommended PwC be re-appointed as the Company's auditors. The Committee will keep under review the requirement to tender the external audit contract prior to the 2016 financial year.

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. This policy covers matters such as the auditors and their staff having 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 controls around 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 marketplace should this situation arise.

> The work of the annual report compliance committee supports the Audit Committee in assessing whether the annual report, taken as a whole, is fair, balanced and understandable and that it complies with all legal and regulatory requirements.

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. All fees for non-audit work require pre-authorisation by either the Company Secretary, the Chief Financial Officer or the Audit Committee in circumstances where the fees are above an agreed threshold. 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 auditors auditing their own work or making management decisions for the Company and those where some mutuality of interest is created or where the external auditors are put in the role of advocate for the Company. The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include tax advisory services or services where the auditors are acting as the Company's reporting accountant.

£0.2 million was paid by the Company to PwC for non-audit services which represents 38% of the total audit fees paid to PwC, including £73,000 relating to the senior notes issue.

The audit fees paid by the pension schemes were £29,500.

Mark Rolfe
Chairman, Audit Committee

DIRECTORS' REMUNERATION REPORT
INTRODUCTION

During the year the Remuneration Committee undertook a review of the performance share plan to better align the performance measures used with our key strategic priorities.

Dear Shareholder

On behalf of the Remuneration Committee ("the Committee"), I am pleased to present our remuneration report for 2014.

This is the first year that the new remuneration reporting regulations apply to Debenhams and, to reflect this, the Committee has restructured the remuneration report into two parts:

- The policy report – This report will be put forward for a binding shareholder vote at the Annual General Meeting on 9 December 2014. The policy will be effective from this date
- The annual report on remuneration – This report will be subject to an advisory shareholder vote at the 2014 AGM

We hope that shareholders find the report's new format useful and informative.

Our performance in 2014

This year we have focused on the four strategic priorities that we outlined in our update to the market in April and the board believes we are making good progress towards achieving these goals.

The retail marketplace, however, remains highly competitive and the profit before tax ("PBT"), like-for-like sales and gross margin targets set for the annual bonus were not achieved and therefore no bonus was paid to executive directors in respect of 2014.

Performance Share Plan ("PSP") awards granted during 2011 were based 75% on EPS growth and 25% on average ROCE relative to the cost of capital. The EPS element of the award has not triggered vesting. ROCE exceeded the cost of capital by 4.1%. Therefore, 22% of the awards will vest in November 2014.

Board changes

Suzanne Harlow, Group Trading Director, was appointed to the board on 11 December 2013; she joined Debenhams in 1994 and has held the role of Group Trading Director since 2008. Simon Herrick left the Company on 7 February 2014. On 28 July 2014 the Company announced that Matt Smith will join the board as Chief Financial Officer upon the satisfaction of his contractual obligations at his current employer.

Details of the remuneration arrangements pertaining to board changes are set out in the annual report on remuneration.

Reward changes for 2015

The annual salary review date for the executive directors was previously September of each year. Going forward it will be 1 April in line with the new single annual review date for the rest of the management population. Any increase to salaries from 1 April 2015 will be disclosed in next year's annual report on remuneration and may take into account the movement of the review date.

The Committee has decided to base the annual bonus for 2015 entirely on underlying PBT in order to simplify the plan and to ensure that executives are focused on increasing profit.

During the year, the Committee reviewed the performance measures used for the PSP awards and, after consultation with our largest shareholders, the Committee has decided for the 2015 awards to retain ROCE, in the form of an underpin to the newly introduced financial measures that are linked to the business strategy.

The Committee has introduced strategic measures in order to align further the interests of senior management with our key strategic priorities as outlined by the Chief Executive at the interim results presentation in April 2014. The weighting of the measures for 2015 will be underlying EPS growth (70%) and strategic measures (30%). The strategic measures selected for awards to be granted in 2015 (outlined below) are equally weighted and financial in nature:

- Group gross margin improvement
- Online EBITDA growth rate
- UK gross transaction value growth
- International EBITDA growth rate

As mentioned above, the vesting of strategic measures will be subject to meeting a ROCE underpin (explained in more detail later in this report). Further details on the rationale for the selection of these measures and the EPS performance target for awards to be granted in respect of 2015 are provided in the annual report on remuneration. The financial targets for the strategic measures are considered by the board to be market sensitive. However, details of progress against targets during the vesting period will be provided and fully disclosed at the time of vesting.

No changes have been made to the usual annual bonus or PSP levels. However, as part of Suzanne Harlow's appointment to the board, she will be awarded a PSP award of 150% of base salary for 2015 as an incentive to drive performance and to recognise the increased scope of her role on appointment to the board. Suzanne's ongoing remuneration package will consist of an annual bonus of 100% of base salary and a PSP award of 100% of base salary.

As part of Matt Smith's recruitment, he will be awarded a PSP award of 200% of base salary in 2015. The Committee determined that this level of award was appropriate to compensate him for awards forfeited on leaving his previous employer (no further "buyout" awards have been made) and to provide an additional incentive to drive the performance of the business in the initial period of his tenure. Matt's ongoing remuneration package will consist of an annual bonus of 100% of base salary and a PSP award of 100% of base salary.

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

Dennis Millard
Chairman, Remuneration Committee

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY

This remuneration report for the year ended 30 August 2014 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 (as amended) and the provisions of the UK Corporate Governance Code (September 2012).

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 considered by the Remuneration Committee to be sufficient to recruit and retain individuals 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

Element	Purpose and link to strategy	Key features/operation
Base salary	• Supports the recruitment and retention of executive directors of the calibre required to fulfil the role without paying more than is considered necessary to do so • Rewards executives for the performance of their role	• Paid in cash • Normally reviewed annually with effect from 1 April but may be reviewed more or less frequently at the Committee's discretion • 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 – The individual's skills, knowledge and experience
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 generally provided a cash allowance in lieu of a pension provision or a contribution to a defined contribution pension scheme • However, the Committee may determine that alternative pension provisions will operate for new appointments to the board if considered appropriate. If an alternative pension arrangement is provided, this will generally be of a similar level to current arrangements • The Chief Executive is a deferred member of the Debenhams Executive Pension Plan and the Group Trading Director continues to be a deferred member in service of the Debenhams Executive Pension Plan

selected to be aligned with the delivery of our business strategy. Market conditions are also taken into consideration when setting pay.

- Alignment with shareholders – Variable remuneration opportunity is generally delivered through the Company's long-term share incentive plans and the cash 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' ongoing commitment to the business.

Remuneration policy table for executive directors

The table below sets out a summary of our remuneration policy for executive directors. This policy will be put forward for shareholder approval at the AGM on 9 December 2014 and will take effect from that date.

Further information regarding the implementation of the policy for 2015 can be found in the annual report on remuneration commencing on page 69.

What is the maximum potential value?	Performance metrics
• Whilst there is no defined maximum salary, any base salary increases will normally be in line with the increases awarded to other employees of the Group • However, increases may be made outside of this policy in exceptional circumstances, such as: – Where a director is appointed on a salary that is at the lower end of the market practice range, larger increases may be awarded as the executive gains experience to move the salary closer to a more typical market level – Where there has been a change in the responsibility and accountability of the role – Where there has been a significant change in market practice • Details of current salary levels are set out in the annual report on remuneration	None
• The Chief Executive's annual cash pension allowance is 20% of base salary • The annual pension contribution for the Chief Financial Officer is 15% of base salary • The Group Trading Director's annual pension allowance increases based on her pensionable years' service and age. The allowance is currently 17% of base salary increasing to 18% upon 20 years' pensionable service and to 23% at age 50. The maximum annual allowance of 28% of base salary is payable from age 55 • The Chief Executive ceased to accrue benefits under the Debenhams Executive Pension Plan in 2006 • The Group Trading Director continues to be a deferred member in service of the Debenhams Executive Pension Plan. The plan ceased for future service accruals in 2006	None

REMUNERATION POLICY CONTINUED

Element	Purpose and link to strategy	Key features/operation
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. The wider management population also receive a cash benefits allowance • Executive directors may participate in any all-employee share plans which may be operated by the Company on the same terms as other employees • Executive directors receive life assurance and an annual health assessment. The Chief Executive also receives a financial planning allowance, travel allowance and a fuel allowance • Executive directors may also buy or sell a week's holiday with the approval of the Committee • Executive directors are eligible to receive a staff discount in line with other senior executives • The Committee may determine that executive directors should receive additional reasonable benefits if appropriate, taking into account typical market practice • Executive directors may be reimbursed for all reasonable expenses and the Company may settle the tax incurred in relation to these • Where an executive director is required to relocate to perform their role, they may be provided with reasonable benefits as determined by the Committee in connection with this relocation (on either a one-off or ongoing basis), including any expatriate benefits such as housing, travel or education allowances
Annual bonus	• Rewards and incentivises the achievement of annual objectives which are aligned with key financial and strategic goals and supports the enhancement of shareholder value	• Unless otherwise determined by the Committee, bonuses are paid in cash following the year end • Bonuses are not pensionable • Malus provisions apply (see page 62 for further information) • Bonuses are based on annual performance targets • The Committee retains the discretion to adjust the bonus award if it does not consider that it reflects underlying Company performance but may not exceed the maximum policy limit

What is the maximum potential value?	Performance metrics
• The overall value of benefits will depend on the individual's circumstances and the cost of providing them by the Company and therefore there is no maximum. However, the executive directors' participation in any all-employee share plans will be in line with relevant statutory limits • It is the Committee's policy to provide benefits at a market competitive level taking into account local market practice in the location in which the executive director operates	None
• Maximum opportunity of 100% of base salary • The bonus starts accruing from threshold levels of performance	• The Committee determines appropriate performance metrics to support the annual business strategy, external expectations and the enhancement of shareholder value on an annual basis • Typically, 100% of the bonus will be based on financial performance targets. However, the Committee retains the discretion to alter the performance measures for future bonuses if deemed appropriate including the introduction of non-financial measures. In such cases at least 80% of the bonus will be based on financial performance targets • For 2015 the bonus is based 100% on underlying PBT • Further information in relation to the performance measures for 2015 is set out in the annual report on remuneration

REMUNERATION POLICY CONTINUED

Element	Purpose and link to strategy	Key features/operation
Performance Share Plan ("PSP")	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value • Aligns with shareholder interests through the delivery of shares • Acts as a retention tool	• Awards normally vest based on performance assessed over a period not shorter than three years • Awards may only vest to the extent the Committee is satisfied that the underlying financial performance of the Company over the relevant performance period justifies vesting. The Committee may also decrease the final vesting level if it does not consider that it reflects the underlying performance of the Company • Awards can be in the form of free shares or 0.01 pence options. Where awards are in the form of 0.01 pence options, participants may have up to six months from vesting to exercise awards • Malus provisions apply (see page 62 for further information) • Awards may incorporate the right to receive (in cash or shares) the value of the dividends that would have been paid on the shares that vest. However, it is not the current intention of the Committee that dividend equivalents will be paid on shares that vest

Executive directors also have a shareholding guideline. Further details are provided on page 70 of the Annual Report on Remuneration.

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 2015. However, the Committee retains the discretion to operate these plans in exceptional circumstances or in future years if it considers it to be appropriate and in the best interests of shareholders. Any use of these plans upon recruitment of an executive would be within the variable pay limit (excluding buyout awards) referred to in the "Recruitment remuneration arrangements" section of this report.

Element	Purpose and link to remuneration policy	Key features/operation
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 annual bonus. The net bonus is used to purchase market shares which are then designated "invested shares" • If the participant remains in employment and retains the invested shares for three years, they may receive a matching award of up to the gross amount of the bonus deferred subject to performance conditions being met over a period of no less than three years • Matching awards can be in the form of free shares or 0.01 pence options. Where awards are in the form of 0.01 pence options, participants have up to six months from vesting to exercise awards • The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects the underlying performance of the Company
Executive Share Option Plan ("ESOP")	• Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value	• Awards would take the form of market value options over ordinary shares in the Company • Awards would be subject to performance assessed over a period of no less than three years • The Committee retains the discretion to adjust the final vesting level if it does not consider that it reflects the underlying performance of the Company • Awards may be exercised once vested for up to ten years following the date of grant • Options can be granted in the form of unapproved options or HM Revenue & Customs (HMRC) approved options (up to the lower of the limit of this policy or the prescribed HMRC limit at the date of grant)

What is the maximum potential value?	Performance metrics
• The maximum value of shares over which an individual can be granted an award in any one financial year of the Company is normally 200% of base salary, although this limit may be increased to 250% of base salary in exceptional circumstances. The Committee will, however, take into consideration awards made under other plans when granting awards under the plan • Typically 25% of awards vest for threshold levels of performance • For details of award levels for 2015 see the annual report on remuneration	• Awards granted in 2015 will vest subject to a combination of underlying EPS and strategic performance measures (all of which are financial in nature). The vesting of the strategic measures will also be subject to meeting a ROCE underpin. • The Committee retains the discretion to alter the performance measures for future awards if it deems appropriate. However, the Committee will endeavour to consult with the Company's largest shareholders prior to doing so, other than for minor changes • Strategic measures will account for no more than 30% of future awards • The Committee sets performance targets each year, taking into account the business plan, external expectations and market practice • For further information in relation to the performance measures, weightings and targets for awards to be granted in 2015 see the annual report on remuneration

What is the maximum potential value?	Performance metrics
• Maximum matching awards may be made up to the equivalent of 100% of the executive's net bonus • Typically 25% of the matching award vests for threshold levels of performance	• If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award and disclosed in the annual report on remuneration for that year
• The maximum award that can be made under the plan is 100% of base salary (face value of options based on the share price at the date of grant). The Committee will take into consideration awards made under the PSP when granting awards under the plan • Awards may be made above this level in exceptional circumstances • Typically 25% of award vests for target levels of performance	• If this plan were operated, appropriate performance conditions would be determined by the Committee at the time of award and disclosed in the annual report on remuneration for that year

REMUNERATION POLICY CONTINUED

Notes to the policy table

Malus

- Bonus – The Committee reserves the right to scale back bonuses if there has been a material misstatement of the Group's audited financial results during a prior year.
- Performance Share Plan – For awards granted in 2014 onwards, the Committee reserves the right to reduce, cancel and/or impose further conditions on some or all unvested awards under the PSP in circumstances in which the Committee considers such action is appropriate. Such circumstances include, but are not limited to, a material misstatement of the Group's audited results.
- Malus provisions do not currently apply to awards under the other long-term incentive plans. However, the Committee retains the discretion to introduce such provisions if it considers it appropriate.

The Company's incentive arrangements do not currently have clawback. The Committee is aware of the provisions of the 2014 UK Corporate Governance Code which require clawback provisions to be in place for variable elements of pay with effect from no later than the Company's 2016 financial year. The Committee will consider introducing clawback provisions when a new PSP is implemented in 2016.

Annual bonus performance measures

- The Committee sets annual bonus performance targets annually based on the measures that it feels are the most appropriate for the business. Annual bonus targets are set with reference to internal forecasts and market consensus. Information in relation to the performance measures used for 2015 has been set out in the annual report on remuneration.
- The Committee considers that the annual bonus targets for 2015 are market sensitive and have therefore not been disclosed in this report. Details of performance against targets and any resulting annual bonus payout will be included in next year's annual report on remuneration.

Performance Share Plan performance measures

- For 2015 awards, the Committee has chosen to use a combination of underlying EPS (70%) and strategic measures (30%). The vesting of the strategic measures will also be subject to meeting a ROCE underpin. The Committee may use different measures or a different balance of measures in future years if it considers that it is appropriate to do so.
- In light of the ongoing challenges in the UK retail sector and our evolving business strategy, the Committee decided that it was appropriate to amend the performance measures attached to 2015 PSP awards to ensure that they were fully aligned with this strategy and to incentivise management to deliver long-term sustainable value for our shareholders. At the 2014 interim results, Chief Executive Michael Sharp set out our strategic priorities in support of the four pillars of our strategy. The financial strategic objectives for the PSP have been selected to support these priorities directly.
- Details of the specific measures, weightings and targets applying to the PSP awards to be made in 2015 are disclosed in the annual report on remuneration.
- Threshold vesting for PSP awards made prior to 2015 is 30%.

Difference from the remuneration policy for all employees

- Debenhams employs a large number of people in a variety of roles across a range of geographies. Our reward framework for the business is altered as necessary to suit the needs of the business for different employee groups. Reward packages therefore differ, taking into account a number of appropriate factors including seniority, impact on the business and local practice, custom and legislation.

Other information supporting the policy table

- The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans.
- For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event which may, in the Committee's opinion, affect the current or future value of awards, the number of awards and the exercise price applicable to those awards may be adjusted.
- The Committee may amend the conditions applicable to share awards if it considers that the amended conditions are a fairer measure of performance and at least as challenging as the original conditions.
- The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this report where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and an award over shares is "agreed" at the time the award is granted.

Remuneration outcomes in different performance scenarios

The charts below set out an illustration of the remuneration policy for 2015. 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 PSP
Mid-range performance	• Fixed remuneration • 50% annual bonus payout • 50% vesting under the PSP
Maximum performance	• Fixed remuneration • 100% annual bonus payout • 100% vesting under the PSP

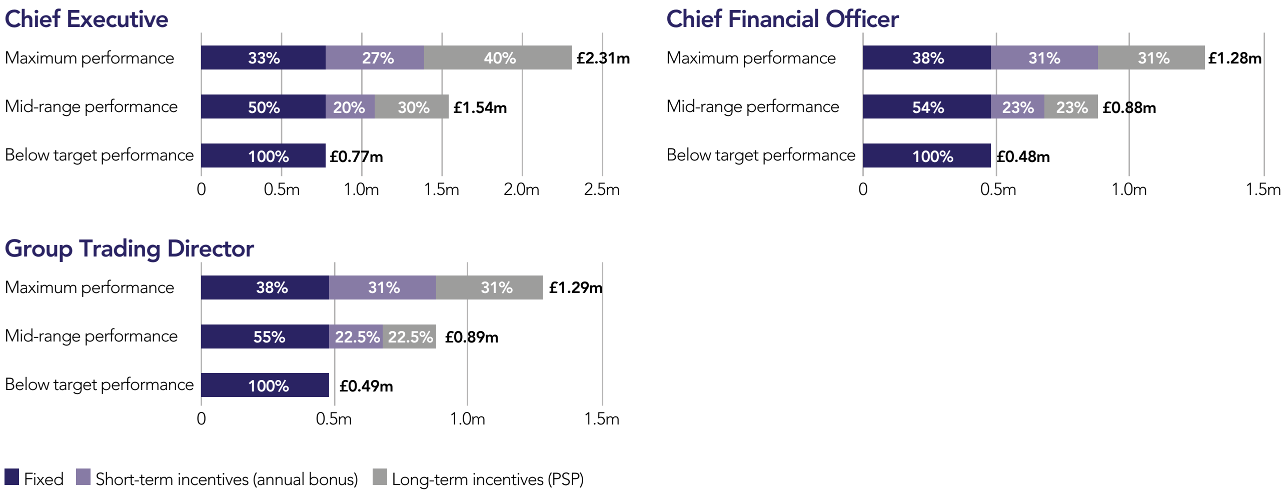
Fixed pay currently comprises the following elements:

	Current base salary	Benefits	Pension	Total
Chief Executive – Michael Sharp	£615,000	£34,999	£123,000	£772,999
Chief Financial Officer – Matt Smith (not employed during 2014)	£400,000	£18,375	£60,000	£478,375
Group Trading Director – Suzanne Harlow	£400,000	£22,195	£68,000	£490,195

- Base salary is the base salary in place at 1 September 2014. Salary levels may be subject to changes following the annual base salary review in early 2015. Any changes will be effective from 1 April 2015. The salary for the Chief Financial Officer will apply from the point he joins the Company.
- The benefits figure for the Chief Executive is based on the amount received during 2014 as per the single figure. This reflects his annual benefits allowance and the taxable value of other benefits provided during the year. For the Chief Financial Officer and Group Trading Director the benefits number is the value of their respective annual benefits allowances. For 2014, the Chief Financial Officer was not a member of the board and so did not receive any benefits. The Group Trading Director was only a member of the board for part of the year.
- Pension is based on the cash contribution of 20% of base salary for the Chief Executive, 15% of base salary for the Chief Financial Officer and 17% for the Group Trading Director.
- Bonus is based on the ongoing annual policy maximum of 100% of base salary for all executive directors.
- PSP is based on the ongoing usual annual policy maximum of 150% of salary for the Chief Executive Officer and 100% of salary for other executive directors. During 2015 the Chief Financial Officer and Group Trading Director will receive higher one-off awards. This is not reflected in the chart.

REMUNERATION POLICY CONTINUED

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



Recruitment remuneration arrangements

When determining the remuneration package for a newly appointed executive director, the Committee would seek to apply the following principles:

- The package should be market competitive to facilitate the recruitment of individuals of sufficient calibre to lead the business. At the same time, the Committee would intend to pay no more than it believes is necessary to secure the required talent.
- The structure of the ongoing remuneration package would normally include some or all of the components set out in the policy table for executive directors.
- In addition, the Committee has discretion to include any other remuneration component or award which it feels is appropriate taking into account the specific circumstances of the recruitment, subject to the limit on variable remuneration set out below. The key terms and rationale for any such component would be disclosed as appropriate in that year's annual report on remuneration.
- Where an individual forfeits outstanding variable pay opportunities or contractual rights at a previous employer as a result of appointment, the Committee may offer compensatory payments or awards, in such form as the Committee considers appropriate taking into account all relevant factors including the form of awards, expected value and vesting timeframe of forfeited opportunities. When determining any such "buyout", the guiding principle would be that awards would generally be on a "like-for-like" basis unless this is considered by the Committee not to be practical or appropriate.
- The maximum level of variable remuneration which may be awarded (excluding any "buyout" awards referred to above) in respect of recruitment is 350% of salary, which is in line with the current maximum limit under the annual bonus and PSP. Where awards are made under the ESOP, the value of the award that counts towards this maximum will be calculated on an expected value rather than a face value basis.
- Where an executive director is required to relocate from their home location to take up their role, the Committee may provide assistance with relocation (either via one-off or ongoing payments or benefits).
- In the event that an internal candidate is promoted to the board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

To facilitate any buyout awards outlined above, in the event of recruitment the Committee may grant awards to a new executive director relying on the exemption in the Listing Rules which allows for the grant of awards, to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.

The remuneration package for a newly appointed non-executive director would normally be in line with the structure set out in the policy table for non-executive directors.

Executive director service contracts	
Notice period	• 12 months' notice by the Company or by the executive director • Michael Sharp entered into his current service agreement with the Company on 3 May 2006 • Matt Smith entered into a service agreement with the Company on 25 July 2014 • Suzanne Harlow entered into her current service agreement with the Company on 11 December 2013
Expiry date	• All are rolling contracts with no expiry date
Termination payments	• Payments in lieu of notice will be based on base salary, contractual benefits and any accrued but untaken holiday • Payments in lieu of notice for Michael Sharp and Suzanne Harlow will be paid as a lump sum following termination. However, the Committee would seek to apply mitigation in respect of the period and amount where appropriate • Payments in lieu of notice for Matt Smith may, at the Committee's discretion, be paid as a lump sum or in equal monthly instalments which would be subject to mitigation • Legal fees and outplacement services may also be provided for executive directors leaving the business

The service agreements are available to shareholders to view on request from the Company Secretary at the Company's registered office.

Arrangements for directors leaving Debenhams

Details of the arrangements in relation to fixed remuneration are set out in the section above.

Annual bonus

There is no automatic entitlement to an annual bonus in the year in which the executive director leaves the Group. The Committee may determine that an executive director is eligible to receive a bonus in respect of the year of cessation dependent upon the circumstances of the executive director's departure and individual performance. Any such payment would normally continue to be subject to performance and pro-rated to take account of the time served during the year.

Long-term incentives

The treatment of leavers under our long-term incentive plans is determined by the rules of the relevant plans.

- **2006 Performance Share Plan** – If an individual ceases to be employed by a member of the Group or gives or is given notice terminating their employment before the end of the performance period, a participant's award will usually lapse, unless the Committee determines that it will vest, having regard to the performance of the Company and the length of time which has elapsed since the date of grant. The Committee may determine that the award will vest at the time of cessation of employment or at the "normal" vesting date. The number of shares over which an award may vest will be time pro-rated to reflect the proportion of the vesting period that has elapsed on cessation of employment. In the case of nil cost options, the Committee will determine the period during which the participant may exercise his or her options.

- **2006 Executive Share Option Plan** – If an individual ceases to be employed by a member of the Group, options will lapse unless the option holder leaves in "good leaver" circumstances, namely in respect of tax approved options: injury or disability, retirement, the sale of their employing entity out of the Group, redundancy or any other reason that the Committee decides and in respect of unapproved options, in such circumstances as the Committee may determine. If these "good leaver" circumstances apply, the options will be exercisable for a period of six months from the date of cessation, or such other period as the Committee determines. Where options become exercisable as a result of the individual's cessation of employment, the extent to which the options will be exercisable will be subject to the performance conditions applicable to the options and will be pro-rated to reflect the proportion of the vesting period that has elapsed on cessation of employment. If a participant dies, their representatives shall have 12 months from death to exercise their options in full.

- **2006 Deferred Bonus Matching Plan** – In the event of cessation of employment with a member of the Group, matching awards will usually lapse. However, the Committee may determine that a matching award will vest at the normal time, to the extent that the performance conditions have been met and on a time pro-rated basis to reflect the proportion of the vesting period that has elapsed at the time of cessation. In exceptional circumstances, the Committee may determine that matching awards may be released before the end of the original performance period to the extent determined by the Committee, having regard to the time pro-rating formula described above. In these circumstances, invested shares are released from the plan at the time the related matching award vests.

REMUNERATION POLICY CONTINUED

Takeover or merger of the Company

2006 Performance Share Plan – In the event of a takeover or merger of the Company, outstanding PSP awards will vest to the extent that performance conditions are satisfied. Where awards vest in these circumstances, they may be pro-rated (on a monthly basis) to reflect the proportion of the vesting period that has elapsed, unless the Committee determines that a different proportion of the award should vest, taking into account Company performance and such other factors as it considers relevant.

Upon agreement with the acquiring company, the participant may choose to roll over their awards into awards in the acquiring company.

2006 Executive Share Option Plan – In the event of a change of control of the Company, outstanding ESOP awards will generally become exercisable to the extent that performance conditions have been satisfied and the number of shares subject to the options will be pro-rated to reflect the proportion of the vesting period that has elapsed (to the nearest whole month) unless the Committee determines that a higher proportion of the options should vest.

Upon agreement with the acquiring company, the participant may choose to roll over their options into options in the acquiring company.

2006 Deferred Bonus Matching Plan – In the event of a takeover or voluntary winding up of the Company, matching awards will vest to the extent that the performance conditions have been met or, if the Committee considers it appropriate, to the extent that the performance conditions would have been met at the end of the original performance period, in the Committee's opinion. Invested shares no longer have to be retained.

Upon agreement with the acquiring company, the participant may choose to roll over their awards into awards in the acquiring company.

Other corporate events

2006 Performance Share Plan – If the Company is voluntarily wound up, the Committee may allow awards to vest on the same basis as set out above for a takeover. If the Company is, or is expected to be, affected by a demerger, special dividend or other transaction which would materially affect the value of awards, the Committee may allow some or all of the outstanding awards to vest to the extent the performance conditions applicable to these awards have or are likely to have been met, in the Committee's opinion.

2006 Executive Share Option Plan – If the Company is, or is expected to be, affected by a demerger, special dividend or other transaction which in the Committee's opinion is likely to affect the current or future value of any options, the Committee may allow options to be exercised, taking into account the performance conditions, the period that has elapsed since grant and any other factors it considers relevant. If the Company is voluntarily wound up, options may be exercised to the extent that the performance conditions have been met.

External 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. The executive directors do not currently hold any such directorships.

Remuneration policy table for non-executive directors

Element	Purpose and link to remuneration policy	Key features/operation	What is the maximum potential value?
Fees	• 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	• Paid in cash • Fees for non-executive directors are set taking into account the time commitment required to fulfil the role and typical practice at other companies of a similar size and complexity to Debenhams • 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 • 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 • Additional fees may be paid to reflect additional board or committee responsibilities as appropriate • Fees are reviewed at appropriate intervals by the board	• Fees paid to non-executive directors and the non-executive Chairman will not exceed the aggregate limit set out in the Company's articles of association, currently £1 million • Fee levels for 2015 are set out in the annual report on remuneration
Benefits and expenses	• To provide suitable arrangements to allow non-executive directors to discharge their duties effectively	• Reasonable costs in relation to travel and accommodation for business purposes are reimbursed to the Chairman and non-executive directors. The Company may meet any tax liabilities that may arise on such expenses • The Chairman and non-executive directors are eligible for a staff discount and an annual health assessment • The Chairman and non-executive directors are not entitled to participate in any of the Group's incentive plans or pension plans • The Chairman and non-executive directors have the benefit of directors' and officers' liability insurance and provision of indemnity on the same basis as other directors and officers of other Group companies • The board may introduce additional benefits for the Chairman or non-executive directors if it is considered appropriate to do so	None

REMUNERATION POLICY CONTINUED

Terms and conditions for the 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 and the Companies Act 2006 or upon the Chairman's resignation. In the event that the Chairman's appointment is terminated early, there will be no payment for loss of office or for the unexpired appointment term. 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 further terms of three years by mutual agreement. Both Martina King and Sophie Turner Laing were appointed for a further three years to 31 July 2015 following the end of their initial engagement on 31 July 2012. Mark Rolfe was appointed for a further three years to 30 September 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 and the Companies Act 2006 or upon the director's resignation. In the event that a non-executive director's appointment is terminated early, 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. Dennis 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 re-election by shareholders. The service agreements for non-executive directors are available to shareholders to view on request from the Company Secretary at the Company's registered office.

Considering all-employee remuneration arrangements

When determining remuneration policy and arrangements for the executive directors, the Committee considers pay and employment conditions elsewhere in the Group to ensure that pay structures throughout the Group 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. Whilst the Committee does not consult with employees about executive director pay, the Committee is provided with an annual update of the Debenhams employee survey which includes questions on their own remuneration.

The remuneration arrangements for the members of the Executive Committee who are not executive directors fall within the Committee's remit engendering 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 ongoing 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 performance measures for the PSP and the use of the DBMP. The Committee takes into account the views of shareholders when formulating and implementing the policy as it has done this year when it consulted with major shareholders on the changes to the PSP performance measures.

THE ANNUAL REPORT ON REMUNERATION

This report sets out details of the implementation of the remuneration policy during 2014 and provides details as to how the Committee intends to implement the policy during 2015. This part of the report will be subject to an advisory shareholder vote at the 2014 AGM. This report contains unaudited information except where stated that it is audited.

What did executive directors earn in respect of 2014 and 2013? (audited)

The table below sets out a single figure of remuneration for each executive director for 2014 and 2013.

	2014						2013					
Executive director	Base salary	Benefits	Retirement benefits	Bonus	PSP awards	Total	Base salary	Benefits	Retirement benefits	Bonus	PSP awards	Total
Michael Sharp – Chief Executive	£615,000	£34,999	£141,500	Nil	£207,235	£998,734	£615,000	£36,896	£102,500	Nil	Nil	£754,396
Suzanne Harlow – Group Trading Director[1]	£289,743	£11,687	£54,554	Nil	N/A	£355,984	N/A	N/A	N/A	N/A	N/A	N/A
Former directors												
Simon Herrick – former CFO	£143,602[2]	£6,224	£21,540	Nil	Nil	£171,366	£410,000	£18,375	£61,500	Nil	Nil	£489,875

1 Appointed 11 December 2013.
2 Includes pensionable holiday pay.

The following provides details of how the single figure for 2014 has been calculated:

- **Base salary** – The executive directors did not receive a salary increase for 2014. Simon Herrick's base salary is in respect of the period to 2 January 2014. Suzanne Harlow's base salary is in respect of the period 11 December 2013 to 30 August 2014.
- **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. The Group Trading Director used a part of her benefits allowance (£7,692) to purchase an additional five days' holiday during the year. This amount has not been reflected in the above figures.
- **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 £18,500. Michael Sharp received a cash contribution in lieu of pension of 20% of base salary (£123,000). Suzanne Harlow is a deferred in service member of the Debenhams Executive Pension Plan. The increase in her accrued pension, calculated using the methodology set out in the revised remuneration reporting regulations, was £5,298. Suzanne Harlow also received a cash contribution in lieu of pension of 17% of base salary (£49,256). Simon Herrick received a cash contribution (£21,540) in lieu of pension of 15% of base salary for the period in which he was employed.
- **PSPs due to vest in 2014 (in respect of the performance period 4 September 2011 to 30 August 2014)** – The PSP value shown in the single figure is for the award expected to vest in November 2014. The share price used to calculate the single figure is based on the three month average share price to 30 August 2014 (67.43 pence).

	Performance measure	Weighting	Threshold target (30% vests)	Maximum target (100% vests)	Outcome	Vesting (% of maximum)
2011 PSP awards	Absolute EPS growth per annum	75%	6%	12%	-6.3%	0%
	Average ROCE vs the cost of capital	25%	Average ROCE equal to the cost of capital	Average ROCE equal to the cost of capital plus 5%	Average ROCE exceeded the cost of capital by 4.1%	22%

Suzanne Harlow also received a PSP award in 2011 but this has not been included in the single figure as it was granted prior to her becoming an executive director.

- **Annual bonus for 2014** – The maximum bonus for the year was 100% of base salary. The bonus for the period was based 80% on PBT and 20% on a like-for-like sales growth and gross margin percentage matrix. Bonuses start accruing for meeting threshold levels of performance, with the maximum bonus only being payable for achieving performance significantly in excess of this level. The PBT target set was not met and the like-for-like sales and gross margin performance targets were not achieved. No bonus was therefore paid in respect of 2014.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Pensions (audited)

Michael Sharp is a deferred member of the Debenhams Executive Pension Plan. Suzanne Harlow is a deferred in service member of the Debenhams Executive Pension Plan. The table below shows the pension accrued at the year end.

	Accumulated total accrued pension at 30 August 2014 (£)	Transfer value as at 30 August 2014 of accrued pension as at 30 August 2014 (£)	Transfer value as at 1 September 2013 of accrued pension as at 1 September 2013 (£)	Increase in accrued pension during the year (£)	Increase in accrued pension during the year (net of inflation) (£)	Increase in transfer value during the period (£)
Michael Sharp	211,476	6,584,718	5,656,919	6,460	925	927,799
Suzanne Harlow	38,895	916,800	772,367	1,279	265	144,433

Michael Sharp participated in the Debenhams Executive Pension Plan (a defined benefit plan) until 2006 when he ceased to participate in the plan and is now a deferred member of this scheme. His normal retirement date under this plan is 31 March 2017. He is not entitled to any additional benefits if he retires prior to this date; any benefits drawn early will be actuarially reduced to reflect early retirement. He also receives a cash allowance in lieu of pension contribution of 20% of base salary.

Suzanne Harlow participated in the Debenhams Executive Pension Plan until 2006 when it was closed to future accruals and is now a deferred in service member of this scheme. Her normal retirement date under this plan is 31 July 2026. She is not entitled to any additional benefits if she retires prior to this date; any benefits drawn early will be actuarially reduced to reflect early retirement. She also receives a cash allowance in lieu of pension contribution of 17% of base salary.

Scheme interests awarded during the financial year (audited)

No long-term incentive awards were granted during 2014.

Directors' shareholdings and share interests (audited)

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, 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 as an executive director (or the introduction of the guidelines, if later). The value of their current shareholding shown in the table below has been calculated using the three month average closing share price to the end of August 2014 and includes the net value of shares vested but not exercised under the Executive Share Option Plan.

	Ordinary shares held as at 30 August 2014	Ordinary shares held as at 1 September 2013	Unvested awards subject to performance	Unvested options subject to performance	Vested options not exercised	Shareholding requirement (£)	Current shareholding (£)	Requirement met?
Michael Sharp – Chief Executive	6,460,067[1]	6,360,067[1]	2,391,314	0	473,961	615,000	4,539,492	Yes
Suzanne Harlow – Group Trading Director	545,366	545,366[2]	689,582	0	169,689	400,000	440,417	Yes
Former directors								
Simon Herrick – CFO	34,900[3]	34,900	0	0	0	410,000	N/A	N/A

1 Shareholding includes 374,392 ordinary shares held by The Sharp Discretionary Settlement of which Michael Sharp is a trustee.
2 Ordinary shares held at appointment to the board on 11 December 2013.
3 As at date of resignation from the board – 2 January 2014.

Scheme interests (audited)

Performance Share Plan

Director	Date of award	Number of shares held at 1 September 2013	Shares awarded during the year	Shares forfeited during the year	Shares exercised during the year	Number of shares held at 30 August 2014	Market value on date of award	Earliest date of vesting	Expiry date of vesting period
Michael Sharp	1 November 2011	1,396,973	0	0	0	1,396,973	64.43	1.11.14	1.5.15
	1 November 2012	994,341	0	0	0	994,341	123.7	1.11.15	1.5.16
Suzanne Harlow	1 November 2011	378,346	0	0	0	378,346	64.43	1.11.14	1.5.15
	1 November 2012	311,236	0	0	0	311,236	123.7	1.11.15	1.5.16
Former directors									
Simon Herrick	1 November 2011	620,877	0	620,877	0	0	64.43	1.11.14	1.5.15
	1 November 2012	331,447	0	331,447	0	0	123.7	1.11.15	1.5.16

Executive Share Option Plan

	Date of award	Number of shares held at 1 September 2013	Shares granted during the year	Shares lapsed during the year	Shares vested during the year	Number of shares held at 30 August 2014	Option price	Earliest date of exercise	Expiry date of options
Michael Sharp	Approved scheme 24 November 2009	35,108	0	0	0	35,108	85.45	24.11.12	24.11.19
	Unapproved scheme 24 November 2009	438,853	0	0	0	438,853	85.45	24.11.12	24.11.19
Suzanne Harlow	Approved scheme 24 November 2009	35,108	0	0	0	35,108	85.45	24.11.12	24.11.19
	Unapproved scheme 24 November 2009	134,581	0	0	0	134,581	85.45	24.11.12	24.11.19

Payments to past directors (audited)

No payments were made to past directors during the year.

Payments for loss of office (audited)

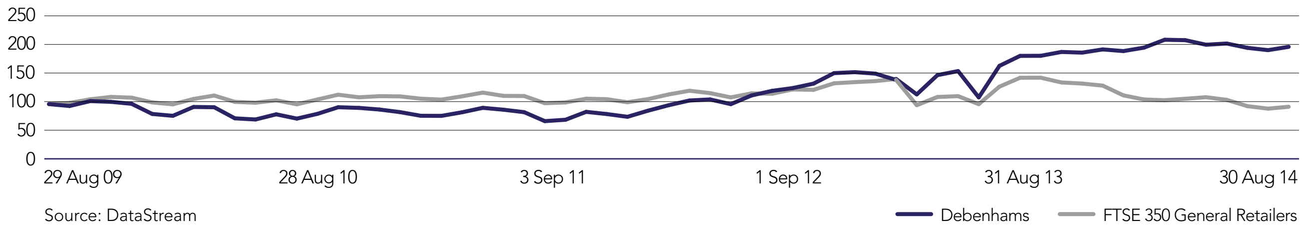
Simon Herrick's service agreement contained a notice period of 12 months. From 2 January 2014 monthly payments in lieu of notice commenced, based on a base salary of £410,000, a flexible benefits payment of £18,375 per annum and an annual pension contribution of £61,500; a total of £489,875 per annum. He was also provided with life assurance cover. Simon Herrick continues to receive these amounts in 12 monthly instalments; however, should he receive any payments as a result of alternative employment or provision of services during this period, other than in respect of one non-executive position, subsequent instalments will be reduced by the amount of such payments. The Company also agreed to a payment of up to £10,000 plus VAT in respect of his legal fees and a £10,000 plus VAT contribution to outplacement support. The Committee agreed to these payments to assist in a smooth succession process for the benefit of the business.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Simon Herrick did not receive a bonus in respect of 2014. All unvested awards under the PSP were forfeited.

Total shareholder return performance graph

The performance graph below shows the Company's total shareholder return (TSR) against the FTSE 350 General Retailers Index over the period from 29 August 2009 to 30 August 2014. 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 69.

	2010*	2011*	2012	2013	**2014**
Single figure of total remuneration	£1,477,607	£1,044,515	£1,288,857	£754,396	£998,734
Annual variable element award rates against maximum opportunity	100%	33.3%	40%	0%	0%
Long-term incentive vesting rates against maximum opportunity	N/A	N/A	PSP: 32% ESOP: 100%	N/A	22%

*The Chief Executive position for the period 2009-2011 was held by Rob Templeman. The Chief Executive position for 2012-2014 has been held by the current incumbent Michael Sharp who previously held the role of Deputy Chief Executive.

Percentage change in remuneration of the Chief Executive

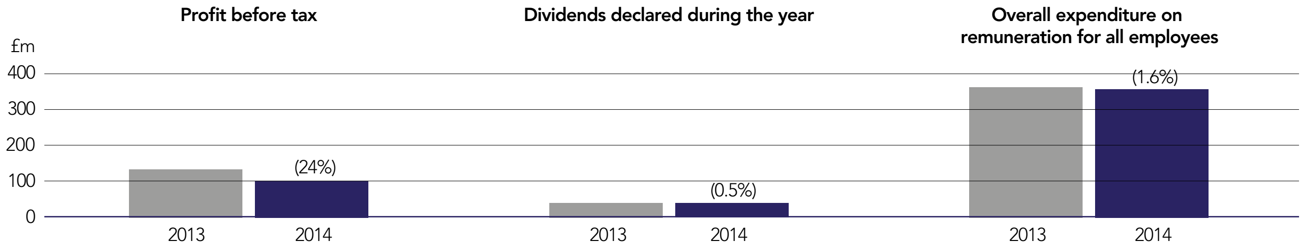
The change in remuneration from 2013 to 2014 of the Chief Executive and the Group's UK employee population is shown below. This group has been chosen as the comparator group as the majority of Debenhams employees are based in the UK.

	Chief Executive	UK employees (Average FTE)
Base salary	0%	3%
Benefits	-5%	9%
Bonus	-%*	-100%

*No bonus was paid to the Chief Executive in respect of 2013 and 2014.

Relative importance of spend on pay

The chart below sets out the amounts paid in 2013 and 2014 in respect of the remuneration of all employees and dividends to shareholders.



Implementation of the remuneration policy for executive directors in 2015

Components of remuneration

The following table provides a summary of the different elements of pay that will be operated for 2015.

Fixed pay	Base salary + benefits + pension	
	Short-term performance	Long-term performance
Performance-related pay	Cash bonus one year	Performance share plan three year
	100% financial	70% EPS growth, 30% strategic measures

Base salary

Executive director salaries as at 1 September 2014 are as follows:

Chief Executive, Michael Sharp	£615,000
Chief Financial Officer, Matt Smith*	£400,000
Group Trading Director, Suzanne Harlow	£400,000

*Salary to be paid upon joining the Company.

The annual salary review date for the executive directors going forward will be 1 April in line with the new single annual review date of the rest of the management population and may take into account the movement in the review date.

Annual bonus

The Committee has decided to base the annual bonus for 2015 entirely on underlying profit before tax in order to simplify the plan and to ensure that executives are focused on increasing profit.

Specific targets are not disclosed because they are considered to be market sensitive by the Committee.

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

It is intended that a PSP award will be granted to the Chief Executive of 150% of base salary for 2014, in line with the usual limit.

For the first year of his appointment, the Chief Financial Officer will be awarded a PSP award of 200% of base salary. The Committee determined that this level of award was appropriate to compensate him for awards forfeited on leaving his previous employer (no further "buyout" awards have been made) and to provide an additional incentive to drive the performance of the business in the initial period of his tenure. His normal annual PSP award will be 100% of base salary.

As part of her appointment to the board, the Group Trading Director will be awarded a 2014 PSP award of 150% of base salary as an incentive to drive performance and to recognise the increased scope of her role on appointment to the board. Her normal annual PSP award will be 100% of base salary.

In light of both the ongoing challenges within the UK retail sector and our evolving business strategy, the Committee has decided that it is appropriate to amend the performance measures attached to 2015 PSP awards to ensure that they are fully aligned with our strategy and to incentivise management to deliver long-term sustainable value for our shareholders.

THE ANNUAL REPORT ON REMUNERATION CONTINUED

Going forward, awards will be based 70% on absolute underlying EPS growth targets and 30% on financial measures that underpin our strategy. The Committee feels that it is important that EPS is retained as the primary measure for the PSP to ensure management is incentivised to continue to drive sustainable earnings improvement and is rewarded for generating bottom line value for shareholders. At the 2014 interim results, Chief Executive Michael Sharp set out the strategic priorities in support of our strategy to build a leading international, multi-channel brand. Financial strategic objectives for the PSP have therefore been selected to reflect these priorities under the four pillars of the strategy. These measures, and their relevance and linkage to the strategy, are as follows:

Strategic measures for 2015:

Key strategic pillars	Proposed metric (7.5% of award each)	Rationale
Delivering a compelling customer proportion	Group gross margin improvement	We have commenced a programme to refocus our approach to promotions which, over time, will result in a reduction of the number of days we are on promotion as well as improving clarity around value. The result will be higher full price sales and lower markdown. This will ultimately lead to an increase in Group gross margin which the Committee believes is an appropriate measure of the success of this strategy.
Increasing availability and choice through multi-channel	Online EBITDA growth rate	Over the next three years we will be making significant changes to our multi-channel fulfilment operations to improve convenience and cost effectiveness. This will drive sales, allow us to recover a high proportion of delivery costs and achieve a significant reduction in the cost per unit of fulfilment. The result of this work will be an improvement in the rate of online EBITDA growth which has therefore been adopted as a strategic measure.
Focusing on UK retail	UK gross transaction value growth (UK GTV)	Currently c.10% of our UK store space is sub-optimal in terms of sales density. We have set out a space optimisation plan to address this by introducing additional choice of products and brands in our stores to drive footfall, improve sales density and increase total sales. This will enable us to improve the return on the store cost base. The Committee believes UK GTV is an appropriate measure as it reflects increased sales through stores and recognises the importance of stores in generating multi-channel sales through maintaining Debenhams' profile in the marketplace and as locations for click and collect.
Expanding the brand internationally	International EBITDA growth rate	The international business will be a substantial and growing part of Debenhams over next ten years. Our existing international activities show that we have a credible, exportable proposition which has the capacity to generate significant shareholder value. Through the PSP, management will be incentivised to continue to drive profit growth from the international business.

The intention is that the precise strategic measures used will be reviewed each year to ensure that they continue to be appropriate and aligned with strategy. Each strategic measure will vest independently.

In order for the award to vest, the 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 and, specifically, vesting of any strategic measure will be subject to a ROCE underpin. The definition of ROCE has been refined from previous years and capital employed will include a capitalised value of future store rental payments and profitability items on a pre-rental basis.

Having reviewed the EPS targets for the PSP the Committee decided to set the target range at 3% per annum (25% vesting) to 10% per annum (100% vesting). The Committee considers that these targets are appropriate in the context of the outlook for the UK retail sector over the next few years and believes that the current market consensus is at the lower end of this range.

Each financial strategic measure will be subject to a single performance test (ie each measure will either vest at 0% or in full). Financial strategic targets are specific, measurable and the performance hurdle is set at a level which is considered by the Committee to be sufficiently stretching. The financial targets for the strategic measures are considered by the board to be market sensitive and therefore we will not disclose these measures at the current time. However, indications of performance against strategic targets will be provided during the vesting period. We will also disclose the targets in full, along with actual performance against targets, at the time of vesting.

The Debenhams Retail Employee Trust 2004

The Debenhams Retail Employee Trust 2004 ("the Trust") currently holds 473,537 shares in the Company. 200,000 shares are held in the Trust to satisfy a potential award made under the Debenhams 2008 Share Incentive Plan (a plan for employees who are not executive directors). Dividends arising on the shares held in the Trust 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 Investment Management Association guidelines on shareholder dilution.

Current levels of shareholder dilution are 0.70% (2013: 0.83%) of share capital.

What did non-executive directors earn in respect of 2014 and 2013? (audited)

The table below sets out the fees payable to each director not performing an executive function in respect of 2014 and 2013.

		2014			2013		
		Fees	Benefits	Total	Fees	Benefits	Total
Nigel Northridge	Non-executive Chairman, Chairman of Nomination Committee, member of Remuneration Committee	£175,000	0	£175,000	£175,000	0	£175,000
Dennis Millard	Senior Independent Director, Chairman of Remuneration Committee, member of Audit and Nomination Committees	£65,000	0	£65,000	£65,000	0	£65,000
Martina King	Chairman of sustainability committee, member of Remuneration, Audit and Nomination Committees	£55,000	0	£55,000	£55,000	0	£55,000
Mark Rolfe	Chairman of Audit Committee, member of Remuneration and Nomination Committees	£55,000	0	£55,000	£54,971	0	£54,971
Sophie Turner Laing	Member of Remuneration, Audit and Nomination Committees	£47,500	0	£47,500	£47,500	0	£47,500
Peter Fitzgerald	Member of Audit Committee	£42,500	0	£42,500	£38,494	0	£38,494
Stephen Ingham	Member of Remuneration Committee	£42,500	0	£42,500	£27,734	0	£27,734

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

THE ANNUAL REPORT ON REMUNERATION CONTINUED

The total interests of the Chairman and non-executive directors in the share capital of the Company as at 30 August 2014 are shown below.

Director	Ordinary shares held as at 1 September 2013	Ordinary shares held as at 30 August 2014	**Ordinary shares held as at 23 October 2014**
Nigel Northridge	100,000	100,000	**100,000**
Peter Fitzgerald	0	0	**0**
Stephen Ingham	0	0	**0**
Martina King	10,000	10,000	**10,000**
Dennis Millard	69,455	69,455	**69,455**
Mark Rolfe	30,000	30,000	**30,000**
Sophie Turner Laing	20,000	20,000	**20,000**

Note: The information in the table above is audited.

Implementation of non-executive director remuneration policy in 2015

There were no changes to non-executive directors' fees with effect from 1 September 2014.

Fees for the year are 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

Consideration of matters in relation to directors' remuneration

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 Committee. Details of the members' background and experience is provided within their biography on pages 42 and 43.

Director	Position	Number of meetings held and attended during the year (of those eligible to attend)
Dennis Millard, Committee chairman	Senior Independent Director	4/5*
Stephen Ingham	Independent non-executive director	5/5
Martina King	Independent non-executive director	5/5
Nigel Northridge	Independent non-executive Chairman	5/5
Mark Rolfe	Independent non-executive director	5/5
Sophie Turner Laing	Independent non-executive director	5/5

*Dennis Millard was unable to attend the meeting in June 2014 due to a family bereavement.

Role of the Committee

The full terms of reference for the Committee, which are reviewed annually, are available on the Company's website at http://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's Chairman and the executive members of the board.

The Committee's main activities during the year

- Approved the directors' remuneration report for 2013
- Reviewed performance against targets for the executive directors' 2014 bonuses
- Reviewed performance against targets for the executive directors' 2012 PSP awards
- Reviewed the executive remuneration strategy for 2015
- Reviewed the operation of the PSP, in particular the performance measures for 2015
- Approved the executive directors' bonus plan for 2015
- Agreed the leaver arrangements for Simon Herrick, the former Chief Financial Officer
- Agreed the remuneration package for the new Chief Financial Officer, Matt Smith, and the Group Trading Director, Suzanne Harlow, upon her appointment to the board
- Evaluated the performance of the Committee
- Reviewed the revised reporting regulations and prepared a new look directors' remuneration report
- Consulted with shareholders on certain aspects of the remuneration policy

Performance evaluation of the Committee

This year's formal evaluation of the Committee was conducted by Lintstock Ltd, an external facilitator.

The Committee considered the results of the review at its meeting in October 2014 and concluded that the Committee continues to be effective, uses its time effectively and has the correct composition. The quality of the information it receives was highly rated.

The review identified certain areas where the Committee would benefit from additional support and the Chairman and the Company Secretary are to look at these issues.

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 £39,000.

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 its advisors and concluded that the advice received is independent.

The Chief Executive 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
2013 directors' remuneration report (December 2013 Annual General Meeting)	99.58%	0.42%

9,629,523 votes were withheld in relation to this resolution (c.0.79% of share capital).

On behalf of the board

Dennis Millard
Chairman of the Remuneration Committee
23 October 2014

DIRECTORS' REPORT

The Company is required by the Companies Act 2006 to include a strategic report within the directors' report. The directors' report of Debenhams plc for the year ended 30 August 2014 therefore comprises these pages and the information referred to in the table opposite, all of which are incorporated into this report by reference.

The contents of the directors' report have been drawn up and presented in accordance with, and in reliance upon, applicable English company law and any liability of the directors is restricted to the extent prescribed by the Companies Act 2006.

Information	Location in annual report
Review of the business, principal risks and uncertainties and KPIs	Market overview, Chief Executive's report, KPI's, risk review and financial review
Strategy	Business model and strategy, strategy at a glance
Business model	Business model and strategy
Future business developments	Chief Executive's report, strategy at a glance
Greenhouse gas emissions	Resources, relationships and sustainability
Environmental matters, employees and social, community and human rights issues (including information about the Company's policies in relation to these matters)	Resources, relationships and sustainability, directors' report
Employment policy for disabled persons and employee engagement throughout the workforce	Directors' report
Gender diversity of the board	Corporate governance report

Profit and dividends

The profit after tax for the financial year ending 30 August 2014 was £87.2 million (2013: £115.9 million adjusted for IAS 19 revised). The directors recommend the payment of a final dividend of 2.4 pence per ordinary share, to be paid on 9 January 2015 to members on the register at the close of business on 5 December 2014. 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.

Directors

The following persons were directors of the Company during the year ended 30 August 2014 and, unless otherwise stated, at the date of this annual report:

Nigel Northridge
Michael Sharp
Suzanne Harlow (appointed 11 Dec 2013)
Simon Herrick (resigned 2 Jan 2014)
Dennis Millard
Peter Fitzgerald
Stephen Ingham
Martina King
Mark Rolfe
Sophie Turner Laing

The membership of the board and biographical details of the directors are given on pages 42 and 43. The business of the Company shall be managed by the board who may exercise all the powers of the Company, subject to the provisions of the Companies Act 2006, the Company's Articles of Association and any shareholder resolution. In accordance with the Company's Articles of Association, the directors shall be no less than two and no more than 25 in number. Directors may be appointed by the Company by ordinary resolution or by the board. A director appointed by the board holds office only until the next Annual General Meeting. The Company may, by ordinary resolution, remove any director from office. The office of a director shall be vacated if s/he (i) resigns or retires; (ii) becomes bankrupt or makes an arrangement or composition with his or her creditors generally; (iii) becomes physically or mentally incapable of acting as a director and may remain so for more than three months, or by reason of his or her mental health a court has made an order that prevents the director from acting and, in either case, the board resolves that his or her office is vacated; (iv) has been absent for more than six consecutive months without the board's permission from meetings of the board held during that period and his or her alternate director (if any) has not attended in his or her place during that period and board resolves that his/her office be vacated; and (v) receives a notice signed by not less than three quarters of the other directors stating that that person should cease to be a director. Any amendments to the Company's Articles of Association may be made in accordance with the Companies Act 2006 by way of special resolution. In accordance with the UK Corporate Governance Code, all of our directors will retire at the forthcoming Annual General Meeting of the Company and offer themselves either for election, in the case of Suzanne Harlow, or for re-election, in the case of all other directors. 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 to demonstrate commitment to his or her role. There is more information on the evaluation and its outcome within the corporate governance report on page 48.

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

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.

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 as at 30 August 2014:

Shareholder	Number of shares	Percentage of voting rights
Schroder Investment Management	179,585,845	14.65%
Milestone Resources Group Ltd	89,183,155	7.27%
The Goldman Sachs Group Inc	73,655,413	6.00%
Bestinver Gestión, S.A.	60,554,248	4.94%
LSV Asset Management	59,976,652	4.89%
GIC Private Limited	50,069,986	4.08%
Norges Bank	37,407,430	3.05%

In accordance with Listing Rule 9.8.6 (2)(b), the following notifications have been received during the period 31 August 2014 to 10 October 2014:

Date of notification	Shareholder	Number of shares	Percentage of voting rights
2 September 2014	Schroder Investment Management	167,887,912	13.69%
3 October 2014	Sports Direct International plc	56,381,164	4.6%

Share buyback programme

At the December 2013 Annual General Meeting, shareholders authorised the Company to purchase up to 122,651,325 ordinary shares in the market. However, on 31 December 2013, the Company announced that the share buyback programme which commenced in April 2012 would cease with immediate effect.

As at 30 August 2014 the Company had purchased 61,793,402 ordinary shares of 0.01 pence at a total cost of £60.3 million of which 14,351,525 ordinary shares of 0.01 pence were purchased (representing 1.1% of the Company's share capital) at a cost of £15.1 million during 2014. All shares purchased and retained by the Company are held in treasury. 429,108 treasury shares were transferred out of treasury during the year to satisfy awards granted under the Company's share plans.

Although the share buyback programme has ceased, approval will be sought from shareholders at the forthcoming Annual General Meeting to renew its authority to purchase shares in the market for a further year. This is a standard authority and it is the Company's present intention, should shares be bought back, for them to be cancelled or retained in treasury pending a subsequent sale, cancellation or transfer. The Company will only buy back shares if the directors believe that it is in shareholders' best interests and will increase earnings per share.

Share capital

The issued share capital of the Company and the number of shares held in treasury as at 30 August 2014 are shown in note 27 to the financial statements on pages 129 and 130. In addition to the shares trading on the London Stock Exchange, the Company operates a level 1 American depositary receipt (ADR) programme. Each American depositary share (ADS) represents four ordinary shares of 0.01 pence each.

Voting rights

If voting on a resolution at any general meeting of the Company is on a show of hands, every member present in person has one vote and every proxy appointed by one or more members has one vote regardless of the number of shares held by the shareholder or represented by the proxy. On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder but a shareholder or proxy entitled to more than one vote need not cast all his/her votes or cast them all the same way.

No member shall be entitled to vote at any general meeting of the Company, either in person or by proxy, in respect of any share held unless all moneys payable in respect of that share have been paid. There are no known arrangements which may restrict voting rights.

The Debenhams Retail Employee Trust 2004 ("the Trust") holds 473,537 ordinary shares in the Company (0.04%). Any voting or other similar decisions relating to the shares held by the Trust would be taken by the trustees, who may take account of any recommendations of the Company.

Transfer of shares

Any member may transfer all or any of his or her certificated shares by an instrument of transfer in any usual form or in any form which the board may approve. The board may, in its absolute discretion, decline to register any instrument of transfer of a certificated share which is not a fully paid share (although not so as to prevent dealings in shares taking place on an open and proper basis). The board may also refuse to register the transfer of a certificated share where the instrument of transfer is invalid. There are no known arrangements which may restrict the transfer of shares.

Significant agreements

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 multi-currency revolving credit facility dated 18 June 2014 contains mandatory prepayment
- The terms and conditions of the 5.25% senior notes due 2021 contain a requirement for the Company to make an offer to re-purchase all of the notes at a price equal to 101% of the principal amount thereof, plus any accrued unpaid interest
- The supplier agreements with certain major cosmetic suppliers contain termination provisions on change of control

DIRECTORS' REPORT CONTINUED

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 66 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 some 28,000 people in the UK, the Republic of Ireland, Bangladesh, Hong Kong and Denmark.

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 talent.

As part of the Company's policy on equality of opportunity, decisions on recruitment, training, promotion, pay terms and conditions and leavers are based solely on objective, job-related criteria and personal competence and performance. The Company seeks wherever possible to make reasonable adjustments to ensure that an employee who becomes disabled during the course of his or her employment is able to continue working effectively. This includes: providing equipment or altering working arrangements; providing additional training; re-allocating 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.

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.

Human rights

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

Political donations

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

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 pages 122 and 123 of the financial statements.

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 the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 and DTR 7.2.10 are within the corporate governance report on pages 44 to 53 and risk review on pages 26 and 27 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 has indicated its willingness to continue in office and a resolution dealing with its re-appointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

The Annual General Meeting of Debenhams plc will be held at Debenhams' head office, 10 Brock Street, Regent's Place, London NW1 3FG on Tuesday 9 December 2014 at 2.00pm. The notice is given, together with explanatory notes, in the booklet which accompanies this report.

The directors' report was approved by a duly appointed and authorised committee of the board of directors on 23 October 2014 and signed by its order by Paul Eardley, the Company Secretary.

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 ("EU") and the 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 EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and 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.

Responsibility statement

Each of the directors, whose names and functions are detailed on pages 42 and 43, 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 strategic 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
- The directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's performance, business model and strategy.

On behalf of the board

Michael Sharp
Chief Executive
23 October 2014

In this section

NCIAL
MENTS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP)

Report on the Group financial statements

Our opinion

In our opinion, Debenhams plc's Group financial statements (the "financial statements"):

- Give a true and fair view of the state of the Group's affairs as at 30 August 2014 and of its profit and cash flows for the year then ended;
- Have been properly prepared in accordance with International Financial Reporting Standards ("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.

What we have audited

Debenhams plc's financial statements comprise:

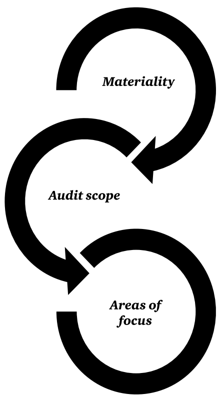
- The consolidated balance sheet as at 30 August 2014;
- The consolidated income statement and consolidated statement of comprehensive income for the year then ended;
- The consolidated cash flow statement for the year then ended;
- The consolidated statement of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the annual report and accounts (the "annual report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview



- Overall group materiality: £5.5 million which represents 5% of profit before tax.

- The Group is structured into two operating segments UK and International;
- We conducted our audit work on both operating segments from the UK with the exception of the Danish business (Magasin du Nord), which is in the International operating segment, where the audit was performed in Denmark;
- Our audit work covered both operating segments and accounted for 100% of group revenue and 100% of group profit before tax.

Our areas of focus:

- Risk of fraud in revenue recognition in relation to manual adjustments posted to revenue and the cut-off of wholesale invoicing to franchises;
- Inventory valuation using the retail method and stock provisioning for out of season inventory.
- Goodwill and store assets impairment assessment;
- Defined benefit pension plan net liability.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that may represent a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below together with an explanation of how we tailored our audit to address these specific areas. The first two areas of focus are significant risks and the second two are other risks. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Risk of fraud in revenue recognition in relation to manual adjustments posted to revenue and the cut-off of wholesale invoicing to franchises. See note 2 to the financial statements for the directors' disclosures of the related revenue recognition accounting policy. ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. The Group's revenue principally relates to retail trading and wholesale trading with franchise partners. Retail revenue comprises high volume, low value transactions where the principal risk of fraud comes from journals and adjustments posted into revenue and therefore not subject to the main controls over revenue to cash reconciliations. The principal risks of fraud for franchise sales come from journals and adjustments posted into franchise sales as well as the risk of wholesale invoicing to franchises in the incorrect period artificially inflating revenue for the current year.	For both retail and franchise revenue we examined journal entries and consolidation adjustments to identify unusual or irregular items and tested such items by agreeing details to supporting documentation. In addition, for franchise revenue, we tested a sample of sales back to supporting documentation such as cash receipts or purchase orders and goods despatched notes to check the occurrence and the recording of revenue in the correct period. We also assessed the monthly level of sales to franchises to identify any unusual patterns around the year end, and tested any such items by agreeing details to supporting documentation.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP)CONTINUED

Area of focus	How our audit addressed the area of focus
Inventory valuation using the retail method and stock provisioning for out of season inventory Refer to pages 52 and 53 (Audit Committee report) and note 5 to the financial statements for the directors' disclosures of the critical accounting estimates and judgements related to the valuation of inventory. The valuation of inventory in the UK and Ireland is determined using the retail method. This is an industry specific accounting method used to derive a weighted average product cost. This method contains significant assumptions, which can vary between retail entities. The methodology is also impacted by the timing of processing markdowns which could significantly affect gross margin. The ongoing economic situation within the retail sector continues to create competition on the high street. This could put pressure on the level of out of season stock identified for markdown within the Group and on the year end stock provisions/markdowns. As such there is a risk that the realisable value of stock will be lower than its recorded cost.	We evaluated the relevant IT systems and tested the internal controls over the inventory valuation process. As inventory is valued using the retail method we performed a number of specific tests of the operating effectiveness of controls and detailed substantive tests over the inputs into the inventory valuation calculations including: • Testing the controls over the sales price of inventory; • Assessing the margin rate applied to the sales price to identify any unusual margins, and testing any such items by agreeing details to supporting documentation; • Testing the margin rate applied to the sales price to derive the cost of inventory; • Checking the purchase price of inventory used within cost of sales to a sample of supplier invoices; and • Checking other cost adjustments for example designer royalties applied to the inventory margin back to supporting documentation. We also assessed the level of out of season inventory at the year-end, which included: • Testing the operating effectiveness of controls in relation to classifying stock as current, continuity (inventory with no season) or out of season inventory; and • Assessing the spend on mark-downs in the month following the year end and the level of out of season inventory at the end of this period to assess the reasonableness of the judgement involved in the markdown provisions applied to the year end inventory valuation.

Area of focus	How our audit addressed the area of focus
Goodwill and store asset impairment assessment Goodwill Refer to note 5 to the financial statements for the directors' disclosures of the critical accounting estimates and judgements related to the goodwill impairment assessment and note 13 for further details on the impairment test. Ongoing economic pressures on the high street continue to be considered as a trigger for an impairment assessment of the underlying value of the £819 million goodwill held by the Group which relates primarily to the acquisition in December 2003 of the Debenhams Group by Debenhams plc. Store assets Refer to note 14 to the financial statements. Ongoing economic pressures on the high street continue to be considered as a trigger for an impairment assessment of the underlying value of store assets in particular those stores that have demonstrated lower profitability in recent years.	We tested that the impairment model used by management is mathematically correct. We challenged the directors on the inputs into their impairment assessment calculations, including: • The directors' key assumptions for short term growth rates, by comparing them to historical results and the prospects for the stores, business and industry; • The directors' key assumptions for long term growth rates in the forecasts, by comparing them to historical results, and economic and industry forecasts; and • The discount rate, by assessing the cost of capital for the Company and comparable organisations, forming a view of risk premiums as appropriate. Having challenged these assumptions, we focused further discussions with management on stores where there were low profit margins or low headroom in the impairment assessment where we considered the risk of impairment to be greater. We also performed sensitivity analysis on the key assumptions including the short-term growth rates and discount rates.
Defined benefit pension plans Refer to note 5 for the directors' disclosures on the critical accounting estimates and judgements related to the defined benefit pension plans and note 23 for detailed disclosures in relation to these plans. The Group has two defined benefit pension plans which comprise total pension assets of £748 million and total pension liabilities of £751 million. The valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. Changes in a number of the key assumptions (including inflation, discount rates, and mortality) can have a material impact on the calculation of the liability.	We evaluated and tested key assumptions and information prepared by the actuaries used in the determination of pension obligations, including using our specialist knowledge to assess the actuarial calculations. We obtained third party confirmations for the existence of assets and tested the valuation of plan assets. Both schemes are closed to new entrants; we tested the accuracy of census data used to calculate the liability at the date of each triennial valuation by checking details to the Group's personnel/payroll documentation. The date of the last triennial valuation was 31 March 2011 with the results included in the 31 March 2012 financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured into two operating segments being, UK and International. The International operating segment includes operations in the Republic of Ireland, Denmark, sales to franchises and internet sales made outside of the UK.

For the purposes of our audit of the Group consolidated position, Magasin du Nord is considered as a separate reporting unit. Whilst, based on its size relative to the Group, Magasin du Nord did not require an audit of its complete financial information, we deemed this the most appropriate method to gain the necessary audit evidence for the financial statements. The rest of the Group as a whole was subject to an audit of its complete financial information as a result of its size.

All operations were audited from the UK with the exception of Magasin du Nord where we used PwC Denmark, who are familiar with the local laws and regulations, to perform this audit work. We determined the level of involvement we needed to have in the audit work of PwC Denmark to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole and that involvement included a conference call with PwC Denmark and local management to discuss the findings of the audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (GROUP)CONTINUED

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	£5.5 million (2013: £7.9 million).
How we determined it	5% of profit before tax.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (2013: £500,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 80 in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion:

- The information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The information given in the corporate governance statement set out on pages 44 to 49 with respect to internal control and about share capital structures is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

• Information in the annual report is: – Materially inconsistent with the information in the audited financial statements; or – Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – Is otherwise misleading.	We have no exceptions to report arising from this responsibility.
• The statement given by the directors on page 81, in accordance with provision C.1.1 of the UK Corporate Governance Code ("the Code"), that they consider the annual report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• The section of the Annual Report on pages 51 to 53 , as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

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. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Under the Listing Rules we are required to review the part of the corporate governance statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the statement of directors' responsibilities set out on page 81, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Company financial statements of Debenhams plc for the year ended 30 August 2014 and on the information in the directors' remuneration report that is described as having been audited.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 October 2014

CONSOLIDATED INCOME STATEMENT

For the financial year ended 30 August 2014

	Note	52 weeks ended 30 August 2014 £m	Restated[1] 52 weeks ended 31 August 2013 £m
Revenue	3, 4	**2,312.7**	2,282.2
Cost of sales		**(2,033.4)**	(1,982.6)
Gross profit		**279.3**	299.6
Distribution costs		**(98.5)**	(97.5)
Administrative expenses		**(52.2)**	(46.7)
Operating profit	6	**128.6**	155.4
Finance income	8	**0.6**	1.5
Total finance costs		**(23.4)**	(17.9)
Analysed as:			
Recurring finance costs	9	**(18.9)**	(17.9)
Non-recurring finance costs	9	**(4.5)**	–
Profit before taxation		**105.8**	139.0
Taxation	10	**(18.6)**	(23.1)
Profit for the financial year attributable to owners of the parent		**87.2**	115.9

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

		Pence per share	Restated[1] Pence per share
Basic earnings per share attributable to owners of the parent	12	**7.1**	9.2
Diluted earnings per share attributable to owners of the parent	12	**7.1**	9.2

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 August 2014

	Note	**52 weeks ended 30 August 2014 £m**	Restated[1] 52 weeks ended 31 August 2013 £m
Profit for the financial year		**87.2**	115.9
Other comprehensive (expense)/income			
Items that will not be reclassified to the income statement			
Remeasurements of pension schemes	23	**8.8**	30.6
Taxation relating to items which will not be reclassified	10	**(1.6)**	(6.8)
		7.2	23.8
Items that may be reclassified to the income statement			
Currency translation differences		**(4.2)**	3.6
Change in the valuation of available-for-sale investments	15	**2.5**	(0.8)
(Losses)/gains on cash flow hedges		**(24.9)**	11.9
Transferred to the income statement on cash flow hedges	9	**2.7**	3.3
Recycled and adjusted against cost of inventory	21	**8.1**	(7.6)
Taxation relating to items that may be reclassified	10	**3.0**	(1.8)
		(12.8)	8.6
Total other comprehensive (expense)/income		**(5.6)**	32.4
Total comprehensive income for the financial year		**81.6**	148.3

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

CONSOLIDATED BALANCE SHEET

As at 30 August 2014

	Note	**30 August 2014 £m**	31 August 2013 £m
Assets			
Non-current assets			
Intangible assets	13	**892.8**	876.5
Property, plant and equipment	14	**689.2**	692.1
Available-for-sale investments	15	**3.6**	1.1
Derivative financial instruments	22	**3.0**	1.9
Trade and other receivables	17	**15.6**	16.8
Retirement benefit surplus	23	**6.9**	4.6
Deferred tax assets	24	**51.0**	69.3
		1,662.1	1,662.3
Current assets			
Inventories	16	**345.7**	357.9
Trade and other receivables	17	**74.7**	78.3
Derivative financial instruments	22	**1.5**	7.3
Cash and cash equivalents	18	**64.4**	27.0
		486.3	470.5
Liabilities			
Current liabilities			
Bank overdraft and borrowings	20	**(202.1)**	(163.1)
Derivative financial instruments	22	**(11.4)**	(2.1)
Trade and other payables	19	**(529.3)**	(545.8)
Current tax liabilities		**(9.2)**	(25.3)
Provisions	26	**(6.0)**	(5.6)
		(758.0)	(741.9)
Net current liabilities		**(271.7)**	(271.4)
Non-current liabilities			
Bank overdraft and borrowings	20	**(223.8)**	(235.9)
Derivative financial instruments	22	**(2.7)**	(3.7)
Deferred tax liabilities	24	**(53.4)**	(59.1)
Other non-current liabilities	25	**(332.7)**	(322.1)
Provisions	26	**(1.1)**	(1.1)
Retirement benefit obligations	23	**(9.3)**	(24.6)
		(623.0)	(646.5)
Net assets		**767.4**	744.4
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		**(7.9)**	3.2
Other reserves		**(9.4)**	(7.7)
Retained earnings		**100.7**	64.9
Total equity		**767.4**	744.4

The financial statements on pages 90 to 134 were approved by the board on 23 October 2014 and were signed on its behalf by:

Michael Sharp
Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 August 2014

	Note	Share capital and share premium account £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserves £m	Restated[1] (Accumulated losses)/ retained earnings £m	Restated[1] Total equity £m
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		–	–	–	–	–	115.9	115.9
Other comprehensive income for the financial year		–	–	–	5.8	2.8	23.8	32.4
Total comprehensive income 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
Profit for the financial year		–	–	–	–	–	87.2	87.2
Other comprehensive (expense)/income for the financial year		–	–	–	(11.1)	(1.7)	7.2	(5.6)
Total comprehensive (expense)/income for the financial year		**–**	**–**	**–**	**(11.1)**	**(1.7)**	**94.4**	**81.6**
Share-based payment credit	28	–	–	–	–	–	(1.8)	(1.8)
Purchase of treasury shares	27	–	–	–	–	–	(15.1)	(15.1)
Dividends paid	11	–	–	–	–	–	(41.7)	(41.7)
Total transactions with owners		–	–	–	–	–	(58.6)	(58.6)
Balance at 30 August 2014		**683.0**	**1,200.9**	**(1,199.9)**	**(7.9)**	**(9.4)**	**100.7**	**767.4**

[1] Restatement relates to the adoption of IAS 19 “Employee benefits” revised (note 2).

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 30 August 2014

	Note	52 weeks ended 30 August 2014 £m	52 weeks ended 31 August 2013 £m
Cash flows from operating activities			
Cash generated from operations	30	**240.5**	241.1
Finance income		**1.2**	0.4
Finance costs		**(14.3)**	(12.9)
Tax paid		**(20.6)**	(29.3)
Net cash generated from operating activities		**206.8**	199.3
Cash flows from investing activities			
Purchase of property, plant and equipment		**(102.3)**	(113.7)
Purchase of intangible assets		**(25.7)**	(19.6)
Net cash used in investing activities		**(128.0)**	(133.3)
Cash flows from financing activities			
Issue of senior notes	20	**225.0**	–
Drawdown of revolving credit facility	20	**200.0**	6.0
Repayment of term loan and revolving credit facilities	20	**(410.7)**	–
Settlement/(repurchase) of term loan facility		**13.3**	(13.3)
Purchase of treasury shares		**(15.1)**	(25.1)
Dividends paid	11	**(41.7)**	(41.4)
Share option receipts		**–**	0.1
Finance lease payments		**(2.2)**	(2.3)
Debt issue costs		**(7.1)**	(0.5)
Net cash used in financing activities		**(38.5)**	(76.5)
Net increase/(decrease) in cash and cash equivalents		**40.3**	(10.5)
Net cash and cash equivalents at beginning of financial year		**24.1**	34.6
Net cash and cash equivalents at end of financial year	31	**64.4**	24.1

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 number 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 Company 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 subsidiary undertakings within the Group during the financial year ended 30 August 2014 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. A prior year restatement as a result of the adoption of IAS 19 "Employee benefits" revised is described on page 102.

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 IFRS Interpretations Committee ("IFRS IC") 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 30 August 2014 and 31 August 2013 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 the income statement.

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. On acquisition, 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 is stated net of value added tax and other sales-related taxes. Revenue is also adjusted for the fair value of loyalty points awarded. Loyalty points awarded are reflected within liabilities until such time as they are redeemed.

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. Revenue from franchise fees is recognised when earned.

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

2 Accounting policies continued

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" revised. 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 is charged or credited with a net interest expense which is calculated by applying the discount rate to the net defined benefit liability or asset. Administration costs of pension funds are recognised as an expense when the administration services are performed. Actuarial gains and losses are recognised immediately in the statement of comprehensive income. A retirement benefit surplus is only recognised to the extent that it is expected to be recoverable in the future.

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 awards 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 vesting conditions. At each balance sheet date, the Group revises its estimates of the number of awards that are expected to vest. Non-market performance and service conditions are included in assumptions about the number of awards 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 awards are exercised, the Company may, if permitted, 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 (for new share issues) are credited to share capital (at nominal value) and share premium when the awards 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.

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. 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. Taxation 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 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

2 Accounting policies continued

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, liabilities and contingent 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 cash-generating units for the purpose of impairment testing on the basis of UK and other which is the lowest level at which goodwill is monitored for internal management purposes.

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 include 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 10.0%
Internally generated software	10.0% to 33.3%
Purchased software	10.0% to 33.3%

Impairment testing

Assets that have an indefinite useful life, for example goodwill or intangible assets not ready for use, 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.

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	1.0%
Long leasehold land and buildings including landlords' fixtures and fittings	1.0% or life of lease if shorter
Short leasehold land and buildings including landlords' fixtures and fittings	Life of lease
Retail fixtures and fittings	4.0% to 25.0%
Office equipment	10.0% to 12.5%
Computer equipment	10.0% to 33.3%
Vehicles	25.0% 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 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" ("IAS 39"). 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 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 closing rate at the reporting date. Changes in the fair value of securities classified as "available for sale" are recognised in other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

2 Accounting policies continued

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 primarily using the retail method and represent goods for resale. The retail method is an industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at a departmental level to determine an average margin per department. These margins are then applied to the retail value of inventory to derive the cost of the inventory.

Cost includes all direct expenditure and other attributable costs, net of volume and settlement supplier discounts, 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 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 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 is accounted for as a loan redemption, reducing net borrowings at the balance sheet date.

Trade payables

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

All of the trade payables are non-interest bearing.

Other payables and non-current liabilities

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. Other payables also relate to the spreading of charges in respect of leases with fixed annual increments in rent (escalating rent clauses) 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.

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 remeasured 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.

a) 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 forecast 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 forecast transaction.

b) 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.

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, is included in equity attributable to the Company's equity holders.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

2 Accounting policies continued

New standards and interpretations

IAS 19 "Employee benefits" has been revised and is effective from periods that commenced on or after 1 January 2013. The revised standard has retrospective application and consequently the relevant charges or income in the consolidated income statement and the consolidated statement of comprehensive income for the year ended 31 August 2013 have been restated. As a result of the change, the expected return on pension scheme assets and the interest cost on pension scheme liabilities are replaced with a net interest expense calculated by applying the discount rate to the net defined benefit liability or asset. Administration costs of pension funds are now recognised as an expense when the administration services are performed. The table below sets out the changes to comparative amounts.

	52 weeks to 31 August 2013		
	Previously reported £m	Application of IAS 19 revised £m	Restated £m
Consolidated income statement			
Revenue	2,282.2	–	2,282.2
Cost of sales	(1,972.1)	(10.5)	(1,982.6)
Gross profit	310.1	(10.5)	299.6
Distribution costs	(97.4)	(0.1)	(97.5)
Administrative expenses	(44.7)	(2.0)	(46.7)
Operating profit	168.0	(12.6)	155.4
Finance income	1.5	–	1.5
Finance costs	(15.5)	(2.4)	(17.9)
Profit before taxation	154.0	(15.0)	139.0
Taxation	(26.1)	3.0	(23.1)
Profit for the financial year	127.9	(12.0)	115.9
Remeasurements of pension schemes	15.6	15.0	30.6
Taxation relating to the pension schemes which will not be reclassified	(3.8)	(3.0)	(6.8)
Items that may be reclassified to the income statement	8.6	–	8.6
Total comprehensive income	148.3	–	148.3

There is no change to the retirement benefit obligation or to net assets as a result of the adoption of IAS 19 revised and therefore no restatement of the balance sheet is required. In accordance with IAS 1 (amended) "Financial statement presentation" a balance sheet as at 1 September 2012 has not been presented.

The Group has also adopted the following standards and interpretations which became mandatory for the first time during the current financial year. The adoption of these standards has had no material impact on the Group.

- Amendments to IFRS 7 "Financial instruments: Disclosures – offsetting financial assets and financial liabilities". This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare financial statements in accordance with US GAAP.
- IFRS 13 "Fair value measurement". IFRS 13 is effective from periods that commenced on or after 1 January 2013. IFRS 13 has affected disclosures only and the Group has included the required disclosures in note 22. In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures.

Other amendments which apply for the first time in the current financial year and do not have a material impact on the consolidated financial information of the Group are IFRS 10 "Consolidated financial statements", IFRS 11 "Joint arrangements", IFRS 12 "Disclosure of interests in other entities" and IFRIC 21 "Levies".

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.

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. Current assets, current liabilities and non-current liabilities are not reported to or reviewed by the CODM on the basis of operating segment as these are reviewed on a Group-wide basis and therefore these amounts are not presented below.

Segmental analysis of results

	UK £m	International £m	Total £m
Financial year ended 30 August 2014			
Gross transaction value	**2,275.3**	**548.6**	**2,823.9**
Concessions, consignments and staff discounts	**(373.2)**	**(138.0)**	**(511.2)**
External revenue	**1,902.1**	**410.6**	**2,312.7**
Operating profit	**96.3**	**32.3**	**128.6**
Other segment items			
– Depreciation	**78.9**	**8.6**	**87.5**
– Amortisation	**11.7**	**1.6**	**13.3**
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 – restated[1]	127.2	28.2	155.4
Other segment items			
– Depreciation	75.3	9.1	84.4
– Amortisation	8.7	1.5	10.2

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

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

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Total operating profit	**128.6**	155.4
Finance income	**0.6**	1.5
Recurring finance costs	**(18.9)**	(17.9)
Non-recurring finance costs	**(4.5)**	–
Total profit before taxation	**105.8**	139.0

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

3 Segmental reporting continued

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

	30 August 2014 £m	31 August 2013 £m
United Kingdom	**1,902.1**	1,895.9
Denmark	**175.8**	157.8
Republic of Ireland	**135.5**	134.3
Rest of the world	**99.3**	94.2
Total external revenue	**2,312.7**	2,282.2

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

	30 August 2014 £m	31 August 2013 £m
United Kingdom	**1,532.9**	1,515.6
Denmark	**23.1**	22.1
Republic of Ireland	**25.6**	30.3
Rest of the world	**0.4**	0.8
Total non-current assets	**1,582.0**	1,568.8

The 31 August 2013 comparatives have been restated to exclude financial assets.

Additions to property, plant and equipment and intangible assets analysed by operating segment are set out below:

	UK £m	International £m	Total £m
Financial year ended 30 August 2014	**109.1**	**9.8**	**118.9**
Financial year ended 31 August 2013	124.0	9.6	133.6

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.

	30 August 2014 £m	31 August 2013 £m
Gross transaction value	**2,823.9**	2,776.8

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 year 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 primarily using the retail method and represent goods for resale. The retail method is an industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at a departmental level to determine an average margin per department. These margins are then applied to the retail value of inventory to derive the cost of inventory. 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, is based on key assumptions including discount rates, mortality rates, inflation, future salary costs and pension costs. These assumptions, individually or collectively, may be different to actual outcomes; refer to note 23 for further details.

A retirement benefit surplus is only recognised to the extent that it is expected to be recoverable in the future.

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 year 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.

Determining the deferred tax on developers' contributions and other provisions requires an element of judgement. 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 current tax and deferred tax provisions in the year in which such determination is made. The final outcome of some of these tax items may give rise to material income statement 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

	30 August 2014 £m	Restated[1] 31 August 2013 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**10.4**	12.0
Cost of inventory recognised as an expense	**1,165.0**	1,150.2
Employment costs (note 7)	**369.2**	375.2
Depreciation of property, plant and equipment (note 14)	**87.5**	84.4
Amortisation of intangible assets (note 13)	**13.3**	10.2
Loss on disposal of property, plant and equipment	**1.4**	0.2
Operating lease rentals	**216.3**	206.9
Foreign exchange gains	**(1.3)**	(7.9)
Auditors' remuneration	**0.5**	0.5

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

6 Operating profit continued

Services provided by the Company's auditors and network firms

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

	30 August 2014 £m	31 August 2013 £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
Other non-audit services	**0.2**	0.1

Other non-audit services for the financial year includes £73,000 relating to the senior notes issue.

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

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Wages and salaries	**334.4**	337.6
Social security costs	**20.5**	21.4
Other pension costs (note 23)	**16.1**	14.7
Share-based payments (note 28)	**(1.8)**	1.5
Employment costs	**369.2**	375.2

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

	Number	Number
Average monthly number of employees (including key management):		
– Full time	**7,802**	8,086
– Part time	**20,431**	22,077
Total	**28,233**	30,163

Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 54 to 77, which forms part of these financial statements.

Key management compensation

	30 August 2014 £m	31 August 2013 £m
Short-term employee benefits	**3.5**	2.9
Post-employment benefits	**0.5**	0.4
Share-based payments	**(1.2)**	1.1
	2.8	4.4

Members of the Executive Committee (which includes the executive directors) and the non-executive directors are deemed to be key management. During the financial year key management consisted of 15 members (2013:13 members).

8 Finance income

	30 August 2014 £m	31 August 2013 £m
Interest on bank deposits	**0.2**	0.4
Other financing income	**0.4**	1.1
	0.6	1.5

9 Finance costs

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Recurring finance costs		
Interest payable on bank loans and overdrafts	**10.9**	10.8
Interest payable on senior notes	**1.9**	–
Cash flow hedges reclassified and reported in the income statement	**2.7**	3.3
Amortisation of issue costs on loans and senior notes (note 20)	**2.0**	2.7
Interest payable on finance leases	**0.2**	0.1
Net interest on net defined benefit pension schemes liability (note 23)	**0.6**	2.4
Other financing costs	**1.2**	–
Capitalised finance costs – qualifying assets (note 14)	**(0.6)**	(1.4)
	18.9	17.9
Non-recurring finance costs		
Unamortised issue costs written off on repayment of term loan and revolving credit facilities (note 20)	**4.5**	–

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

10 Taxation

Analysis of taxation charge to the income statement for the financial year:

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Current taxation		
Current taxation charge on profit for the financial year	**7.7**	36.7
Adjustments in respect of prior financial years	**(0.8)**	(10.8)
Current taxation charge	**6.9**	25.9
Deferred taxation		
Origination and reversal of temporary differences	**13.0**	(5.9)
Pension cost relief in excess of pension charge	**(0.4)**	(0.9)
Adjustments in respect of prior financial years	**0.1**	1.7
Effect of change in current tax rate on the net deferred tax asset recognised at the beginning of the financial year	**(1.0)**	2.3
Deferred taxation charge/(credit) (note 24)	**11.7**	(2.8)
Taxation charge for the financial year	**18.6**	23.1

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

10 Taxation continued

The effective tax rate for the financial year is lower at 17.6% (2013: 16.6% (restated[1])) than the rate of corporation tax in the UK of 22.2% (2013: 23.6%). The differences are explained below:

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Profit before taxation	**105.8**	139.0
Profit on ordinary activities at standard rate of corporation tax in the UK of 22.2% (2013: 23.6%)	**23.5**	32.8
Effects of:		
Permanent differences	**(0.7)**	–
Overseas tax rates	**1.1**	0.5
Utilisation of tax losses	**(3.7)**	(4.7)
Non-qualifying depreciation and lease transactions	**1.7**	1.5
Effect on deferred taxation of the change in current tax rate	**(2.6)**	2.1
Adjustments in respect of prior financial years	**(0.7)**	(9.1)
Taxation charge for the financial year	**18.6**	23.1

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

The Finance Act 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 31 August 2013 by approximately £1.0 million. This £1.0 million decrease has been recognised in line with the treatment of the assets and liabilities giving rise to the net deferred tax liability.

One of the Group's UK subsidiaries, Debenhams Properties Limited, changed its reporting framework from UK GAAP to FRS 101 "Reduced disclosure framework" ("FRS 101") at the beginning of the financial year. FRS 101 is one of the new accounting frameworks being adopted by all companies throughout the UK and Ireland. A consequence of the adoption of FRS 101 is that income from lease incentives held in that subsidiary is spread over a longer period than previously was the case under UK GAAP. This has resulted in a temporary reduction in the current taxation charge in this financial year.

In addition to the amount (credited)/charged to the income statement, taxation movements recognised to other comprehensive income were as follows:

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Taxation relating to items that will not be reclassified to the income statement		
Current taxation		
Pension schemes	**(2.3)**	(2.5)
Deferred taxation		
Remeasurements of pension schemes	**3.9**	9.3
Total taxation relating to items that will not be reclassified to the income statement	**1.6**	6.8
Taxation relating to items that may be reclassified to the income statement		
Deferred taxation		
(Losses)/gains on cash flow hedges	**(5.1)**	2.7
Transferred to the income statement on cash flow hedges	**0.5**	0.8
Recycled and adjusted against cost of inventory	**1.6**	(1.7)
Total taxation relating to items that may be reclassified to the income statement	**(3.0)**	1.8
Total taxation (credit)/charge to other comprehensive income	**(1.4)**	8.6

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

11 Dividends

	30 August 2014 £m	31 August 2013 £m
Final paid 2.4 pence (2013: 2.3 pence) per £0.0001 share		
– Settled in cash	**29.4**	28.9
Interim paid 1.0 pence (2013: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.3**	12.5
	41.7	41.4

A final dividend of 2.4 pence per share (2013: 2.3 pence per share) was paid during the financial year in respect of the financial year ended 31 August 2013, together with an interim dividend of 1.0 pence per share (2013: 1.0 pence per share) in respect of the financial year ended 30 August 2014. The directors are proposing a final dividend in respect of the financial year ended 30 August 2014 of 2.4 pence per share (2013: 2.4 pence per share), which will absorb an estimated £29.4 million (2013: £29.4 million) of shareholders' equity. It will be paid on 9 January 2015 to shareholders who are on the register of members at close of business on 5 December 2014. No liability is recorded in the financial statements in respect of the final dividend as it was not approved 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

	30 August 2014		Restated[1] 31 August 2013	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit for the financial year after taxation	**87.2**	**87.2**	115.9	115.9
	Number m	**Number m**	Number m	Number m
Weighted average number of shares	**1,227.1**	**1,227.1**	1,255.1	1,255.1
Shares held by ESOP (weighted)	**(0.3)**	**(0.3)**	(0.6)	(0.6)
Shares issuable (weighted)	**–**	**1.9**	–	2.1
Weighted average number of shares used in calculating earnings per share	**1,226.8**	**1,228.7**	1,254.5	1,256.6
	Pence per share	**Pence per share**	Pence per share	Pence per share
Earnings per share	**7.1**	**7.1**	9.2	9.2

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

13 Intangible assets

	Goodwill £m	Acquired licences and trademarks £m	Internally generated software £m	Purchased software £m	Total £m
Cost					
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 and write-offs	–	–	(2.8)	(0.2)	(3.0)
At 31 August 2013	819.0	7.2	101.3	13.7	941.2
Additions	–	–	23.6	6.4	30.0
Exchange rate movement	(0.5)	–	(0.2)	–	(0.7)
Disposals and write-offs	–	–	(5.7)	(3.2)	(8.9)
At 30 August 2014	**818.5**	**7.2**	**119.0**	**16.9**	**961.6**
Accumulated amortisation					
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 and write-offs	–	–	(2.8)	(0.2)	(3.0)
At 31 August 2013	–	3.0	52.4	9.3	64.7
Charge for the financial year	–	0.7	10.7	1.9	13.3
Exchange rate movement	–	–	(0.3)	–	(0.3)
Disposals and write-offs	–	–	(5.7)	(3.2)	(8.9)
At 30 August 2014	**–**	**3.7**	**57.1**	**8.0**	**68.8**
Net book value					
At 30 August 2014	**818.5**	**3.5**	**61.9**	**8.9**	**892.8**
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

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

	30 August 2014 £m	31 August 2013 £m
Assets in the course of construction	**15.8**	15.4

Amortisation of intangible assets

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

	30 August 2014 £m	31 August 2013 £m
Included within:		
– Cost of sales	**11.0**	8.4
– Distribution costs	**0.3**	0.2
– Administrative expenses	**2.0**	1.6
	13.3	10.2

Intangible assets includes the following assets held under finance leases:

	Purchased software	
	30 August 2014 £m	31 August 2013 £m
Cost	**3.8**	1.5
Accumulated amortisation	**(0.5)**	(1.3)
Net book value	**3.3**	0.2

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 cash-generating units ("CGUs") according to the level at which management monitors that goodwill. This allocation has been changed in the current financial year to align CGUs to the way in which goodwill is now monitored by management. The comparatives have been restated to reflect this change. The CGUs are set out below:

	UK £m	Other £m	Total £m
Goodwill			
At 30 August 2014	**793.5**	**25.0**	**818.5**
At 31 August 2013	793.5	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 five year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Management determined sales growth in the five year period to be a key assumption. The annual sales growth ranges from 0.0% to 4.0% during the five year period. Cash flows beyond the five year period are extrapolated based on the assumption of 2.0% (2013: 2.0%) 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 7.2% (2013: 7.4%) and reflects the specific risks in the retail business. The pre-tax discount rate is 7.6% (2013: 7.6%).

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 against each of the operating segments and a reasonable change in the key assumption used would not cause an impairment to goodwill.

As a result of the impairment review, as at 30 August 2014 no impairment of goodwill has been required (2013: £nil).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

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 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
Additions	–	–	15.0	73.9	88.9
Exchange rate movements	–	–	(1.3)	(5.8)	(7.1)
Disposals and write-offs	–	–	(0.7)	(35.0)	(35.7)
At 30 August 2014	**1.6**	**7.7**	**378.7**	**959.2**	**1,347.2**
Accumulated depreciation					
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
Charge for the financial year	–	0.2	15.3	72.0	87.5
Exchange rate movements	–	–	(0.4)	(3.8)	(4.2)
Disposals and write-offs	–	–	(0.4)	(33.9)	(34.3)
At 30 August 2014	**0.2**	**1.2**	**142.0**	**514.6**	**658.0**
Net book value					
At 30 August 2014	**1.4**	**6.5**	**236.7**	**444.6**	**689.2**
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

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

	30 August 2014 £m	31 August 2013 £m
Assets in the course of construction	**33.7**	53.9

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

	30 August 2014 £m	31 August 2013 £m
Cost	**9.1**	9.1
Accumulated depreciation	**(4.0)**	(2.7)
Net book value	**5.1**	6.4

Contractual commitments at 30 August 2014 were £1.3 million (2013: £3.8 million).

Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £0.6 million (2013: £1.4 million). Accumulated finance costs capitalised included in the cost of property, plant and equipment net of disposals amounted to £2.0 million (2013: £1.4 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 3.3% (2013: 3.1%).

15 Financial assets – available-for-sale investments

	£m
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
Increase in the market value credited to the statement of comprehensive income	2.5
At 30 August 2014	**3.6**

The Group holds 10% (2013: 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 30 August 2014 was £3.6 million (2013: £1.1 million). Ermes is a company that is registered and trades in Cyprus.

16 Inventories

	30 August 2014 £m	31 August 2013 £m
Items held for resale	**345.7**	357.9

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

17 Trade and other receivables

	30 August 2014 £m	31 August 2013 £m
Non-current		
Other receivables	**15.6**	16.8

Other receivables include contractual lease deposits of £15.6 million (2013: £16.6 million).

	30 August 2014 £m	31 August 2013 £m
Current		
Trade receivables	**25.8**	20.5
Allowance for doubtful debts	**(0.5)**	(0.7)
	25.3	19.8
Other receivables	**2.1**	1.1
Prepayments and accrued income	**47.3**	57.4
	74.7	78.3

At the year end, £22.9 million (2013: £18.1 million) of the trade receivables were denominated in sterling, £0.4 million (2013: £0.2 million) in Euros and £2.5 million (2013: £2.2 million) in Danish krone.

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

	£m
At 1 September 2012	(0.5)
Increase in provision	(0.2)
At 31 August 2013	(0.7)
Decrease in provision	0.2
At 30 August 2014	**(0.5)**

Trade receivables which are past their due date but not impaired amount to £4.8 million (2013: £1.9 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 30 August 2014, £0.5 million (2013: £0.7 million) of trade receivables were past their due date and impaired.

18 Cash and cash equivalents

	30 August 2014 £m	31 August 2013 £m
Cash at bank and in hand	**64.4**	27.0

19 Trade and other payables

	30 August 2014 £m	31 August 2013 £m
Trade payables	**326.2**	345.0
Other payables	**67.0**	67.9
Taxation and social security	**33.6**	24.4
Accruals	**98.6**	103.7
Deferred income	**3.9**	4.8
	529.3	545.8

20 Bank overdraft and borrowings

	30 August 2014 £m	31 August 2013 £m
Current		
Bank overdraft	**–**	2.9
Revolving credit facility[1]	**196.9**	158.4
Senior notes[2]	**1.9**	–
Lease obligations	**3.3**	1.8
Total current borrowings	**202.1**	163.1
Non-current		
Term loan facility[3]	**–**	232.8
Senior notes[2]	**220.6**	–
Lease obligations	**3.2**	3.1
Total non-current borrowings	**223.8**	235.9
Total current and non-current borrowings	**425.9**	399.0

1 Revolving credit facility is stated net of unamortised issue costs of £3.1 million (2013: £2.5 million).
2 Senior notes include accrued interest of £1.9 million (2013: £nil) and are stated net of unamortised issue costs of £4.4 million (2013: £nil). Interest on the senior notes is payable semi-annually.
3 Term loan facility is stated net of unamortised issue costs of £nil (2013: £3.7 million).

On 2 July 2014, Debenhams plc issued £225.0 million of seven year senior notes at a coupon rate of 5.25%. On 2 July 2014, the Group cancelled its existing term loan and revolving credit facility and drew down on a new revolving credit facility amounting to £425.0 million. This new revolving credit facility is due to expire in October 2018 and contains an option to request an extension to October 2019.

At 30 August 2014, the Group's drawings under credit facilities outstanding comprised revolving credit facility drawings of £200.0 million (2013: £160.9 million revolving credit facility drawings and £236.5 million term loan).

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

Refinancing costs of £7.9 million were incurred during the year ended 30 August 2014 in respect of the negotiation of the new credit facility and the issue of the senior notes, which will be amortised over the term of the corresponding borrowings at the effective interest rate based on the expected amount of those borrowings. The amortisation charge relating to the issue costs of the term loan and revolving credit facility was £1.9 million for the year ended 30 August 2014 (2013: £2.7 million) and the amortisation charge relating to the issue costs of the senior notes was £0.1 million for the year ended 30 August 2014 (2013: £nil). The write-off of unamortised issue costs in relation to the cancelled credit facilities was £4.5 million for the year ended 30 August 2014. This has been separately disclosed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

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:

	30 August 2014 £m	31 August 2013 £m
Not later than one year	3.5	2.0
Later than one year but not later than five years	3.2	3.2
	6.7	5.2
Interest element of future instalments	(0.2)	(0.3)
Present value of finance lease obligations	6.5	4.9

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

	30 August 2014 £m	31 August 2013 £m
Not later than one year	3.3	1.8
Later than one year but not later than five years	3.2	3.1
	6.5	4.9

Maturity of borrowings

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

	30 August 2014 £m	31 August 2013 £m
Amounts falling due:		
In one year or less or on demand	202.1	163.1
In more than one year but not more than two years	2.9	1.8
In more than two years but not more than five years	0.3	234.1
In more than five years	220.6	–
	425.9	399.0

Interest rates

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

	30 August 2014 %	31 August 2013 %
Bank overdraft	N/A	1.88
Term loan facility	N/A	2.24
Revolving credit facility	2.50	2.24
Senior notes	5.25	N/A
Lease obligations	3.52	4.09

Borrowing facilities

The Group has the following undrawn committed facilities available at 30 August 2014, in respect of which all conditions precedent had been met as at that date:

	30 August 2014 £m	31 August 2013 £m
Expiring between two and five years	225.0	217.6

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

21 Financial risk management continued

a) Financial risks and treasury management continued

i) Funding and liquidity risk continued

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 30 August 2014				
Non-derivative financial liabilities				
Borrowings excluding finance lease liabilities	**(200.0)**	**–**	**–**	**(225.0)**
Interest payments due on borrowings	**(12.2)**	**(11.8)**	**(35.4)**	**(23.6)**
Finance lease liabilities	**(3.5)**	**(2.9)**	**(0.3)**	**–**
Trade and other payables	**(468.7)**	**–**	**–**	**–**
Derivative financial assets and liabilities				
Interest rate swaps				
– Net settled derivative contracts – payments	**(1.5)**	**(1.0)**	**(0.1)**	**–**
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	**342.4**	**198.7**	**114.9**	**–**
– Gross settled derivative contracts – payments	**(352.0)**	**(199.8)**	**(114.7)**	**–**
Total	**(695.5)**	**(16.8)**	**(35.6)**	**(248.6)**

	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 excluding finance lease liabilities	(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)	–

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 and, where possible, are covered by letters of credit and/or credit insurance. 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 £115.5 million (2013: £75.0 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 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 three (2013: 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.

The Group manages foreign exchange translation risk by entering into monthly foreign exchange swap contracts to offset month by month currency translation impacts within the Group, where appropriate.

A loss of £8.1 million (2013: gain of £7.6 million) was reclassified from equity to the income statement within cost of inventory 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 30 August 2014 was £658.2 million (2013: £420.4 million). The net fair value losses on open forward foreign exchange contracts held in the hedging reserve at 30 August 2014 were £6.1 million (2013: gains of £5.3 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next three 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 borrowing facilities issued at variable rates that expose the Group to cash flow interest rate risk. On 2 July 2014 Debenhams plc issued £225.0 million of seven year senior notes at a coupon rate of 5.25% which reduced the Group's exposure 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 percentage of the Group's total borrowings subject to fixed interest rates (either directly or as a result of hedging) was 100.0% (2013: 81.4%). This is temporarily outside the 60% - 90% policy range as a result of the recent refinancing but will revert to policy over the next 12 months.

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	**200.0**	**1.050% - 1.715%**	**November 2014 to October 2016**

The notional principal amount of interest rate swaps at 30 August 2014 was £200.0 million (2013: £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 £2.7 million (2013: £3.3 million) was reclassified and reported in the income statement in respect of interest rate swaps.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

21 Financial risk management continued

a) Financial risks and treasury management continued

iv) Interest rate risk continued

Borrowings and cash and cash equivalents

The interest rate profiles of borrowings after taking account of interest rate swaps, swapped from floating to fixed rates, used to manage interest were as follows:

	30 August 2014			31 August 2013		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Borrowings						
Sterling[1]	**(431.5)**	**–**	**(431.5)**	(334.9)	(70.3)	(405.2)

[1] Unamortised debt issue costs of £7.5 million (2013: £6.2 million) are excluded from the borrowings above.

Fixed sterling borrowings comprise the hedged portion of the debt facility of £200.0 million (2013: £330.0 million), senior notes of £225.0 million (2013: £nil) and finance lease liabilities of £6.5 million (2013: £4.9 million) at 30 August 2014. The weighted average interest rate on the fixed rate borrowings as at 30 August 2014 was 4.4% (2013: 3.3%), with the weighted average time for which rates are fixed being 4.3 years (2013: 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.

The interest rate profiles of cash and cash equivalents were as follows:

	30 August 2014			31 August 2013		
	Floating £m	Non-interest bearing £m	Total £m	Floating £m	Non-interest bearing £m	Total £m
Financial assets						
Sterling	**28.5**	**29.4**	**57.9**	0.1	22.8	22.9
Euro	**0.1**	**2.7**	**2.8**	0.4	1.8	2.2
US dollar	**0.6**	**0.7**	**1.3**	0.1	0.5	0.6
Danish krone	**1.2**	**–**	**1.2**	–	–	–
Chinese yuan	**0.1**	**–**	**0.1**	0.7	–	0.7
Other	**0.1**	**1.0**	**1.1**	0.2	0.4	0.6
Total financial assets	**30.6**	**33.8**	**64.4**	1.5	25.5	27.0

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 £0.4 million (2013: £0.1 million) for the Group as a result of the changes in the fair value of available-for-sale investments

The above movement in 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 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, senior notes 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 and equity 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. The analysis has been produced assuming no changes in the borrowings and existing interest rate swaps portfolio when considering the interest rate movement.

	30 August 2014		31 August 2013	
	Income statement gain/(loss) £m	**Equity gain/(loss) £m**	Income statement gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rate	**0.3**	**2.3**	(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.

	30 August 2014		31 August 2013	
	Income statement gain/(loss) £m	**Equity gain/(loss) £m**	Income statement gain/(loss) £m	Equity gain/(loss) £m
5% weakening in sterling compared to US dollar	**(0.4)**	**20.7**	1.6	10.6
5% weakening in sterling compared to the Euro	**0.5**	**(1.0)**	(0.6)	(1.5)
5% weakening in sterling compared to Danish krone	**0.5**	**–**	(0.4)	–
5% weakening in sterling compared to Chinese yuan	**–**	**2.2**	0.3	1.6

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

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 30 August 2014						
Assets						
Current assets						
Cash and cash equivalents	**64.4**	**64.4**	**–**	**–**	**–**	**64.4**
Trade and other receivables	**27.4**	**27.4**	**–**	**–**	**–**	**27.4**
Forward foreign currency contracts	**1.5**	**1.5**	**–**	**0.1**	**1.4**	**–**
Non-current assets						
Trade and other receivables	**15.6**	**15.6**	**–**	**–**	**–**	**15.6**
Available-for-sale financial assets	**3.6**	**3.6**	**3.6**	**–**	**–**	**–**
Interest rate swaps	**0.6**	**0.6**	**–**	**–**	**0.6**	**–**
Forward foreign currency contracts	**2.4**	**2.4**	**–**	**–**	**2.4**	**–**
Total financial assets	**115.5**	**115.5**	**3.6**	**0.1**	**4.4**	**107.4**
Liabilities						
Current liabilities						
Trade and other payables	**(491.8)**	**(491.8)**	**–**	**–**	**–**	**(491.8)**
Current borrowings	**(202.1)**	**(202.1)**	**–**	**–**	**–**	**(202.1)**
Interest rate swaps	**(0.2)**	**(0.2)**	**–**	**–**	**(0.2)**	**–**
Forward foreign currency contracts	**(11.2)**	**(11.2)**	**–**	**(2.8)**	**(8.4)**	**–**
Non-current liabilities						
Non-current borrowings	**(223.8)**	**(223.8)**	**–**	**–**	**–**	**(223.8)**
Interest rate swaps	**(1.2)**	**(1.2)**	**–**	**–**	**(1.2)**	**–**
Forward foreign currency contracts	**(1.5)**	**(1.5)**	**–**	**–**	**(1.5)**	**–**
Total financial liabilities	**(931.8)**	**(931.8)**	**–**	**(2.8)**	**(11.3)**	**(917.7)**
Total	**(816.3)**	**(816.3)**	**3.6**	**(2.7)**	**(6.9)**	**(810.3)**
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)

There were no material differences between the carrying value of non-derivative financial assets and financial liabilities and their fair values at the balance sheet date.

During the year, as a result of the refinancing referred to in note 20, the Group cancelled £150.0 million of interest rate swap contracts with a combined balance sheet liability value of £0.1 million.

Fair value measurement

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

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

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 30 August 2014				
Assets				
Available-for-sale financial assets	**3.6**	**–**	**–**	**3.6**
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**0.6**	**–**	**0.6**
– Forward foreign currency contracts held as cash flow hedges	**–**	**3.8**	**–**	**3.8**
– Other forward foreign currency contracts	**–**	**0.1**	**–**	**0.1**
Total assets	**3.6**	**4.5**	**–**	**8.1**
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**(1.4)**	**–**	**(1.4)**
– Forward foreign currency contracts held as cash flow hedges	**–**	**(9.9)**	**–**	**(9.9)**
– Other forward foreign currency contracts	**–**	**(2.8)**	**–**	**(2.8)**
Total liabilities	**–**	**(14.1)**	**–**	**(14.1)**

	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)

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers of assets or liabilities between levels of the fair value hierarchy during the year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

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 schemes are established under trust law and each has a corporate trustee that is required to run the schemes in accordance with the Scheme's Trust Deed and Rules and to comply with the Pensions Act 2004 and all relevant legislation. Responsibility for governance of the schemes lies with the trustee of each scheme. Each corporate trustee is a company whose directors comprise of representatives:

- Appointed by the Group; and
- Nominated by scheme members.

The chair of both corporate trustees is independent from the schemes and from the Group.

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 for the period from 1 April 2012 to 31 March 2022 increasing by the percentage increase in the RPI over the year to the previous December. Additionally, the Group has agreed to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund. Employees make no further contributions to the schemes.

Investment of the schemes' assets is arranged by AON Hewitt Limited under a delegated consulting service agreement. As at 30 August 2014 most of the schemes' assets are invested in a delegated liability fund or a delegated growth fund.

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" revised valuation at 30 August 2014. The actuarial valuation as at 31 March 2014 is under way.

By funding its defined benefit pension schemes, the Group is exposed to the risk that the cost of meeting its obligations is higher than anticipated. This could occur for several reasons, for example:

- Investment returns on the schemes' assets may be lower than anticipated, especially if falls in asset values are not matched by similar falls in the value of the schemes' liabilities;
- The level of price inflation may be higher from that assumed, resulting in higher payments from the schemes;
- Scheme members may live longer than assumed; and
- Legislative changes could lead to an increase in pension schemes' liabilities.

The weighted average duration of the defined benefit obligation is 22 years.

The major assumptions used by the actuary were:

	30 August 2014 per annum %	31 August 2013 per annum %
Inflation assumption	**3.1**	3.3
General salary and wage increase	**3.1**	3.3
Rate of increase in pension payments and deferred payments	**3.1**	3.3
Pension increase rate	**2.9**	3.0
Discount rate	**3.9**	4.6

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.

At the financial year end, the schemes' assets were as follows:

	30 August 2014			31 August 2013		
	Quoted £m	**Unquoted £m**	**Total £m**	Quoted £m	Unquoted £m	Total £m
Assets						
Delegated liability fund	**144.5**	**–**	**144.5**	129.3	–	129.3
Delegated growth fund	**450.8**	**150.0**	**600.8**	416.7	122.9	539.6
Legacy holdings	**–**	**–**	**–**	–	0.9	0.9
Cash and other assets	**3.1**	**–**	**3.1**	3.8	–	3.8
Total market value of assets	**598.4**	**150.0**	**748.4**	549.8	123.8	673.6
Present value of scheme liabilities			**(750.8)**			(693.6)
Net deficit in schemes			**(2.4)**			(20.0)
Analysed as:						
DEPP scheme surplus			**6.9**			4.6
DRS scheme deficit			**(9.3)**			(24.6)

At 30 August 2014, 80.0% (2013: 81.6%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

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

	30 August 2014		31 August 2013	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**22.5**	**24.4**	22.4	24.4
Member aged 65 in 15 years	**23.5**	**25.6**	23.4	25.5

	30 August 2014		31 August 2013	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**24.6**	**25.9**	24.5	25.8
Member aged 65 in 15 years	**25.5**	**27.0**	25.5	27.0

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

23 Retirement benefit obligation continued

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

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Present value of obligations at start of the financial year	**693.6**	641.0
Current service cost	**1.4**	1.3
Interest cost on the defined benefit liability	**31.4**	29.6
Benefit payments from plan assets	**(20.4)**	(23.2)
Remeasurements:		
Losses from changes in financial assumptions	**64.2**	42.5
Gains from changes in demographic assumptions	**(13.0)**	–
Experience (gains)/losses	**(6.4)**	2.4
Present value of obligations at end of the financial year	**750.8**	693.6

Changes in the fair value of plan assets are as follows:

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Fair value of pension scheme assets at start of the financial year	**673.6**	583.7
Interest income on plan assets	**30.8**	27.2
Benefit payments from plan assets	**(20.4)**	(23.2)
Company contributions	**10.8**	10.4
Remeasurements:		
Return on plan assets, excluding amounts included in finance costs	**53.6**	75.5
Fair value of pension scheme assets at end of the financial year	**748.4**	673.6

Movement in the net deficit during the financial year is as follows:

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Net deficit in the schemes at start of the financial year	**(20.0)**	(57.3)
Movement in the financial year:		
– Company contributions	**10.8**	10.4
– Current service cost	**(1.4)**	(1.3)
– Net interest on net defined benefit liability	**(0.6)**	(2.4)
– Remeasurements of pension schemes	**8.8**	30.6
Net deficit in the schemes at end of the financial year	**(2.4)**	(20.0)

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

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

	30 August 2014 £m	31 August 2013 £m
Increase in schemes' liabilities arising from a 0.5% increase in inflation	**58.5**	54.0
Increase in schemes' liabilities arising from a 1.0% reduction in the discount rate	**141.3**	130.5
Increase in schemes' liabilities arising from a one year increase in life expectancy	**23.1**	21.3

A 0.5% reduction in the inflation assumption, a 1.0% increase in the discount rate assumption and a one year reduction in the life expectancy assumption would result in an equal and opposite change in the schemes' liabilities.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be accumulated. When calculating the sensitivity of the schemes' liabilities to significant actuarial assumptions the same method has been applied as when calculating the retirement benefit obligations/asset recognised within the balance sheet.

The contributions expected to be paid during the financial year ending 29 August 2015 amount to £11.0 million.

Other Debenhams defined contribution schemes

The Group contributions to other defined contribution schemes during the financial year were £14.7 million (2013: £13.4 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 20.0% for the UK differences (2013: 22.2% 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). Local tax rates have been used for overseas differences.

	30 August 2014 £m	31 August 2013 £m
Non-current		
Deferred tax assets	**51.0**	69.3
Deferred tax liabilities	**(53.4)**	(59.1)
	(2.4)	10.2

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

	30 August 2014 £m	31 August 2013 £m
Deferred tax assets	**2.8**	2.8
Deferred tax liabilities	**(1.9)**	(5.9)
	0.9	(3.1)

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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

24 Deferred tax assets and liabilities continued

The movement on the deferred tax account is as shown below:

Assets	Developers' contributions received £m	Fair value losses £m	Other provisions £m	Restated[1] Retirement benefit asset £m	Restated[1] Total £m
At 1 September 2012	34.3	2.1	33.6	13.2	83.2
Credited to the income statement	0.1	0.1	4.3	0.3	4.8
Result of the change in the standard rate of corporation tax charged to the income statement	(4.5)	–	(4.4)	(0.7)	(9.6)
Charged to the statement of comprehensive income	–	(1.2)	–	(7.9)	(9.1)
At 31 August 2013	29.9	1.0	33.5	4.9	69.3
(Charged)/credited to the income statement	(11.7)	–	(3.1)	0.4	(14.4)
Transfer from deferred tax liabilities	–	(2.0)	–	(0.9)	(2.9)
Prior year adjustment to the income statement	–	–	(0.1)	–	(0.1)
Credited/(charged) to the statement of comprehensive income	–	3.0	–	(3.9)	(0.9)
At 30 August 2014	**18.2**	**2.0**	**30.3**	**0.5**	**51.0**

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Restated[1] Retirement benefit liability £m	Restated[1] Total £m
At 1 September 2012	(62.8)	(1.9)	–	(64.7)
Credited to the income statement	0.9	0.5	0.6	2.0
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	(0.1)	7.3
Charged to the statement of comprehensive income	–	(0.6)	(1.4)	(2.0)
At 31 August 2013	(56.3)	(1.9)	(0.9)	(59.1)
Credited/(charged) to the income statement	1.9	(0.1)	–	1.8
Transfer to deferred tax assets	–	2.0	0.9	2.9
Result of the change in the standard rate of corporation tax credited to the income statement	1.0	–	–	1.0
At 30 August 2014	**(53.4)**	**–**	**–**	**(53.4)**

[1] Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

Within other provisions is a deferred tax asset of £5.2 million (2013: £4.3 million) in relation to overseas operations which has been recognised. In addition to this there is an unrecognised deferred tax asset of £2.6 million (2013: £8.4 million) relating to operations in Denmark and the Republic of Ireland.

25 Other non-current liabilities

	30 August 2014 £m	31 August 2013 £m
Property lease incentives received	**331.7**	320.1
Other non-current liabilities	**1.0**	2.0
Total other non-current liabilities	**332.7**	322.1

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

26 Provisions

	Closure provision £m	Promotional activities £m	Other provisions £m	Total £m
At 31 August 2013	0.1	5.5	1.1	6.7
Charged to the income statement	–	18.0	–	18.0
Utilised during the financial year	(0.1)	(17.5)	–	(17.6)
At 30 August 2014	**–**	**6.0**	**1.1**	**7.1**

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

	30 August 2014 £m	31 August 2013 £m
Current	**6.0**	5.6
Non-current	**1.1**	1.1
	7.1	6.7

Closure provision

Relating to one vacated building which was utilised in full during the financial 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 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 two years.

27 Share capital and reserves

	30 August 2014		31 August 2013	
	£	Number	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,684**	**1,286,843,441**	128,680	1,286,806,299
Allotted under share option schemes	**–**	**–**	4	37,142
At end of year	**128,684**	**1,286,843,441**	128,684	1,286,843,441

During the financial year ended 30 August 2014, 14,351,525 (2013: 23,882,722) of the above shares were purchased by the Company and transferred to treasury. See retained earnings below.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

27 Share capital and reserves continued

Employee share trust – interest in share capital

The number of ordinary shares in the Company held by the Debenhams Retail Employee Trust ("DRET") was as follows:

	30 August 2014 Ordinary shares Number	31 August 2013 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**473,537**	473,537

The market value of the shares on 30 August 2014 was £0.3 million for DRET (2013: £0.5 million). The cost of the shares held at the year end is £0.4 million (2013: £0.4 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 in 2006, 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 2006 these costs were set off against the premium generated on issue of the new shares.

Merger reserve

The merger reserve of £1,200.9 million exists as a result of the 2005 Group reconstruction.

Reverse acquisition reserve

The reverse acquisition reserve exists as a result of the method of accounting for the 2005 Group reconstruction. In accordance with International Accounting Standards, the 2005 Group reconstruction has been accounted for as a reverse acquisition.

Hedging reserve

The hedging reserve represents the change in fair value of all interest rate swaps and forward foreign currency contracts which have been designated as cash flow hedges. The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the income statement which will be affected by the underlying hedged item.

Other reserves

The other reserves represent the change in fair value in respect of the Group's available-for-sale investments (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 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)
Currency translation differences	(4.2)	–	(4.2)
Change in the fair value of available-for-sale investments	–	2.5	2.5
At 30 August 2014	**(8.8)**	**(0.6)**	**(9.4)**

Retained earnings

The Company commenced its share buyback programme in April 2012. At 30 August 2014 the Company had purchased 61,793,402 (2013: 47,441,877) ordinary shares of £0.0001 at a total cost of £60.3 million of which 14,351,525 (2013: 23,882,722) ordinary shares of £0.0001 were purchased (representing 1.1% of the Company's share capital) at a cost of £15.1 million (2013: £25.1 million) during the financial year. All shares purchased by the Company were transferred to treasury. During the year 429,108 (2013: 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 (credit)/charge to operating profit relates to the following equity settled schemes:

	30 August 2014 £m	31 August 2013 £m
Performance Share Plan ("PSP")	**(1.8)**	1.3
Share Incentive Plan ("SIP")	**0.1**	0.1
Deferred Bonus Matching Plan ("DBMP")	**(0.1)**	0.1
(Credit)/charge for the financial year	**(1.8)**	1.5

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 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
Exercised	(384,492)	–	–	(44,616)	85.5
Lapsed	(185,187)	–	–	–	–
Forfeited	–	–	(1,081,969)	–	–
Outstanding at 30 August 2014	**–**	**200,000**	**8,652,656**	**643,650**	**85.5**
Exercisable					
At 30 August 2014	**–**	**–**	**–**	**643,650**	**85.5**
At 31 August 2013	–	–	–	688,266	85.5
Weighted average remaining contractual life (years)					
At 30 August 2014	**–**	**–**	**–**	**5.25**	
At 31 August 2013	–	–	–	6.25	

i) 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 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%.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

28 Share-based payments continued

i) Performance Share Plan continued

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%.

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. The weighted average share price at the date of exercise for ESOP share options exercised during the year was 103.1 pence.

iii) Share Incentive Plan

The SIP allows the Company to grant options to key senior managers below board level, whom the Company wishes to retain and incentivise in the short to medium term. Once the options have vested the employee has six months in which to exercise.

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.

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 was 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 had to exceed the cost of capital by 2% over this period otherwise the options would not vest. The Group's EPS growth had to then exceed 6% per annum over the three year period or the options would not vest. If the Group's EPS growth was 6% or more per annum over the three year period 30% of the options would vest; if the growth was 12% or more per annum over the three year period, 100% of the options would vest. Between these two points the options would vest on a straight line basis between 30% and 100%.

Of the share options granted under the DBMP in 2010, during the three years to 31 August 2013 the Group's ROCE condition was met in full and the Group's compound average EPS growth was 9.2% which resulted in 67.5% of share options granted under the DBMP in 2010 vesting on 4 November 2013. The weighted average share price at the date of exercise for DBMP share options exercised during the year was 101.8 pence.

29 Operating lease commitments

	30 August 2014		31 August 2013	
	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	**200.2**	**1.8**	199.9	1.5
Later than one year and not later than five years	**843.6**	**3.0**	830.0	2.4
Later than five years and not later than 10 years	**1,038.8**	**–**	1,167.7	–
Later than 10 years and not later than 20 years	**1,699.3**	**–**	1,698.1	–
Later than 20 years	**1,143.9**	**–**	1,214.7	–
	4,925.8	**4.8**	5,110.4	3.9

The Group leases department stores and warehouses under non-cancellable operating leases. The leases have various terms including escalating rent and contingent turnover rent clauses and renewal rights. The Group has pre-emption rights over a number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the property in each instance is referenced to current market value prevailing at the point of pre-emption. The Group also leases vehicles and fixtures and equipment under non-cancellable operating leases.

30 Cash generated from operations

	30 August 2014 £m	Restated[1] 31 August 2013 £m
Profit before taxation	**105.8**	139.0
Depreciation (note 14)	**87.5**	84.4
Amortisation (note 13)	**13.3**	10.2
Loss on disposal of property, plant and equipment	**1.4**	0.2
Share-based payment (credit)/charge (note 28)	**(1.8)**	1.5
Fair value (gains)/losses on derivative instruments	**(1.1)**	2.0
Net movements in provisions (note 26)	**0.4**	0.3
Finance income	**(0.6)**	(1.5)
Finance costs	**23.4**	17.9
Pension current service cost	**1.4**	1.3
Cash contributions to pension schemes (note 23)	**(10.8)**	(10.4)
Net movement in other long-term receivables	**0.2**	3.6
Net movement in other non-current liabilities	**10.6**	0.2
Changes in working capital		
Decrease/(increase) in inventories	**12.4**	(25.5)
Decrease/(increase) in trade and other receivables	**2.8**	(2.9)
(Decrease)/increase in trade and other payables	**(4.4)**	20.8
Cash generated from operations	**240.5**	241.1

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).

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

	30 August 2014 £m	31 August 2013 £m
Net book value	**1.4**	0.2
Loss on disposal of property, plant and equipment (note 6)	**(1.4)**	(0.2)
Cash proceeds from the disposal of property, plant and equipment	**–**	–

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

30 Cash generated from operations continued

Non-cash transactions

Other non-cash movements comprise:

	30 August 2014 £m	31 August 2013 £m
Amortisation of issue costs relating to term loan and revolving credit facilities	**1.9**	2.7
Amortisation of issue costs relating to senior notes	**0.1**	–
Write-off of unamortised issue costs relating to cancelled credit facilities	**4.5**	–
Non-cash movements associated with term loan facility and senior notes	**1.2**	(0.3)
Non-cash movements associated with finance lease obligations	**3.8**	0.5
Non-cash transactions	**11.5**	2.9

31 Analysis of changes in net debt

	31 August 2013 £m	Cash flow £m	Non-cash movements £m	30 August 2014 £m
Analysis of net debt				
Cash and cash equivalents	27.0	37.4	–	**64.4**
Bank overdrafts	(2.9)	2.9	–	**–**
Net cash and cash equivalents	24.1	40.3	–	**64.4**
Debt due within one year	(158.4)	(36.4)	(4.0)	**(198.8)**
Debt due after one year	(232.8)	15.9	(3.7)	**(220.6)**
Finance lease obligations due within one year	(1.8)	2.2	(3.7)	**(3.3)**
Finance lease obligations due after one year	(3.1)	–	(0.1)	**(3.2)**
	(372.0)	22.0	(11.5)	**(361.5)**

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.

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 30 August 2014 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	Multi-channel retailing
Debenhams Group Holdings Limited*	100%	UK	England	Holding company
Debenhams Retail (Ireland) Limited	100%	Ireland	Ireland	Multi-channel 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 30 August 2014 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 30 August 2014 will be annexed to the Company's next annual return filed with the Registrar of Companies.

FIVE YEAR RECORD INCOME STATEMENTS

	52 weeks 2014 £m	Restated[1] 52 weeks 2013 £m	52 weeks 2012[2] £m	53 weeks 2011[2] £m	52 weeks 2010[2] £m
Gross transaction value	**2,823.9**	2,776.8	2,708.0	2,679.3	2,564.3
Revenue	**2,312.7**	2,282.2	2,229.8	2,209.8	2,119.9
Cost of sales	**(2,033.4)**	(1,982.6)	(1,927.5)	(1,913.1)	(1,829.5)
Gross profit	**279.3**	299.6	302.3	296.7	290.4
Distribution costs	**(98.5)**	(97.5)	(81.0)	(70.2)	(55.1)
Administrative expenses	**(52.2)**	(46.7)	(46.3)	(42.8)	(40.2)
Operating profit before exceptional items	**128.6**	155.4	175.0	183.7	195.1
Exceptional items	**–**	–	–	–	(5.4)
Operating profit	**128.6**	155.4	175.0	183.7	189.7
Net recurring finance costs	**(18.3)**	(16.4)	(16.7)	(23.4)	(49.8)
Non-recurring finance costs	**(4.5)**	–	–	–	–
Profit before taxation	**105.8**	139.0	158.3	160.3	139.9
Taxation	**(18.6)**	(23.1)	(33.0)	(43.1)	(42.9)
Profit for the financial year attributable to owners of the parent	**87.2**	115.9	125.3	117.2	97.0

1 Restatement relates to the adoption of IAS 19 "Employee benefits" revised (note 2).
2 Prior to the application of IAS 19 "Employee benefits" revised.

FIVE YEAR RECORD BALANCE SHEETS

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Assets					
Non-current assets					
Intangible assets	**892.8**	876.5	864.9	858.1	846.2
Property, plant and equipment	**689.2**	692.1	661.6	634.6	676.1
Financial assets	**6.6**	3.0	2.7	4.0	8.7
Trade and other receivables	**15.6**	16.8	19.3	18.3	17.2
Retirement benefit surplus	**6.9**	4.6	–	3.9	–
Deferred tax assets	**51.0**	69.3	83.2	75.7	92.0
Total non-current assets	**1,662.1**	1,662.3	1,631.7	1,594.6	1,640.2
Net current liabilities	**(271.7)**	(271.4)	(267.5)	(292.0)	(636.5)
Non-current liabilities	**(623.0)**	(646.5)	(703.2)	(643.0)	(500.3)
Net assets	**767.4**	744.4	661.0	659.6	503.4
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	**(16.3)**	(3.5)	(12.1)	(8.3)	(3.4)
Retained earnings/(accumulated losses)	**100.7**	64.9	(9.9)	(15.1)	(176.2)
Total equity	**767.4**	744.4	661.0	659.6	503.4

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (COMPANY)

Report on the Company financial statements

Our opinion

In our opinion, Debenhams plc's Company financial statements (the "financial statements"):

- Give a true and fair view of the state of the Company's affairs as at 30 August 2014;
- 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.

What we have audited

Debenhams plc's financial statements comprise:

- The Company balance sheet as at 30 August 2014; and
- The notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report and Accounts (the "Annual Report"), rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion, information in the Annual Report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- Is otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- We have not received all the information and explanations we require for our audit; or
- Adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Directors' remuneration report – Companies Act 2006 opinion

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

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. We have no exceptions to report arising from this responsibility.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DEBENHAMS PLC (COMPANY) CONTINUED

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 81, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and ISAs (UK & 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.

What an audit of financial statements involves

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 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Debenhams plc for the year ended 30 August 2014.

John Ellis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 October 2014

COMPANY BALANCE SHEET

Company number 5448421

As at 30 August 2014

	Note	30 August 2014 £m	31 August 2013 £m
Fixed assets			
Investments	4	**2,248.0**	2,248.0
Derivative financial instruments	5	**0.6**	0.7
		2,248.6	2,248.7
Current assets			
Debtors	6	**83.1**	89.9
Cash at bank and in hand	7	**1.2**	0.9
		84.3	90.8
Creditors: amounts falling due within one year	8	**(815.4)**	(715.7)
Derivative financial instruments	5	**(0.2)**	(0.5)
		(815.6)	(716.2)
Net current liabilities		**(731.3)**	(625.4)
Total assets less current liabilities		**1,517.3**	1,623.3
Creditors: amounts falling due after more than one year	9	**(220.6)**	(246.3)
Derivative financial instruments	5	**(1.2)**	(3.4)
		(221.8)	(249.7)
Net assets		**1,295.5**	1,373.6
Capital and reserves			
Called up share capital	12	**0.1**	0.1
Share premium account	13	**682.9**	682.9
Hedging reserve	13	**(0.5)**	(2.5)
Profit and loss account	13	**613.0**	693.1
Total shareholders' funds	14	**1,295.5**	1,373.6

The financial statements on pages 139 to 146 were approved by the Board on 23 October 2014 and were signed on its behalf by:

Michael Sharp
Chief Executive

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the financial year ended 30 August 2014

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 interest payable, are charged to the profit and loss account over the term of the borrowings. Interest payable represents a constant proportion of the balance of capital repayments outstanding.

Revenue recognition

a) Interest income

Interest receivable and interest payable are recognised in the period to which they relate using the effective interest method.

b) 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.

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 awards that are expected to vest. Non-market performance and service conditions are included in assumptions about the number of awards 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 awards 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 awards 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 option's 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 remeasured 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 forecast 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 forecast 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

2 Profit and loss account

A loss of £21.5 million is attributable to shareholders for the financial year ended 30 August 2014 (2013: £18.3 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 relating to the audit of the Company financial statements of £0.1 million (2013: £0.1 million) is borne by another Group undertaking. Other non-audit service fees payable to the Company's auditors during the financial year ended 30 August 2014 were £73,000 (2013: £nil) and related to the senior notes issue.

3 Dividends

	30 August 2014 £m	31 August 2013 £m
Final paid 2.4 pence (2013: 2.3 pence) per £0.0001 share		
– Settled in cash	**29.4**	28.9
Interim paid 1.0 pence (2013: 1.0 pence) per £0.0001 share		
– Settled in cash	**12.3**	12.5
	41.7	41.4

A final dividend of 2.4 pence per share (2013: 2.3 pence per share) was paid during the year in respect of the financial year ended 31 August 2013, together with an interim dividend of 1.0 pence per share (2013: 1.0 pence per share) in respect of the financial year ended 30 August 2014. The directors are proposing a final dividend in respect of the financial year ended 30 August 2014 of 2.4 pence per share (2013: 2.4 pence per share), which will absorb an estimated £29.4 million (2013: £29.4 million) of shareholders' funds. It will be paid on 9 January 2015 to shareholders who are on the register of members at close of business on 5 December 2014. 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 31 August 2013 and 30 August 2014	**3,375.9**
Provision for impairment	
At 31 August 2013 and 30 August 2014	**1,127.9**
Net book value	
At 31 August 2013 and 30 August 2014	**2,248.0**

Investment in subsidiary undertakings

In accordance with FRS 11 "Impairment of fixed assets and goodwill," the carrying values of the Company's subsidiary undertakings have been compared to their recoverable amounts represented by the value-in-use to the Company. The review has resulted in an impairment of £nil (2013: £nil). The discount rate used in the calculation to arrive at the valuation was 7.2% (2013: 7.4%) on a post-tax basis. The directors consider that the carrying value of the investments is supported by their discounted future cash flows. The pre-tax rate was 7.6% (2013: 7.6%).

The principal subsidiary undertakings of the Company at 30 August 2014 are shown in note 33 of the Debenhams Group financial statements.

5 Derivative financial instruments

	30 August 2014 £m	31 August 2013 £m
Non-current assets		
Interest rate swaps – cash flow hedges	**0.6**	0.7
Current liabilities		
Interest rate swaps – cash flow hedges	**(0.2)**	(0.5)
Non-current liabilities		
Interest rate swaps – cash flow hedges	**(1.2)**	(3.4)
	(0.8)	(3.2)

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

6 Debtors

	30 August 2014 £m	31 August 2013 £m
Deferred tax asset (note 11)	**0.1**	0.7
Amounts owed by Group undertakings	**82.9**	88.5
Prepayments and accrued income	**0.1**	0.7
	83.1	89.9

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.5% (2013: 2.5%).

7 Cash at bank and in hand

	30 August 2014 £m	31 August 2013 £m
Cash at bank and in hand	**1.2**	0.9

8 Creditors: amounts falling due within one year

	30 August 2014 £m	31 August 2013 £m
Bank and other borrowings (note 10)	**198.8**	167.5
Amounts owed to Group undertakings	**615.5**	547.3
Accruals and deferred income	**1.1**	0.9
	815.4	715.7

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.5% (2013: 2.5%) or are interest free.

9 Creditors: amounts falling due after more than one year

	30 August 2014 £m	31 August 2013 £m
Bank and other borrowings (note 10)	**220.6**	246.3

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

10 Borrowings

	30 August 2014 £m	31 August 2013 £m
Creditors: amounts falling due within one year		
Revolving credit facility	**200.0**	170.0
Less: revolving credit facility issue costs	**(3.1)**	(2.5)
Senior notes accrued interest	**1.9**	–
	198.8	167.5
Creditors: amounts falling due in more than one year		
Term loan facility	**–**	250.0
Less: term loan facility issue costs	**–**	(3.7)
Senior notes	**225.0**	–
Less: senior notes issue costs	**(4.4)**	–
	220.6	246.3

Maturity of debt

	30 August 2014 £m	31 August 2013 £m
Amounts falling due:		
In one year or less or on demand	**200.0**	170.0
In more than two years but not more than five years	**–**	250.0
In more than five years	**225.0**	–
	425.0	420.0

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

On 2 July 2014, Debenhams plc issued £225.0 million of seven year senior notes at a coupon rate of 5.25%. On 2 July 2014, the Group cancelled its existing term loan and revolving credit facility and drew down on a new revolving credit facility amounting to £425.0 million. This new revolving credit facility is due to expire in October 2018 and contains an option to request an extension to October 2019.

At 30 August 2014 the Company's drawings under credit facilities outstanding comprised revolving credit facility drawings of £200.0 million (2013: £170.0 million revolving credit facility drawings and £250.0 million term loan). During the current and prior financial years the Company has complied with its covenants relating to its facilities.

Refinancing costs of £7.9 million were incurred during the year ended 30 August 2014 in respect of the negotiation of the new credit facility and the issue of the senior notes, which will be amortised over the term of the corresponding borrowings at the effective interest rate based on the expected amount of those borrowings. The amortisation charge relating to the issue costs of the term loan and revolving credit facility was £1.9 million for the year ended 30 August 2014 (2013: £2.7 million) and the amortisation charge relating to the issue costs of the senior notes was £0.1 million for the year ended 30 August 2014 (2013: £nil). The write-off of unamortised issue costs in relation to the cancelled credit facilities was £4.5 million for the year ended 30 August 2014.

11 Deferred taxation

	Fair value gains £m
At 31 August 2013 – asset	0.7
Charged to reserves	(0.6)
At 30 August 2014 – asset	**0.1**

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 20.0% (2013: 22.2%) for temporary differences expected to reverse within 12 months of the balance sheet date and 20.0% (2013: 20.0%) for temporary differences expected to reverse more than one year after the balance sheet date for the UK differences. The Finance Act 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 31 August 2013 by £nil.

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

	30 August 2014		31 August 2013	
	£	**Number**	£	Number
Issued and fully paid – ordinary shares of £0.0001 each				
At start of year	**128,684**	**1,286,843,441**	128,680	1,286,806,299
Allotted under share option schemes	**–**	**–**	4	37,142
At end of year	**128,684**	**1,286,843,441**	128,684	1,286,843,441

The Company commenced its share buyback programme in April 2012. As at 30 August 2014 the Company had purchased 61,793,402 (2013: 47,441,877) ordinary shares of £0.0001 at a total cost of £60.3 million of which 14,351,525 (2013: 23,882,722) ordinary shares of £0.0001 were purchased (representing 1.1% of the Company's share capital) at a cost of £15.1 million (2013: £25.1 million) during the financial year. All shares purchased by the Company were transferred to treasury. During the year 429,108 (2013: 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:

	30 August 2014 Ordinary shares Number	31 August 2013 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**473,537**	473,537

The market value of the shares at 30 August 2014 was £0.3 million for the DRET (2013: £0.5 million). The cost of the shares held at the year end was £0.4 million (2013: £0.4 million).

Share option schemes

At 30 August 2014 the Group had three (2013: four) schemes in operation: the Performance Share Plan ("PSP"), the Executive Share Option Plan ("ESOP") and the Share Incentive Plan ("SIP") (2013: the PSP, the ESOP, the SIP and the Deferred Bonus Matching Plan ("DBMP")).

Of the share options granted under the DBMP in 2010, 67.5% vested on 4 November 2013.

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

13 Reserves

	Share premium account £m	**Hedging reserve £m**	**Profit and loss account £m**
At 31 August 2013	682.9	(2.5)	693.1
Loss for the financial year	–	–	(21.5)
Cash flow hedges – net fair value gains (net of tax)	–	2.0	–
Employee share ownership plans	–	–	(1.8)
Purchase of treasury shares (note 12)	–	–	(15.1)
Dividends to shareholders (note 3)	–	–	(41.7)
At 30 August 2014	**682.9**	**(0.5)**	**613.0**

Share premium account

On admission to the London Stock Exchange in 2006, 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 2006 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 £41.7 million (2013: £41.4 million) was paid by the Company during the financial year ended 30 August 2014.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 30 August 2014

14 Reconciliation of movements in shareholders' funds

	30 August 2014 £m	31 August 2013 £m
Loss for the financial year	**(21.5)**	(18.3)
Dividends paid (note 3)	**(41.7)**	(41.4)
Accumulated deficit for the year	**(63.2)**	(59.7)
Cash flow hedges:		
– Net fair value gains, net of tax	**2.0**	3.9
Purchase of treasury shares	**(15.1)**	(25.1)
Employee share ownership plans	**(1.8)**	1.5
Net decrease to shareholders' funds	**(78.1)**	(79.4)
Opening shareholders' funds	**1,373.6**	1,453.0
Closing shareholders' funds	**1,295.5**	1,373.6

15 Contingent liabilities

The Company is subject to litigation from time to time as a result of its activities. The Company 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.

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
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Carmarthen
Chatham
Chelmsford
Cheltenham
Cheshire Oaks
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
Haverfordwest
Hemel Hempstead
Hereford
Hounslow
Hull
Ilford
Inverness
Ipswich
Kidderminster
King's Lynn
Kirkcaldy
Lakeside
Leamington Spa
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
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
Copenhagen – Field's
Copenhagen – Kgs Nytorv
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
Iceland
Reykjavik
India
Bangalore
Mumbai
Indonesia
Jakarta – Senayan City
Karawaci
Kemang Village
Iran
Mashad
Shiraz
Tehran
Tehran – Jame Jam
Jordan
Amman
Kuwait
Airport
Avenues
Gate Mall
Souq Sharq
Latvia
Spice Mall
Libya
Tripoli
Malaysia
Kuala Lumpur – Star Hill
Kuala Lumpur – The Curve
Penang
Malta
Paola
Tigne Point
Pakistan
Karachi
Philippines
Davao Abreeza Mall
Fairview Terraces
Manila – Glorieta
Manila – Shangri La
Manila – Trinoma
Paeso Santa Rosa
Qatar
Doha
Russia
Moscow
Saudi Arabia
Dhahran Mall
Jeddah – Bin Homran
Jeddah – Mall of Arabia
Madinah Al Noor
Mecca Abra Al Bait
Red Sea Mall
Riyadh – Gallery Mall
Riyadh – Granada Mall
Riyadh – Kingdom Mall
Riyadh – Rabwa
Riyadh – Sahara Mall
Turkey
Istanbul – Cevahir
Istanbul – Mall of Istanbul
UAE
Abu Dhabi – Dalma
Abu Dhabi – Khalidja Mall
Dubai – Deira
Dubai – Dubai Mall
Dubai – Ibn Battuta
Dubai – Mall of Emirates
Dubai – Mirdiff
Sharjah Sahara Centre

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 (eg Wallis, Oasis, Warehouse) and accessories (eg Tripp luggage).

Core brands
Brands designed and produced exclusively by Debenhams. They include brands such as The Collection, Mantaray, Maine New England and Red Herring. They are found in all product categories.

CRM/eCRM
Customer relationship management programmes.

Designers at Debenhams
Exclusive diffusion ranges designed for Debenhams by leading international designers including Jasper Conran, John Rocha and Julien Macdonald.

Direct sourcing
Sourcing from suppliers who own all or part of the supply chain processes.

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 Levi's, Ben Sherman, Clarins and Estée Lauder for which Debenhams owns the stock.

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

Like-for-like sales
Sales from stores which have been open for at least one year plus online sales.

Market share
The percentage of the market or market segment that is being serviced by Debenhams. For instance, if 100 T-shirts were sold a year in the UK and Debenhams sold ten of them, it would have 10% market share.

Multi-channel
Multi-channel sales comprise those from online, mobile, apps and instore ordering as well as those which include more than one channel in a single shopping journey such as 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.

Reported profit before tax and earnings per share
Profit before tax and earnings per share calculated after the impact of a non-recurring £4.5 million write-off of unamortised issue costs associated with the refinancing of borrowing facilities during 2014.

Retail method of inventory valuation
An industry specific accounting method used to derive a weighted average product cost. Product cost and retail values are aggregated at department level to determine an average margin per department. These margins are then applied to the retail value of inventory in each department to derive the cost of inventory.

Terminal stock
The stock, as at the balance sheet date, which is classified as previous season or older. It is expressed as a percentage of total stock measured at retail value.

UK segment
Comprises sales from our UK stores and online sales to UK addresses.

Underlying profit before tax and earnings per share
Profit before tax and earnings per share calculated before the impact of exceptional or non-recurring items. In 2014 there was a non-recurring £4.5 million write-off of unamortised issue costs associated with the refinancing of borrowing facilities during 2014.

With thanks to Maureen Hinton of Columino and Darren Winder of The Lazarus Partnership.

ADDITIONAL 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

* Calls to this number cost 8p per minute plus network extras. Lines are open 8.30am to 5.30pm, Monday to Friday.

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C015289

Printed in-house by Debenhams

Designed and produced by Luminous
www.luminous.co.uk

Cautionary statement

This report is intended to focus on matters which are relevant to the interests of shareholders of the Company. The purpose of this report is to assist shareholders in assessing the strategies adopted and performance delivered by the Company and the potential for those strategies to succeed. It should not be relied on by any other party for any other purpose.

Forward-looking statements are made in good faith, based on a number of assumptions concerning future events and information available to directors at the time of their approval of this report. These forward-looking statements should be treated with caution due to the inherent uncertainties underlying any such forward-looking information. The user of this report should not rely unduly on these forward-looking statements, which are not a guarantee of performance and which are subject to a number of uncertainties and other facts, many of which are outside the Company's control and could cause actual events to differ materially from those in these statements. No guarantee can be given of future results, levels of activity, performance or achievements.

DEBENHAMS

10 Brock Street, Regent’s Place, London NW1 3FG
www.debenhams.com