

DEBENHAMS

ANNUAL REPORT  
& ACCOUNTS 2015





# DEBENHAMS

## WHO WE ARE

We are a leading international multi-channel brand with a proud British heritage, trading from 248 department stores across 27 countries, and available online in more than 60 countries.

## WHAT WE DO

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

## HOW WE DO IT

We have a flagship digital store and great shops in prime locations in which we sell outstanding and innovative product. We offer our customers good value at fair prices with excellent customer service. We continue to provide what customers want, when, where and how they want it, staying in tune with a rapidly changing marketplace.



principles  
BY  
BEN de LISI

# OUR BUSINESS MODEL

We aim to create value for shareholders by serving our customers well, with a clear understanding of what they want, supported by our expertise in how to develop, source and sell products through the channel that best meets their needs.

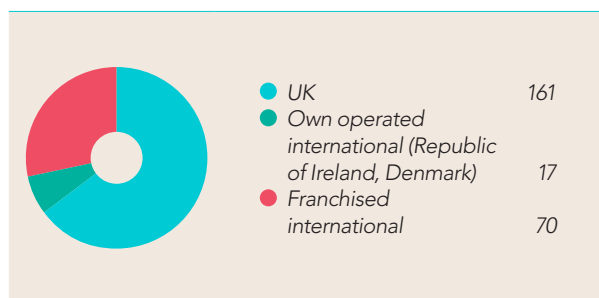
## 1. CHANNELS

Giving our customers more ways to browse, discover and buy

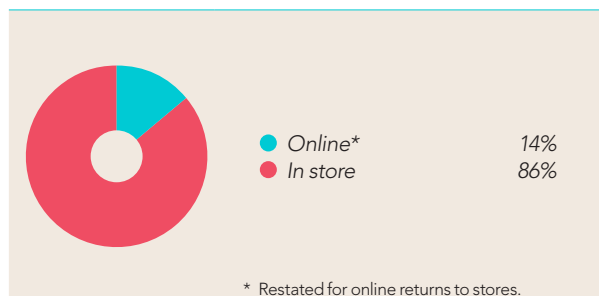


Debenhams trades through 248 department stores across 27 countries, and is available online in more than 60 countries. In the UK one third of sales are from customers who shop more than one channel, with more than a quarter of UK online orders via click & collect and more than 40% of online orders via mobile. Overseas, as well as continuing to expand in new and existing markets, we are launching local language and local currency websites. We are continuing to invest to give top quality service whichever channel customers wish to use.

### Store numbers



### Sales by channel (%)



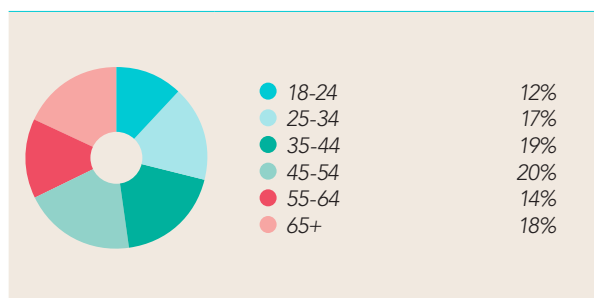
## 2. CUSTOMERS

A family department store with something for everyone

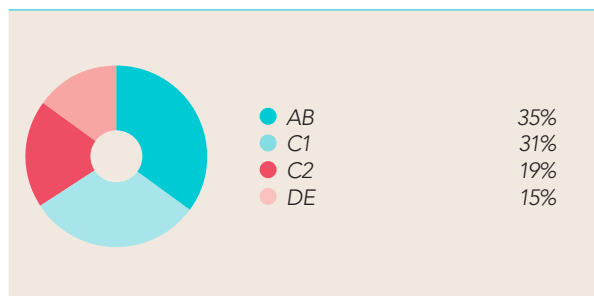


One in four of the UK population visits our stores each year and we are a destination for beauty, gifts and occasionwear. We have a broad demographic appeal, which is a key strength, and our well known promotions remain as popular as ever. Via our flagship digital store, as well as our franchise and owned stores overseas, customers around the world can access an even wider choice of products and services.

### UK Customer profile by age (%)



### UK Customer profile by demographic (%)



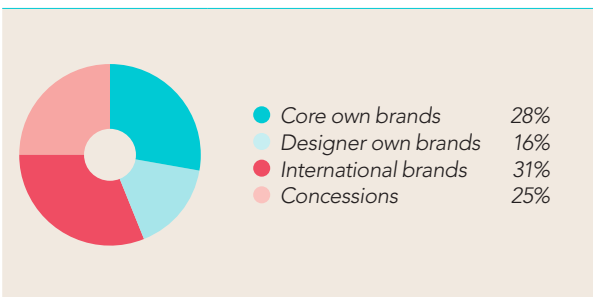
### 3. PRODUCTS

Unique, differentiated and exclusive products

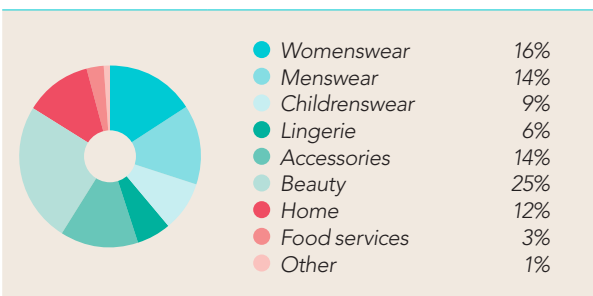


We have a unique proposition with our combination of exclusive brands, designer brands and international brands across multiple product categories, offering choice and innovation across fashion, accessories, beauty and homewares. Our stable of concession partners offers an edit of the best of the high street. We have a strong track record in brand development: our own brands, including Designers at Debenhams, account for around half our sales.

#### Sales by brand type (%)



#### Sales by category (%)



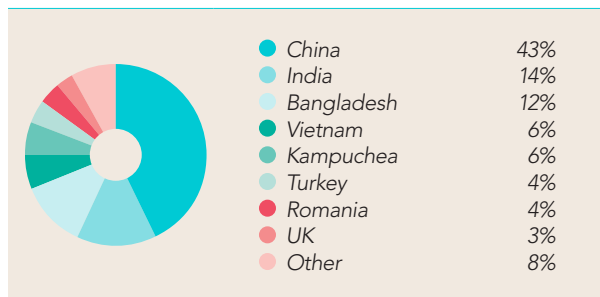
### 4. SUSTAINABLE GROWTH

A 200 year old business that is here to stay

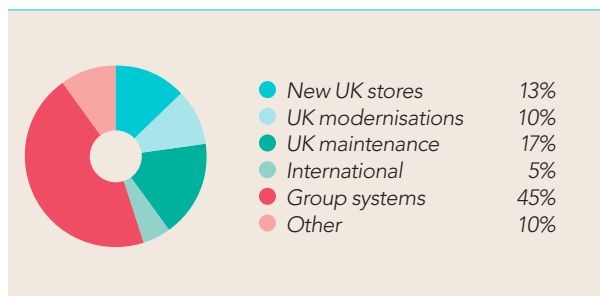


Debenhams has been part of the history of the UK high street for over 200 years and our business model is evolving to ensure that we are in good shape to be part of its future and to deliver sustainable growth for all our stakeholders. We are investing to support multi-channel international growth in tandem with our supplier and franchise partners; to support and develop our people to provide the leaders of the future; and to meet our customers' expectations that our products are produced in a sustainable and ethical way.

#### Our brand sourcing by country (%)



#### Breakdown of capital expenditure (%)



## FINANCIAL HIGHLIGHTS

Gross transaction value

£2.9bn

Profit before tax

£113.5m

Net debt

£319.8m

## STRATEGIC HIGHLIGHTS

Full price sell-through

+7%

Online sales growth

11%

UK click & collect

26%

of online orders

## SHAREHOLDER RETURNS

Basic earnings per share

7.6p

Dividend per share

3.4p

|   |    |
|---|----|
| Chairman's letter                           | 2  |
| Chief Executive's report                    | 4  |
| Market context                              | 7  |
| Our strategy                                | 8  |
| Strategy in action                          | 10 |
| Risk review                                 | 20 |
| Principal risks and uncertainties           | 22 |
| Key performance indicators                  | 28 |
| Financial review                            | 30 |
| Resources, relationships and sustainability | 34 |

|  |    |
|--|----|
| Chairman's introduction                  | 40 |
| Board of directors                       | 42 |
| Corporate governance report              | 44 |
| Nomination Committee report              | 50 |
| Audit Committee report                   | 52 |
| Directors' remuneration report           | 56 |
| Directors' report                        | 82 |
| Statement of directors' responsibilities | 85 |

|  |     |
|--|-----|
| Independent auditors' report to the members of Debenhams plc (Group)   | 86  |
| Consolidated income statement  | 93  |
| Consolidated statement of comprehensive income                         | 94  |
| Consolidated balance sheet   | 95  |
| Consolidated statement of changes in equity                            | 96  |
| Consolidated cash flow statement                                       | 97  |
| Notes to the financial statements                                      | 98  |
| Five year record income statements                                     | 138 |
| Five year record balance sheets  | 139 |
| Independent auditors' report to the members of Debenhams plc (Company) | 140 |
| Company balance sheet  | 142 |
| Notes to the Company financial statements                              | 143 |
| Store list   | 151 |
| Glossary and references  | 152 |
| Additional information   | 153 |



# CHAIRMAN'S LETTER

Delivering sustainable shareholder returns

"A YEAR OF STRONG CASH GENERATION"



## DEAR SHAREHOLDER

2014/15 has been a year of good profit performance and strong cash generation, as the management focused on delivering progress in the strategy to develop a leading international multi-channel brand.

In particular, over the past year there is clear evidence that the business has made a step forward in online service, which our multi-channel growth supports; our market share has improved despite tough competition, which reflects our compelling customer offer; our refocused promotional strategy has underpinned growth in full price sales; and we continue to drive growth internationally despite foreign exchange headwinds.

## Our strategy

We are continuing to evolve our business model to ensure that the Group remains competitive, effective and successful within changing markets, and that our infrastructure is best-in-class in order to support international multi-channel growth. The pillars of our strategy – delivering a compelling customer proposition; focusing on UK retail; increasing availability and choice through multi-channel; and expanding the brand internationally – remain central to the creation of shareholder value and are enabled by continuing investment in operational effectiveness.

An explanation of our strategy and the progress we have made in 2014/15, together with a discussion of how we manage risk and integrate a sustainable approach across our activities, is shown on the following pages.

## Our finances

During the year we have made considerable progress in cash generation and having diversified our funding sources last year, we continue to have flexible and sustainable financial resources.

As a result of good cash flows, we have reduced our leverage from 1.6 times net debt/EBITDA to 1.3 times at the financial year end. With 90% of UK trading space either in new or recently modernised stores, our UK store business is well invested. The Group is continuing with a systems investment programme to support its multi-channel growth both in the UK and overseas.

## Our dividend

Debenhams is a cash generative business and the board has decided to maintain the total cash dividend at 3.4 pence per share for 2015. As part of the capital structure discussion, the

board has reviewed its dividend policy and intends to adopt a progressive dividend policy as earnings increase and dividend cover is rebuilt over time.

#### Our board

Michael Sharp has been Chief Executive of Debenhams since September 2011 and it has always been his intention to serve a five year term. Michael is now two months into his fifth year and has indicated this is the right time for the board to commence a succession planning process so that he can step down some time in 2016. Michael will remain in post during the Christmas trading period and into 2016 and will assist the board in the process of identifying his successor. This process will evaluate internal and external candidates and Michael has agreed to remain in post to ensure an orderly and smooth handover to his successor.

On behalf of the board I would like to thank Michael for continuing to lead Debenhams through a crucial time of change in retailing and for the good progress the Company has made under his leadership. He has worked enormously hard to develop the Company's strategy and the benefits of this are really starting to show in the results. I am pleased Michael will remain with us until we have appointed a suitable replacement and will help facilitate an orderly succession process. The board is confident we have a clear and effective strategy and when Michael steps down, he will leave Debenhams in a strong position to compete and deliver long-term sustainable growth.

There have been a number of changes to the board in 2015.

Debenhams welcomed our new Chief Financial Officer, Matt Smith, to the board on his appointment in January. Matt has excellent retail experience at both Mothercare plc and Home Retail Group plc. Terry Duddy, former Chief Executive of Home Retail Group plc, was appointed an independent non-executive director in April. Terry's long and distinguished career in retail ensures that his experience and expertise will be a great addition to the board.

Sophie Turner Laing stood down as an independent non-executive director on the expiry of her second three year term. Sophie's input during her six years' service on the board of Debenhams has been extremely valuable. We are very grateful to have had the benefit of her insight and support and wish her well in her future endeavours.

Dennis Millard has agreed to stand for re-election by shareholders at the January 2016 Annual General Meeting

("AGM") before stepping down from the board at some point in 2016. He will provide continuity and balance to the composition of the board given his exceptional knowledge of and commitment to the business and will assist in the Chief Executive succession process.

Dennis would not be considered independent as a result of his nine years as a member of the board, so in the interests of good governance, he has agreed to stand down as Senior Independent Director, as chair of the Remuneration Committee and as a member of the Audit Committee.

As a result Terry Duddy will be appointed Senior Independent Director, and Martina King will become chair of the Remuneration Committee. These appointments will take effect on 14 January 2016, subject to shareholders approving the respective directors' election/re-election at the AGM.

#### Our people

We take the board's role in establishing the culture and values of the Company very seriously. I am impressed with progress in both staff engagement and setting goals for our employees, so that all can see and be rewarded for the part they play in driving the performance of the business. More detail can be found on the way our organisation is continuing to evolve and how we are developing the next generation of leaders for Debenhams within the resources, relationships and sustainability section.


On behalf of the board, I would like to offer all of our people my gratitude for their hard work and dedication that has helped to deliver a successful year for the business in 2015. With their support and commitment we look forward to further progress in 2016.

**NIGEL NORTHRIDGE**  
**CHAIRMAN**  
**22 OCTOBER 2015**

## INVESTMENT CASE


#### Business model

We aim to create value for shareholders by serving our customers well, with a clear understanding of what they want, supported by our expertise in how to develop, source and sell products through the channel that best meets their needs.

 [Read more on the inside front cover](#)


#### Strategy

To be a leading international, multi-channel brand by delivering a compelling customer proposition and increasing availability and choice through our flagship digital platform and well invested, well located stores around the world.

 [Read more on page 8](#)


#### Brands

We offer a unique, differentiated and exclusive mix of owned, international and concession brands. Our exclusive Designers at Debenhams ranges showcase internationally renowned British design talent. We are a market leader in premium beauty in the UK.

 [Read more on page 11](#)


#### Key performance indicators (KPIs)

The board assesses the performance of the business on a range of financial, strategic and sustainability key performance indicators, some of which are linked to the management performance share plan.

 [Read more on page 28](#)


#### Risks and how we manage them

The management of risk plays a central role in strategic planning and is systematised to ensure that the Group's reputation is protected and the strategic and operational goals of the business can be delivered.

 [Read more on page 20](#)

#### Dividend policy

Debenhams is a cash generative business. The board has reviewed the capital structure and intends to adopt a progressive dividend policy which is compatible with the investment requirements of the business.

 [Read more on page 32](#)

# CHIEF EXECUTIVE'S REPORT

Delivering on our strategic priorities

**M**ichael Sharp has been Chief Executive of Debenhams since September 2011. Here he discusses the progress we have made in 2015 in executing our strategy.

## **Q. Why did you announce on 22 October 2015 that you intend to step down in 2016 after five years as Chief Executive?**

It is a privilege to lead Debenhams and I am very proud of our achievements since September 2011. I believe Debenhams is now capable of competing in the ever changing and challenging world of multi-channel retailing. I accepted the job of Chief Executive with the intention of spending five years in the role and although it will be difficult to leave a fabulous company like Debenhams, now is the right time for the board to begin the process of identifying my successor. I will continue as Chief Executive throughout the Christmas trading period and into 2016 until a suitable successor has been appointed and settled into the role. We have a strong and talented management team and I would like to thank them and our 30,000 colleagues for their continuing support, hard work and passion. I hope being transparent about my intentions will stop recent speculation becoming a distraction, allowing me and the Debenhams team to focus on delivering our strategy and the important Christmas trading period.

## **Q. How would you describe the Group's performance in 2015?**

I am pleased that having laid out our strategic priorities last year, we have delivered a good financial performance this year, with measurable progress against each of our key priorities. There is plenty more for us to do but

the results we have achieved so far are encouraging. Highlights this year have been the fantastic job our staff did to deliver a successful peak trading period; the real step forward in multi-channel service; and improving market shares in all our major product categories.

## **Q. Do you have the team and resources to deliver the strategy?**

We have strengthened our senior team this year, with the appointment of Matt Smith as our Chief Financial Officer. Matt brings a wealth of experience from his time at Mothercare and Home Retail Group before that. We have an excellent senior team with a good blend of external and internal experience, which makes me confident in the delivery of our strategy. As far as resources are concerned, we have a well invested store portfolio, we are part way through a major systems upgrade to support our international multi-channel ambitions, we have the financial resources to invest to deliver sustainable growth, and of course, we have our colleagues who work so hard across the entire business. I am delighted that our "Your Voice" survey of employees has shown increased scores across a number of categories.

## **Q. How will you ensure that customers continue to be engaged by Debenhams' proposition?**

We put product at the heart of what we do in order to deliver breadth and choice to our customers. We know they want newness so we are continuing to invest in design and developing brands. Designers at Debenhams remains absolutely key to our proposition and I am delighted that we are able to inject fresh talents such as Savannah Miller and Giles Deacon this autumn, as well as introducing new products and services to give customers more reasons to visit our stores.

## **Q. What progress have you made in refocusing promotional activity?**

We know our customers love our promotions and they will continue to enjoy the events we are famous for, such as New Season Spectaculars and Blue Cross promotions. We have worked to differentiate our activities better and align the events to our customers' mindset, taking out 17 promotional days across the year. We have invested in price in key categories – our "first price right price" strategy. As a result full price sales are up 7% over the year. Looking ahead, the trading calendar is now broadly as we want it and our focus is shifting towards maximising the effect of the events we have and driving full price sales on less stock.

## **Q. What best demonstrates the improvement in your multi-channel service compared with competitors?**

We started behind our competitors in multi-channel, being set up with the infrastructure to support a UK department store business. The investment we have put behind our operations to serve our multi-channel customers better has taken us from behind the pack to top quartile. We have a profitable online business, which is optimised for mobile shoppers, and mobile is our fastest-growing channel. We have extended the cut-off times for next day delivery to home. Having launched our free next day click & collect service last autumn it now accounts for almost 30% of orders, and as our lowest-cost delivery channel which also brings customers back into stores we are delighted with progress. We are enhancing our offer further with the introduction of interest-free credit for larger purchases in time for peak alongside more service initiatives. There is plenty more for us to do in the coming months but we expect continuing progress in multi-channel.

## **Q. How will you support your store performance as spend shifts online?**

The differences between channels are blurring. Stores are a key part of multi-channel shopping and we have a number of initiatives in train to define their role more clearly and ensure that they remain relevant to our customers. We identified space in our larger stores where we could improve performance by adding new products and services. We asked customers what they would like to buy from us that we were not already selling and as a result of their feedback we have been trialling a number of new offers in sportswear, younger fashion, casual dining and beauty services. We are pleased with progress and are moving from trial to roll-out of this programme. We are fortunate in that our stores are in great locations and by giving our customers more choice, more brands and more in-store services we are confident they will continue to be central to the customer experience.





“WE HAVE BUILT A STRONG PLATFORM FROM WHICH TO DELIVER LONG TERM SUSTAINABLE GROWTH”

Profit before tax

£113.5m

Increase in 2014/15 EPS

+7%



▲ Mike Goring,  
Retail Director  
Richard Cristofoli,  
Marketing Director

▲ Suzanne Harlow,  
Group Trading  
Director  
Peter Swann,  
Operations Director

▲ Michael Sharp,  
Chief Executive  
Ross Clemmow,  
E-commerce Director

▲ Matt Smith,  
Chief Financial Officer  
Nikki Zamblera,  
Human Resources  
Director

 Read more on our Executive Committee on page 45

# CHIEF EXECUTIVE'S REPORT CONTINUED

## HAMMOND & CO. LTD

BY PATRICK GRANT



▲ Our exclusive Hammond & Co. collection from Savile Row tailor Patrick Grant was extended to 98 stores following its successful launch last year.

### Q. What are the key drivers for growth in international markets?

I see a number of potential drivers for international growth. Our store chain in Denmark, Magasin du Nord, is consolidating its market leadership and has delivered a year of exceptional growth. We expect continuing positive momentum this year. The Republic of Ireland remains a challenging market, but our teams are working hard to deliver a great customer experience. We continue to open franchise stores in both new and existing markets, with continuing opportunities in the Middle East, balanced by growth in newer regions in the Far East and Eastern Europe. We are testing new channels to market which have exciting longer-term prospects: this year we will offer some of our international online customers local language and local currency websites; we are entering Australia with a new multi-channel model; and following some successful trials we see potential for some of our own brands to

be sold outside of Debenhams, giving us another leg of growth.

### Q. Is the infrastructure ready to cope with growth internationally and via multiple channels?

We are part way through a multi-year investment programme that will deliver an infrastructure to support profitable international multi-channel growth. We are minimising risk by using tried and tested systems and phasing implementation of the programme. We have excellent warehousing facilities but investment in further automation will drive cost and service efficiencies in the future and support our expansion plans.

### Q. What are the key challenges and opportunities for the Group in 2016?

Having made good progress on our strategic priorities for 2015 I am moving the focus on for 2016. We have five new stores opening in the UK this autumn and we are making sure these are compelling, exciting and fun places to shop. Our Bradford store will be the only department store in this major city, which is among the top 30 retail markets in the UK. We have exciting new and extended brand offers, such as Nine by Savannah Miller, Hammond & Co. and Principles – which all feature in our “A match made in Debenhams” advertising campaign which has launched this season. Our space optimisation programme is moving from trial to implementation, and performance of our new brands and new concessions over the Christmas peak will be a key test of the strategy. We will have filled at least half the identified space by next spring. We now offer top quartile service for our multi-channel customers and there is plenty more to go for both in the UK and overseas. While we expect the

market to remain competitive, we are in good shape to build on last year's strong performance over peak trading.

### Q. How can Debenhams continue to compete in a changing retail marketplace?

Rather than just looking to play catch-up with the competition we have thought hard about the skills, capabilities and investments needed to ensure Debenhams remains relevant and competitive for the foreseeable future. The decisions we are making about allocating our resources effectively are focused on how we can continue to add value for our customers, how we maintain the differentiation of our brand, and grow profitably across channels and geographies.

### Q. What are your plans to deliver longer-term growth in the business?

In the UK our focus is to maximise the performance of our store portfolio and to exploit our opportunity within the channel shift online. As a one-stop shop for a broad choice of international and exclusive brands across fashion, accessories, beauty and homewares, we are in a tremendous position to drive multi-channel growth. Internationally we have the opportunity to drive growth via a number of different models, all of which are cost and capital-light. We expect to continue to generate good cash flow, giving us a strong platform to drive long-term sustainable growth for our shareholders.

**MICHAEL SHARP**  
CHIEF EXECUTIVE  
22 OCTOBER 2015

# MARKET CONTEXT

An independent view of the UK retail market background from Research Analysts at Deutsche Bank

## MARKET CONDITIONS IN 2015

### UK household cash flow trends appear to be very positive

Employment and consumer confidence are high, credit is available and non-discretionary items such as food and fuel are deflationary. Other positive factors include nominal wage growth, an increase in the tax free personal allowance and mortgage rates continuing at historically low levels.

### More cash, the same spending

Despite this, the pace of total non-food retail sales growth has been fairly modest and certainly has not accelerated in step with household budgets. LFL sales growth has moderated since the first half of 2014, running at c+2%.

## CUSTOMER SENTIMENT

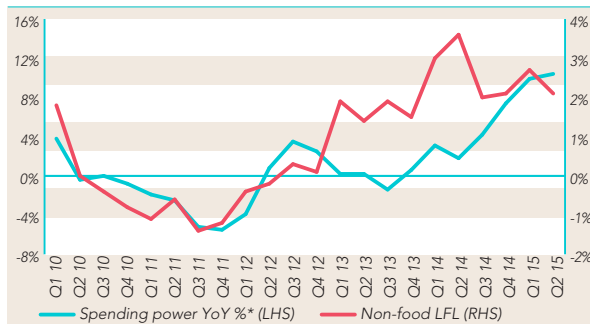
### Consumer confidence is high by historical standards...

Q1 recorded the highest ever level of the total number of people in work and nominal wage growth has accelerated since Q4 2014. These factors have translated into positive consumer confidence, which returned to a positive reading in January 2014, and has remained in positive territory.

### ... with a greater appetite to make major purchases

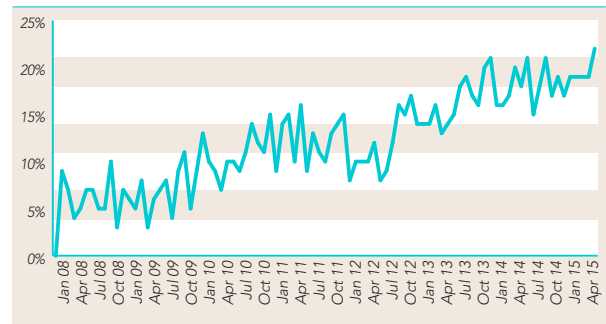
Confidence to make major purchases has steadily strengthened and jumped to a record high in the latest survey (July 2015). However, the data show a widening gap in consumer confidence between higher income and lower income consumers. Lower income consumers tend to spend a greater proportion of their income, which may explain why sales have not been stronger.

## Non-food retail sales vs spending power



(Source: CEBR, BRC, Asda Income Tracker)

## Consumer confidence gap by income levels



(Source: GfK) Gap between lower and higher income consumers

## SHOPPER TRENDS

### Retail sales – price deflation persists

Volume growth in retail sales has decelerated from a peak in mid-2014, while price deflation has persisted. The non-food categories which have seen the sharpest level of deflation are clothing and electrical goods, according to the British Retail Consortium ("BRC").

### Clothing impacted by tough weather comparatives

Kantar Worldpanel data suggest the overall clothing market has been in growth so far in 2015, but that this has been driven by volume growth rather than average selling price. Temperatures have been materially below 2014 levels which inevitably affects spring/summer footfall and sales. The BDO High Street Sales Tracker indicates that monthly sales on the high street since August 2014 have generally declined year on year.

## CHANNEL SHIFT

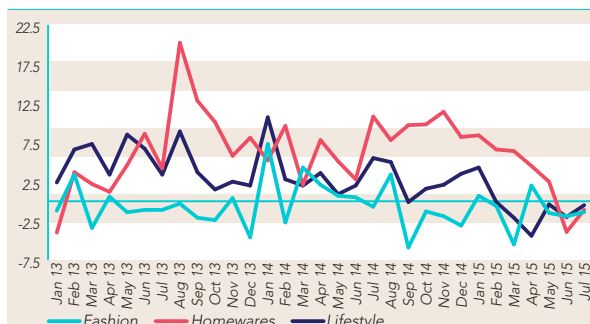
### Depressed high street footfall

Taken together, data from BDO High Street Sales Tracker (which exclude online sales) and weak BRC store LFLs suggest weak footfall and continued share shift to online. Store-only LFLs have been the slowing channel. Fashion has been particularly weak, and the more buoyant homewares category has begun to slow.

### Alternative areas of consumer spending gaining

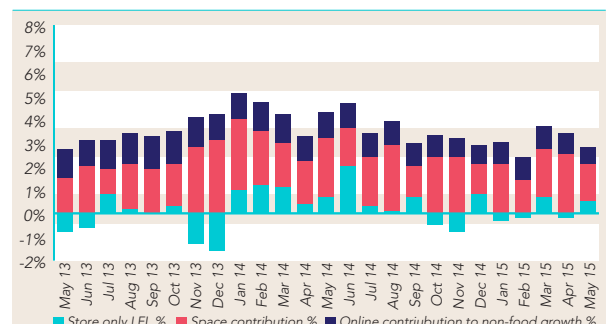
Data from Visa and Barclaycard suggest that total spending has been at a fairly constant growth rate rather than accelerating like household available cash flows. However, expenditure growth on leisure areas such as eating out and holidays has outstripped non-food and food retail.

## BDO High Street LFL sales by category (%)



(Source: BDO LLP High Street Sales Tracker)

## Online sales growth contribution to retail sales



(Source: BRC, Deutsche Bank estimates)



# OUR STRATEGY

At a glance



## Strategic pillars



### Delivering a compelling customer proposition

#### Priorities and delivery in 2015

- We aimed to refocus promotional activity towards events we are famous for
- We made changes to the promotional calendar to match customer mindset. We reduced the number of days on promotion in FY2015 by 17
- As a result, full price sell-through has increased by 7% and we have reduced year end stock levels by 4%

#### Outlook in 2016

- We will continue to focus on driving full price sell-through and to optimise trading within our promotions
- We are planning more new and exclusive product, with some exciting product launches this autumn and an evolution of our effective "Found It" Christmas marketing campaign
- We will build on our strong track record of brand development in order to maximise their potential

#### Risk awareness

- In competitive markets it is vital to keep our customers engaged and to understand their concerns. Our customer insight team provides us with valuable intelligence to identify changes in customer priorities
- We seek the best possible return from our marketing activity so we monitor its effectiveness across all channels and aim to leverage activity where appropriate
- To maintain the flow of product, we depend on supply chain partners from a wide geographical diversity with whom we have close and collaborative relationships

#### Risk management

Debenhams applies a regular and systematic approach to the management of risk in order to provide assurance that strategic and operational goals can be met and the Group's reputation will be protected.

[Read more on page 20](#)

#### Resources and relationships

Our model is underpinned by a series of relationships with stakeholders contributing to the long-term success and sustainability of our business.

[Read more on page 34](#)

#### KPIs

The board assesses the performance of the business on a range of financial, strategic and sustainability indicators, some of which also form part of executive remuneration.

[Read more on page 28](#)

#### Corporate governance

Debenhams' leadership seeks to act responsibly and effectively, whilst demonstrating honesty, transparency and accountability, in order to encourage good behaviours throughout our business.

[Read more on page 40](#)



## Increasing availability and choice through multi-channel

### Priorities and delivery in 2015

- Our aim is to build a more competitive and more economic online business: we saw good progress in both sales (up 11.4%) and profits (EBITDA up 11.5%) this year
- We continue to invest in our flagship digital store, with improved landing pages and navigation, taking a “mobile first” approach. As a result mobile penetration is now more than 40% of online orders
- We have improved service levels by extending cut-off times for ordering for next day delivery, offering next day click & collect and lowering delivery charges

### Outlook in 2016

- We are aiming to achieve a market-leading service proposition and will make further strides this year through continuing improvements to website presentation and further service enhancements
- By Christmas around half of concession orders will be eligible for next day delivery and click & collect services, and more will be enabled by year end. Separately, we will more than double the number of stores to 150 that will be able to fulfil online orders from store stock
- We expect the cost of fulfilment to reduce through a combination of more efficient service and improved cost recovery

### Risk awareness

- Peak trading places pressure on service levels but we traded successfully over peak in 2014 and have processes in place to minimise the risk of service failure
- We have a good existing platform for our website and we are landing upgrades as we go, so as to minimise the risk of disruption to our customers
- Similarly, we are using existing technology for key process improvements and these are staged so as to contain any performance shortfall



## Focusing on UK retail

### Priorities and delivery in 2015

- We aimed to address the impact of the channel shift on our UK stores, focusing on ways to drive a better return from under-potentialised space
- After identifying c.1 million sq ft we asked our customers what products they would like to buy from us to make better use of this space, in order to deliver improved profit densities
- We have filled 35% of the 1 million sq ft with a number of trials that have included extending own bought ranges, introducing new and exclusive brands and concession partners and extending our branded food services offer

### Outlook in 2016

- We have moved from trial into roll-out with our space optimisation programme, and will have filled more than half the identified space by April 2016
- Evidence from the trial phase has confirmed that the categories we have identified bring additional footfall and encourage higher spend in the stores
- We are applying some of the principles we have established to higher performing space too. Our aim is to encourage dwell time in our stores and improve the in-store experience with service offers that cannot be replicated online

### Risk awareness

- We intend to maximise profit density in reallocated space, so we assess the costs and returns of replacing an existing offer, especially when replacing own bought product with a concession
- We are aiming to add in categories where there is a lower risk of cannibalising our existing sales – identifying gaps in our offer or in the local catchment that a new brand or partner can fill
- We have a long track record of dealing with concession partners and are managing the introduction of new partners to ensure that we are not unduly dependent on any one partnership



## Expanding the brand internationally

### Priorities and delivery in 2015

- Constant currency performance showed good underlying growth, although adverse foreign exchange movements weighed on reported sales and profits
- Magasin du Nord delivered a strong like-for-like performance and has outperformed the Danish market. The Republic of Ireland held up well in a market that continues to be challenging
- We opened a net two new franchise stores, taking the total to 70 and international online sales showed further good momentum from a low base

### Outlook in 2016

- We have a strong pipeline of franchise openings, with 11 contracted and a further 13 under negotiation
- Within our own-operated store base, we expect good momentum to continue at Magasin du Nord helped by market recovery. We continue to manage the Republic of Ireland tightly
- We have entered the Australian market with a new multi-channel model and expect to make further progress in developing new channels to market, both online – where we will open local currency/local language websites in a number of markets – and via wholesale opportunities for certain brands, which offer a potential new route to growth

### Risk awareness

- Geopolitical risks are carefully considered before entering into any new market, and we have a long track record of working with franchise partners
- With careful focus on capital allocation, we have maintained a capital-light model for overseas investment and our new routes to market will maintain that discipline
- An important part of systems and infrastructure investment is to support efficient and low cost expansion in overseas markets



## Operational effectiveness

### Priorities and delivery in 2015

- Whilst managing costs tightly, we continue to invest in operational and organisational effectiveness, with £60m of IT capital expenditure in FY2015
- This investment is driving efficiency savings such as the integration of our cosmetics warehouse into existing infrastructure
- By introducing daily store deliveries using our own fleet we were able to meet our next day click & collect service promise and make this route the lowest cost delivery channel for online orders

### Outlook in 2016

- We will make a significant step forward in FY2016 as we move to a single warehouse management system
- This will enable us to improve stock availability, whilst simultaneously reducing stockholding, driving both cost and revenue benefits
- In FY2016, as a result of our platform investment, we will launch local currency websites and localised online content in a number of international markets

### Risk awareness

- As with any systems programme, there are execution risks; we are using an established platform and market-leading providers
- We are actively working to minimise risk to stock flows as we move to a single warehouse management system
- Across our supply chain we maintain multiple sourcing routes and constantly monitor our partners’ activities to identify and act on any concerns at an early stage



STRATEGY  
IN ACTION

# DELIVERING A COMPELLING CUSTOMER PROPOSITION

Refocusing our approach  
to promotions



nine  
SAVANNAH MILLER



In 2014/15 we set out a strategic priority to refocus our approach to promotions and we have made further progress. Our customers love our promotions. It is part of our business model to hold regular events such as our Spectaculars and Blue Cross Sales. It is what we are known for and they will continue to form an important part of our strategy.

But our customers told us there were too many events and they weren't always distinctive enough. And running the business with too much stock meant we were incurring too much markdown. As a result, we have focused on the events we are known for and we have changed the timing of some events to align them more closely with our customers' mindset.

Over the past year we have reduced the number of days Debenhams is on promotion by a further 17 days; total days on promotion since we started the process have reduced by 42. As planned, our stock levels ended the year down 4.1%.

#### First price, right price

At the same time we have reviewed our pricing to ensure our prices were competitive. We identified some product categories in childrenswear, menswear and home where there was

an opportunity to realign our price architecture. We invested 30 basis points ("bps") of gross margin in pricing in these product areas and have seen a positive response in terms of full price sales and market share.

As a result of these actions we have increased full price sell-through in 2014/15 by 7.1% and we have reduced markdowns by 90 bps. Our latest customer surveys tell us that we are continue to offer great quality and value for money and we have increased our market share in all key categories since we anniversaried our change in promotional stance, according to Kantar Worldpanel data.

Black Friday, which is becoming an integral part of the pre-Christmas trading calendar for retailers, works well with our existing promotional calendar, and we traded it successfully and profitably in 2014.

#### Outlook in FY2016

For the next financial year, we believe most of our work relating to the promotional calendar is complete. However, we will aim to reduce the level of participation in our promotions further and to optimise promotional trading. Part of our promotional refocus involves looking at how we differentiate more clearly between prime trading and promotions whilst delivering our new product launches more effectively.

We are planning more exciting and exclusive new product, such as our new Designers at Debenhams launch this season, Nine by Savannah Miller, and Giles Deacon's range for our Edition concept. Both of these launches adopted a multi-channel marketing strategy and have successfully linked in to our autumn "A match made in Debenhams" campaign. For Christmas, we will build on our successful "Found It" campaign launched last year.

Debenhams has a strong track record of developing brands and we see opportunity to exploit the potential of some of our "power brands". A number of our private label brands generate annual turnover in excess of £100 million each and we are looking at ways to grow these both within our own stores and via other channels. We are already selling some of our own brands, such as Faith, and Designer brands Floozie by FrostFrench and Star by Julien Macdonald, via third party websites both in the UK and overseas.

We expect to make further progress in increasing full price sell-through and reducing markdowns in 2015/16, while continuing to deliver a compelling customer proposition.

▼  
*Nine by Savannah Miller launched in August 2015; Hammond & Co. by Patrick Grant has been extended to more stores.*

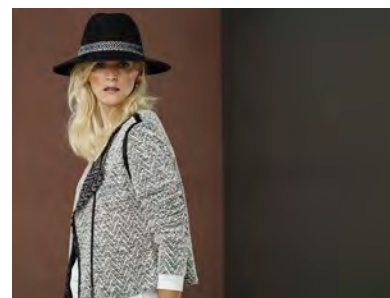
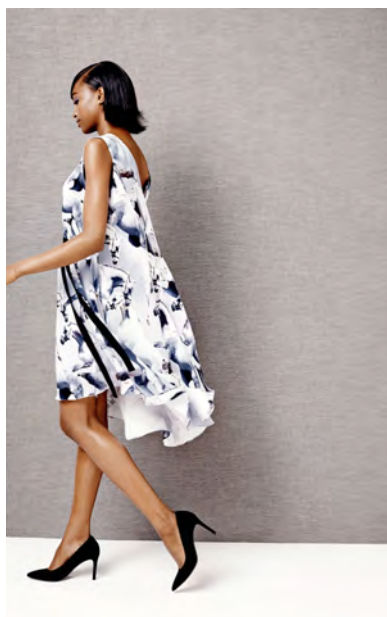
Fewer days on promotion

17

Full price sell-through

+7%

▶  
*Giles Deacon has designed a capsule range for our Edition brand.*





STRATEGY  
IN ACTION

# INCREASING CHOICE THROUGH MULTI-CHANNEL

Building a more  
competitive and  
more economic  
online business



Our ambition is to grow our multi-channel business, so that online sales reach around 30% of our UK gross transaction value, from less than 20% at present. The online business is already profitable but our plan is to make it both more competitive and more efficient. We have invested in our flagship digital store and in our customer service systems to support online ordering, which has resulted in strong progress in 2014/15 in both sales and profit.

As a result of the increasing interchange between channels, and in line with other department stores, we have adjusted online sales and profits in this and prior years to include those items ordered online but returned via the store channel. This has no impact on statutory reported results. On this basis, online sales grew 11.4% in 2014/15.

#### Delivering a flagship online experience

We migrated onto our IBM Websphere platform in 2013 and in the last financial year we have made significant progress in improving the online customer journey. Debenhams.com is consistently in the Top 10 most visited non-food retail websites, according to Hitwise.

We have improved landing pages and navigation in key categories, such as furniture, childrenswear, and most recently some categories in womenswear. This is both to deliver a more intuitive browsing experience – such as online furniture displays by roomset, or stronger brand presentation in clothing – and to allow cross-category presentations focused on key calendar events, such as Christmas, Mother's Day, Holiday Shop and Back to School.

Our mobile and tablet first approach drives everything we do in multi-channel. More than 40% of online sales now come from mobile devices. Our

▼ We are taking a "mobile first" approach to all website improvements.



redesigned checkout has also contributed to improved conversion rates up 10% year-on-year.

#### Seamless service via any channel

The service we offer to our online and multi-channel customers has been substantially improved in the last 12 months. In October 2014, we introduced a next day click & collect service from stores; we extended order cut-off times both for click & collect and next day delivery; we introduced nominated day, weekend and evening deliveries; and we extended our Endless Aisle fulfilment-from-store option.

As a result we traded strongly over peak, with click & collect increasing its penetration to almost 25% of orders and next day services accounting for almost half of our online sales in the seven days leading up to Christmas.

We have made further progress in the balance of the year, with more competitive charges for next day delivery to home; a further roll-out of in-store service counters; Endless Aisle extension to 150 stores; and penetration of click & collect has continued to increase.

Click & collect is the lowest cost option for us to get product to customers. Our service is free and due to our daily deliveries to store via our own delivery fleet, we now have the infrastructure in place to leverage growth in orders. We have been trialling ways to encourage our customers to spend more in store while they are collecting their parcels, for example by offering vouchers to spend in stores. Over the year click & collect accounted for 26% of online orders and we expect the penetration to continue to grow towards industry averages.

We have also made good progress in our objective to achieve higher recovery of fulfilment costs, with

▼ Online orders from mobile devices are now more than 40% of the UK total.



premium delivery services increasing 32% over the year. This improvement contributed to 11.5% growth in online EBITDA in 2014/15.

#### Outlook in FY2016

We believe that, from being behind the curve in multi-channel customer service relative to our competitors, the investments we have made have taken us into the top quartile of industry service. We are rolling out further service improvements ahead of peak trading to ensure that we maintain the momentum we have seen in the past 12 months.

We are launching interest-free credit to help our customers spread the cost of their larger purchases. We have already extended our order cut-off times further, to 9pm for next day click & collect, and to midnight for next day evening delivery.

Our concession partners are also working with us to meet our delivery promises and by the Christmas peak around half of concession orders will be eligible for next day click & collect and next day delivery services.

And our overseas online customers in a number of European countries will have the opportunity to order from local currency-denominated websites with localised content this autumn, with local language sites to follow.

Online sales growth

11%

Click & collect penetration

26%

▼ Stronger brand presentation and improved landing pages.







STRATEGY  
IN ACTION

# FOCUSING ON UK RETAIL

Driving a better  
return from stores



**H!** BY HENRY  
HOLLAND



Our stores remain central to our customer proposition. We have modern stores in prime locations and one in four of the UK population visits Debenhams every year. Our destination departments including beauty, gift and occasionwear remain central to our customer proposition. And this autumn we are opening five new stores, in Rugby, Wandsworth, Beverley, Bradford and Newport, taking our UK chain to 166 stores. The shift in the UK retail marketplace towards online shopping has presented us with both challenges and opportunities. We have challenged our store teams to identify inefficient space in our existing stores and we have investigated different ways to achieve a better return on this footage, which represents just under 10% of our total UK footage at approximately 1 million sq ft.

We asked our customers what they would like to buy from Debenhams that we did not already sell. We looked at service offers which are complementary to our existing mix and cannot easily be replicated online. And we examined our own brands to see where there was unsatisfied demand. For example, we saw opportunity in casualwear for 35-50 year old customers.

The aim of this project is to increase profit density in the identified footage and dwell time in our stores and results so far have been encouraging.

#### **New and extended services, brands and concession trials**

We rolled out in-store service counters to support our click & collect proposition. With almost 170 stores in the UK this is a convenient option for our customers and our preferred channel for online deliveries. One in ten click & collect customers spend more than £20 while they are in store. We have both extended and added to our beauty brands, building on our strength in make-up in particular, rolling out more counters and services such as brow bars.

Some of our newer brand launches, such as Principles casualwear and Hammond & Co. by Patrick Grant, have been particularly successful and rolled out to more stores. Our customers are always looking for newness, so we examined the opportunity for our latest Designer launches: Giles Deacon for Edition and Nine by Savannah Miller, which addresses the casualwear opportunity, and have been more confident in store ranging for their initial season.

Our findings from talking to our customers clearly showed what other product areas they would like to buy from us. This led us to establish new concession partnerships with Sports Direct, Monsoon Kids, Danish group Bestseller – for their younger fashion brands Only and Jack & Jones – and BHS Lighting, among others. These all offer product that is complementary to our existing brands.

We have also added some exciting new branded food service offers with Costa Coffee, Patisserie Valerie, Joe & The Juice, Insomnia, Chi Kitchen and Ed's Easy Diner. Customers who use one of our in-store dining options spend significantly more time and money in Debenhams than those who do not.

By the end of the financial year, we had added new offers into 350,000 sq ft, 35% of the space we identified as part of this programme. Initial results have been sufficiently encouraging to move to roll-out from trial stage with a number of our new partners.

#### **Outlook in FY2016**

We continue to explore new product categories, in order to offer more choice to customers through products and services that are complementary to our existing offer. With encouraging progress to date in improving profit densities, we are identifying opportunities to apply the lessons learned to our more productive space and to our new stores as well.

For example, we had originally planned to open our Bradford store with just one dining offer, but as a result of the feedback from customers and the findings of our space programme, the store will launch with three – giving our customers a choice of casual dining options in the city centre.

By April 2016, as planned, half of the 1 million sq ft under the space optimisation programme will have been reallocated through our various initiatives. The changing nature of the retail marketplace is creating a variety of opportunities with new potential partners and we remain extremely confident of reallocating the balance of the identified space.



▲ New food service offers include Chi Kitchen and Patisserie Valerie. Our new Rugby store opened in September.

Space optimisation programme

350k sq ft

New UK stores by Christmas

5



STRATEGY  
IN ACTION

# EXPANDING THE BRAND INTERNATIONALLY

Accelerating growth in international channels



baker  
BY TED BAKER



**D**ebenhams operates both its own and franchised stores overseas and sells product online in more than 60 countries. Our 11 stores in the Republic of Ireland trade under the Debenhams brand. Our business in Denmark, Magasin du Nord, was acquired in 2009 and continues to trade six stores very successfully under its own fascia. In the last 12 months, Magasin has recorded a very strong performance with constant currency like-for-like sales growth of 8.1%, outperforming a recovering Danish market.

Elsewhere overseas our franchise store network has expanded to 70 stores, with new stores opening in the UAE – our largest franchise store to date in Yas Island Mall – Egypt, Saudi Arabia, the Philippines, Russia and Romania. As part of our portfolio management, we have also closed five under-performing overseas stores.

#### Online growth opportunity

Whilst our international online revenues remain relatively small, we have seen further rapid growth in constant currency in 2014/15, despite not yet having local currency or local language

websites beyond the Republic of Ireland and Denmark. As we are already shipping to more than 60 countries worldwide and selling certain of our brands via third party partnerships in overseas markets, there is clearly untapped potential.

As part of our operational effectiveness programme, we have increased the proportion of product that is shipped direct to our international markets, which now accounts for almost half the total. By reducing handling costs and getting product faster to market we are making a significant improvement in the efficiency of our international supply chain.

#### Outlook in FY2016

With regards to our own-operated stores, Magasin du Nord is expected to see continuing momentum in 2015/16 as the Danish consumer market continues to recover. We will continue to manage the Republic of Ireland business tightly.

Our franchise representation is still principally focused in the Middle East, South East Asia and Eastern Europe, with good opportunities in existing regions as well as in untapped

markets. We have a medium-term target of 150 franchise stores and despite the unstable geopolitical environment we continue to see good growth opportunity across all our markets. We currently have 24 stores in our franchise pipeline.

In tandem with this, the scope for international online growth is material and we have a number of options with regard to the appropriate route to market. We plan to launch local language/local currency websites in a number of overseas markets this year, including in markets where we do not have any store representation.

We have entered the Australian market with a new multi-channel model, and we are in discussions with further potential partners, both for a curated Debenhams offer online in markets where this is more appropriate than selling via our own website, and for potential wholesaling relationships for certain of our own brands. This will allow us to expand in markets where Debenhams is not currently represented. For example, we have recently agreed terms with VinGroup for such an arrangement in Vietnam.

Overseas revenues

£537m

International sales participation

19%



▲ Our new franchise store in Yas Island, UAE, is our largest international franchise store to date. Magasin du Nord delivered a strong performance, with good online growth. International online has untapped potential for Debenhams.



STRATEGY  
IN ACTION

# OPERATIONAL EFFECTIVENESS

We are building infrastructure that is sustainable and fit for future growth, to enable Debenhams to exploit the continuing channel shifts in retail

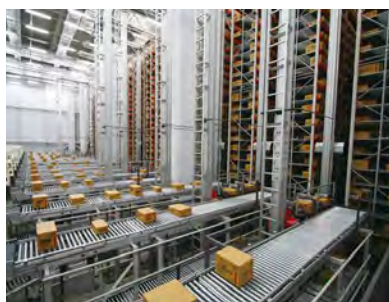


IT investment in FY2015

£60m

Product shipped direct to partners

47%



▲ We are installing a single warehouse management system for our distribution centres in Sherburn and Peterborough.

**W**e are building infrastructure that is sustainable and fit for future growth, to enable Debenhams to exploit the continuing channel shifts in UK retail and drive international growth in a cost effective way.

Operating costs increased by 0.6% in 2014/15 despite the further shift into online and the investment in improved online services. Our focus is on extracting productivity improvements as a result of the programme of systems investment, so as to deliver profitable growth.

#### Investment in systems and supply chain

There are two major systems programmes under way, and systems spend has increased to £60 million out of our total capital expenditure of £133 million in 2014/15.

We are introducing new buying and merchandising systems, processes and practices in order to allow us more effectively to plan and merchandise ranges across the business as we grow in more geographies and channels.

Equally, we are progressing opportunities to develop sourcing capabilities that recognise the need to maintain brand identity whilst maximising the efficiency of sourcing locations and factories.

Our clothing buying teams are structured by brand. As an illustration of the opportunity for future sourcing efficiencies, we have benchmarked our suppliers and consolidated the buy across key volume lines in the knitwear category, which has generated a significant cost saving. We are mindful of the need to maintain separate brand identity but will look at further opportunities to introduce category buying across brands where appropriate.

We are also replacing our stock management systems, moving to a single provider and with the aim of simplifying our warehouse operations to flow stock more efficiently. Currently, like many of our peers, we have separate pick faces for stores and online orders.

Whilst we have put processes in place to allow us to fulfil from store for online orders, the move to a single stock view will be a significant support to our multi-channel growth.

We have also made good progress in the current year to improve the cost effectiveness of online order fulfilment, with daily store deliveries on our own fleet supporting our click & collect service, which is our lowest cost delivery option for customers.

Other initiatives include the successful relocation and integration of our cosmetics fulfilment operation to our distribution centre in Sherburn, enabling the closure of the separate facility.

Changing the flow of stock to stores with more frequent distribution and replenishment is also enabling us to test the removal of offsite stockrooms.

We continue to restructure our international supply chain to optimise stock flows. For example, we have increased direct shipping to our international partners, taking stock from suppliers via our hub in Singapore rather than via the UK, which now accounts for 47% of the total.

#### Outlook in FY2016

We will continue to manage costs tightly across the business. Our new single warehouse management system will be operational from spring 2016 and is expected to deliver benefits from both reduced picking costs and lower stockholding. A single stock view is also likely to improve stock availability and potentially support our continuing drive to reduce markdown.

Longer term we see opportunities to introduce further automation to our warehouses, which will bring additional cost savings. Over the period of the systems investment programme we aim to reduce the fulfilment cost per unit by 30% to bring us in line with best-in-class.



# 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.

The annual report compliance committee ensures that all governance practices comply with the applicable provisions of the UK Corporate Governance Code.

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.

#### 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 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 that it cannot be discussed in any of these ways, s/he can contact the Company Secretary or the Director of Internal Audit and Risk Management. The Group's policy on whistleblowing and these methods of raising issues 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.

Figure 1: Debenhams risk management framework



In addition to this, 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 the 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 health and safety committee.

#### PRINCIPAL RISKS AND UNCERTAINTIES

The risks detailed on pages 22 to 27 are the principal risks and uncertainties that may impact the Group's ability to achieve its strategic and operational goals. They are ranked based on overall risk to the business.

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 <sup>2</sup> ) | 4(2 <sup>2</sup> ) | 9(3 <sup>2</sup> ) | 16(4 <sup>2</sup> ) |
|  |            |   | Low                | Moderate           | Serious            | Critical            |
| <b>Severity of impact</b>  |            |   |                    |                    |                    |                     |
| (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  | Impact  | Examples of mitigation  | Change*   |
|---|---|---|---|
| <b>Continuing adverse economic conditions may have a material adverse effect on Debenhams' results</b>  | <p>A decline in sales on discretionary purchases leading to a reduction in profit.</p> <p>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.</p>                                     | <p>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.</p>   |    |
| <b>Debenhams' business could suffer as a result of weak sales during peak selling seasons or extreme or unseasonal weather conditions</b>             | <p>Adverse effect on inventory and profit.</p>  | <p>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.</p>   |    |
| <b>Failure in the stability, integrity or availability of information systems could adversely affect Debenhams' business operations and results**</b> | <p>Risks associated with systems failure, external attack of systems or data inaccuracy may also significantly damage ability to manage information technology systems, such as our website or warehouse management systems, or could cause inappropriate decisions to be made using wrong, missing or ambiguous information.</p> | <p>A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on pages 8 and 9. As such, information systems developments are key enablers and critical for accelerating the pace of change necessary to compete effectively. 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.</p> <p>Monitoring processes are in place across a number of key business systems, alongside specialist teams, and a disaster recovery site is in place where associated systems are tested to ensure that the requirements for invocation are fully understood.</p>               |  |
| <b>Inability to effectively invoke a business continuity plan could adversely affect Debenhams' business operations, reputation and results**</b>     | <p>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.</p>   | <p>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.</p> <p>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.</p> |  |

\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.





| Risk   | Impact  | Examples of mitigation   | Change*   |
|--|---|--|---|
| <b>Theft of customer data or breach of payment card industry standards could adversely affect Debenhams' business operations, reputation and results</b>                   | <p>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.</p> <p>This is a decreasing risk because of the ongoing work and progress made around payment card industry ("PCI") compliance.</p>  | 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.  |    |
| <b>Debenhams' business could suffer as a result of failing to compete effectively</b>  | <p>Place pressure on our pricing strategy, margins and profitability.</p> <p>Divert financial and management resources from more beneficial uses.</p>   | 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 KPIs which ensures that pricing is competitive and promotional activity is appropriate. Debenhams' customer insight team provides valuable intelligence to keep us alert to changes in customer priorities.   |   |
| <b>Debenhams' business may suffer if it is unable to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels</b> | <p>Sales will be lower, market share will be reduced and the Company may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortfalls on popular merchandise.</p> <p>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.</p> <p>Any of the above could have a material adverse effect on Debenhams' business, financial condition or profitability.</p> | <p>Delivering a compelling customer proposition is at the heart of Debenhams' strategy. In developing product and brand strategy, the Group takes into consideration market, trend and customer research to help it predict likely demand for its products and services. Debenhams continues to invest in its product and brand strategy to ensure that it remains competitive.</p> <p>A number of specific actions are being taken to address the issues of the channel shift. These include:</p> <ul style="list-style-type: none"> <li>• 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 and a single stockfile are being introduced.</li> <li>• Driving a better return on UK store assets through the introduction of additional products, brands and services as well as ensuring that stores are fully configured for multi-channel shopping.</li> </ul> |  |

\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.




# PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

| Risk   | Impact  | Examples of mitigation   | Change*  |
|--|---|--|--|
| <b>A failure to deliver Debenhams' key strategic priorities may adversely affect its business***</b> | <p>Could significantly delay or prevent the achievement of Debenhams' business plan and could have a material adverse effect on Debenhams' business, financial condition or results of operations.</p> <p>This is an increasing risk due to the volume of change being implemented and its importance to the business plan.</p>   | Debenhams has developed a business change roadmap, which includes a number of projects that support the delivery of the key strategic priorities. This includes investment in buying and merchandising systems capability to achieve greater alignment across all sales channels and geographies.  |   |
| <b>Any disruption or other adverse event influencing the sustainability of the supply chain</b>      | <p>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.</p> <p>This is a decreasing risk as Debenhams is developing multiple sourcing routes to ensure that pricing remains competitive and that demand can be supplied.</p> | <p>Debenhams fosters close and collaborative relationships with its suppliers. Both parties work towards the objective of optimising sustainable fulfilment and costs, which is measured regularly by management through KPIs. You can read more about how the Group builds relationships with our suppliers on page 34.</p> <p>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.</p> |  |

\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.

| Risk  | Impact  | Examples of mitigation   | Change*   |
|---|---|--|---|
| <p><b>Any disruption or other adverse event affecting Debenhams' relationship with any of its major suppliers, designers or concessionaires**</b></p> | <p>Any of the following factors could impact the flow of product across our channels and 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 partners; adverse events within the supply chain which could restrict the availability or significantly increase the cost of goods.</p> <p>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.</p> | <p>In order to minimise the impact of any major supplier, designer or concessionaire relationship or performance issues, Debenhams' objectives are to: maintain close and collaborative relationships by ensuring strategies are aligned; have appropriate, unambiguous contracts in place; ensure that all major suppliers, designers or concessionaires are financially robust; and have contingency plans in place in the event of a failure.</p>   |    |
| <p><b>Any disruption or other adverse event affecting Debenhams' relationship with any of its major outsourcing partners**</b></p>                    | <p>Costs associated with the transfer of the operations or the potential of extra operational cost from a new provider could impact or reduce profitability.</p>  | <p>In order to minimise the impact of any major outsourcing partner relationship or performance issues, Debenhams' objectives are to: maintain close and collaborative relationships by ensuring that strategies are aligned; have appropriate, unambiguous contracts in place; ensure that all major outsourcing partners are financially robust; and have contingency plans in place in the event of a failure.</p>  |  |
| <p><b>Any disruption or other adverse event affecting Debenhams' relationship with any of its major franchise partners**</b></p>                      | <p>The loss of a number of important franchise partners could impact or reduce profitability.</p>   | <p>In order to minimise the impact of any major franchise partners relationship or performance issues, Debenhams' objectives are to: maintain close and collaborative relationships by ensuring that strategies are aligned; have appropriate, unambiguous contracts in place; ensure that all major franchise partners are financially robust; ensure that geopolitical risks are carefully considered for any new market; and have contingency plans in place in the event of a failure.</p> <p>Policies, controls and financial support behind receivables are in place to help mitigate the risk of franchise partner failure.</p> |  |



\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.



# PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

| Risk   | Impact   | Examples of mitigation  | Change*   |
|--|--|---|---|
| <p><b>Any events that negatively impact the reputation of, or value associated with, Debenhams' brand could adversely affect its business</b></p>  | <p>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.</p> | <p>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 makes this an ongoing risk which Debenhams and its suppliers and franchisees have to manage.</p> <p>A 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.</p> |    |
| <p><b>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</b></p> | <p>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.</p> <p>This is an increasing risk based on unpredictable instability of various territories around the world and the increased threat level within the UK.</p>   | <p>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.</p> <p>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.</p> <p>Insurance policies have been placed as appropriate to minimise the impact of specific risks.</p>   |  |

\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.

| Risk   | Impact  | Examples of mitigation   | Change*   |
|--|---|--|---|
| <b>Currency fluctuations and hedging risks could materially adversely affect Debenhams' earnings and cash flow***</b>              | <p>Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow.</p> <p>Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates.</p> <p>Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition.</p> <p>This is an increasing risk due to the increasing volatility in this area.</p> | <p>Debenhams has a treasury policy in place which covers counterparty limits and hedging for interest rates, foreign exchange and energy. There is also an internal treasury function which is mandated by the board.</p> <p>Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of KPIs.</p> <p>Business critical spreadsheets and databases used by the finance department have been identified and appropriate control measures are used in line with Debenhams' policy to ensure data integrity.</p>   |    |
| <b>Factors outside Debenhams' control, such as increases in energy or fuel costs, may have an adverse effect on its results</b>    | <p>Place pressure on margin and profitability and will divert financial and management resources from more beneficial uses, reducing profitability.</p>   | <p>A key objective of the energy committee is to control energy usage, including the impact of the Carbon Reduction Commitment ("CRC") scheme. An energy hedging policy is in place to provide a high degree of cost certainty in the short term.</p>  |  |
| <b>Debenhams' business may be materially adversely affected by changes to, or a breach by the Group of, laws or regulations</b>    | <p>Adverse effect on inventory and profitability and will divert financial and management resources from more beneficial uses, reducing profitability.</p>  | <p>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.</p> <p>Forums exist to focus on specific areas of legislation, and specific business policies and procedures are in place to ensure that roles and responsibilities are understood across the Group.</p>  |  |
| <b>Acts of fraud, theft and industrial espionage could adversely affect Debenhams' business operations, reputation and results</b> | <p>Negative effect on reputation and will divert financial and management resources from more beneficial uses, reducing profitability.</p>  | <p>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.</p> |  |

\* Change in severity and/or likelihood of risk during course of 2014/15.

\*\* These risks are not new but were previously incorporated within other principal risks.

\*\*\* These risks are not new but are now reported as principal risks following the annual review of their ranking.

# KEY PERFORMANCE INDICATORS (KPIs)

## Measuring our progress

### MEASURING OUR PROGRESS

The board uses a range of KPIs to assess performance.

This year we have added the financial KPI of net debt. The business has delivered good cash flow generation in recent years, and management has targeted a reduction in leverage ratio as discussed in the financial review on page 32. The strategic KPIs are linked to the pillars of our strategy and sustainable KPIs ensure that the management of resources and relationships remain core to our business model.

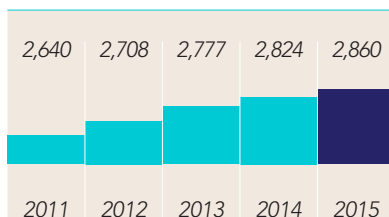
### DIRECTORS' REMUNERATION

Certain of the strategic and financial KPIs are linked to executive remuneration as indicated below. The annual bonus criterion is underlying profit before tax ("PBT"). Under the performance share plan ("PSP") awards are granted according to performance against the following KPI measures: UK gross transaction value ("GTV"); Group gross margin movement; and basic earnings per share.

Additionally PSP awards are granted according to performance against targets under the following measures: online EBITDA growth rate and International EBITDA growth rate. More information can be found in the directors' remuneration report starting on page 56.

### Group financial KPIs

#### Gross transaction value (£m)



#### Rationale

GTV is a measure of overall sales in the business, including those from concession brands.

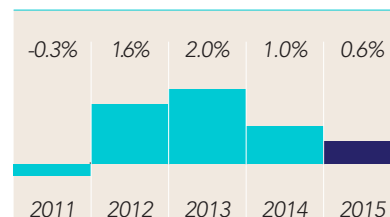
#### 2015 performance

Group GTV increased by 1.3% with 2.1% growth in the UK while International GTV was down 2.2% due to adverse foreign exchange movements.

#### Looking forward

As we develop a leading international multi-channel brand, GTV is expected to continue to grow.

#### 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 growth, from our UK and international business.

#### 2015 performance

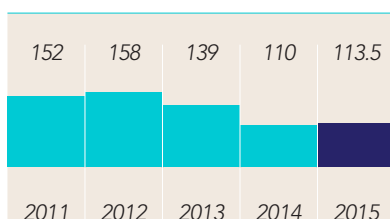
Group LFL sales increased by 0.6%. Adjusted for adverse foreign exchange translation, constant currency LFL growth was 2.1%, reflecting good progress online and in our Danish stores.

#### Looking forward

We expect the measures we are taking to improve service for our multi-channel customers and the space productivity of our UK stores to support LFL sales growth.

All numbers for 2011 on 52 week basis.

#### Profit before tax\* (£m)



#### Rationale

Profit before tax (PBT) is our principal measure of profitability, and excludes items that are one-off in nature.

#### 2015 performance

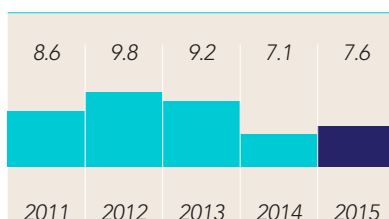
PBT rose by 2.9% to £113.5 million reflecting positive growth in GTV, maintained gross margins and tight cost management.

#### Looking forward

The board expects growth in PBT in future years from the execution of our strategy and continuing tight management of costs.

\* Before exceptional items and non-recurring finance costs (2014: £4.5 million), 2013-15 under IAS19 R, 2011-12 under IAS 19.

#### Earnings per share\*(pence)



#### Rationale

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

#### 2015 performance

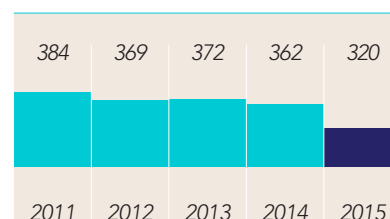
Basic EPS rose by 7.0% reflecting the growth in profit and a lower tax rate.

#### Looking forward

The board expects EPS to grow in future years in line with profit growth.

\* 2013-15 under IAS 19 R, 2011-12 under IAS 19

#### Net debt (£m)



#### Rationale

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

#### 2015 performance

After generating £41.7 million of cash, year end net debt has reduced to £319.8 million.

#### Looking forward

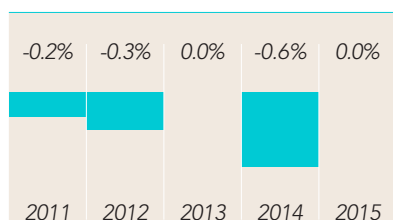
The board expects that after meeting the investment needs of the business and paying dividends to shareholders, the Group will continue to generate cash and reduce net debt levels in future years.



## 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.

#### 2015 performance

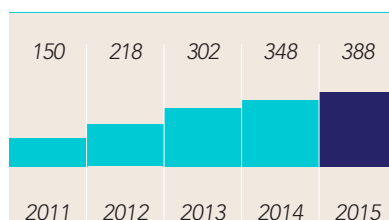
Gross margin was flat across the year, with strong progress in markdown reduction offset by price investment and an adverse sales mix.

#### Looking forward

We expect gross margin to continue to show the benefit of further markdown reduction as a result of higher full price sell-through, reflecting the refocusing of promotional activity.



### 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 both UK and international customers.

#### 2015 performance

Online GTV increased by 11.4% to £388 million, representing 13.6% of total GTV, up from 12.3% last year.

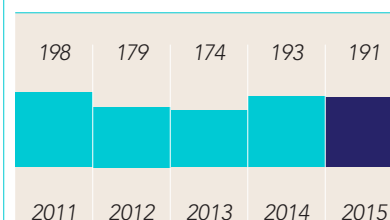
#### Looking forward

Online GTV is expected to continue to grow both in the UK and overseas, supported by further improvements in service levels.

\* Adjusted to reflect sales net of online returns to store.

## Sustainability KPIs

### Carbon emissions (CO<sub>2</sub>e 000 tonnes)



#### Rationale

CO<sub>2</sub>e is used as a measure of environmental impact. It takes into account harmful emissions from the six greenhouse gases identified by the Kyoto Protocol.

#### 2015 performance

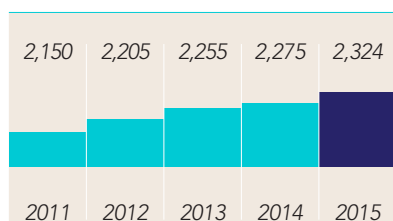
Our overall carbon footprint has decreased by 1.3%, mainly due to a reduction in electricity consumption.

#### Looking forward

We are investing in energy efficiency measures to reduce our carbon emissions as part of our overall strategy to drive sustainable growth.



### Focus on UK retail – UK GTV (£m)



#### Rationale

UK GTV reflects the performance of our UK stores, including their critical part in driving multi-channel sales.

#### 2015 performance

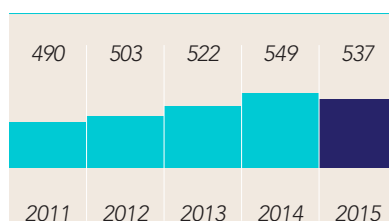
UK GTV grew by 2.1% to £2,324 million. Whilst store performance continues to be impacted by channel shift, the impact is moderating.

#### Looking forward

Our space optimisation programme is expected to increase sales densities within UK stores and the growth of click & collect underscores the continuing importance of our UK store estate.



### Expanding the brand internationally – International GTV (£m)



#### Rationale

International GTV includes sales from our stores in Denmark and Republic of Ireland, as well as sales to franchise partners and online orders delivered outside the UK.

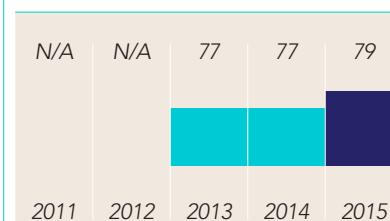
#### 2015 performance

International GTV declined by 2.2% reflecting adverse foreign exchange translation. Constant currency GTV growth was 5.3%.

#### Looking forward

Growth in overseas markets will be driven by sales momentum in Denmark, further franchise store expansion, online demand from overseas customers and wholesale opportunities for our brands.

### Employee engagement (%)



#### Rationale

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

#### 2015 performance

Our engagement score increased by 2 points to 79%, with more than 21,000 colleagues participating.

#### Looking forward

With some important training and development measures now in place, we would expect to see continuing progress in this important stakeholder measure.

# FINANCIAL REVIEW

Improved profit performance translates into good net cash generation



**MATT SMITH**  
CHIEF FINANCIAL OFFICER

The Group's performance for the 52 weeks to 29 August 2015 is summarised in figure 1. An improved profit performance in the first half of the year was reinforced by further progress in the second half and underpinned by good cash generation.

## SALES AND REVENUE

For the 52 weeks to 29 August 2015 Group GTV increased by 1.3% to £2,860.1 million and Group revenue increased by 0.4% to £2,322.7 million. Group like-for-like sales increased by 2.1% on a constant currency basis and by 0.6% on a reported basis. There was strong growth in online sales, which increased by 11.4% to £388.2 million, net of online returns to store, and at Magasin du Nord, which grew 8.1% like-for-like in constant currency. The components of the Group gross transaction growth and like-for-like sales growth are shown in figure 2 opposite.

Group own bought sales mix decreased to 75.4% from 76.2% in FY2015 largely as a result of the movement in UK sales mix.

## OPERATING PROFIT

Good progress was made against the strategic priorities as set out last year. The combination of 17 fewer days on promotion and tight stock control resulted in reduced markdown and a 90 bps benefit to the gross margin rate. This was offset by the impact of sales mix from growing sales in the lower margin cosmetics and concession categories (60 bps) and planned investment in reducing prices in some categories (30 bps). The net effect on a full year basis was a flat margin rate compared with FY2014.

Costs were managed tightly throughout the year. Total costs increased by 0.2% over the prior year to £2,188.6 million, despite the further shift into online and the investment in expanded online services such as next day click & collect from stores. Cost of sales (defined as product costs associated with gross margin, together with related buying, marketing and store costs) of £2,023.5 million decreased by 0.5% as own bought mix declined and cost saving initiatives were implemented. Distribution costs increased by 12.8%

## UK performance

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

GTV increased by 2.1% and revenue by 1.1%. This was a result of continued online sales growth to UK customers and the benefit of new store openings. Stores continued to experience a small level of sales decline from the channel shift into online. As we have added choice in concessions, the own bought mix has decreased from 79.3% to 78.3% with consequent margin dilution.

Operating profit increased by 5.6% to £101.7 million reflecting benefits from lower markdown, strong cost control within the Group and sales growth.

## International performance

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

In constant currency, GTV improved by 5.3% reflecting the strong performance in Denmark. In reported currency GTV was 2.2% lower than last year and revenue decreased by 2.5%, primarily impacted by the effect of the strengthening pound on conversion of Magasin du Nord and Republic of Ireland results.

International operating profit increased by 0.3% despite the adverse foreign exchange movements.

to £111.1 million, reflecting increased costs associated with online growth and store deliveries. Administrative expenses increased by 3.4% to £54.0 million from additional systems costs.

Depreciation and amortisation, including losses on disposal of property, plant and equipment, increased by 2.3% to £104.5 million, reflecting higher capital expenditure in recent years.

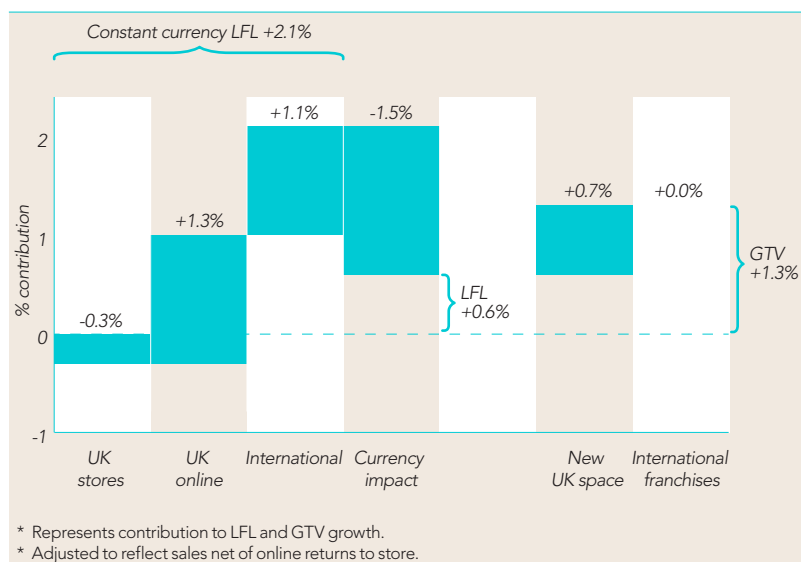
As a result of the foregoing, Group operating profit increased by 4.3% to £134.1 million from £128.6 million in the previous year.

Figure 1: Financial summary

|   | 52 weeks to<br>29 August 2015 | 52 weeks to<br>30 August 2014 |
|---|-------------------------------|-------------------------------|
| Gross transaction value                   |                               |                               |
| UK  | £2,323.5m                     | £2,275.3m                     |
| International                             | £536.6m                       | £548.6m                       |
| Group                                     | £2,860.1m                     | £2,823.9m                     |
| Increase in Group like-for-like sales     | +0.6%                         | +1.0%                         |
| Revenue                                   |                               |                               |
| UK  | £1,922.3m                     | £1,902.1m                     |
| International                             | £400.4m                       | £410.6m                       |
| Group                                     | £2,322.7m                     | £2,312.7m                     |
| Operating profit                          |                               |                               |
| UK  | £101.7m                       | £96.3m                        |
| International                             | £32.4m                        | £32.3m                        |
| Group                                     | £134.1m                       | £128.6m                       |
| Underlying net finance costs <sup>1</sup> | £20.6m                        | £18.3m                        |
| Underlying profit before tax <sup>1</sup> | £113.5m                       | £110.3m                       |
| Non-recurring finance costs               | £-m                           | £4.5m                         |
| Reported profit before tax                | £113.5m                       | £105.8m                       |
| Basic earnings per share                  | 7.6p                          | 7.1p                          |
| Diluted earnings per share                | 7.6p                          | 7.1p                          |
| Dividend per share                        | 3.4p                          | 3.4p                          |

<sup>1</sup> Before non-recurring finance costs (2014:£4.5 million).

Figure 2: Sales growth driven by online and international\* (%)



## NET FINANCE COSTS

Net finance costs increased by 12.6% to £20.6 million as a result of increased interest following the refinancing of the borrowing facilities in 2014. This refinancing resulted in a non-recurring write-off to the income statement of £4.5 million of unamortised issue costs in FY2014. Including the impact of this write-off, net finance costs decreased by 9.6%.

## PROFIT BEFORE TAX

Increased operating profits resulted in a 7.3% increase in reported profit before tax from £105.8 million to £113.5 million. Excluding the non-recurring finance costs of £4.5 million in FY2014, the year-on-year increase was 2.9%.

## TAXATION

The Group's tax charge of £20.0 million equates to an effective tax rate of 17.6%, in line with 2014. The effective tax rate benefited from the resolution of prior year tax matters, the utilisation of historic losses within Magasin du Nord and the reduction in the UK corporation tax headline rate.

The tax charge for the year was also marginally impacted by the timing benefit resulting from the adoption of FRS 101 "Reduced disclosure framework" by Debenhams Retail plc at the beginning of the financial year, and by Debenhams Properties Limited from 1 September 2013.

## PROFIT AFTER TAX

Profit after tax increased by 7.2% to £93.5 million.

## EARNINGS PER SHARE

Increased profits resulted in a 7.0% increase in both basic and diluted earnings per share (including the non-recurring finance costs in FY2014) to 7.6 pence. The basic weighted average number of shares in issue decreased from 1,226.8 million last year to 1,226.4 million and diluted weighted average number of shares remained at 1,228.7 million.

# FINANCIAL REVIEW CONTINUED

## CASH FLOW AND USES OF CASH

Debenhams is a 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 set a new medium-term target for net debt to earnings before tax, interest, depreciation and amortisation ("EBITDA") of 0.5 times, previously a target of 1.0 times over the medium term.

Operating cash flow before financing and taxation decreased from £112.5 million to £102.9 million as a result of a working capital outflow of £2.3 million in 2015 compared with a £9.7 million inflow in 2014. Whilst benefiting from the reduction in stocks held, working capital includes recovery plan payments for the defined benefit pension scheme of £9.6 million (2014 £9.4 million). The movement in working capital from last year is largely associated with timing of capital invoices in FY2014.

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

## CAPITAL EXPENDITURE

Capital expenditure amounted to £133.4 million during the year, slightly higher than last year's expenditure of £128.0 million. Capital spend has shifted from a focus on modernisations in previous years to operational effectiveness, including systems development, particularly to support the Group's multi-channel business, and investment in space optimisation initiatives as shown in figure 4. Spend in FY2016 is expected to be c.£130 million with the shape of spend broadly in line with FY2015.

## DIVIDENDS

An interim dividend of 1.0 pence per share was paid to shareholders on 3 July 2015 (2014: 1.0 pence). The board has recommended a final dividend of 2.4 pence per share which will be paid to shareholders on 22 January 2016 taking the total dividend for the year to 3.4 pence (2014: 3.4 pence). The record date is 4 December 2015.

Given the cash generative nature of the business and confidence in future performance, the board intends to adopt a progressive dividend policy in future, applying earnings growth to both dividend increases and the rebuilding of cover towards a medium term target of 2.5 times.

## NET DEBT

The Group's net debt position on 29 August 2015 was £319.8 million, £41.7 million lower than at the same point a year ago (30 August 2014: £361.5 million), benefiting from improved operating cash flow and reduced tax payments from the adoption of FRS 101 "Reduced disclosure framework". The ratio of reported net debt to EBITDA of 1.3 times improved from last year's position at 1.6 times, moving towards the new medium-term target for net debt to EBITDA of 0.5 times. The medium-term target has been reduced from 1.0 times in FY2014.

## BALANCE SHEET

Key balance sheet items are summarised in figure 5.

## INVENTORY

Stock levels were managed tightly during the year in line with our aim of setting more prudent sales targets and reducing our level of stock. Total stock decreased by 4.1% to £331.6 million reflecting tight control and the benefit of flexible purchasing strategies. Terminal stock at year end of 3.1% was in line with historical results.

## FINANCIAL POSITION

During the year ended 29 August 2015, the Company repurchased £25.0 million of the £225.0 million senior notes for a consideration of £24.8 million and cancelled £75.0 million of the £425.0 million revolving credit facility.

## 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 to the Group financial statements starting on page 119.

## SUPPLIER INCOME

The Group receives income from its suppliers, mainly in the form of settlement discounts, volume-based rebates and marketing and advertising income. Supplier income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. Included in prepayments and accrued income is £4.7 million (FY2014: £3.9 million) of accrued supplier income relating to rebates which have been earned but not yet invoiced.

## 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 revised "Employee benefits", the surplus on the Group's pension schemes as at 29 August 2015 was £26.2 million (30 August 2014: net deficit of £2.4 million). The surplus was driven by asset returns.



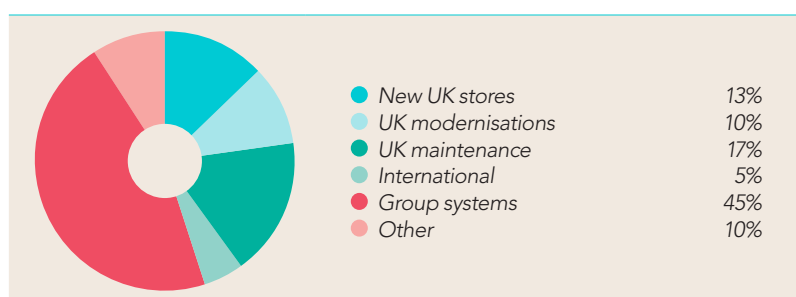
**Figure 3: Cash flow, uses of cash and movement in net debt**

|   | 52 weeks to<br>29 August 2015 | 52 weeks to<br>30 August 2014 |
|---|-------------------------------|-------------------------------|
| EBITDA  | £238.6m                       | £230.8m                       |
| Working capital                                   | (£2.3m)                       | £9.7m                         |
| Cash generated from operations                    | £236.3m                       | £240.5m                       |
| Capital expenditure                               | (£133.4m)                     | (£128.0m)                     |
| Operating cash flow before financing and taxation | £102.9m                       | £112.5m                       |
| Taxation  | £1.1m                         | (£20.6m)                      |
| Financing   | (£19.3m)                      | (£13.1m)                      |
| Dividends paid                                    | (£41.7m)                      | (£41.7m)                      |
| Share buyback                                     | –                             | (£15.1m)                      |
| Other movements                                   | (£1.3m)                       | (£11.5m)                      |
| Change in net debt                                | £41.7m                        | £10.5m                        |
| Opening net debt                                  | £361.5m                       | £372.0m                       |
| Closing net debt                                  | £319.8m                       | £361.5m                       |

During June 2015, the triennial actuarial valuation was completed and a new agreement was concluded under which the Group agreed to contribute £9.5 million per annum to the pension schemes (previously £8.9 million per annum) for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. The Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Current pension arrangements for Debenhams' employees are provided by defined contribution pension schemes.

Further information can be found in note 23 to the Group financial statements starting on page 126.

**Figure 4: Capital expenditure**

**MATT SMITH**  
CHIEF FINANCIAL OFFICER  
22 OCTOBER 2015

**Figure 5: Key balance sheet items**

|  | 52 weeks to<br>29 August 2015 | 52 weeks to<br>30 August 2014 |
|--|-------------------------------|-------------------------------|
| Intangible assets                        | £931.5m                       | £892.8m                       |
| Property, plant and equipment            | £675.3m                       | £689.2m                       |
| Inventory                                | £331.6m                       | £345.7m                       |
| Other assets                             | £124.5m                       | £98.4m                        |
| Trade and other payables                 | (£523.6m)                     | (£529.3m)                     |
| Other liabilities                        | (£358.4m)                     | (£363.1m)                     |
| Retirement benefit surplus/(obligations) | £26.2m                        | (£2.4m)                       |
| Net deferred tax liabilities             | (£34.0m)                      | (£2.4m)                       |
| Net debt                                 | (£319.8m)                     | (£361.5m)                     |
| Reported net assets                      | £853.3m                       | £767.4m                       |

# RESOURCES, RELATIONSHIPS AND SUSTAINABILITY

Ensuring our ability to endure

No. of factories

941

Female senior management

47%

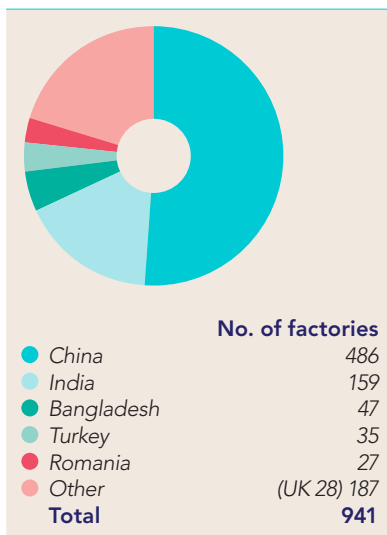
Debenhams Foundation  
funds raised in 2015

£1.7m

Employee engagement

79%

## Top sourcing countries



## MANAGING OUR RESOURCES AND RELATIONSHIPS

In order to deliver a compelling customer proposition at great value, our sustainable ethical sourcing strategy underpins everything that we do as a responsible retailer. Our customers have the right to expect that we source and select the highest quality products from suppliers with best practice due diligence and regular audits of ethical compliance and technical capability in line with our code of conduct, conditions of trading and company policies. We source product from 1,246 suppliers, of which 586 are own brand label suppliers, operating out of 941 factories in diverse markets around the world. Further details can be found on our website: <http://sustainability.debenhamsplc.com/>.

## Business sustainability

Our sustainability committee is chaired by Martina King, a non-executive director. The committee is made up of senior executives from key functions across the business. The committee's primary goal is to take a medium to long-term view of the world in which we trade, ensuring that all aspects of our business remain sustainable, enabling us to continue as a successful international retailer and to achieve our strategic targets. Debenhams has been serving our customers for more than 200 years and as global trends impact on our business, we aim to ensure that we will continue to serve our customers for another 200 years.

The committee considers key global trends, the environment and new technologies in order to identify business risks, and opportunities to support our continual development and growth.

## GLOBAL SOURCING

Working together, our ethical compliance and corporate responsibility teams, buying function and our global sourcing division ensure a consistent and cost effective flow of goods.

As set out in our policies and conditions of trading, our suppliers and factories must ensure that their employees are paid a fair wage, treated with dignity, not discriminated against or exploited in any way and have a safe working environment. In addition, they undertake not to sub-contract under any circumstances.

We have two overseas offices based in Hong Kong and Bangladesh working with the London sourcing, ethical compliance and quality assurance teams. The Bangladesh office supports our strategy to increase direct sourcing, enabling us to have more direct open working relationships and more flexibility, control and transparency, as well as benefiting from improved margins.

In India, our representative office supports the management of ethical compliance and quality assurance alongside our own sourcing team.

Due to our international and e-commerce growth a revised environmental and chemical policy is due to be published in 2015/16.



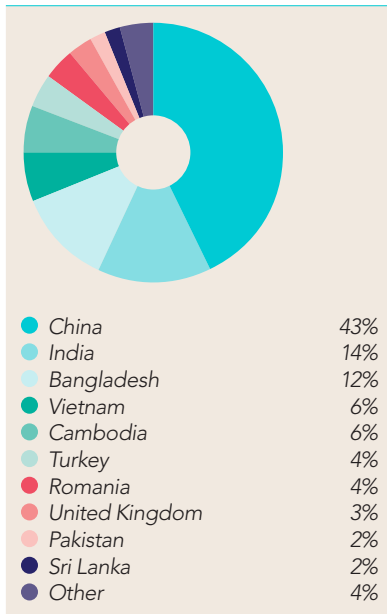
**SUDOKKHO**  
My skills, our prosperity

**সুদক্ষ**  
আমাদের দক্ষতা আমাদের সমৃদ্ধি



**ACCORD**  
on fire and building safety in Bangladesh

#### Business share by country (%)



▲ Top: Dhaka – BBW factory presentation

▲ Bottom: Dhaka production finishing line

#### Due diligence and monitoring

We operate a comprehensive factory approval and audit process. During 2014/15, all 941 factories were audited or re-visited for follow up remediation as part of our ongoing monitoring programme. The audit reports and remediation plans must be approved before any further business with the Company can be transacted. Whilst we recognise the international independent third party audit companies, our nominated audit partner is Intertek (ITS).

We run our own spot check programme, whereby each month factories are randomly selected for unannounced inspections to check for any subcontracting.

During the course of 2014/15, we visited more than 700 factories; the majority of these were unannounced, including factory visits in the UK made by Martina King, chair of the sustainability committee and our Director of Ethical Trade and Corporate Responsibility. We also facilitated a visit to a fully vertical manufacturing site in Bangladesh by a global investment organisation to see first-hand the standard of the factories we partner with and to understand the extent of what is happening on the ground since the tragic collapse of Rana Plaza in 2013.

#### WORKER WELLBEING

We have a number of projects in relation to improving the lives of those within our supply chain. In particular, female empowerment and worker wellbeing form two of our key ethical strategies. The following projects we have developed or participate in as wider collaborative retailer initiatives and full details can be found on our website: <http://sustainability.debenhamsplc.com/>

#### LIFE

Life Skills for Empowering Women ("LIFE") is a partnership established during 2015 with a health resource NGO in India, Swasti: [www.swasti.org](http://www.swasti.org). The purpose is to empower female workers by strengthening their life skills, using a peer education approach.

#### Benefits for Business and Workers ("BBW") programme

BBW is currently run in Bangladesh and India by Impactt, which is a leading consultancy specialising in ethical trade, human rights, labour standards, gender and international development. Impactt works with retailers, governments and NGOs to maximise positive impact on workers and local communities. The objective of the programme is to train factory management on productivity,

HR practices and treatment of workers. Further details are available on our own website and at [www.impacttlimited.com](http://www.impacttlimited.com).

#### ILO Better Work Programme

We are part of Better Factories Cambodia ("BFC") and Better Work Vietnam ("BWV") which under a partnership between the International Labour Organisation ("ILO") and manufacturers aim to promote rights at work and enhance social protection.

#### Bangladesh Accord

We remain a signatory to the Accord and act as Lead Brand to a group of factories in Bangladesh. We continue to support our suppliers and factories to ensure the remediation from the Accord inspections is being completed to ensure worker safety.

#### Sudokkho skills and employment programme

Debenhams is the first retailer to be involved in this programme which aims to improve skill levels within factories for the Bangladesh workforce, in coordination with Bangladesh's Ministry of Education and the UK Department for International Development.

#### DEBENHAMS FOUNDATION


The Debenhams Foundation was set up in March 2012 to ensure Debenhams has a strong, consistent charitable approach. The aim of the Debenhams Foundation is primarily to raise money for its key charity partners which reflect the causes that Debenhams' customers hold dear. The key charity partners are: Children in Need, Help for Heroes and Breast Cancer Now. In FY2015 the Debenhams Foundation raised £1.7 million. The total funds raised by the Debenhams Foundation since its inception now stands at £3.9 million. Further details on the work and achievements of the Debenhams Foundation can be found at <http://Debenhamsplc.com>.

#### OUR EMPLOYEES

Debenhams directly employs around 28,000 people in the UK, Denmark, the Republic of Ireland, Hong Kong and Bangladesh. 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 or age.



# RESOURCES, RELATIONSHIPS AND SUSTAINABILITY CONTINUED



**Ethical Trading Initiative**  
Member Respect for workers worldwide

**INDUSTRY PARTNERSHIPS**  
We are an active member of the BRC and involved in several working groups. Some of the working groups that we participate in, include:

- Environment
- Better Retail Climate
- Ethical Labour
- Modern Slavery
- Timber
- Chemical

Debenhams remains a member of the Ethical Trading Initiative ("ETI"): the ETI Base Code is an internationally recognised code of labour practice. We are involved with various activities such as the Leicester working group, Living Wages, the China working group and in the past 12 months we worked in collaboration with the ETI, other retailers and the Home Office on the Modern Slavery Act 2015.

Through our equal opportunities policy we aim to create an environment that offers all employees the chance to use their skills and talent. Decisions on recruitment, training, promotion, pay terms and conditions and leavers are based solely on objective, job-related criteria, and personal competence and performance.

Wherever possible the Company makes reasonable adjustments to ensure that disabled employees are able to work effectively including the provision of equipment, training and adjustment of the work environment or working times.

## Gender split at financial year end

|                   | Male  | Female |
|-------------------|-------|--------|
| Directors         | 8     | 2      |
| Senior management | 79    | 70     |
| All employees     | 5,603 | 18,180 |

Debenhams 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.

## HUMAN RIGHTS AND MODERN SLAVERY

Respecting human rights across our global reach is a fundamental part of our Company ethics and integrity. We have followed the UN Guiding Principles on Business and Human Rights in order to judge our salient issues and associated risks to our business as an international retailer. We welcome the UK Government's Modern Slavery Act of March 2015 and fully support this legislation, which will help create a level playing field across industry and supply chains. We have already incorporated additional clauses into our supplier conditions of trading, business policies and code of conduct and in due course will publish our Human Rights policy, providing relevant training to employees and our global supply base.

We promote and respect human rights through policy and stakeholder dialogues, and participate in various industry forums and working groups. On 30 March 2015, we held a supplier conference at our head office for all UK suppliers and factories to introduce the Modern Slavery Act 2015. We required our UK supply base to attend workshops on a new initiative of which we are a founding member, alongside other major UK retailers, called Fast Forward. This is to introduce a new audit model, the methodology and preparatory requirements, which at present replaces the industry standard SMETA for the UK supply base. We continue to use the SMETA methodology globally.

As an immediate priority during the remaining part of 2015 we are conducting these audits at each factory in the UK, and inspections will also be conducted for outsourced labour providers. We continue to work closely with the ETI and BRC and remain an active member of the relevant working groups.

### Engagement survey

The results of the third annual employee survey "Your Voice 2015" show that our engagement score has improved to 79%. In line with last year, more than 21,000 colleagues participated in the survey.

What has been particularly pleasing is to see some of the gains on both last year and two years ago in the areas where we have had specific management focus or investment. We believe initiatives such as the Learning@Work events, a new performance management process and local "Your Voice" action plans have driven these improvements.

### Building employee performance

We launched our goal setting process for all employees in 2013/14, supported by performance-focused goal setting sessions for all managers. The aim is for all employees to clearly see and be rewarded for the part they play in driving the performance of the business for future success. We aim to build on our new performance review process, defining and embedding the Debenhams Success factors as behaviours required from our employees.

Business information and key messages are cascaded to all employees throughout the business via personal briefings and email. Briefings are also held by the Chief Executive and senior management 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.

### Building a pipeline of leaders and managers

We launched a new robust process to define talent throughout the business and to support succession planning. In addition, we launched a new series of development programmes to support talented store employees progressing from sales advisor through to store manager, which has seen over 1,000 non-management staff working towards being the store managers of the future.

For Head Office, our talent development programmes continue to evolve, focusing on areas of growth for the business. Business focused projects have been integrated into development programmes to add continuous learning opportunities as well as build effective cross-functional working.

We are currently participating in the government trailblazer initiative for industries to design and own apprenticeship standards. In addition to our current retail apprenticeships run in key stores we are trialling a food apprenticeship in our restaurants in a sample of stores in the North West.

We have taken business placements from a broad range of top universities. Our business placement participants undergo an intensive training programme, with 60% returning to us on completion of their full time education.

### ENVIRONMENT

#### SCAP – Sustainable Clothing Action Plan and TR Aid

The Sustainable Clothing Action Plan ("SCAP") aims to improve garment sustainability. We are amongst other leading clothing companies that have pledged to measure and reduce their environmental footprint and are a signatory to the SCAP 2020 Commitment. Further details are available on our website. As part of our commitment we have partnered with TR Aid, a charity working to stop textiles and footwear from being thrown to landfill, reducing waste and carbon emissions while raising funds to fight global poverty.

We have launched a head office recycling initiative for staff to dispose of both samples and their own clothing, footwear and accessories. In 2015/16 we aim to operate a customer facing option for stores and online.

### Energy efficiency

Debenhams has reported its greenhouse gas ("GHG") emissions since 2008 and reported online to the Carbon Disclosure Project since 2010. We participate in the UK Government's CRC Energy Efficiency Scheme where we are in the top quartile of the CRC league table. Our GHG footprinting, reporting and assurance services are provided by Ricardo-AEA.



▲ Top/Middle:  
Bangladeshi factory  
employees

▲ Bottom: LIFE Team  
training Bangalore  
employees

# RESOURCES, RELATIONSHIPS AND SUSTAINABILITY CONTINUED

## “OUR CARBON FOOTPRINT HAS DECREASED BY 1.3%”

Energy efficiency is a key component of our store expansion and modernisation programmes. New stores in Borehamwood and Scunthorpe have benefited from full LED lighting schemes on the shop floor and in the back of house areas, reducing total energy usage by 19% compared with conventional lighting. Following a successful trial at Birmingham Bullring we are investing £2 million in 2016 on initiatives to retrofit LED lighting in a number of stores to reduce our energy consumption whilst also improving the in-store environment for customers and employees.

### Logistics

With the continued growth in click & collect and recognising the benefits of an improved service to our stores, we have combined several parts of our delivery operation to provide a cost effective and high frequency delivery model. This allows delivery of all of our own bought click & collect parcels on Debenhams-owned and managed assets, improving cost effectiveness and the quality of the service to our customers. This has additionally provided a more frequent delivery service to our stores enabling faster movement of stock through our supply chain. We have also invested in enhancing our transport telematics tools, providing increased visibility on all movements and improved service monitoring.

We have also contracted with rail freight providers to move as many containers as possible by rail from ports of arrival to our Sherburn Distribution Centre (“DC”). This has successfully generated cost savings as well as reducing CO<sub>2</sub> emissions.

We opened our first overseas distribution hub, in Singapore, in April 2013. We currently process more than 5 million units per year through the facility and service our Middle East franchise partner with direct shipments of more than 65% of their total stock package. Most of our Asian origin stock now ships directly from point of manufacture via Singapore into the relevant Middle East market.

This has delivered both significant cost savings and improved lead times, as well as reduced CO<sub>2</sub> emissions and shorter travel distance. It will also add to our DC sustainability project by diverting volume from our prime UK DCs.

We plan to extend the use of this facility by adding more franchise partners in the region.

### Waste management

Debenhams is committed to minimising the amount of waste generated not only to improve our environmental footprint, but also to make financial savings. Our aim was to send zero store waste to landfill by January 2014. We have achieved 94% which is a 38% increase since 2011 and 101 stores are at 100%. To help drive down the 6% landfill diversion we have worked with new partners to assist us to divert our by-product. For example, our collaboration with Dulux Paints has enabled us to reduce costs and take advantage of their take back scheme, where the paint is either recycled or used within community projects.

### GREENHOUSE GAS “GHG” REPORT 2014/15

Debenhams has reported its GHG emissions for its UK, Irish and Danish operations since 2008. Since then its footprint boundary has evolved to include areas such as other international offices, packaging, hanger (production and recycling) waste and production of catalogue, brochure and direct mail. This section provides a breakdown of our GHG emissions for this year. For further details of our GHG emissions visit our website: <http://sustainability.debenhamsplc.com/>.

Supported by Ricardo-AEA, we have applied the GHG Protocol Corporate Accounting and Reporting Standard 2013 and the UK Government Conversion Factors for Company Reporting to calculate our carbon emissions. Our GHG emissions are reported in line with the Group’s financial year.

This year, based on the data provided, our overall carbon footprint has decreased by 1.3%, from 193,365 tonnes CO<sub>2</sub>e in 2014 to 190,930 tonnes CO<sub>2</sub>e in 2015. A breakdown of this is shown in figure 1.

The decrease in overall emissions is mainly due to a reduction in electricity consumption both in terms of energy measured in kWh and in emissions measured in tonnes CO<sub>2</sub>e. The increase in Scope 1 emissions this year reflects newly available refrigeration emissions. Scope 3 emissions have increased due to the inclusion of a new emission source, the production of catalogue, brochure and direct mail.



We will continue to capture more emissions sources in the future. In addition, we will continue to invest in projects that will further support the reduction of our footprint and environmental impacts. This year we invested £739,628 across energy efficiency projects such as lighting, heating, cooling and controls, with additional investment planned in for 2015/16.

**Figure 1: Scope 1, 2 and 3 absolute GHG emissions shown in tonnes CO<sub>2</sub>e**

|              | 2010/11        | 2011/12        | 2012/13        | 2013/14        | 2014/15        |
|--------------|----------------|----------------|----------------|----------------|----------------|
| Scope 1      | 22,198         | 14,850         | 17,786         | 15,989         | 19,668         |
| Scope 2      | 149,732        | 144,536        | 139,607        | 149,068        | 139,354        |
| Scope 3      | 28,418         | 19,071         | 16,687         | 28,308         | 31,908         |
| <b>Total</b> | <b>200,348</b> | <b>178,457</b> | <b>174,080</b> | <b>193,365</b> | <b>190,930</b> |

Scope 1: Direct CO<sub>2</sub>e emissions sources such as gas and oil consumption, business travel and refrigeration.

Scope 2: Indirect CO<sub>2</sub>e emissions from the consumption of purchased electricity, heat or steam.

Scope 3: Other indirect CO<sub>2</sub>e emissions from sources such as transport of goods in vehicles not owned or controlled by Debenhams, water consumption and waste disposal.

Emissions data are made more meaningful when compared to a core business variable. We have used intensity ratios for both the total footprint using the annual GTV and premises floor area. Figure 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 of CO<sub>2</sub>e per million pounds of GTV and tonnes of CO<sub>2</sub>e per square metre of floor area, respectively, as shown in figure 3.

These tables show that the GTV and floor area have increased this year; and yet the intensity metrics have decreased.

**Figure 2: Data used for intensity measurements**

|  | 2010/11          | 2011/12          | 2012/13          | 2013/14          | 2014/15          |
|--|------------------|------------------|------------------|------------------|------------------|
| GTV (£m)                                 | 2,640            | 2,708            | 2,777            | 2,824            | 2,860            |
| <b>Total floor area* (m<sup>2</sup>)</b> | <b>1,931,449</b> | <b>1,838,924</b> | <b>1,808,398</b> | <b>1,850,874</b> | <b>1,894,926</b> |

\* This total floor area included back of store, offices and distribution centres.

**Figure 3: Assessment of absolute footprint emissions**

| Assessment                                 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|--|---------|---------|---------|---------|---------|
| Absolute emissions (tCO <sub>2</sub> e)    | 200,348 | 178,457 | 174,080 | 193,365 | 190,930 |
| Absolute tCO <sub>2</sub> e/£m GTV         | 76      | 66      | 63      | 68      | 67      |
| Absolute tCO <sub>2</sub> e/m <sup>2</sup> | 0.104   | 0.097   | 0.096   | 0.104   | 0.101   |

Overall, with stringent monitoring management we expect to continue to show improvement in these metrics in the next five years, and continue to contribute positively to the Better Retailing Climate as part of our drive to save energy and protect the environment.

## STRATEGIC REPORT

The strategic report was approved by a duly authorised committee of the board of directors on 21 October 2015 and signed on its behalf by:

**MATT SMITH**  
**CHIEF FINANCIAL OFFICER**  
**22 OCTOBER 2015**

# CORPORATE GOVERNANCE

Committed to high standards of corporate governance



**NIGEL NORTHRIDGE**  
CHAIRMAN

“THE BOARD RECOGNISES  
THE NEED TO LEAD ON  
VALUES AND CONDUCT IN  
ORDER TO ENCOURAGE  
GOOD BEHAVIOURS  
THROUGHOUT DEBENHAMS”

**DEAR SHAREHOLDER**

On behalf of the board, I am pleased to present the corporate governance report for the financial year ended 29 August 2015 and to confirm that Debenhams plc complies with the UK Corporate Governance Code (September 2012) ("the Code"). The corporate governance report together with the Audit Committee report, the directors' remuneration report and the directors' report sets out our approach to governance and how the board has directed and controlled the Group during the last year.

In addition to seeking to operate high standards of corporate governance, the board also recognises the need to lead on values and conduct in order to encourage good behaviours throughout Debenhams. Our standards of expected conduct and behaviour are set out in our code of business conduct policy which we periodically circulate to all employees across the business. That policy is available on the Company's intranet alongside all our other business policies.

The following are the key corporate governance issues that the board has addressed during the last financial year.

**SUCCESSION PLANNING**

Succession planning is an important element of good governance. It ensures that we are fully prepared for planned or sudden departures from key positions throughout the Group.

With that in mind the Nomination Committee undertook a review of the succession plans for the board, the Executive Committee and key roles within the organisation. The review also provided visibility on the talent pipeline and "rising stars" within Debenhams.

**THE BOARD**

Following the external evaluation process last year, I conducted an internal evaluation of the board and its committees during this year. I am pleased to report that the results were positive, confirming that the board and its committees are operating well and effectively.

Michael Sharp has been Chief Executive of Debenhams since September 2011 and it has always been his intention to serve a five year term. Michael is now two months into his fifth year and has indicated this is the right time for the board to commence a succession planning process so that he can step down some time in 2016. Michael will remain in post during the Christmas trading period and into 2016 and will assist the board in the process of identifying his successor. This process will evaluate internal and external

candidates and Michael has agreed to remain in post to ensure an orderly and smooth handover to his successor.

On behalf of the board I would like to thank Michael for continuing to lead Debenhams through a crucial time of change in retailing and for the good progress the Company has made under his leadership. He has worked enormously hard to develop the Company's strategy and the benefits of this are really starting to show in the results. I am pleased Michael will remain with us until we have appointed a suitable replacement and will help facilitate an orderly succession process. The board is confident we have a clear and effective strategy and when Michael steps down, he will leave Debenhams in a strong position to compete and deliver long-term sustainable growth.

As indicated last year, we welcomed Matt Smith to the board as Chief Financial Officer. Matt was appointed to the board on 26 January 2015. In addition, Terry Duddy joined the board as an independent non-executive director on 10 April 2015. He is also a member of the Nomination, Remuneration and Audit Committees. Martina King's appointment as an independent non-executive director was extended for a further three years to 31 July 2018 following the end of her second three year term on 31 July 2015. Sophie Turner Laing stepped down from the board following the expiry of her second three year term, having served as an independent non-executive director since August 2009. Sophie's input during her six years of service has been extremely valuable to the board. Since year end, Peter Fitzgerald's appointment as an independent non-executive director has been renewed for a second three year term effective from 4 October 2015.

As outlined in my letter on page 3, Dennis Millard is to remain on the board as a non-independent non-executive director. It is proposed that Terry Duddy will succeed him as Senior Independent Director and Martina King will take over as chair of the Remuneration Committee, both appointments to be effective from 14 January 2016.

Following my evaluation of the directors and my confirmation that they all continue to perform effectively and demonstrate commitment to their roles, the Nomination Committee is, in line with the Code, recommending that all the directors of the Company stand for re-election at the next Annual General Meeting along with Matt Smith and Terry Duddy who will both stand for election to the board having been appointed as directors during the year.

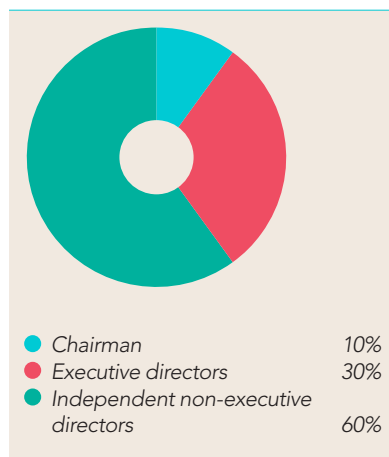
**CORPORATE GOVERNANCE CODE**

We have reviewed the new provisions included in the Financial Reporting Council's UK Corporate Governance Code published in September 2014 which will be effective for our 2016 financial year. The board will therefore report on the implementation of those new responsibilities in next year's annual report.

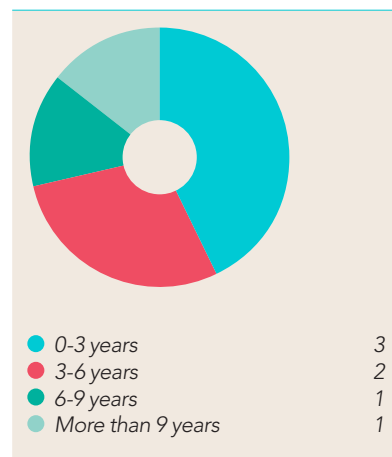
I look forward to meeting shareholders at our next Annual General Meeting which will be held on 14 January 2016 at 2.00pm at the Wellcome Collection, 183 Euston Road, London NW1 2BE.

**NIGEL NORTHBRIDGE  
CHAIRMAN**

**Board composition**



**Length of non-executive directors' service**





# BOARD OF DIRECTORS

Governed with experience

▼  
 Left to right:  
 Mark Rolfe, Martina King, Terry Duddy, Nigel Northridge,  
 Michael Sharp, Matt Smith, Peter Fitzgerald, Stephen Ingham,  
 Suzanne Harlow and Dennis Millard.

## Committee membership

|                  | Remuneration | Nomination | Audit | Sustainability |
|------------------|--------------|------------|-------|----------------|
| Nigel Northridge | ●            | ■          |       |                |
| Michael Sharp    |              |            |       |                |
| Matt Smith       |              |            |       |                |
| Suzanne Harlow   |              |            |       |                |
| Dennis Millard   | ■            | ●          | ●     |                |
| Terry Duddy      | ●            | ●          | ●     |                |
| Peter Fitzgerald |              |            | ●     |                |
| Stephen Ingham   | ●            |            |       |                |
| Martina King     | ●            | ●          | ●     | ■              |
| Mark Rolfe       | ●            | ●          | ■     |                |

● Committee member ■ Committee chairman



**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 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, Thomas Cook Group plc and Aer Lingus Group plc and as Chairman of Paddy Power plc.

**Current external directorships:** Senior Independent Director of Inchcape 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

**MATT SMITH ACA**

**Role:** Chief Financial Officer since January 2015.

**Key strengths:** Matt brings extensive experience of international and multi-channel retailing to his role as Chief Financial Officer. He worked for Mothercare plc as Chief Financial Officer since 2013 and prior to this, he held a number of senior finance roles within Home Retail Group plc including Finance Director of Argos. Matt is a chartered accountant and has worked for KPMG in both London and Sydney.

**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. She has worked for Debenhams since 1994 and her roles have also included Trading Director of 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 and a representative of the International

Association of Department Stores.

**Current external directorships:** Ermes Department Stores plc

**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 and Deputy Chairman of two other retail public companies and with past experience as a Finance Director, Dennis brings relevant and broad experience to his roles of Senior Independent Director and chairman of the Remuneration Committee. Dennis has previously also served as Chairman of Connect Group PLC and as a non-executive director of Premier Farnell plc.

**Current external directorships:** Chairman of Halfords Group plc and Deputy Chairman of Pets at Home Group plc.

**TERRY DUDDY**

**Role:** Independent non-executive director since April 2015 and a member of the Remuneration, Audit and Nomination Committees.

**Key strengths:** Terry was Chief Executive of Home Retail Group plc, following its demerger from GUS in October 2006 until March 2014, having previously served as Chief Executive of Argos since its acquisition by GUS in 1998. He previously held senior executive roles at Dixons Stores Group, latterly as Managing Director at PC World.

**Current external directorships:** Non-executive director of Hammerson plc. Terry is also Chairman of the Retail Trust Group.

**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 continue to grow our multi-channel business. Peter is Country Manager at Google Japan where he oversees every aspect of Google Japan's business. Before this he was Country Sales Director for Google UK/Eire, the biggest market for Google outside the US. Peter joined Google in 2007. 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 since 2006 having worked for that business from 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 plc. As Chief Executive Officer of Featurespace Limited, Martina also has data analytic experience.

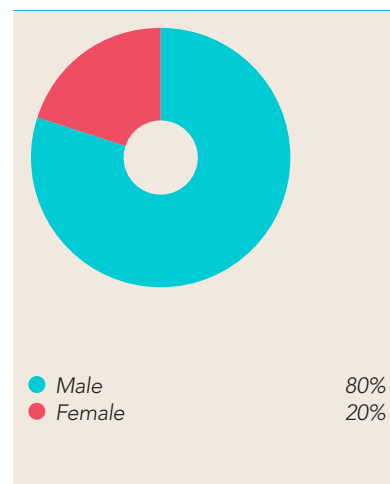
**Current external directorships:** Chief Executive Officer of Featurespace Limited and a non-executive director of Cineworld Group plc.

**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.

**Board gender diversity**

# CORPORATE GOVERNANCE REPORT

## "LEADERSHIP AND EFFECTIVENESS"

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 29 August 2015 and as at the date of this annual report, it was compliant with all the relevant provisions as set out in the September 2012 UK Corporate Governance Code ("the Code"), copies of which can be downloaded from the Financial Reporting Council website ([www.frc.org.uk](http://www.frc.org.uk)).

### LEADERSHIP

#### The board

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

Biographical details of the board of directors are on pages 42 to 43. The board currently has ten members: the Chairman, six independent non-executive directors and three executive directors. Following the Annual General Meeting, the board will consist of the Chairman, three

executive directors, five independent non-executive directors and one non-independent non-executive director.

#### 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 continuing development, board evaluations and succession planning. The Chairman holds regular meetings with the non-executive directors without the executive directors being present and has regular contact with all board members.

Nigel Northridge has been our 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 in accordance with the Company's business policies. The roles and responsibilities of the members of the Executive Committee are detailed opposite. The Chief Executive also leads an annual strategy event to focus on the Group's overall performance and the development of the business strategy.

Michael Sharp has been our Chief Executive 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 property, space planning, legal and secretariat and investor relations.

Matt Smith has been our Chief Financial Officer since January 2015.

| Chairman         | Chief Executive | Chief Financial Officer | Group Trading Director | Senior Independent Director | Independent non-executive directors |
|------------------|-----------------|-------------------------|------------------------|-----------------------------|-------------------------------------|
| Nigel Northridge | Michael Sharp   | Matt Smith              | Suzanne Harlow         | Dennis Millard              | Terry Duddy                         |
|                  |                 |                         |                        |                             | Peter Fitzgerald                    |
|                  |                 |                         |                        |                             | Stephen Ingham                      |
|                  |                 |                         |                        |                             | Martina King                        |
|                  |                 |                         |                        |                             | Mark Rolfe                          |



## Executive Committee

|  |  |   |   |  |   |   |
|--|--|---|---|--|---|---|
| <b>Michael Sharp</b><br>Chief Executive  |  |   |   |  |   |   |
| <b>Matt Smith</b><br>Chief Financial Officer   | <b>Suzanne Harlow</b><br>Group Trading Director                              | <b>Ross Clemmow</b><br>E-Commerce Director                                | <b>Richard Cristofoli</b><br>Marketing Director   | <b>Mike Goring</b><br>Retail Director                        | <b>Peter Swann</b><br>Operations Director                 | <b>Nikki Zamblera</b><br>HR Director  |
| Financial reporting and management, tax, treasury, internal audit, property, space planning, legal and secretariat and investor relations. | Design, buying, merchandising, supply chain, sourcing and external business. | UK and International online sales and development and customer relations. | Product marketing, advertising, PR, visual and creative, customer strategy and insight. | UK and international store operations and store development. | Systems, imports and exports, distribution and logistics. | HR, pay and reward, learning and development, recruitment, pensions and facilities. |

### The Group Trading Director

The Group Trading Director leads the buying and merchandising activities and is responsible for the development of the Debenhams brand and product strategy and the external business initiatives with the overriding objective to deliver a compelling customer proposition. The role is also responsible for the sourcing and supply chain functions.

Suzanne Harlow has been our Group Trading Director since December 2013.

### The 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 will be

dealt with by this director. The Senior Independent Director also serves as an intermediary for the other directors as necessary and acts as a sounding board for the Chairman. In addition, the role also has responsibility for leading the annual appraisal of the Chairman's performance.

Dennis Millard has been our Senior Independent Director since May 2010. As a result of Dennis Millard's length of tenure, he is no longer considered to be independent and the board therefore proposes that Terry Duddy replace him as Senior Independent Director effective from the date of the forthcoming Annual General Meeting.

### 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. As at 29 August 2015, all the non-executive directors were considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement.

The independence of non-executive directors who have served more than six years is subject to rigorous review.

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

| Director         | Date of appointment | Length of service as a non-executive director at 29 August 2015 |
|------------------|---------------------|---|
| Dennis Millard   | 9 May 2006          | 9 years 4 months  |
| Martina King     | 1 August 2009       | 6 years 1 month   |
| Nigel Northridge | 1 January 2010      | 5 years 8 months  |
| Mark Rolfe       | 1 October 2010      | 4 years 11 months   |
| Peter Fitzgerald | 4 October 2012      | 2 years 11 months   |
| Stephen Ingham   | 8 January 2013      | 2 years 8 months  |
| Terry Duddy      | 10 April 2015       | 4 ½ months  |



# CORPORATE GOVERNANCE REPORT CONTINUED

## The 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 that 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.

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

Paul Eardley has been our Company Secretary since October 2007.

## Board diversity

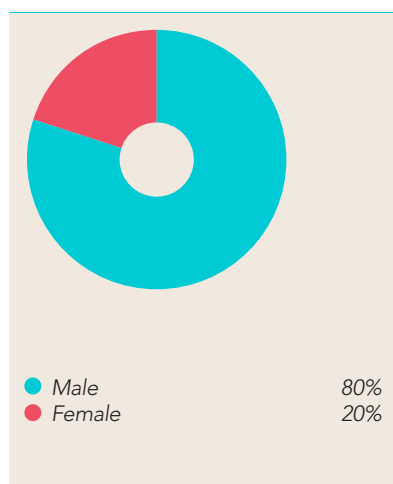
The Company's diversity policy was adopted by the board in FY2014. It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in the policy and to review the policy annually (last reviewed September 2015). Debenhams believes that diversity, in all its aspects, is important in order for a board to operate effectively. The main objectives of 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. Following Sophie Turner Laing's departure the Nomination Committee will be mindful of the diversity policy when considering future appointments. The charts

below and opposite demonstrate the gender split at board level, within the Executive Committee, senior management and for the workforce as a whole.

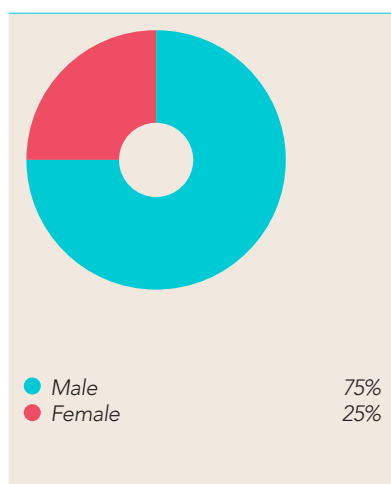
## Time commitment

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 their external interests and any conflicts on an ongoing basis. The letters of appointment for non-executive directors set out the time commitment expected to perform their duties effectively. The time required by directors will fluctuate depending on the demands of the business and any other events but the expected number of days required for each non-executive director is ten days per annum.

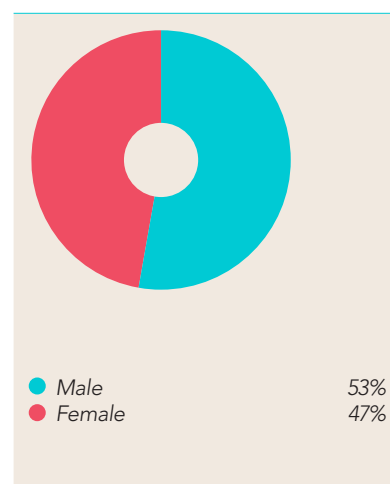
Board gender diversity



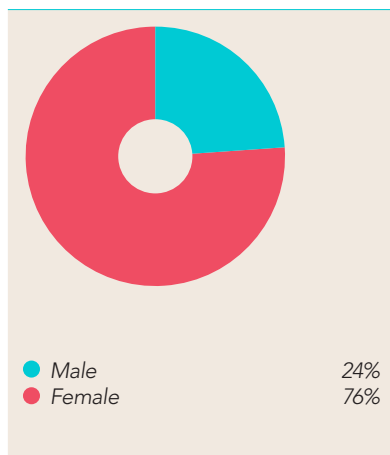
Executive Committee gender diversity



Senior managers gender diversity



## All employees gender diversity



## Induction and ongoing development

On appointment, a director is provided with an induction programme which is tailored to his or her experience of listed company responsibilities 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 in 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 2015. 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 the non-executive directors have other business interests outside of the Company and that other directorships bring significant benefits to the board. All existing directorships are detailed within the director biographies on pages 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 five meetings during FY2015 which were fully attended by all the board members. In addition to the directors, the 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 in the table below.

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 all meetings. All information is published in advance via a secure web portal. If directors are not able to attend meetings due

## Board activity throughout the year

| September 2014                            | October 2014   | December 2014                                       | January 2015                           | April 2015  | June 2015                           |
|---|--|---|--|---|-------------------------------------|
| Visit to Danish operation Magasin du Nord | Presentation on the supply chain and buying and merchandising roadmap              | Met with shareholders at the Annual General Meeting | Approved the January Trading Statement | Approved interim results and resolved to pay interim dividend | Approved the June Trading Statement |
|   | Approved full year results, report and accounts and recommended the final dividend |   |  | Presentation on the strategic priorities                      | Reviewed budget                     |
|   | Approved the corporate risk map  |   |  | Update presentation on the supply chain                       | Presentation on health and safety   |
|   | Reviewed the annual performance evaluation of the board and its committees         |   |  |   | Annual Strategy Meeting             |
|   | Approved the schedule of matters reserved for the board                            |   |  |   |                                     |

# CORPORATE GOVERNANCE REPORT CONTINUED



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 and records all matters discussed within the minutes of the meeting. Each board meeting reviews presentations from the executive directors and from 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 supports the business strategy. In accordance with the Code, the formal schedule of matters reserved for the board is reviewed annually, usually at the October board meeting.

## 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>. In addition there is a sustainability committee which is a committee of the board and is chaired by Martina King.

The members together with the role and activities of each board committee can be found at:

|   |                 |
|---|-----------------|
|  Audit Committee          | Pages 52 to 55  |
|  Nomination Committee     | Pages 50 and 51 |
|  Remuneration Committee | Pages 56 to 81  |

## Performance evaluation

In line with best practice, we conduct external evaluations of the board, its committees and each individual director at least once every three years. As no material concerns were raised during the FY2014 external evaluation the board determined that the Chairman should carry out an internal evaluation in FY2015. This year's evaluation confirmed that all of the

## Investor relations calendar

| October 2014                   | November 2014                 | December 2014          | January 2015   |
|--------------------------------|-------------------------------|------------------------|----------------|
| Full year results              | US shareholder roadshow       | Annual General Meeting | Trading update |
| UK shareholder roadshow        | European shareholder roadshow | UK investor meetings   |                |
| Fixed income investor roadshow |                               |                        |                |

directors, the board and its committees continue to perform effectively. However, the Chairman is constantly evaluating the performance and effectiveness of the board and its committees. The performance review of the Chairman was conducted by the Senior Independent Director who consulted with all board members.

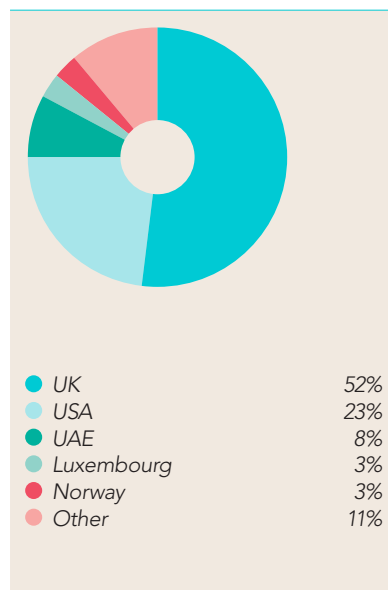
#### SHARE CAPITAL AND CONTROL

Information which the directors are required to disclose pursuant to section 992 of the Companies Act 2006 can be found on pages 83 to 84 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. Analysts' 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 in order to explain aspects of the business performance and strategy.

#### Shareholders by geography



The key elements of the Group's investor relations calendar in 2015 are shown in the table below.

The major shareholders of the Company are listed on page 83 of the directors' report.

The geographical analysis of shareholders is shown in the chart above.

#### December 2014 AGM – key highlights

- Full director attendance
- Between 708,648,809 and 716,358,151 votes were cast for each resolution
- All directors retired and were elected/re-elected to the board, receiving on average 98.71% of votes cast in favour
- The resolution to approve the directors' remuneration policy for the year ended 30 August 2014 was passed with 98.65% of votes cast in favour
- The resolution to approve the directors' remuneration report for the year ended 30 August 2014 was passed with 99.79% of votes cast in favour

| April 2015              | June 2015         | July 2015                | August 2015          |
|-------------------------|-------------------|--------------------------|----------------------|
| First half results      | Investor meetings | CFO Broker introductions | UK investor meetings |
| UK shareholder roadshow | Trading update    |                          |                      |



# NOMINATION COMMITTEE REPORT



**NIGEL NORTHRIDGE**  
CHAIRMAN,  
NOMINATION COMMITTEE

“THE GOAL AT DEBENHAMS IS TO ENSURE THAT THE BOARD IS WELL BALANCED AND APPROPRIATE FOR THE NEEDS OF THE BUSINESS.”

## DEAR SHAREHOLDER

On behalf of the Nomination Committee, I am pleased to present its report for the year ended 29 August 2015.

## 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 and in accordance with the Company's policy on diversity
- 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 met twice during the year at which it:

- Evaluated the balance of skills, experience, independence, diversity and knowledge on the board and recommended the appointment of Terry Duddy as an independent non-executive director of the Company, effective from 10 April 2015. The appointment was facilitated by external search consultants Lygon Group which has no connection to the Company. Lygon worked with the Chairman to provide a long list of candidates and then a short list. Candidates met with various members of the board after which the Committee was able to formulate its recommendation
- Reviewed the non-executive directors' time commitments and lengths of service and recommended to the board the re-appointment of Martina King for a further three year term

effective from 31 July 2015. Having completed two three year terms as a non-executive director, Sophie Turner Laing stepped down from the board on 31 July 2015

- Reviewed and considered the succession plans for the Chief Executive down to senior executives holding key roles within the business
- Carried out an annual review of the directors' conflicts of interest register, diversity policy and the Committee's terms of reference

#### DIVERSITY

The goal at Debenhams 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, including gender. However board appointments are always made on merit. Following the board changes which took place this year the percentage of women on the Debenhams plc board at the end of the 2015 financial year is 20%. The

board is mindful of its diversity policy and will continue to take this into account when considering future appointments.

#### ACTIVITIES SINCE YEAR END

Peter Fitzgerald's appointment as an independent non-executive director has been renewed for a further three year term commencing on 4 October 2015.

Dennis Millard, who has served in excess of nine years, has agreed, subject to shareholders approving his re-election at the forthcoming AGM, to remain on the board as a non-independent director for a further year. As a result he will be succeeded by Terry Duddy as Senior Independent Director and by Martina King as chair of the Remuneration Committee. Both of these appointments are to be effective from 14 January 2016 subject to shareholders approving the respective director's election/re-election.

#### COMMITTEE EVALUATION

The annual evaluation of the Committee's effectiveness concluded that the Committee continues to operate effectively.

#### NIGEL NORTHRIDGE CHAIRMAN, NOMINATION COMMITTEE

#### Composition

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

| Member                                   | Date appointed<br>Committee member | Attendance at meetings<br>during the year |
|--|------------------------------------|---|
| Nigel Northridge<br>(Committee Chairman) | 1 April 2010                       | 2/2                                       |
| Terry Duddy <sup>1</sup>                 | 10 April 2015                      | 0/0                                       |
| Martina King                             | 1 August 2009                      | 2/2                                       |
| Dennis Millard                           | 9 May 2006                         | 2/2                                       |
| Mark Rolfe                               | 1 October 2010                     | 2/2                                       |
| Sophie Turner Laing <sup>2</sup>         | 1 May 2010                         | 2/2                                       |

<sup>1</sup> Terry Duddy became a member of the Committee on 10 April 2015 and the meetings held during the year were prior to his appointment date.

<sup>2</sup> Sophie Turner Laing stepped down from the board on 31 July 2015 and as a result ceased membership of the Committee on that date.

# AUDIT COMMITTEE REPORT



**MARK ROLFE**  
CHAIRMAN,  
AUDIT COMMITTEE

## DEAR SHAREHOLDER

On behalf of the Audit Committee ("the Committee"), I am pleased to present its report for the financial year ended 29 August 2015. The report sets out the remit of the Committee, its areas of focus during the year and the Company's relationship with the external auditors.

The Committee has satisfied itself that the Debenhams plc 2015 annual report and accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee therefore supports the board in making its formal statement on page 85.

I would like to take this opportunity to welcome Terry Duddy to the Committee this year and also to thank Sophie Turner Laing for her valued contribution to the work of the Committee.

**MARK ROLFE**  
CHAIRMAN,  
AUDIT COMMITTEE

"THE COMMITTEE HAS SATISFIED ITSELF THAT THE DEBENHAMS PLC 2015 ANNUAL REPORT AND ACCOUNTS IS FAIR, BALANCED AND UNDERSTANDABLE."

## MEMBERSHIP OF THE AUDIT COMMITTEE

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

| Member                             | Date appointed Committee member   | Attendance at meetings during the year |
|------------------------------------|---|--|
| Mark Rolfe<br>(Committee chairman) | 1 October 2010<br>(appointed<br>Committee chairman<br>2 September 2012) | 3/3                                    |
| Terry Duddy <sup>1</sup>           | 10 April 2015   | 1/1                                    |
| Peter Fitzgerald <sup>2</sup>      | 18 October 2012   | 2/3                                    |
| Martina King                       | 1 August 2009   | 3/3                                    |
| Dennis Millard                     | 9 May 2006  | 3/3                                    |
| Sophie Turner Laing <sup>3</sup>   | 1 May 2010  | 3/3                                    |

<sup>1</sup> Terry Duddy became a member of the Committee on 10 April 2015 and two of the meetings held during the year were prior to his appointment date.

<sup>2</sup> Peter Fitzgerald was unable to attend the meeting held in April 2015 due to a schedule clash.

<sup>3</sup> Sophie Turner Laing stepped down from the board on 31 July 2015 and as a result ceased membership of the Committee on that date.

All of the members of the Committee are independent non-executive directors. Both Mark Rolfe and Dennis Millard are considered by the board to have recent and relevant financial experience.

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, PwC, attend and receive papers for each meeting. The Company Secretary is secretary to the Committee. After each meeting the chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

The Committee met with the Company's external auditor once 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.

## RESPONSIBILITIES OF THE COMMITTEE

The role and responsibilities of the 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: <http://debenhamsplc.com>.

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 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 OF THE COMMITTEE DURING THE YEAR

### 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.

### Governance

- The Committee assessed the effectiveness of the external audit process via an internal questionnaire completed by the Committee, the Company Secretary, the Director of Finance and Support Services and the Director of Internal Audit and Risk Management. The questionnaire circulated focused on the quality of the audit team, their understanding of the business and the audit approach. The Committee considered the results of the review at its meeting in October 2015 and concluded that the audit process is effective and that the external auditors challenge management when appropriate.



# AUDIT COMMITTEE REPORT CONTINUED

- The Committee considered the new regulations introduced by the UK Corporate Governance Code (published September 2014) and the EU Audit Reform to ensure that the Company is ready to incorporate those regulations into its corporate governance framework and to report against them in FY2016.
- The compliance committee, chaired by Matt Smith the Chief Financial Officer, supported the Committee in assessing whether the Company's annual report, taken as a whole, is fair, balanced and understandable and complies with all legal and regulatory requirements.
- The members of the Committee and senior management within the business were provided with training by a senior member of the accounting team. During the year, training was provided on accounting for share-based payments which is one of the Group's principal accounting policies. Previously, training has covered some of our other principal accounting policies including revenue recognition and retirement benefit costs.

## External audit

- The scope of the audit for FY2015 was agreed together with the fees and terms of engagement. Details of the amounts paid to the external auditors for the audit services for 2015 are given in note 6 to the financial statements on page 107.

## Significant issues in relation to the financial statements

The significant areas of focus considered by the Committee in relation to the 2015 accounts continue to be as disclosed in FY2014.

The significant issues considered in relation to the Group's financial

statements for the year ended 29 August 2015 are set out below together with a summary of the actions taken. In addition, the Committee and the external auditors have discussed the other areas of focus of the audit as set out in the independent auditors' report on pages 86 to 92.

| Matter considered   | Actions   |
|---|---|
| <p><b>Revenue recognition</b><br/>As with most companies there continues to be a risk that, in order to achieve the planned results, revenue may be recognised in contravention of the Group's policy for revenue recognition.</p>  | <p>The Committee reviews revenue recognition practice and the underlying assumptions and estimates. In addition, the internal audit function reports to the Committee on the controls and processes in this area. The Committee also routinely monitors the views of the external auditors on revenue recognition issues.</p> |
| <p><b>Inventory valuation</b><br/>The Company continues to use 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 page 106.</p> | <p>During FY2015, the Committee received reports from both the internal and external auditors setting out inventory risk metrics and findings from the examination of controls in these areas. These reports indicated that inventory was valued satisfactorily.</p>  |

## 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 that auditors and their staff must have no family, financial, employment, investment or business relationship with the Company, the employment by the Company of former audit employees, the rotation of audit partners and the controls around the provision of non-audit services.

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 ever arise.

The objective of the Audit Committee's policy in relation to the provision of non-audit services by the auditors is to ensure that the provision of such services does not impair the external auditors' independence or objectivity. All fees for non-audit work require pre-authorisation by either the Chief

Financial Officer or the Company Secretary or by 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.

£0.1 million was paid by the Company to PwC for non-audit services which represents 15.3% of the total audit fee paid to PwC.

The audit fees paid by the pension schemes were £32,300.

#### **EXTERNAL AUDITOR APPOINTMENT**

PwC has served as the Company's auditors since flotation in 2006. John Ellis has been the audit partner since 1 September 2013.

The Committee considers that based on current guidance and the timeline, mandatory auditor rotation would be required after the August 2020 year end. However, given that the current audit partner must rotate off the Company's account in 2018 the Committee has agreed that, subject to the rules evolving any further, 2018 would be the logical time for PwC to rotate off the account and for the audit to be put out to tender.

The Committee is satisfied that PwC remains independent and is best placed to conduct the Company's audit for FY2016. The Committee therefore recommends that PwC be re-appointed as the Company's auditors.

#### **MARK ROLFE CHAIRMAN, AUDIT COMMITTEE**

# DIRECTORS' REMUNERATION REPORT



**DENNIS MILLARD**  
CHAIRMAN,  
REMUNERATION COMMITTEE

“THE COMMITTEE  
CONTINUES TO  
BELIEVE THAT EXECUTIVE  
REMUNERATION  
ARRANGEMENTS ARE  
STRUCTURED TO SUPPORT  
THE DELIVERY OF OUR  
STRATEGIC PRIORITIES”

## DEAR SHAREHOLDER

On behalf of the Remuneration Committee ("the Committee"), I am pleased to present our remuneration report for the 2015 financial year.

Last year we put our policy report to a shareholder vote for the first time. We were delighted with the level of support received, with 99% of votes being cast in favour. We are not proposing to make any changes to our directors' remuneration policy this year and we continue to be bound by the policy approved at last year's Annual General Meeting.

In this remuneration report we have reproduced the policy report in full for ease of reference. The annual report on remuneration included in the second part of this report sets out details of how this policy was implemented in FY2015 and how it is intended to operate in FY2016. This report will be subject to the usual advisory shareholder vote at the Annual General Meeting on 14 January 2016.

### Our performance in FY2015

This year we have made further progress against our strategic priorities and have delivered results in line with market expectations.

The retail marketplace is still highly competitive and the profit before tax target set for the annual bonus was not achieved. No bonus was therefore paid to executive directors in respect of FY2015.

Performance Share Plan ("PSP") awards granted in FY2013 were based 75% on EPS growth and 25% on average return on capital employed ("ROCE") relative to the cost of capital. The EPS element of the award has not triggered vesting. However, ROCE exceeded the cost of capital by 3.2%. Therefore, 17% of the awards will vest in November 2015.

### Renewal of share plans

The Company's current share plans were adopted in FY2006 and are all due to expire in FY2016. These include the PSP, the Deferred Bonus Matching Plan and the Executive Share Option Plan.

It is proposed that only the PSP be renewed and shareholders will be asked to approve the adoption of the new share plan rules at the Annual General Meeting on 14 January 2016. The key terms of the plan remain unchanged, subject to some minor amendments to reflect current best practice drafting, and as such our remuneration policy also remains unaffected by the renewal of the plan. A summary of the rules can be found in our shareholder circular for the forthcoming Annual General Meeting.

### Reward changes for FY2016

In line with the revised UK Corporate Governance Code, for 2016 we are introducing clawback provisions for executive directors and the senior leadership team across all our incentives. In addition, the malus provisions that already apply to our annual bonus and to the PSP have been extended to allow for malus to be applied in a wider range of circumstances.

In last year's report we explained that we had moved the annual salary review date for the executive directors forward from September to April. With effect from 1 April 2015, they each received a pay increase of 1.5% and that increase took no account of the movement of the review date. This increase was similar to increases awarded to other employees in the Group. The annual bonus criterion of underlying PBT remains unchanged for FY2016.

Similarly, the PSP performance measures introduced last year, namely underlying EPS growth (70%) and strategic measures (30%), remain unchanged with the vesting of the strategic measures subject to meeting a ROCE underpin.

The EPS targets remain at 3% per annum (25% vesting) to 10% per annum (100% vesting).

The strategic measures remain as:

- Gross margin improvement
- Online EBITDA growth
- UK GTV
- International EBITDA growth

No changes have been made to the usual annual bonus opportunity.

As regards PSP Michael Sharp will be awarded a PSP award of 50% of base salary. Matt Smith and Suzanne Harlow will each be awarded a PSP award of 125% of base salary as they are both essential to the continued smooth operation of the business during the Chief Executive succession process.

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.

As mentioned within this annual report, having served more than nine years on the board of Debenhams plc I will be standing down as chairman of the Remuneration Committee effective from the next Annual General Meeting and I'd like to take this opportunity to welcome Martina King as the new chair of the Remuneration Committee. Martina's appointment as chair will be subject to shareholders approving her re-election at the Annual General Meeting.

### DENNIS MILLARD CHAIRMAN, REMUNERATION COMMITTEE



# DIRECTORS' REMUNERATION REPORT

## REMUNERATION POLICY

This remuneration report for the year ended 29 August 2015 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). The Company has adopted the provisions of the 2014 UK Corporate Governance Code regarding malus and clawback. Further details are provided on page 77.

### FY2015 NOTE:

This part of the remuneration report sets out Debenhams' directors' remuneration policy which was approved by shareholders at the 2014 Annual General Meeting. To provide consistency with current arrangements and the remainder of the remuneration report, specific references to 2015 arrangements have been removed, where appropriate. Where relevant, "FY2015 notes" have been provided to give additional information to shareholders. These do not form part of the shareholder approved policy.

### REMUNERATION POLICY TABLE FOR EXECUTIVE DIRECTORS

The table below sets out a summary of our remuneration policy for executive directors. This policy was approved by shareholders at the AGM on 9 December 2014 and took effect from that date.

Further information regarding the implementation of the policy can be found in the annual report on remuneration commencing on page 71.

| Element            | Purpose and link to strategy   | Key features/operation   |
|--------------------|--|--|
| <b>Base salary</b> | <ul style="list-style-type: none"> <li>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</li> <li>Rewards executives for the performance of their role</li> </ul> | <ul style="list-style-type: none"> <li>Paid in cash</li> <li>Normally reviewed annually with effect from 1 April but may be reviewed more or less frequently at the Committee's discretion</li> <li>In determining base salaries, the Committee considers:               <ul style="list-style-type: none"> <li>Pay levels at companies of a similar size and complexity and other FTSE 350 retailers</li> <li>External market conditions</li> <li>Pay and conditions elsewhere in the Group</li> <li>The individual's skills, knowledge and experience</li> </ul> </li> </ul>   |
| <b>Pension</b>     | <ul style="list-style-type: none"> <li>Provides funds to allow executives to save for retirement</li> <li>Provides a market competitive retirement benefit</li> <li>Incentive and retention tool</li> </ul>  | <ul style="list-style-type: none"> <li>In determining pension arrangements, the Committee takes into account relevant market practice and practice throughout the Group</li> <li>Executive directors are generally provided a cash allowance in lieu of a pension provision or a contribution to a defined contribution pension scheme</li> <li>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</li> <li>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</li> </ul> |

## 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 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.

| What is the maximum potential value?   | Performance metrics |
|--|---------------------|
| <ul style="list-style-type: none"> <li>• 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</li> <li>• However, increases may be made outside of this policy in exceptional circumstances, such as:               <ul style="list-style-type: none"> <li>– 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</li> <li>– Where there has been a change in the responsibility and accountability of the role</li> <li>– Where there has been a significant change in market practice</li> </ul> </li> <li>• Details of current salary levels are set out in the annual report on remuneration</li> </ul> | None                |
| <ul style="list-style-type: none"> <li>• The Chief Executive's annual cash pension allowance is 20% of base salary</li> <li>• The annual pension contribution for the Chief Financial Officer is 15% of base salary</li> <li>• 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</li> <li>• The Chief Executive ceased to accrue benefits under the Debenhams Executive Pension Plan in 2006</li> <li>• 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</li> </ul>                              | None                |

# REMUNERATION POLICY CONTINUED

| Element             | Purpose and link to strategy   | Key features/operation   |
|---------------------|--|--|
| <b>Benefits</b>     | <ul style="list-style-type: none"> <li>To provide a market competitive level of benefits for executive directors</li> </ul>  | <ul style="list-style-type: none"> <li>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</li> <li>Executive directors may participate in any all-employee share plans which may be operated by the Company on the same terms as other employees</li> <li>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</li> <li>Executive directors may also buy or sell a week's holiday with the approval of the Committee</li> <li>Executive directors are eligible to receive a staff discount in line with other senior executives</li> <li>The Committee may determine that executive directors should receive additional reasonable benefits if appropriate, taking into account typical market practice</li> <li>Executive directors may be reimbursed for all reasonable expenses and the Company may settle the tax incurred in relation to these</li> <li>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</li> </ul> |
| <b>Annual bonus</b> | <ul style="list-style-type: none"> <li>Rewards and incentivises the achievement of annual objectives which are aligned with key financial and strategic goals and supports the enhancement of shareholder value</li> </ul> | <ul style="list-style-type: none"> <li>Unless otherwise determined by the Committee, bonuses are paid in cash following the year end</li> <li>Bonuses are not pensionable</li> <li>Malus provisions apply (see page 64 for further information)</li> <li>Bonuses are based on annual performance targets</li> <li>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</li> </ul>  |

| What is the maximum potential value?   | Performance metrics  |
|--|--|
| <ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul> | None   |
| <ul style="list-style-type: none"> <li>Maximum opportunity of 100% of base salary</li> <li>The bonus starts accruing from threshold levels of performance</li> </ul>   | <ul style="list-style-type: none"> <li>The Committee determines appropriate performance metrics to support the annual business strategy, external expectations and the enhancement of shareholder value on an annual basis</li> <li>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</li> <li>Further information in relation to the performance measures is set out in the annual report on remuneration</li> </ul> |



# REMUNERATION POLICY CONTINUED

| Element                               | Purpose and link to strategy  | Key features/operation   |
|---------------------------------------|---|--|
| <b>Performance Share Plan ("PSP")</b> | <ul style="list-style-type: none"> <li>Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value</li> <li>Aligns with shareholder interests through the delivery of shares</li> <li>Acts as a retention tool</li> </ul> | <ul style="list-style-type: none"> <li>Awards normally vest based on performance assessed over a period not shorter than three years</li> <li>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</li> <li>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</li> <li>Malus provisions apply (see page 64 for further information)</li> <li>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</li> </ul> |

Executive directors also have a shareholding guideline. Further details are provided on page 73 of the annual report on remuneration.

#### FY2015 NOTE:

The Deferred Bonus Matching Plan and the Executive Share Option Plan both expire during FY2016. The Company is not seeking shareholder approval to renew these plans. The PSP will therefore be the only executive plan operated by the Company.

| Element                                      | Purpose and link to strategy   | Key features/operation   |
|--|--|--|
| <b>Deferred Bonus Matching Plan ("DBMP")</b> | <ul style="list-style-type: none"> <li>Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value</li> <li>Aligns executives' interests with shareholders through the investment of their cash bonus into shares</li> </ul> | <ul style="list-style-type: none"> <li>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"</li> <li>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</li> <li>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</li> <li>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</li> </ul> |
| <b>Executive Share Option Plan ("ESOP")</b>  | <ul style="list-style-type: none"> <li>Incentivises executives to achieve Debenhams' long-term strategy and create sustainable shareholder value</li> </ul>  | <ul style="list-style-type: none"> <li>Awards would take the form of market value options over ordinary shares in the Company</li> <li>Awards would be subject to performance assessed over a period of no less than three years</li> <li>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</li> <li>Awards may be exercised once vested for up to ten years following the date of grant</li> <li>Options can be granted in the form of unapproved options or HM Revenue &amp; Customs ("HMRC") approved options (up to the lower of the limit of this policy or the prescribed HMRC limit at the date of grant)</li> </ul>  |

**What is the maximum potential value?**

- 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

**Performance metrics**

- 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 see 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 FY2015. 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.

**What is the maximum potential value?**

- 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

**Performance metrics**

- 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.

### FY2015 NOTE:

Following shareholder approval of the remuneration policy in 2014, Debenhams is introducing clawback provisions and is extending the existing malus provisions. These provisions are detailed on page 77 of the annual remuneration report.

### 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 has been set out in the annual report on remuneration.
- The Committee considers that the annual bonus targets 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 the subsequent 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, the 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 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  | <ul style="list-style-type: none"> <li>Fixed remuneration</li> <li>No annual bonus payout</li> <li>No vesting under the PSP</li> </ul>     |
| Mid-range performance  | <ul style="list-style-type: none"> <li>Fixed remuneration</li> <li>50% annual bonus payout</li> <li>50% vesting under the PSP</li> </ul>   |
| Maximum performance  | <ul style="list-style-type: none"> <li>Fixed remuneration</li> <li>100% annual bonus payout</li> <li>100% vesting under the PSP</li> </ul> |

#### FY2015 NOTE:

- The figures below are those which were included in the 2014 policy and approved by shareholders in December 2014. They have not been updated to show the 2015 figures.
- Base salaries were increased by 1.5% with effect from 1 April 2015.
- Matt Smith was appointed to the board on 26 January 2015.
- Suzanne Harlow's pension increased to 18% of base salary on 1 April 2015 following 20 years pensionable service.

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.

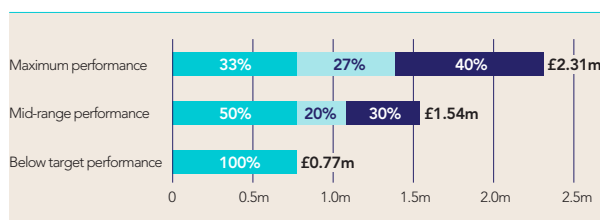


# REMUNERATION POLICY CONTINUED

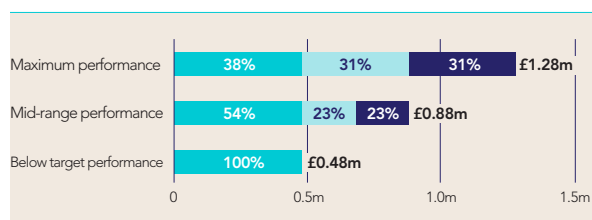
## FY2015 NOTE:

The charts below which illustrate remuneration outcomes in different performance scenarios relate to the policy applied for the first year in which the policy applied (2015) and have not been updated. The scenarios below do not take into account the share price appreciation or dividends.

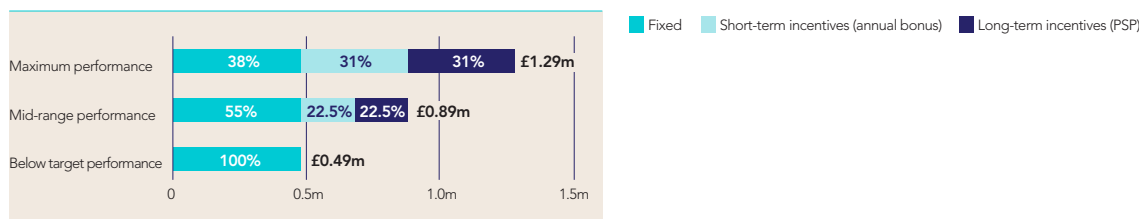
### Chief Executive



### Chief Financial Officer



### Group Trading Director



- 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.

## 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                        | <ul style="list-style-type: none"> <li>• 12 months' notice by the Company or by the executive director</li> <li>• Michael Sharp entered into his current service agreement on 3 May 2006</li> <li>• Matt Smith entered into a service agreement on 25 July 2014</li> <li>• Suzanne Harlow entered into her current service agreement on 11 December 2013</li> </ul>  |
| Expiry date                          | <ul style="list-style-type: none"> <li>• All are rolling contracts with no expiry date</li> </ul>  |
| Termination payments                 | <ul style="list-style-type: none"> <li>• Payments in lieu of notice will be based on base salary, contractual benefits and any accrued but untaken holiday</li> <li>• 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</li> <li>• 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</li> <li>• Legal fees and outplacement services may also be provided for executive directors leaving the business</li> </ul> |

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.

# REMUNERATION POLICY CONTINUED

- **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.

## 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.

### FY2015 NOTE:

The rules of the Deferred Bonus Matching Plan and the Executive Share Option Plan will expire in 2016. The Company is not seeking shareholder approval to renew these plans.

## 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 that they do not cause a conflict of interest. The executive directors do not currently hold any such directorships.

### FY2015 NOTE:

Suzanne Harlow was appointed a director of Ermes Department Stores plc on 15 June 2015. Fees in respect of this directorship are paid to and retained by Debenhams Retail plc.

## REMUNERATION POLICY TABLE FOR NON-EXECUTIVE DIRECTORS

| Element                      | Purpose and link to remuneration policy   | Key features/operation   | What is the maximum potential value?  |
|------------------------------|---|--|---|
| <b>Fees</b>                  | <ul style="list-style-type: none"> <li>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</li> </ul> | <ul style="list-style-type: none"> <li>Paid in cash</li> <li>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</li> <li>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</li> <li>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</li> <li>Additional fees may be paid to reflect additional board or committee responsibilities as appropriate</li> <li>Fees are reviewed at appropriate intervals by the board</li> </ul> | <ul style="list-style-type: none"> <li>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</li> <li>Fee levels are set out in the annual report on remuneration</li> </ul> |
| <b>Benefits and expenses</b> | <ul style="list-style-type: none"> <li>To provide suitable arrangements to allow non-executive directors to discharge their duties effectively</li> </ul>   | <ul style="list-style-type: none"> <li>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</li> <li>The Chairman and non-executive directors are eligible for a staff discount and an annual health assessment</li> <li>The Chairman and non-executive directors are not entitled to participate in any of the Group's incentive plans or pension plans</li> <li>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</li> <li>The board may introduce additional benefits for the Chairman or non-executive directors if it is considered appropriate to do so</li> </ul>  | None  |



# REMUNERATION POLICY CONTINUED

## **FY2015 NOTE:**

For board changes since December 2014 please refer to the Chairman's letter on page 3.

## **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 1 October 2016 following the end of his initial engagement on 1 October 2013. Dennis Millard was appointed on 9 May 2006 and following two three year terms his appointment has been extended on an annual basis.

Non-executive director appointments may be terminated by the Company in accordance with the Company's Articles of Association 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 did in 2014 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 the 2015 financial year and provides details as to how the Committee intends to implement the policy during the 2016 financial year. This part of the report will be subject to an advisory shareholder vote at the Annual General Meeting in January 2016. This report contains unaudited information except where stated that it is audited.

## WHAT DID EXECUTIVE DIRECTORS EARN IN RESPECT OF FY2015 AND FY2014? (AUDITED)

The table below sets out a single figure of remuneration for each executive director for FY2015 and FY2014.

| Executive director                         | 2015        |          |                     |       |            |                       | 2014        |          |                     |       |                       |                       |
|--|-------------|----------|---------------------|-------|------------|-----------------------|-------------|----------|---------------------|-------|-----------------------|-----------------------|
|  | Base salary | Benefits | Retirement benefits | Bonus | PSP awards | Total                 | Base salary | Benefits | Retirement benefits | Bonus | PSP award             | Total                 |
| Michael Sharp<br>– Chief Executive         | £618,844    | £47,268  | £170,529            | Nil   | £149,226   | £985,867              | £615,000    | £34,999  | £141,500            | Nil   | £199,460 <sup>1</sup> | £990,959              |
| Suzanne Harlow<br>– Group Trading Director | £402,492    | £15,826  | £80,003             | Nil   | £46,709    | £545,030              | £289,743    | £11,687  | £54,554             | Nil   | N/A <sup>2</sup>      | £355,984 <sup>3</sup> |
| Matt Smith<br>– Chief Financial Officer    | £243,526    | £10,916  | £36,529             | Nil   | Nil        | £290,971 <sup>4</sup> | –           | –        | –                   | –     | –                     | –                     |

<sup>1</sup> PSP award figure has been updated with the actual share price on the date of vesting (the reported figure in FY2014 (£207,235) was based on an average share price). The total for 2014 has therefore been adjusted.

<sup>2</sup> The value of the 2011 PSP Award held by Suzanne Harlow which vested in November 2014 was not included in the FY2014 single figure calculation as the Award was granted prior to her becoming an executive director.

<sup>3</sup> Appointed to the board on 11 December 2013.

<sup>4</sup> Appointed to the board on 26 January 2015.

The following provides details of how the single figure for FY2015 has been calculated:

- **Base salary** – The executive directors received a salary increase of 1.5% on 1 April 2015.
- **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. Michael Sharp “sold” five days’ holiday during the year and received £11,827. This is included in the benefits amount above. Suzanne Harlow purchased an additional five days’ holiday during the year (£7,808). 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 £46,760. Michael Sharp received a cash contribution in lieu of pension of 20% of base salary (£123,769). 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 remuneration reporting regulations, was £9,886. Suzanne Harlow also received a cash contribution in lieu of pension of 17% of base salary rising to 18% on 1 April 2015 following 20 years’ pensionable service (£70,117). Matt Smith received a cash contribution in lieu of pension of 15% of base salary (£36,529).
- **PSPs due to vest in FY2015 (in respect of the performance period 1 September 2012 to 29 August 2015)** – The PSP value shown in the single figure is for the award expected to vest in November 2015. The share price used to calculate the single figure is based on the three month average share price to 29 August 2015 (88.28 pence).

|                 | Performance measure                 | Weighting | Threshold target (30% vests)              | Maximum target (100% vests)                       | Outcome   | Vesting (percentage of maximum) |
|-----------------|-------------------------------------|-----------|---|---|---|---------------------------------|
|                 | Absolute EPS growth per annum       | 75%       | 6%  | 12%   | -8.1%   | 0%                              |
| 2012 PSP awards | 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 3.2% | 17%                             |

# THE ANNUAL REPORT ON REMUNERATION CONTINUED

- **Annual bonus for FY2015** – The maximum bonus for the year was 100% of base salary; the bonus was based 100% on PBT. 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. Actual PBT of £113.5 million was below the threshold level. As such, no bonus will be payable in respect of FY2015.

## 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 29 August 2015 (£) | Transfer value as at 29 August 2015 of accrued pension as at 29 August 2015 (£) | Transfer value as at 30 August 2014 of accrued pension as at 30 August 2014 (£) | 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  | 216,352   | 8,011,993   | 6,584,718   | 4,875   | 2,338  | 1,427,275  |
| Suzanne Harlow | 39,856  | 1,147,437   | 916,800   | 961   | 494  | 230,637  |

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 18% of base salary (increased from 17% effective from 1 April 2015 following 20 years' pensionable service).

## Scheme interests awarded during the financial year (audited)

As disclosed in last year's remuneration report, no changes were made to the usual PSP levels in 2015. However, when Suzanne Harlow was appointed to the board, she was 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. In addition, as part of Matt Smith's recruitment, he was 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.

| Individual                  | Type of interest  | Basis on which award made | Number of shares awarded | Face value of shares (£) <sup>1</sup> | Percentage vesting at threshold | Performance period end |
|-----------------------------|-------------------|---------------------------|--------------------------|---------------------------------------|---------------------------------|------------------------|
| Michael Sharp               | 0.01 pence option | 150% of base salary       | 1,423,611                | £922,500                              | 25%                             | 2 September 2017       |
| Suzanne Harlow <sup>2</sup> | 0.01 pence option | 150% of base salary       | 925,925                  | £599,999                              | 25%                             | 2 September 2017       |
| Matt Smith <sup>3</sup>     | 0.01 pence option | 200% of base salary       | 900,900                  | £799,999                              | 25%                             | 2 September 2017       |

<sup>1</sup> The face value of shares awarded was calculated using the closing mid-market share price on the date of award (3 November 2014), which was 64.8 pence for the awards granted to Michael Sharp and Suzanne Harlow and 88.8 pence for the award granted to Matt Smith.

<sup>2</sup> For Suzanne Harlow, the award level of 150% of salary for 2015 was in respect of her appointment to the board. See fuller description above.

<sup>3</sup> For Matt Smith, the award level of 200% of salary was in respect of his recruitment, taking into consideration awards forfeited on leaving his previous employer. See fuller description above.

## 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 2015 and includes the net value of shares vested but not exercised under the ESOP.

|  | Ordinary shares held at 29 August 2015 | Ordinary shares held at 30 August 2014 | Unvested awards subject to performance | Unvested options subject to performance | Vested options not exercised | Shareholding requirement (£) | Current shareholding (£) | Requirement met? |
|--|--|--|--|---|------------------------------|------------------------------|--------------------------|------------------|
| Michael Sharp<br>– Chief Executive         | 6,622,426 <sup>1</sup>                 | 6,460,067 <sup>1</sup>                 | 2,417,952                              | –                                       | 473,961                      | 624,225                      | £6,086,477               | Yes              |
| Suzanne Harlow<br>– Group Trading Director | 589,337                                | 545,366                                | 1,237,161                              | –                                       | 169,689                      | 406,000                      | £615,416                 | Yes              |
| Matt Smith – Chief Financial Officer       | 28,000 <sup>2</sup>                    | –                                      | 900,900                                | –                                       | –                            | 406,000                      | £24,718                  | No               |

<sup>1</sup> Shareholding includes 374,392 ordinary shares held by the Sharp Discretionary Settlement of which he is a trustee.

<sup>2</sup> Ordinary shareholding acquired in July 2015.

## SCHEME INTERESTS (AUDITED)

### Performance Share Plan

| Director       | Date of award   | Number of shares held at 30 August 2014 | Shares awarded during the year | Shares lapsed during the year | Shares exercised during the year | Number of shares held at 29 August 2015 | Market value on date of award | Market value on date of exercise | Earliest date of vesting | Expiry date of vesting period |
|----------------|-----------------|---|--------------------------------|-------------------------------|----------------------------------|---|-------------------------------|----------------------------------|--------------------------|-------------------------------|
| Michael Sharp  | 1 November 2011 | 1,396,973                               | –                              | 1,089,639                     | 307,334                          | –                                       | 64.4p                         | 87.0p                            | 1.11.14                  | 1.5.15                        |
|                | 1 November 2012 | 994,341                                 | –                              | –                             | –                                | 994,341                                 | 123.7p                        | –                                | 1.11.15                  | 1.5.16                        |
|                | 3 November 2014 | –                                       | 1,423,611                      | –                             | –                                | 1,423,611                               | 64.8p                         | –                                | 3.11.17                  | 3.5.18                        |
| Suzanne Harlow | 1 November 2011 | 378,346                                 | –                              | 295,110                       | 83,236                           | –                                       | 64.4p                         | 87.0p                            | 1.11.14                  | 1.5.15                        |
|                | 1 November 2012 | 311,236                                 | –                              | –                             | –                                | 311,236                                 | 123.7p                        | –                                | 1.11.15                  | 1.5.16                        |
|                | 3 November 2014 | –                                       | 925,925                        | –                             | –                                | 925,925                                 | 64.8p                         | –                                | 3.11.17                  | 3.5.18                        |
| Matt Smith     | 1 May 2015      | –                                       | 900,900                        | –                             | –                                | 900,900                                 | 88.8p                         | –                                | 1.5.18                   | 1.10.18                       |

### Update on performance against strategic measures for “in-flight” PSP awards:

For PSP awards granted in FY2015, 30% of the shares vest subject to the satisfaction of the four key strategic measures of group gross margin improvement, online EBITDA growth rate, UK gross transaction value growth and International EBITDA growth rate. The Committee set stretching targets for these metrics taking into account our long-term strategic plan. The exact targets were not disclosed in last year's report as they were considered to be commercially sensitive. Notwithstanding that the Group has made further progress against its strategic priorities, due to the very stretching nature of the targets set for the strategic measures, performance is currently behind target. Vesting will be determined in FY2018 based on performance over the three year performance period.



# THE ANNUAL REPORT ON REMUNERATION CONTINUED

## Executive Share Option Plan

| Director       | Date of award                         | Number of shares held at 30 August 2014 | Shares granted during the year | Shares lapsed during the year | Shares vested during the year | Number of shares held at 29 August 2015 | Option price | Earliest date of exercise | Expiry date of options |
|----------------|---------------------------------------|---|--------------------------------|-------------------------------|-------------------------------|---|--------------|---------------------------|------------------------|
| Michael Sharp  | Approved scheme<br>24 November 2009   | 35,108                                  | 0                              | 0                             | 0                             | 35,108                                  | 85.45p       | 24.11.12                  | 24.11.19               |
|                | Unapproved scheme<br>24 November 2009 | 438,853                                 | 0                              | 0                             | 0                             | 438,853                                 | 85.45p       | 24.11.12                  | 24.11.19               |
| Suzanne Harlow | Approved scheme<br>24 November 2009   | 35,108                                  | 0                              | 0                             | 0                             | 35,108                                  | 85.45p       | 24.11.12                  | 24.11.19               |
|                | Unapproved scheme<br>24 November 2009 | 134,581                                 | 0                              | 0                             | 0                             | 134,581                                 | 85.45p       | 24.11.12                  | 24.11.19               |

### PAYMENTS TO PAST DIRECTORS (AUDITED)

No payments were made to past directors during the year.

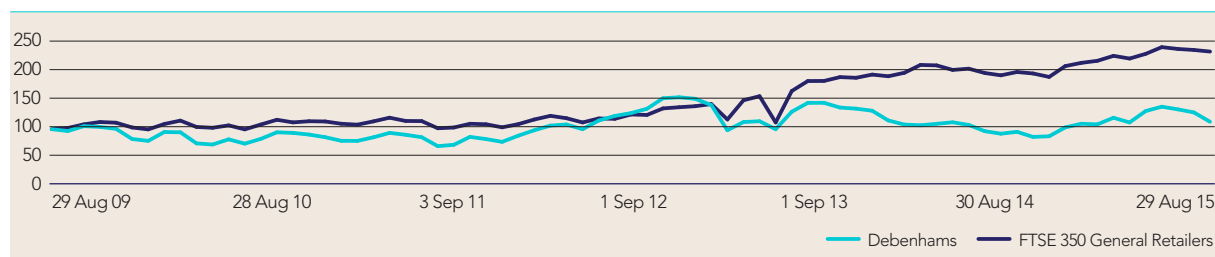
### PAYMENTS FOR LOSS OF OFFICE (AUDITED)

As disclosed in last year's report, Simon Herrick continued to receive monthly payments in lieu of notice for the twelve month period up to 2 January 2015. No payments for loss of office were made in respect of the FY2015 year.

### TOTAL SHAREHOLDER RETURN PERFORMANCE GRAPH

The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from 29 August 2009 to 29 August 2015. 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.

Please note that there was a printing inaccuracy in last year's total shareholder return performance graph, which has been corrected in the below chart.



Source: DataStream

### HISTORICAL CHIEF EXECUTIVE PAY

The table below sets out details of the Chief Executive's pay for the current year and the previous five 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 71.

|   | 2010*      | 2011*      | 2012                   | 2013     | 2014     | 2015     |
|---|------------|------------|------------------------|----------|----------|----------|
| Single figure of total remuneration                             | £1,477,607 | £1,044,515 | £1,288,857             | £754,396 | £990,959 | £985,867 |
| Annual variable element award rates against maximum opportunity | 100%       | 33.3%      | 40%                    | 0%       | 0%       | 0%       |
| Long-term incentive vesting rates against maximum opportunity   | N/A        | N/A        | PSP: 32%<br>ESOP: 100% | N/A      | 22%      | 17%      |

\* The Chief Executive for the period 2009-2011 was Rob Templeman. The Chief Executive since FY2012 is 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 FY2014 to FY2015 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 full time equivalent) |
|-------------|-----------------|---|
| Base salary | 1.5%            | 6.2%  |
| Benefits    | 35.0%           | 17.4%                                       |
| Bonus       | 0.0%*           | 100.0%**                                    |

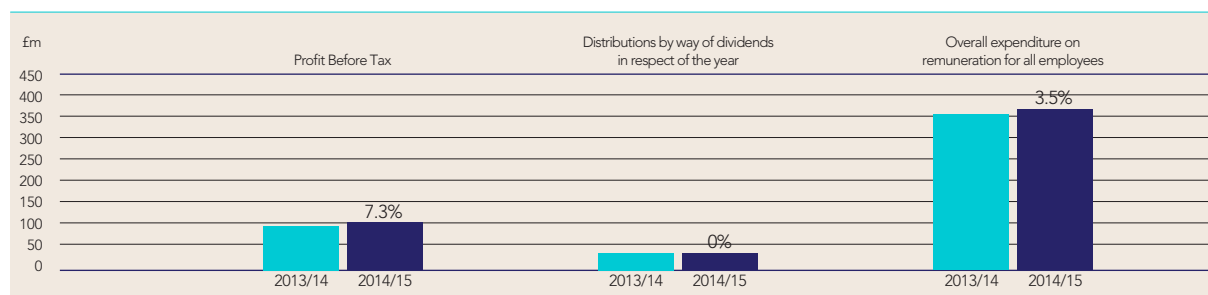
\* No bonus was paid to the Chief Executive in respect of FY2014 and FY2015.

\*\* No bonus was paid to staff in respect of FY2014.

# THE ANNUAL REPORT ON REMUNERATION CONTINUED

## RELATIVE IMPORTANCE OF SPEND ON PAY

The chart below sets out the amounts paid in FY2014 and FY2015 in respect of the remuneration of all employees and dividends to shareholders.



## IMPLEMENTATION OF THE REMUNERATION POLICY FOR EXECUTIVE DIRECTORS IN FY2016

### Components of remuneration

The following table provides a summary of the different elements of pay that will be operated for FY2016.

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

### Base salary

Executive director salaries with effect from 1 April 2015 are as follows:

|  |          |
|--|----------|
| Chief Executive, Michael Sharp         | £624,225 |
| Chief Financial Officer, Matt Smith*   | £406,000 |
| Group Trading Director, Suzanne Harlow | £406,000 |

\* Appointed to the board on 26 January 2015.

The annual salary review date for the executive directors is 1 April, in line with the annual review date of the rest of the management population.

### Annual bonus

The performance measures for the FY2016 annual bonus will be in line with FY2015, being entirely based on underlying PBT, reflecting the continued focus 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 50% of base salary for FY2016. For the Chief Financial Officer and Group Trading Director, PSP awards will be 125% of base salary as they are both essential to the continued smooth operation of the business during the Chief Executive succession process.

In line with FY2015, awards will be based 70% on EPS growth targets and 30% on financial measures that underpin our strategy. The choice of strategic measures remains unchanged from the prior year, and are as follows:

| Key strategic pillars                                    | Proposed metric (7.5% of award each) |
|--|--------------------------------------|
| Delivering a compelling customer proposition             | Group gross margin improvement       |
| Increasing availability and choice through multi-channel | Online EBITDA growth rate            |
| Focusing on UK retail                                    | UK GTV growth                        |
| Expanding the brand internationally                      | International EBITDA growth rate     |

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 was refined in November 2014 and capital employed will include a capitalised value of future store rental payments and profitability items on a pre-rental basis.

The EPS targets for the PSP remain unchanged 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.

**Malus and clawback** – For incentives in respect of FY2016 new clawback provisions will operate. Under these provisions the Committee has the discretion to require clawback in certain circumstances. Annual bonus payments may be subject to clawback for a period of three years following the payment of the cash bonus and PSP awards may be subject to clawback for a period of three years following vesting.

Annual bonus and PSP awards may be subject to clawback in the event of:

- Material misstatement of financial or other data
- Gross misconduct (includes inappropriate conduct by a participant and behaviour which fails to reflect the Company's governance and business values)
- Fraud effected by or with the knowledge of the participant

Malus provisions have applied to the annual bonus and PSP since FY2015. The circumstances to which malus is to apply have however been expanded for FY2016. The Committee has the discretion to reduce or withhold an award in circumstances including (but not limited to):

- Material misstatement of financial or other data
- Gross misconduct (includes inappropriate conduct by a participant and behaviour which fails to reflect the Company's governance and business values)
- Fraud effected by or with the knowledge of the participant

# THE ANNUAL REPORT ON REMUNERATION CONTINUED

## THE DEBENHAMS RETAIL EMPLOYEE TRUST 2004

The Debenhams Retail Employee Trust 2004 ("the Trust") currently holds 273,537 shares in the Company. Any shares allocated under the Debenhams 2008 Share Incentive Plan (a plan for employees who are not executive directors) are held by the Trust. 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 Association guidelines on shareholder dilution.

Current levels of shareholder dilution are FY2015: 1.03% (FY2014: 0.70%) of share capital.

## WHAT DID NON-EXECUTIVE DIRECTORS EARN IN RESPECT OF FY2015 AND FY2014? (AUDITED)

The table below sets out the fees payable to each director not performing an executive function in respect of FY2015 and FY2014.

|                                  |  | 2015     |          |          | 2014     |          |          |
|----------------------------------|--|----------|----------|----------|----------|----------|----------|
|                                  |  | Fees     | Benefits | Total    | Fees     | Benefits | Total    |
| Nigel Northridge                 | Non-executive Chairman, chairman of Nomination Committee, member of Remuneration Committee                 | £175,000 | –        | £175,000 | £175,000 | –        | £175,000 |
| Dennis Millard                   | Senior Independent Director, chairman of Remuneration Committee, member of Audit and Nomination Committees | £65,000  | –        | £65,000  | £65,000  | –        | £65,000  |
| Terry Duddy <sup>1</sup>         | Member of Remuneration, Audit and Nomination Committees  | £18,574  | –        | £18,574  | –        | –        | –        |
| Peter Fitzgerald                 | Member of Audit Committee  | £42,500  | –        | £42,500  | £42,500  | –        | £42,500  |
| Stephen Ingham                   | Member of Remuneration Committee   | £42,500  | –        | £42,500  | £42,500  | –        | £42,500  |
| Martina King                     | Chairman of sustainability committee, member of Remuneration, Audit and Nomination Committees              | £55,000  | –        | £55,000  | £55,000  | –        | £55,000  |
| Mark Rolfe                       | Chairman of Audit Committee, member of Remuneration and Nomination Committees                              | £55,000  | –        | £55,000  | £55,000  | –        | £55,000  |
| Sophie Turner Laing <sup>2</sup> | Member of Remuneration, Audit and Nomination Committees  | £43,542  | –        | £43,542  | £47,500  | –        | £47,500  |

<sup>1</sup> Terry Duddy was appointed to the board on 10 April 2015.

<sup>2</sup> Sophie Turner Laing stepped down from the board on 31 July 2015.

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



The total interests of the Chairman and non-executive directors in the share capital of the Company as at 29 August 2015 are shown below.

| Director  | Ordinary shares held at 30 August 2014 | Ordinary shares held at 29 August 2015 | Ordinary shares held at 22 October 2015 |
|---|--|--|---|
| Nigel Northridge  | 100,000                                | 100,000                                | 100,000                                 |
| Terry Duddy (appointed to the board on 10 April 2015)             | –                                      | 40,000                                 | 40,000                                  |
| Peter Fitzgerald  | –                                      | –                                      | –                                       |
| Stephen Ingham  | –                                      | –                                      | –                                       |
| 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 (stepped down from the board on 31 July 2015) | 20,000                                 | 20,000 <sup>1</sup>                    | 20,000                                  |

The information in the table above is audited.

Note:

<sup>1</sup> Shareholding as at 31 July 2015.

#### Implementation of non-executive director remuneration policy in FY2016

There were no changes to non-executive directors' fees with effect from 1 September 2015.

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, Terry Duddy, Stephen Ingham, Martina King and Mark Rolfe 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        | 2/2  |
| Terry Duddy (appointed 10 April 2015)                          | Independent non-executive director | 0/0  |
| Stephen Ingham   | Independent non-executive director | 2/2  |
| Martina King   | Independent non-executive director | 2/2  |
| Nigel Northridge   | Independent non-executive Chairman | 2/2  |
| Mark Rolfe   | Independent non-executive director | 2/2  |
| Sophie Turner Laing (stepped down as a member on 31 July 2015) | Independent non-executive director | 2/2  |

# THE ANNUAL REPORT ON REMUNERATION CONTINUED

## Role of the Committee

The full terms of reference for the Committee, which are reviewed annually, are available on the Company's website at <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 2014
- Reviewed performance against targets for the executive directors' 2015 bonuses
- Approved the executive directors' 1.5% pay increase
- Reviewed performance against targets for the executive directors' 2012 PSP awards
- Reviewed the executive remuneration strategy for 2016
- Approved the executive directors' bonus plan for 2016
- Evaluated the performance of the Committee and that of the remuneration consultants

## Performance evaluation of the Committee

This year's evaluation of the Committee was conducted by the Company Chairman and it was concluded that the Committee continues to be effective and has the correct composition.

## Advisors to the Committee

In performing its duties, the Committee has received advice from Deloitte LLP ("Deloitte") which 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 £11,500.

Deloitte is one of the founding members of the Remuneration Consulting Group. The Committee has been fully briefed on Deloitte's compliance 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 share schemes, 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 from the advisors is independent, straightforward, relevant and appropriate. The Committee has an appropriate level of access to them and has confidence in their advice.

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 |
|--|--------|---------|
| 2014 directors' remuneration policy report | 98.65% | 1.35%   |
| 2014 annual remuneration report            | 99.79% | 0.21%   |

289,364 and 522,227 votes were withheld in relation to the policy report and annual remuneration report resolutions respectively.

On behalf of the board

**DENNIS MILLARD**  
**CHAIRMAN,**  
**REMUNERATION COMMITTEE**  
**22 OCTOBER 2015**

# DIRECTORS' REPORT

As required by the Companies Act 2006, the directors' report of Debenhams plc for the year ended 29 August 2015 is comprised of these pages 82 to 84 and the information found in the sections of the annual report as detailed in the table opposite, all of which are incorporated into this report by reference.

The content of the directors' report has 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.

## PROFIT AND DIVIDENDS

The profit after tax for the financial year ending 29 August 2015 was £93.5 million (2014: £87.2 million). The directors recommend the payment of a final dividend of 2.4 pence per ordinary share, to be paid on 22 January 2016 to members on the register at the close of business on 4 December 2015. 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 period ended 29 August 2015 and unless otherwise stated at the date of this annual report:

Nigel Northridge

Michael Sharp

Matt Smith (appointed 26 January 2015)

Suzanne Harlow

Dennis Millard

Terry Duddy (appointed 10 April 2015)

Peter Fitzgerald

Stephen Ingham

Martina King

Mark Rolfe

Sophie Turner Laing  
(resigned 31 July 2015)

The membership of the board and biographical details of the directors are given on pages 42 and 43. The business of the Company is managed

| Information  | Location in annual report                                    |
|--|--|
| Review of the business, principal risks and uncertainties and KPIs   | Market context, Chief Executive's report, KPI's, risk review |
| Strategy   | Business model and strategy, strategy in action              |
| Business model   | Business model and strategy                                  |
| Future business developments   | Chief Executive's report, strategy in action                 |
| 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                  |
| Employment policy for disabled persons and employee engagement throughout the workforce  | Resources, relationships and sustainability                  |
| Gender diversity of the board  | Resources, relationships and sustainability                  |

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 the board resolves that his/her office be vacated; or (v) receives a notice signed by not less than three quarters of the other

directors stating that the 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 Matt Smith and Terry Duddy, or for re-election, in the case of all other directors. An internal evaluation of the performance of each director, the board and its Committees has been carried out and the results were positive, confirming that each of the directors continues to be effective and demonstrate commitment to his or her role and that the board and its committees are operating well and effectively. Information on the evaluation and its outcome is on pages 48 and 49 of the corporate governance report.

In addition to the indemnity provisions in their Articles of Association, the Company and the 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.

## MAJOR SHAREHOLDERS

In accordance with Listing Rule 9.8.6(2), the following investor interests have been disclosed to the Company pursuant to the Disclosure and Transparency Rules as at 29 August 2015. This information was correct at the date of notification. It should be noted that these holdings may have changed since notified to the Company. Notification of any changes is not required until the next applicable threshold is crossed.

| Shareholder                   | Number of shares | Percentage of issued share capital |
|-------------------------------|------------------|------------------------------------|
| Schroders plc                 | 159,058,694      | 12.96%                             |
| Milestone Resources Group Ltd | 92,652,075       | 7.55%                              |
| LSV Asset Management          | 57,470,249       | 4.68%                              |
| Old Mutual                    | 55,461,954       | 4.52%                              |
| Brandes Investment Partners   | 48,428,810       | 3.95%                              |
| JP Morgan Asset Management    | 41,481,558       | 3.38%                              |
| BlackRock Inc                 | 40,626,206       | 3.31%                              |
| Norges Bank                   | 36,848,505       | 3.00%                              |

Sports Direct International plc has an interest in 128,927,113 shares, representing 10.51% of the issued share capital, via put option contracts expiring in October/November 2016

The following notifications have been received since 29 August 2015 and up to 21 October 2015:

| Date of notification | Shareholder    | Number of shares | Percentage of issued share capital |
|----------------------|----------------|------------------|------------------------------------|
| 31 August 2015       | Norges Bank    | 36,807,390       | Below 3%                           |
| 14 September 2015    | ING Groep N.V. | 67,515,686       | 5.50%                              |
| 17 September 2015    | BlackRock Inc  | 61,477,530       | 5.01%                              |
| 18 September 2015    | ING Groep N.V. | 40,515,686       | 3.30%                              |
| 22 September 2015    | BlackRock Inc  | N/A              | Below 5%                           |

## SHARE CAPITAL

As at 29 August 2015 the issued share capital of the Company was 1,227,166,813 ordinary shares of 0.01 pence each and 59,685,727 ordinary shares of 0.01 pence each were held in Treasury. In addition to the shares trading on the London Stock Exchange, the Company operates a level 1 American depositary receipt programme. Each American depositary share represents four ordinary shares of 0.01 pence each. 1,022,994 treasury shares were transferred out of treasury during the year to satisfy awards granted under the Company's Performance Share Plan.

At the December 2014 Annual General Meeting, shareholders authorised the Company to purchase up to 122,613,472 ordinary shares in the market. Although

this authority was not utilised by the Company during the last financial year, 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 directors have no present intention of exercising the authority to purchase the Company's ordinary shares. The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would be likely to promote the success of the Company for the benefit of its shareholders as a whole.

## 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.

As at 29 August 2015, the Debenhams Retail Employee Trust 2004 ("the Trust") holds 273,537 ordinary shares in the Company (0.02%). 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.



# DIRECTORS' REPORT CONTINUED

## SIGNIFICANT AGREEMENTS

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following a takeover bid. Details of the significant agreements of this kind are as follows:

- The multi-currency revolving credit facility dated 18 June 2014 contains a provision for mandatory prepayment on no less than 45 days' prior notice to the Company.
- The terms and conditions of the 5.25% senior notes due 2021 contain a provision that enables holders of the notes to require the Company to make an offer to repurchase all of the notes at a price equal to 101% of the principal amount thereof, plus any accrued unpaid interest.
- The Company's Performance Share Plan and its Executive Share Option Plan contain provisions regarding change of control. Awards under the plans may vest on a change of control, subject to the satisfaction of any relevant performance conditions.

Other than the provisions of the Company's share plans, 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 68 of the directors' remuneration report.

## 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 instrument entered into for underlying risks are set out in note 22 to the financial statements on pages 124 to 125. Information regarding the Group's financial risk management policies is set out in note 21 to the financial statements on page 121.

## EVENTS SINCE YEAR END

Since year end Debenhams has opened an International franchise store in Iran and two UK stores in Rugby and Wandsworth.

## 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 Conduct 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 55 and risk review on pages 20 and 21 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 the Wellcome Collection, 183 Euston Road, London NW1 2BE on 14 January 2016 at 2.00pm. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

This directors' report was approved by a duly appointed and authorised committee of the board of Directors on 21 October 2015 and signed on behalf by:

**PAUL EARDLEY**  
**COMPANY SECRETARY**  
**22 OCTOBER 2015**

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law, the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("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 view 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  
22 OCTOBER 2015

**MATT SMITH**  
CHIEF FINANCIAL OFFICER  
22 OCTOBER 2015

# 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 29 August 2015 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

The financial statements, included within the Annual Report & Accounts ("the annual report"), comprise:

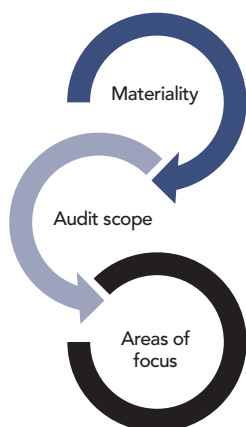
- The Consolidated Balance Sheet as at 29 August 2015;
- The Consolidated Income Statement and the Consolidated Statement of Comprehensive Income for the year then ended;
- The Consolidated Cash Flow Statement for the year then ended;
- The Consolidated Statement of Changes in Equity for the year then 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, 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: £5.6 million which represents 5% of profit before tax.

Debenhams plc consists two operating segments – UK and International. Within these two operating segments there are eight reporting units (excluding dormant entities), of which five are considered to be significant to the Group.

We performed full scope audits on the five significant reporting units (Debenhams Retail plc, Debenhams Properties Limited, Debenhams Retail (Ireland) Limited, Debenhams plc and Aktieselskabet Th. Wessel & Vett Magasin du Nord ("Magasin du Nord")).

The entities where we performed full scope audits accounted for 100% of retail revenue and 100% of profit before tax.

- 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 impairment assessment.
- Defined benefit pension plans.

#### 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 was evidence of bias by the directors that represented 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. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

#### 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 franchisees**

*See note 2 to the financial statements for the directors' disclosures of the related revenue recognition accounting policy and page 54 for the views of the Audit Committee.*

The Group's revenue relates to both retail trading and trading with franchise partners.

Retail revenue comprises high volume, low value cash or credit/debit card transactions where the principal risk of fraud and manual error comes from the ability to manipulate the results through posting manual journals outside of the standard automated transaction flow and therefore not subject to the main controls over revenue. The Group uses manual journals to post accounting adjustments including adjusting concessions sales so as to remove the element of the sale that is due to the concession partner; for deferral of revenue where sale of goods online are not yet dispatched at the year end, and adjustments for staff discounts and refund provisions. This risk is applicable to Debenhams Retail plc, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only reporting units which generate retail revenue.

Franchise revenue comprises revenue from the sale of inventory to franchise partners for sale in overseas franchise stores and franchise fees for the use of the Debenhams brand by overseas franchise partners. The principal risk of fraud and manual error in franchise revenue comes from manual journals as noted above. There is also a risk that management could materially manipulate franchise revenue figures through forcing sales or invoicing the franchisees in the incorrect period artificially inflating revenue for the current year. Franchise sales are only recognised in Debenhams Retail plc.

#### How our audit addressed the area of focus

For both retail and franchise revenue we agreed material manual journal entry adjustments made to revenue to supporting documentation. Our work did not identify any significant unexpected or unsupported adjustments.

In Magasin du Nord, the system design was such that, rather than manually trace the journal entries to supporting documentation, we were able to use data auditing techniques to trace revenue transactions through the expected transaction flow and to highlight unexpected transactions needing further investigation. Our review of transactions did not highlight any significant unexpected items.

In addition, for franchise revenue, we tested a sample of sales transactions back to supporting documentation such as cash receipts or purchase orders and goods despatched notes to ascertain the point at which the revenue should be recorded and to make sure it is in the correct period. Our testing noted that Debenhams is entitled to recognise sales on despatch of the goods in line with the franchise agreements, and all items tested had been despatched in advance of the year end. We also obtained confirmation of year end accounts receivable balances with no material issues noted.

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

## Area of focus

### **Inventory valuation using the retail method and provisioning for out of season inventory**

*Refer to page 54 (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 relies on a number of inputs including selling price, assumed margin and quantity. The methodology is also impacted by the timing of processing markdowns which could significantly affect gross margin. Due to differences in the systems used, inventory in Magasin du Nord is valued using a cost based method which is less complex and therefore this risk is not applicable to that reporting unit.

Furthermore, the ongoing pressure on consumer spending within the retail sector continues to create competition on the high street, especially in non-essential categories such as fashion. This could put pressure on the level of out of season stock identified for markdown within the Group. As such there is a risk that the realisable value of inventory will be lower than its recorded cost. This risk is relevant to Debenhams Retail plc, Debenhams Retail (Ireland) Limited and Magasin du Nord as these are the only reporting units that hold inventory.

## How our audit addressed the area of focus

Due to the reliance management places on the various stock systems used within the Group, we evaluated the IT controls over the relevant systems and tested the internal controls over the inventory valuation process including the process of recording inventory on receipt and agreement of inventory invoices to proof of receipt and purchase orders. This work gave us assurance over the processing of the inputs into management's margin calculations which are the basis of the inventory valuation.

We also tested interfaces between the Group's systems to ensure that sales prices used in the valuation were consistent with those prices in the store till system. Our testing did not note any issues between systems.

We obtained evidence over the quantities of inventory through assessing the Group's controls by attending a sample of inventory counts at stores and distribution centres and reviewing the results of those not attended. No significant issues were noted regarding existence or accuracy of inventory.

We reviewed departmental level margins against the prior year margins for unusual fluctuations, with none being identified.

We also assessed the level of out of season inventory at the year end, including testing management's controls in relation to classifying inventory 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 check the reasonableness of the judgement involved in the markdown provisions applied to the year end inventory valuation. Our testing noted that the controls in place were operating effectively for the purposes of our audit and no unusual patterns were noted through examining post year end markdowns.



**Area of focus****Goodwill and store asset impairment assessment**

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 notes 13 & 14 for further details on the impairment test.

The UK retail market continues to evolve rapidly, with customers' purchasing habits adapting to include online offerings and other convenience options, and there is a risk that this could impact the recoverable value of assets used within the store portfolio.

Management considers each store to be a cash-generating unit ("CGU") and has performed a discounted cash flow impairment assessment at CGU level to ensure that the store assets are supported by its expected future cash flows.

We focused on this area because of the significant carrying value of store assets within the Group and the judgement used in management's impairment assessment including assumptions over future growth rates and discount rate.

The Group balance sheet also includes £818 million goodwill which relates primarily to the acquisition in December 2003 of the Debenhams Group by Debenhams plc. Management's assessment of the store portfolio as detailed above is used to form the basis of the goodwill impairment review and is therefore subject to the same assumptions as the store impairment review above.

We focused on this area due to the changes noted in the retail market as detailed above.

**Defined benefit pension plans**

Refer to note 5 to the financial statements 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 £795.8 million and total pension liabilities of £769.6 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.

**How our audit addressed the area of focus**

We tested that the impairment models used by management for both goodwill and store impairment were mathematically correct with no issues noted.

We challenged the directors on the inputs into their impairment assessment calculations, including:

- The directors' key assumptions for short-term sales growth rates (from 0.0% to 4.0%), by comparing them to historical results and the prospects for the stores, business and industry and noted that the rates used do not appear to be unreasonable;
- The directors' key assumptions for long-term sales growth rates of 2.0%, by comparing this to historical results, and economic and industry forecasts and note that the rates used in management's calculations were in line with this data; and
- The discount rate (post tax rate 7.5%), by assessing the cost of capital for the Group and comparable organisations, forming a view of risk premiums as appropriate. Having performed this assessment we believe this is an appropriate discount rate.

Having challenged these assumptions, we focused further discussions with management on stores where there were low profit margins or little headroom in the impairment assessment, and as such we considered the risk of impairment to be greater. For those stores that were identified as higher risk, we understood management's support for the carrying value of store assets and agreed that the carrying value was appropriate.

We also performed sensitivity analysis on the key assumptions including the short-term growth rates and discount rates as these are the key assumptions in the impairment model and noted that whilst the calculations are most sensitive to changes in short-term growth rates, there is sufficient headroom for this not to result in impairments being required.

We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment.

We evaluated the pension liability assumptions, including discount rates, salary increases, inflation and mortality, utilising our internal actuarial specialists. We considered and challenged the reasonableness of the actuarial assumptions comparing the discount and inflation rates used to our internally developed benchmark ranges, finding them to be within an acceptable range.

Both plans are closed to new entrants; the accuracy of census data used to calculate the liability at the date of each triennial valuation was tested by agreeing a sample of individuals' details to the Group's personnel records.

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

## 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: UK and International. These operating segments consist of eight reporting units (excluding dormant entities).

Our audit approach was based on the underlying reporting units within the two operating segments. We considered there to be five financially significant reporting units – Debenhams Retail plc, Debenhams Properties Limited, Debenhams Retail (Ireland) Limited, Debenhams plc and Magasin du Nord.

The five financially significant reporting units were audited by the UK Group team with the exception of Magasin du Nord which was audited by PwC Denmark as component auditor operating under our instruction. Audit work was performed over the consolidation process and tax at a consolidated Group level.

Where the work was performed by the component auditor, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. As part of our year end procedures, we held detailed discussions with the Magasin du Nord component audit team including update calls on the progress of their fieldwork and attending the clearance meeting with management by conference call.

The reporting units where we performed full scope audit work accounted for 100% of retail revenue and 100% of Group profit before tax.

## Materiality

The scope of our audit was 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 on the individual financial statement line items and disclosures and in evaluating 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       | £5.6 million (2014: £5.5 million).   |
| How we determined it            | 5% of profit before tax.   |
| Rationale for benchmark applied | We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £500,000 (2014: £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 84, 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 risk management systems 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:   | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"><li>• materially inconsistent with the information in the audited financial statements; or</li><li>• apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li><li>• otherwise misleading.</li></ul>  |   |
| <ul style="list-style-type: none"><li>• the statement given by the directors on page 85, 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.</li></ul> | We have no exceptions to report arising from this responsibility. |
| <ul style="list-style-type: none"><li>• the section of the annual report on pages 52 to 55, 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.</li></ul>   | 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 10 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 85, 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.

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

## 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 29 August 2015 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  
22 OCTOBER 2015**

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 29 August 2015

|   | Note | 52 weeks<br>ended<br>29 August<br>2015<br>£m | 52 weeks<br>ended<br>30 August<br>2014<br>£m |
|---|------|--|--|
| <b>Revenue</b>  | 3, 4 | <b>2,322.7</b>                               | 2,312.7                                      |
| Cost of sales   |      | <b>(2,023.5)</b>                             | (2,033.4)                                    |
| <b>Gross profit</b>   |      | <b>299.2</b>                                 | 279.3  |
| Distribution costs  |      | <b>(111.1)</b>                               | (98.5)                                       |
| Administrative expenses   |      | <b>(54.0)</b>                                | (52.2)                                       |
| Operating profit  | 6    | <b>134.1</b>                                 | 128.6  |
| Finance income  | 8    | <b>0.2</b>                                   | 0.6  |
| Total finance costs   |      | <b>(20.8)</b>                                | (23.4)                                       |
| Analysed as:  |      |  |  |
| Recurring finance costs   | 9    | <b>(20.8)</b>                                | (18.9)                                       |
| Non-recurring finance costs   | 9    | <b>-</b>                                     | (4.5)  |
| <b>Profit before taxation</b>   |      | <b>113.5</b>                                 | 105.8  |
| Taxation  | 10   | <b>(20.0)</b>                                | (18.6)                                       |
| <b>Profit for the financial year attributable to owners of the parent</b>                     |      | <b>93.5</b>                                  | 87.2   |
| <b>Earnings per share attributable to owners of the parent (expressed in pence per share)</b> |      |  |  |
|   |      | Pence<br>per share                           | Pence<br>per share                           |
| Basic earnings per share attributable to owners of the parent                                 | 12   | <b>7.6</b>                                   | 7.1  |
| Diluted earnings per share attributable to owners of the parent                               | 12   | <b>7.6</b>                                   | 7.1  |



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 29 August 2015

|  | Note | 52 weeks ended<br>29 August<br>2015<br>£m | 52 weeks ended<br>30 August<br>2014<br>£m |
|--|------|---|---|
| <b>Profit for the financial year</b>                               |      | <b>93.5</b>                               | 87.2                                      |
| <b>Other comprehensive income/(expense)</b>                        |      |   |   |
| <b>Items that will not be reclassified to the income statement</b> |      |   |   |
| Remeasurements of pension schemes                                  | 23   | 17.8                                      | 8.8                                       |
| Taxation relating to items that will not be reclassified           | 10   | (3.6)                                     | (1.6)                                     |
|  |      | <b>14.2</b>                               | 7.2                                       |
| <b>Items that may be reclassified to the income statement</b>      |      |   |   |
| Currency translation differences                                   |      | (5.2)                                     | (4.2)                                     |
| Change in the valuation of available-for-sale investments          | 15   | (1.5)                                     | 2.5                                       |
| Gains/(losses) on cash flow hedges                                 |      | 39.2                                      | (24.9)                                    |
| Transferred to the income statement on cash flow hedges            | 9    | 1.6                                       | 2.7                                       |
| Recycled and adjusted against cost of inventory                    | 21   | (8.7)                                     | 8.1                                       |
| Taxation relating to items that may be reclassified                | 10   | (6.7)                                     | 3.0                                       |
|  |      | <b>18.7</b>                               | (12.8)                                    |
| <b>Total other comprehensive income/(expense)</b>                  |      | <b>32.9</b>                               | (5.6)                                     |
| <b>Total comprehensive income for the financial year</b>           |      | <b>126.4</b>                              | 81.6                                      |

# CONSOLIDATED BALANCE SHEET

As at 29 August 2015

|                                  | Note | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|----------------------------------|------|-------------------------|-------------------------|
| <b>Assets</b>                    |      |                         |                         |
| <b>Non-current assets</b>        |      |                         |                         |
| Intangible assets                | 13   | 931.5                   | 892.8                   |
| Property, plant and equipment    | 14   | 675.3                   | 689.2                   |
| Available-for-sale investments   | 15   | 2.1                     | 3.6                     |
| Derivative financial instruments | 22   | 12.1                    | 3.0                     |
| Trade and other receivables      | 17   | 14.9                    | 15.6                    |
| Retirement benefit surplus       | 23   | 26.2                    | 6.9                     |
| Deferred tax assets              | 24   | 20.8                    | 51.0                    |
|                                  |      | <b>1,682.9</b>          | <b>1,662.1</b>          |
| <b>Current assets</b>            |      |                         |                         |
| Inventories                      | 16   | 331.6                   | 345.7                   |
| Trade and other receivables      | 17   | 78.0                    | 74.7                    |
| Derivative financial instruments | 22   | 17.4                    | 1.5                     |
| Cash and cash equivalents        | 18   | 32.7                    | 64.4                    |
|                                  |      | <b>459.7</b>            | <b>486.3</b>            |
| <b>Liabilities</b>               |      |                         |                         |
| <b>Current liabilities</b>       |      |                         |                         |
| Bank overdraft and borrowings    | 20   | (155.4)                 | (202.1)                 |
| Derivative financial instruments | 22   | (1.3)                   | (11.4)                  |
| Trade and other payables         | 19   | (523.6)                 | (529.3)                 |
| Current tax liabilities          |      | (9.0)                   | (9.2)                   |
| Provisions                       | 26   | (6.4)                   | (6.0)                   |
|                                  |      | <b>(695.7)</b>          | <b>(758.0)</b>          |
| <b>Net current liabilities</b>   |      | <b>(236.0)</b>          | <b>(271.7)</b>          |
| <b>Non-current liabilities</b>   |      |                         |                         |
| Bank overdraft and borrowings    | 20   | (197.1)                 | (223.8)                 |
| Derivative financial instruments | 22   | (1.1)                   | (2.7)                   |
| Deferred tax liabilities         | 24   | (54.8)                  | (53.4)                  |
| Other non-current liabilities    | 25   | (340.6)                 | (332.7)                 |
| Provisions                       | 26   | –                       | (1.1)                   |
| Retirement benefit obligations   | 23   | –                       | (9.3)                   |
|                                  |      | <b>(593.6)</b>          | <b>(623.0)</b>          |
| <b>Net assets</b>                |      | <b>853.3</b>            | <b>767.4</b>            |
| <b>Shareholders' equity</b>      |      |                         |                         |
| 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                  |      | 17.9                    | (7.9)                   |
| Other reserves                   | 27   | (16.5)                  | (9.4)                   |
| Retained earnings                |      | 167.9                   | 100.7                   |
| <b>Total equity</b>              |      | <b>853.3</b>            | <b>767.4</b>            |

The financial statements on pages 93 to 137 were approved by the board on 22 October 2015 and were signed on its behalf by:

**MATT SMITH**  
CHIEF FINANCIAL OFFICER

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the financial year ended 29 August 2015

|  | Note | Share capital and share premium account<br>£m | Merger reserve<br>£m | Reverse acquisition reserve<br>£m | Hedging reserve<br>£m | Other reserves<br>£m | Retained earnings<br>£m | Total equity<br>£m |
|--|------|---|----------------------|-----------------------------------|-----------------------|----------------------|-------------------------|--------------------|
| 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              |
| Profit for the financial year                                      |      | –   | –                    | –                                 | –                     | –                    | 93.5                    | 93.5               |
| Other comprehensive income/(expense) for the financial year        |      | –   | –                    | –                                 | 25.8                  | (7.1)                | 14.2                    | 32.9               |
| <b>Total comprehensive income/(expense) for the financial year</b> |      | –   | –                    | –                                 | <b>25.8</b>           | <b>(7.1)</b>         | <b>107.7</b>            | <b>126.4</b>       |
| Share-based payment charge   | 28   | –   | –                    | –                                 | –                     | –                    | 1.1                     | 1.1                |
| Unallocated dividends  |      | –   | –                    | –                                 | –                     | –                    | 0.1                     | 0.1                |
| Dividends paid   | 11   | –   | –                    | –                                 | –                     | –                    | (41.7)                  | (41.7)             |
| <b>Total transactions with owners</b>                              |      | –   | –                    | –                                 | –                     | –                    | <b>(40.5)</b>           | <b>(40.5)</b>      |
| <b>Balance at 29 August 2015</b>                                   |      | <b>683.0</b>                                  | <b>1,200.9</b>       | <b>(1,199.9)</b>                  | <b>17.9</b>           | <b>(16.5)</b>        | <b>167.9</b>            | <b>853.3</b>       |

For a description of other reserves see note 27.

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 29 August 2015

|   | Note | 52 weeks<br>ended<br>29 August<br>2015<br>£m | 52 weeks<br>ended<br>30 August<br>2014<br>£m |
|---|------|--|--|
| <b>Cash flows from operating activities</b>                   |      |  |  |
| Cash generated from operations                                | 30   | 236.3  | 240.5  |
| Finance income  |      | 0.1  | 1.2  |
| Finance costs   |      | (19.4)                                       | (14.3)                                       |
| Tax received/(paid)   |      | 1.1  | (20.6)                                       |
| Net cash generated from operating activities                  |      | 218.1  | 206.8  |
| <b>Cash flows from investing activities</b>                   |      |  |  |
| Purchase of property, plant and equipment                     |      | (79.6)                                       | (102.3)                                      |
| Purchase of intangible assets                                 |      | (54.0)                                       | (25.7)                                       |
| Sale of property, plant and equipment                         |      | 0.2  | –  |
| Net cash used in investing activities                         |      | (133.4)                                      | (128.0)                                      |
| <b>Cash flows from financing activities</b>                   |      |  |  |
| Issue of senior notes   | 20   | –  | 225.0  |
| Repurchase of senior notes                                    | 20   | (24.8)                                       | –  |
| (Repayment)/drawdown of revolving credit facility             | 20   | (65.0)                                       | 200.0  |
| Repayment of term loan and revolving credit facilities        | 20   | –  | (410.7)                                      |
| Settlement of term loan facility                              |      | –  | 13.3   |
| Purchase of treasury shares                                   |      | –  | (15.1)                                       |
| Dividends paid  | 11   | (41.7)                                       | (41.7)                                       |
| Finance lease payments  |      | (3.3)  | (2.2)  |
| Debt issue costs  |      | 0.2  | (7.1)  |
| Net cash used in financing activities                         |      | (134.6)                                      | (38.5)                                       |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   |      | <b>(49.9)</b>                                | <b>40.3</b>                                  |
| Net cash and cash equivalents at beginning of financial year  |      | 64.4   | 24.1   |
| Foreign exchange losses on cash and cash equivalents          |      | (0.1)  | –  |
| <b>Net cash and cash equivalents at end of financial year</b> | 31   | <b>14.4</b>                                  | <b>64.4</b>                                  |

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 29 August 2015

## 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") are the sale of fashion clothing and accessories, cosmetics and products for use in the home. The Group has a multi-channel offer, trades from department stores in the UK, the Republic of Ireland and Denmark, trades online 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 29 August 2015 are disclosed in note 33.

### 2 Accounting policies

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

#### Basis of preparation

The consolidated financial statements have been prepared on the going concern basis and in accordance with International Financial Reporting Standards ("IFRSs") 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 29 August 2015 and 30 August 2014 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 IFRSs, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts 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 control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. 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 settled 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.



**Supplier income recognition**

The Group receives income from its suppliers, mainly in the form of settlement discounts, volume-based rebates and marketing and advertising income. Supplier income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. The Group only recognises supplier income where there is documented evidence of an agreement with a supplier.

Settlement discounts are recognised on receipt of the invoice, provided that the invoice will be settled in accordance with the agreed terms. Volume-based rebates are earned based on purchase or sales triggers over specific periods, such as the number of units sold to customers or purchased from the supplier. Volume-based rebates are recognised once the Group has a contractual entitlement to the income, income can be estimated reliably and it is probable that it will be received. Marketing and advertising income includes markdown or marketing support provided by suppliers and is agreed with suppliers for specified periods and products.

A proportion of the Group's trading terms state that income due from suppliers will be netted against amounts owing to that supplier. Any outstanding invoiced supplier income relating to these suppliers at the balance sheet date will be deducted from trade payables. Where these trading terms do not exist, the Group classifies outstanding supplier income within trade receivables. Where supplier income is earned and not invoiced to the supplier at the balance sheet date, this is classified within prepayments and accrued income.

**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 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 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 2 Accounting policies continued

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, or 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, with the exception of foreign exchange gains and losses that relate to intercompany loans classed as permanent equity which are recognised in other comprehensive income. All other foreign exchange gains and losses are presented in the income statement within cost of sales.

### Taxation

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

##### 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 "Business combinations" revised. 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% |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 2 Accounting policies continued

### 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 historical 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  | 20.0%                            |

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.

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.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 2 Accounting policies continued

### 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 currency 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 foreign currency 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 cost of sales or 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.

### New standards and interpretations

The following standards and 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 IAS 27 (2011) "Separate financial statements" and IAS 28 (2011) "Investments in associates and joint ventures".

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 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<br>£m       | International<br>£m | Total<br>£m    |
|---|----------------|---------------------|----------------|
| <b>Financial year ended 29 August 2015</b>    |                |                     |                |
| <b>Gross transaction value</b>                | <b>2,323.5</b> | <b>536.6</b>        | <b>2,860.1</b> |
| Concessions, consignments and staff discounts | (401.2)        | (136.2)             | (537.4)        |
| <b>External revenue</b>                       | <b>1,922.3</b> | <b>400.4</b>        | <b>2,322.7</b> |
| <b>Operating profit</b>                       | <b>101.7</b>   | <b>32.4</b>         | <b>134.1</b>   |
| <b>Other segment items</b>                    |                |                     |                |
| - Depreciation                                | 80.9           | 6.8                 | 87.7           |
| - Amortisation                                | 14.9           | 1.6                 | 16.5           |
| <b>Financial year ended 30 August 2014</b>    |                |                     |                |
| 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          |
| <b>Other segment items</b>                    |                |                     |                |
| - Depreciation                                | 78.9           | 8.6                 | 87.5           |
| - Amortisation                                | 11.7           | 1.6                 | 13.3           |

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

|                                     | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------------------------------|-------------------------|-------------------------|
| Total operating profit              | 134.1                   | 128.6                   |
| Finance income                      | 0.2                     | 0.6                     |
| Recurring finance costs             | (20.8)                  | (18.9)                  |
| Non-recurring finance costs         | -                       | (4.5)                   |
| <b>Total profit before taxation</b> | <b>113.5</b>            | <b>105.8</b>            |

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

|                               | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------------------------|-------------------------|-------------------------|
| United Kingdom                | 1,922.3                 | 1,902.1                 |
| Denmark                       | 174.7                   | 175.8                   |
| Republic of Ireland           | 126.0                   | 135.5                   |
| Rest of the world             | 99.7                    | 99.3                    |
| <b>Total external revenue</b> | <b>2,322.7</b>          | <b>2,312.7</b>          |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

### 3 Segmental reporting continued

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

|                                 | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---------------------------------|-------------------------|-------------------------|
| United Kingdom                  | 1,561.2                 | 1,532.9                 |
| Denmark                         | 22.1                    | 23.1                    |
| Republic of Ireland             | 23.1                    | 25.6                    |
| Rest of the world               | 0.4                     | 0.4                     |
| <b>Total non-current assets</b> | <b>1,606.8</b>          | <b>1,582.0</b>          |

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

|  | UK<br>£m     | International<br>£m | Total<br>£m  |
|--|--------------|---------------------|--------------|
| <b>Financial year ended 29 August 2015</b> | <b>125.0</b> | <b>8.0</b>          | <b>133.0</b> |
| Financial year ended 30 August 2014        | 109.1        | 9.8                 | 118.9        |

### 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 ("GTV"), which presents revenue on a gross basis before adjusting for concessions, consignments and staff discounts, represents a good guide to the overall activity of the Group.

|                                | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------------|-------------------------|-------------------------|
| <b>Gross transaction value</b> | <b>2,860.1</b>          | <b>2,823.9</b>          |

A reconciliation of GTV 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 surplus/obligation, 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.

The Group recognises deferred tax assets and liabilities based on the best estimate at the balance sheet date. Where the final tax outcome 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 may give rise to 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

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| <b>The following items have been included in arriving at operating profit:</b> |                         |                         |
| The amounts of inventory written down during the financial year                | 10.1                    | 10.4                    |
| Cost of inventory recognised as an expense                                     | 1,164.7                 | 1,165.0                 |
| Depreciation of property, plant and equipment (note 14)                        | 87.7                    | 87.5                    |
| Amortisation of intangible assets (note 13)                                    | 16.5                    | 13.3                    |
| Loss on disposal of property, plant and equipment                              | 0.3                     | 1.4                     |
| Operating lease rentals  | 213.9                   | 216.3                   |
| Foreign exchange gains   | (5.7)                   | (1.3)                   |
| Auditors' remuneration   | 0.4                     | 0.5                     |

### 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:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Audit services</b>   |                         |                         |
| Annual audit fees for the Company and the consolidated accounts | 0.2                     | 0.2                     |
| <b>Other services</b>   |                         |                         |
| Audit of subsidiary companies                                   | 0.1                     | 0.1                     |
| Other non-audit services  | 0.1                     | 0.2                     |

Other non-audit services for the financial year ended 30 August 2014 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 7 Employees

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Wages and salaries  | 344.7                   | 334.4                   |
| Social security costs   | 21.7                    | 20.5                    |
| Other pension costs (note 23)                                   | 15.1                    | 16.1                    |
| Share-based payments (note 28)                                  | 1.1                     | (1.8)                   |
| <b>Employment costs</b>   | <b>382.6</b>            | <b>369.2</b>            |
|   | <b>Number</b>           | <b>Number</b>           |
| Average monthly number of employees (including key management): |                         |                         |
| – Full time   | 7,895                   | 7,802                   |
| – Part time   | 20,232                  | 20,431                  |
| <b>Total</b>  | <b>28,127</b>           | <b>28,233</b>           |

Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 56 to 81, which forms part of these financial statements.

### Key management compensation

|                              | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|------------------------------|-------------------------|-------------------------|
| Short-term employee benefits | 3.6                     | 3.5                     |
| Post-employment benefits     | 0.5                     | 0.5                     |
| Share-based payments         | 0.6                     | (1.2)                   |
|                              | <b>4.7</b>              | <b>2.8</b>              |

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 (2014: 15 members).

## 8 Finance income

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Interest on bank deposits   | 0.1                     | 0.2                     |
| Net interest on net defined benefit pension schemes liability (note 23) | 0.1                     | –                       |
| Other financing income  | –                       | 0.4                     |
|   | <b>0.2</b>              | <b>0.6</b>              |



## 9 Finance costs

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Recurring finance costs</b>  |                         |                         |
| Interest payable on bank loans and overdrafts   | 5.3                     | 10.9                    |
| Interest payable on senior notes  | 11.4                    | 1.9                     |
| Cash flow hedges reclassified and reported in the income statement                                      | 1.6                     | 2.7                     |
| Amortisation of issue costs on loans and senior notes (note 20)   | 1.6                     | 2.0                     |
| Interest payable on finance leases  | 0.2                     | 0.2                     |
| Net interest on net defined benefit pension schemes liability (note 23)                                 | –                       | 0.6                     |
| Other financing costs   | 1.4                     | 1.2                     |
| Capitalised finance costs – qualifying assets (note 13,14)  | (0.7)                   | (0.6)                   |
|   | <b>20.8</b>             | <b>18.9</b>             |
| <b>Non-recurring finance costs</b>  |                         |                         |
| Unamortised issue costs written off on repayment of term loan and revolving credit facilities (note 20) | –                       | 4.5                     |

## 10 Taxation

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

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| <b>Current taxation</b>  |                         |                         |
| Current taxation charge on profit for the financial year   | 3.4                     | 7.7                     |
| Adjustments in respect of prior years  | (2.5)                   | (0.8)                   |
| <b>Current taxation charge</b>   | <b>0.9</b>              | <b>6.9</b>              |
| <b>Deferred taxation</b>   |                         |                         |
| Origination and reversal of temporary differences  | 19.4                    | 13.0                    |
| Pension cost relief in excess of pension charge  | (0.1)                   | (0.4)                   |
| Adjustments in respect of prior years  | (0.2)                   | 0.1                     |
| Effect of change in current tax rate on the net deferred tax asset recognised at the beginning of the financial year | –                       | (1.0)                   |
| <b>Deferred taxation charge (note 24)</b>  | <b>19.1</b>             | <b>11.7</b>             |
| <b>Taxation charge for the financial year</b>  | <b>20.0</b>             | <b>18.6</b>             |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 10 Taxation continued

The effective tax rate for the financial year is lower at 17.6% (2014: 17.6%) than the rate of corporation tax in the UK of 20.6% (2014: 22.2%). The differences are explained below:

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| <b>Profit before taxation</b>  | <b>113.5</b>            | 105.8                   |
| Profit on ordinary activities at standard rate of corporation tax in the UK of 20.6% (2014: 22.2%) | <b>23.4</b>             | 23.5                    |
| Effects of:  |                         |                         |
| Permanent differences  | <b>(0.2)</b>            | (0.7)                   |
| Overseas tax rates   | <b>0.5</b>              | 1.1                     |
| Utilisation of tax losses  | <b>(1.8)</b>            | (3.7)                   |
| Non-qualifying depreciation and lease transactions   | <b>1.5</b>              | 1.7                     |
| Effect on deferred taxation of the change in current tax rate                                      | <b>(0.6)</b>            | (2.6)                   |
| Adjustments in respect of prior financial years  | <b>(2.8)</b>            | (0.7)                   |
| <b>Taxation charge for the financial year</b>  | <b>20.0</b>             | 18.6                    |

The Finance Act 2013 ("the 2013 Act") included legislation reducing the main rate of corporation tax from 21.0% to 20.0% from 1 April 2015.

The reduction in the corporation tax rate enacted in the 2013 Act has had no effect on the net deferred tax liability recognised at 30 August 2014 (31 August 2013: net deferred tax asset decreased by £1.0 million).

One of the Group's UK subsidiaries, Debenhams Retail plc, 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 the Republic of 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. On 1 September 2013 Debenhams Properties Limited changed its reporting framework from UK GAAP to FRS 101 which resulted in a temporary reduction in the current taxation charge in the financial year ended 30 August 2014.

In addition to the amount charged to the income statement, taxation movements recognised in other comprehensive income were as follows:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Taxation relating to items that will not be reclassified to the income statement</b>       |                         |                         |
| <b>Current taxation</b>   |                         |                         |
| Pension schemes   | <b>(2.2)</b>            | (2.3)                   |
| <b>Deferred taxation</b>  |                         |                         |
| Remeasurements of pension schemes   | <b>5.8</b>              | 3.9                     |
| <b>Total taxation relating to items that will not be reclassified to the income statement</b> | <b>3.6</b>              | 1.6                     |
| <b>Taxation relating to items that may be reclassified to the income statement</b>            |                         |                         |
| <b>Deferred taxation</b>  |                         |                         |
| Currency translation differences  | <b>0.4</b>              | –                       |
| Gains/(losses) on cash flow hedges  | <b>6.0</b>              | (5.1)                   |
| Transferred to the income statement on cash flow hedges                                       | <b>–</b>                | 0.5                     |
| Recycled and adjusted against cost of inventory   | <b>0.3</b>              | 1.6                     |
| <b>Total taxation relating to items that may be reclassified to the income statement</b>      | <b>6.7</b>              | (3.0)                   |
| <b>Total taxation charge/(credit) in other comprehensive income</b>                           | <b>10.3</b>             | (1.4)                   |

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19.0% from 1 April 2017 and to 18.0% from 1 April 2020.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £2.5 million, reduce the deferred taxation expense for the period by £2.4 million, and reduce the other comprehensive income statement by £0.1 million. In addition the corporation tax liability would be reduced by £0.6 million and the current taxation expense for the period would have been reduced by £0.6 million.

## 11 Dividends

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Final paid 2.4 pence (2014: 2.4 pence) per £0.0001 share   |                         |                         |
| – Settled in cash  | 29.4                    | 29.4                    |
| Interim paid 1.0 pence (2014: 1.0 pence) per £0.0001 share |                         |                         |
| – Settled in cash  | 12.3                    | 12.3                    |
|  | <b>41.7</b>             | <b>41.7</b>             |

A final dividend of 2.4 pence per share (2014: 2.4 pence per share) was paid during the financial year in respect of the financial year ended 30 August 2014, together with an interim dividend of 1.0 pence per share (2014: 1.0 pence per share) in respect of the financial year ended 29 August 2015. The directors are recommending a final dividend in respect of the financial year ended 29 August 2015 of 2.4 pence per share (2014: 2.4 pence per share), which will absorb an estimated £29.4 million (2014: £29.4 million) of shareholders' equity. It will be paid on 22 January 2016 to shareholders who are on the register of members at close of business on 4 December 2015. 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

|   | 29 August 2015     |                    | 30 August 2014     |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | Basic<br>£m        | Diluted<br>£m      | Basic<br>£m        | Diluted<br>£m      |
| <b>Profit for the financial year after taxation</b>                             | <b>93.5</b>        | <b>93.5</b>        | 87.2               | 87.2               |
|   | Number<br>m        | Number<br>m        | Number<br>m        | Number<br>m        |
| Weighted average number of shares   | 1,226.7            | 1,226.7            | 1,227.1            | 1,227.1            |
| Shares held by ESOP (weighted)  | (0.3)              | (0.3)              | (0.3)              | (0.3)              |
| Shares issuable (weighted)  | –                  | 2.3                | –                  | 1.9                |
| <b>Weighted average number of shares used in calculating earnings per share</b> | <b>1,226.4</b>     | <b>1,228.7</b>     | 1,226.8            | 1,228.7            |
|   | Pence<br>per share | Pence<br>per share | Pence<br>per share | Pence<br>per share |
| <b>Earnings per share</b>   | <b>7.6</b>         | <b>7.6</b>         | 7.1                | 7.1                |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 13 Intangible assets

|                                 | Goodwill<br>£m | Acquired<br>licences and<br>trademarks<br>£m | Internally<br>generated<br>software<br>£m | Purchased<br>software<br>£m | Total<br>£m    |
|---------------------------------|----------------|--|---|-----------------------------|----------------|
| <b>Cost</b>                     |                |  |   |                             |                |
| 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          |
| Additions                       | –              | –  | 38.3                                      | 17.7                        | 56.0           |
| Exchange rate movement          | (0.5)          | –  | (0.9)                                     | –                           | (1.4)          |
| Disposals and write-offs        | –              | –  | (4.8)                                     | (0.3)                       | (5.1)          |
| <b>At 29 August 2015</b>        | <b>818.0</b>   | <b>7.2</b>                                   | <b>151.6</b>                              | <b>34.3</b>                 | <b>1,011.1</b> |
| <b>Accumulated amortisation</b> |                |  |   |                             |                |
| 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           |
| Charge for the financial year   | –              | 0.7  | 13.2                                      | 2.6                         | 16.5           |
| Exchange rate movement          | –              | –  | (0.6)                                     | –                           | (0.6)          |
| Disposals and write-offs        | –              | –  | (4.8)                                     | (0.3)                       | (5.1)          |
| <b>At 29 August 2015</b>        | <b>–</b>       | <b>4.4</b>                                   | <b>64.9</b>                               | <b>10.3</b>                 | <b>79.6</b>    |
| <b>Net book value</b>           |                |  |   |                             |                |
| <b>At 29 August 2015</b>        | <b>818.0</b>   | <b>2.8</b>                                   | <b>86.7</b>                               | <b>24.0</b>                 | <b>931.5</b>   |
| 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          |

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

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Assets in the course of construction</b> | <b>41.4</b>             | 15.8                    |

### Amortisation of intangible assets

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

|                           | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---------------------------|-------------------------|-------------------------|
| Included within:          |                         |                         |
| – Cost of sales           | 13.3                    | 11.0                    |
| – Distribution costs      | 0.4                     | 0.3                     |
| – Administrative expenses | 2.8                     | 2.0                     |
|                           | <b>16.5</b>             | 13.3                    |

Intangible assets includes within purchased software the following assets held under finance leases:

|                          | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------|-------------------------|-------------------------|
| Cost                     | 3.8                     | 3.8                     |
| Accumulated amortisation | (1.1)                   | (0.5)                   |
| <b>Net book value</b>    | <b>2.7</b>              | <b>3.3</b>              |

Contractual commitments at 29 August 2015 were £5.4 million (2014: £nil).

#### Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £0.4 million (2014: £nil). Accumulated finance costs capitalised included in the cost of intangible assets (net of disposals) amounted to £0.4 million (2014: £nil). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.4% (2014: N/A).

#### 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. The CGUs are set out below:

|                          | UK<br>£m     | Other<br>£m | Total<br>£m  |
|--------------------------|--------------|-------------|--------------|
| <b>Goodwill</b>          |              |             |              |
| <b>At 29 August 2015</b> | <b>793.5</b> | <b>24.5</b> | <b>818.0</b> |
| At 30 August 2014        | 793.5        | 25.0        | 818.5        |

For the purposes of this impairment review, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These cash flow projections are based on financial budgets approved by management covering a five year period. The 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% (2014: 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 7.5% (2014: 7.2%) and reflects the specific risks in the retail business. The pre-tax discount rate is 8.6% (2014: 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 29 August 2015 no impairment of goodwill has been required (2014: £nil).



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 14 Property, plant and equipment

|                                 | Land and buildings |                         |   | Vehicles,<br>fixtures and<br>equipment<br>£m | Total<br>£m    |
|---------------------------------|--------------------|-------------------------|---|--|----------------|
|                                 | Freehold<br>£m     | Long<br>leasehold<br>£m | Short leasehold<br>fixtures and<br>fittings<br>£m |  |                |
| <b>Cost</b>                     |                    |                         |   |  |                |
| 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        |
| Additions                       | –                  | –                       | 3.4   | 73.6   | 77.0           |
| Exchange rate movements         | –                  | –                       | (1.5)   | (6.1)  | (7.6)          |
| Disposals and write-offs        | –                  | –                       | (1.6)   | (22.8)                                       | (24.4)         |
| <b>At 29 August 2015</b>        | <b>1.6</b>         | <b>7.7</b>              | <b>379.0</b>                                      | <b>1,003.9</b>                               | <b>1,392.2</b> |
| <b>Accumulated depreciation</b> |                    |                         |   |  |                |
| 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          |
| Charge for the financial year   | –                  | 0.2                     | 14.9  | 72.6   | 87.7           |
| Exchange rate movements         | –                  | –                       | (0.4)   | (4.5)  | (4.9)          |
| Disposals and write-offs        | –                  | –                       | (1.6)   | (22.3)                                       | (23.9)         |
| <b>At 29 August 2015</b>        | <b>0.2</b>         | <b>1.4</b>              | <b>154.9</b>                                      | <b>560.4</b>                                 | <b>716.9</b>   |
| <b>Net book value</b>           |                    |                         |   |  |                |
| <b>At 29 August 2015</b>        | <b>1.4</b>         | <b>6.3</b>              | <b>224.1</b>                                      | <b>443.5</b>                                 | <b>675.3</b>   |
| 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          |

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

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Assets in the course of construction</b> | <b>41.1</b>             | <b>33.7</b>             |

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

|                          | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------|-------------------------|-------------------------|
| Cost                     | 8.0                     | 9.1                     |
| Accumulated depreciation | (4.1)                   | (4.0)                   |
| <b>Net book value</b>    | <b>3.9</b>              | <b>5.1</b>              |

Contractual commitments at 29 August 2015 were £5.9 million (2014: £1.3 million).

### Capitalised finance costs

Finance costs capitalised on qualifying assets included in additions amounted to £0.3 million (2014: £0.6 million). Accumulated finance costs capitalised included in the cost of property, plant and equipment net of disposals amounted to £2.3 million (2014: £2.0 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.4% (2014: 3.3%).

### 15 Financial assets – available-for-sale investments

|  | £m         |
|--|------------|
| 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        |
| Decrease in the market value charged to the statement of comprehensive income  | (1.5)      |
| <b>At 29 August 2015</b>   | <b>2.1</b> |

The Group holds 10% (2014: 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 29 August 2015 was £2.1 million (2014: £3.6 million). Ermes is a company that is registered and trades in Cyprus.

### 16 Inventories

|                              | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|------------------------------|-------------------------|-------------------------|
| <b>Items held for resale</b> | <b>331.6</b>            | <b>345.7</b>            |

### 17 Trade and other receivables

|                    | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------|-------------------------|-------------------------|
| <b>Non-current</b> |                         |                         |
| Other receivables  | 14.9                    | 15.6                    |

Other receivables include contractual lease deposits of £14.4 million (2014: £15.6 million).

|                                | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------------|-------------------------|-------------------------|
| <b>Current</b>                 |                         |                         |
| Trade receivables              | 25.3                    | 25.8                    |
| Allowance for doubtful debts   | (0.4)                   | (0.5)                   |
|                                | 24.9                    | 25.3                    |
| Other receivables              | 3.3                     | 2.1                     |
| Prepayments and accrued income | 49.8                    | 47.3                    |
|                                | 78.0                    | 74.7                    |

At the year end, £22.8 million (2014: £22.9 million) of the trade receivables were denominated in sterling, £0.3 million (2014: £0.4 million) in Euros and £2.2 million (2014: £2.5 million) in Danish krone.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 17 Trade and other receivables continued

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

|                          | £m           |
|--------------------------|--------------|
| At 31 August 2013        | (0.7)        |
| Decrease in provision    | 0.2          |
| At 30 August 2014        | (0.5)        |
| Decrease in provision    | 0.1          |
| <b>At 29 August 2015</b> | <b>(0.4)</b> |

Trade receivables which are past their due date but not impaired amount to £4.0 million (2014: £4.8 million). Trade receivables which are past their due date are provided based on estimated irrecoverable amounts from the sale of goods. At 29 August 2015, £0.4 million (2014: £0.5 million) of trade receivables were past their due date and impaired.

Included in prepayments and accrued income is £4.7 million (2014: £3.9 million) of accrued supplier income relating to rebates which have been earned but not yet invoiced. Supplier income that has been invoiced but not yet paid is included in trade receivables and supplier income that has been invoiced but not yet settled against future trade payable balances is included in trade payables.

## 18 Cash and cash equivalents

|                                 | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---------------------------------|-------------------------|-------------------------|
| <b>Cash at bank and in hand</b> | <b>32.7</b>             | 64.4                    |

## 19 Trade and other payables

|                              | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|------------------------------|-------------------------|-------------------------|
| Trade payables               | 326.7                   | 326.2                   |
| Other payables               | 81.9                    | 67.0                    |
| Taxation and social security | 28.4                    | 33.6                    |
| Accruals                     | 83.8                    | 98.6                    |
| Deferred income              | 2.8                     | 3.9                     |
|                              | <b>523.6</b>            | 529.3                   |

## 20 Bank overdraft and borrowings

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Current</b>                                  |                         |                         |
| Bank overdraft                                  | 18.3                    | –                       |
| Revolving credit facility <sup>1</sup>          | 132.9                   | 196.9                   |
| Senior notes <sup>2</sup>                       | 1.3                     | 1.9                     |
| Lease obligations                               | 2.9                     | 3.3                     |
| <b>Total current borrowings</b>                 | <b>155.4</b>            | <b>202.1</b>            |
| <b>Non-current</b>                              |                         |                         |
| Senior notes <sup>2</sup>                       | 196.8                   | 220.6                   |
| Lease obligations                               | 0.3                     | 3.2                     |
| <b>Total non-current borrowings</b>             | <b>197.1</b>            | <b>223.8</b>            |
| <b>Total current and non-current borrowings</b> | <b>352.5</b>            | <b>425.9</b>            |

<sup>1</sup> Revolving credit facility is stated net of unamortised issue costs of £2.1 million (2014: £3.1 million).

<sup>2</sup> Senior notes, due in 2021, were issued during July 2014 at a coupon rate of 5.25%. Senior notes include accrued interest of £1.3 million (2014: £1.9 million) and are stated net of unamortised issue costs of £3.2 million (2014: £4.4 million). Interest on the senior notes is payable semi-annually.

During the year ended 29 August 2015, the Company repurchased £25.0 million of the £225.0 million senior notes for a consideration of £24.8 million. The repurchased senior notes were cancelled during the financial year. Also during the year ended 29 August 2015, the Company cancelled £75.0 million of the £425.0 million revolving credit facility. This revolving credit facility was arranged and an existing term loan and revolving credit facility were cancelled during the year ended 30 August 2014. The revolving credit facility at 29 August 2015 of £350.0 million (2014: £425.0 million) is due to expire in October 2018 and contains an option to request an extension to October 2019.

At 29 August 2015, the Group's drawings under credit facilities outstanding comprised revolving credit facility drawings of £135.0 million (2014: £200.0 million).

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

The amortisation charge relating to the issue costs of the revolving credit facility was £1.0 million for the year ended 29 August 2015 (2014: £1.9 million relating to the issue costs of term loan and revolving credit facility). The amortisation charge relating to the issue costs of the senior notes was £0.6 million for the year ended 29 August 2015 (2014: £0.1 million). The write-off of unamortised issue costs in relation to cancelled credit facilities was £0.4 million (2014: £4.5 million).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 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:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Not later than one year                           | 2.9                     | 3.5                     |
| Later than one year but not later than five years | 0.3                     | 3.2                     |
|   | <b>3.2</b>              | 6.7                     |
| Interest element of future instalments            | –                       | (0.2)                   |
| <b>Present value of finance lease obligations</b> | <b>3.2</b>              | <b>6.5</b>              |

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

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Not later than one year                           | 2.9                     | 3.3                     |
| Later than one year but not later than five years | 0.3                     | 3.2                     |
|   | <b>3.2</b>              | <b>6.5</b>              |

### Maturity of borrowings

The maturity of the Group's undiscounted borrowings is as follows:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Amounts falling due:                                |                         |                         |
| In one year or less or on demand                    | 155.4                   | 202.3                   |
| In more than one year but not more than two years   | 0.3                     | 2.9                     |
| In more than two years but not more than five years | –                       | 0.3                     |
| In more than five years                             | 196.8                   | 220.6                   |
|   | <b>352.5</b>            | <b>426.1</b>            |

### Interest rates

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

|                           | 29 August<br>2015<br>% | 30 August<br>2014<br>% |
|---------------------------|------------------------|------------------------|
| Bank overdraft            | 1.88                   | N/A                    |
| Revolving credit facility | 2.51                   | 2.50                   |
| Senior notes              | 5.25                   | 5.25                   |
| Lease obligations         | 3.35                   | 3.52                   |

### Borrowing facilities

The Group has the following undrawn committed facilities available at 29 August 2015, in respect of which all conditions precedent had been met as at that date:

|                                     | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------------------------------|-------------------------|-------------------------|
| Expiring between two and five years | 215.0                   | 225.0                   |

## 21 Financial risk management

### a) Financial risks and treasury management

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

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

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

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

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

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

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

#### i) Funding and liquidity risk

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

The Group finances its operations by a combination of retained profits, debt finance and leases. Group treasury monitors rolling forecasts of the Group's liquidity requirements to ensure that it has a 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 29 August 2015

## 21 Financial risk management 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<br>one year<br>£m | One to<br>two years<br>£m | Two to<br>five years<br>£m | More than<br>five years<br>£m |
|--|-----------------------------|---------------------------|----------------------------|-------------------------------|
| <b>At 29 August 2015</b>                           |                             |                           |                            |                               |
| <b>Non-derivative financial liabilities</b>        |                             |                           |                            |                               |
| Borrowings excluding finance lease liabilities     | (153.3)                     | –                         | –                          | (200.0)                       |
| Interest payments due on borrowings                | (10.5)                      | (10.5)                    | (31.5)                     | (10.5)                        |
| Finance lease liabilities                          | (2.9)                       | (0.3)                     | –                          | –                             |
| Trade and other payables                           | (487.2)                     | –                         | –                          | –                             |
| <b>Derivative financial assets and liabilities</b> |                             |                           |                            |                               |
| Interest rate swaps                                |                             |                           |                            |                               |
| – Net settled derivative contracts – payments      | (0.8)                       | (0.1)                     | –                          | –                             |
| Forward foreign currency contracts                 |                             |                           |                            |                               |
| – Gross settled derivative contracts – receipts    | 428.9                       | 232.2                     | 34.4                       | –                             |
| – Gross settled derivative contracts – payments    | (412.0)                     | (220.8)                   | (33.6)                     | –                             |
| <b>Total</b>                                       | <b>(637.8)</b>              | <b>0.5</b>                | <b>(30.7)</b>              | <b>(210.5)</b>                |

|  | Less than<br>one year<br>£m | One to<br>two years<br>£m | Two to<br>five years<br>£m | More than<br>five years<br>£m |
|--|-----------------------------|---------------------------|----------------------------|-------------------------------|
| <b>At 30 August 2014</b>                           |                             |                           |                            |                               |
| <b>Non-derivative financial liabilities</b>        |                             |                           |                            |                               |
| 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)                     | –                         | –                          | –                             |
| <b>Derivative financial assets and liabilities</b> |                             |                           |                            |                               |
| Interest rate swaps                                |                             |                           |                            |                               |
| – Net settled derivative contracts – payments      | (1.5)                       | (1.0)                     | (0.1)                      | –                             |
| Forward foreign currency contracts                 |                             |                           |                            |                               |
| – Gross settled derivative contracts – receipts    | 342.4                       | 198.7                     | 114.9                      | –                             |
| – Gross settled derivative contracts – payments    | (352.0)                     | (199.8)                   | (114.7)                    | –                             |
| <b>Total</b>                                       | <b>(695.5)</b>              | <b>(16.8)</b>             | <b>(35.6)</b>              | <b>(248.6)</b>                |

### 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 are made to franchise partners 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 BBB- or Baa3 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 at 29 August 2015 to be £107.4 million (2014: £115.5 million) being the Group's total financial assets.

### 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 foreign 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 foreign currency contracts with a settlement of up to three (2014: three) 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 financial results, 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 gain of £8.7 million (2014: loss of £8.1 million) was reclassified from equity to the income statement within cost of inventory during the year in respect of forward foreign currency contracts designated as cash flow hedges.

The notional value of open forward foreign currency contracts at 29 August 2015 was £634.7 million (2014: £658.2 million).

The net fair value gains on open forward foreign currency contracts held in the hedging reserve at 29 August 2015 were £24.3 million (2014: losses of £6.1 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. At 29 August 2015 Debenhams plc has in issue £200.0 million (2014: £225.0 million) of senior notes at a coupon rate of 5.25% which reduces 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 91.2% (2014: 100.0%). This is temporarily outside the 60% – 90% policy range but is expected to revert to policy in 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<br>£m | Rate<br>%            | Maturity                            |
|----------------------------|----------------|----------------------|-------------------------------------|
| <b>Interest rate swaps</b> | <b>125.0</b>   | <b>1.050 – 1.715</b> | <b>October 2015 to October 2016</b> |

The notional principal amount of interest rate swaps at 29 August 2015 was £125.0 million (2014: £200.0 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 £1.6 million (2014: £2.7 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 29 August 2015

## 21 Financial risk management 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:

|                       | 29 August 2015 |                |             | 30 August 2014 |                |             |
|-----------------------|----------------|----------------|-------------|----------------|----------------|-------------|
|                       | Fixed<br>£m    | Floating<br>£m | Total<br>£m | Fixed<br>£m    | Floating<br>£m | Total<br>£m |
| <b>Borrowings</b>     |                |                |             |                |                |             |
| Sterling <sup>1</sup> | (328.2)        | (28.3)         | (356.5)     | (431.5)        | –              | (431.5)     |

<sup>1</sup> Unamortised debt issue costs of £5.3 million (2014: £7.5 million) are excluded from the borrowings above.

Fixed sterling borrowings comprise the hedged portion of the debt facility of £125.0 million (2014: £200.0 million), senior notes of £200.0 million (2014: £225.0 million) and finance lease liabilities of £3.2 million (2014: £6.5 million) at 29 August 2015. The weighted average interest rate on the fixed rate borrowings as at 29 August 2015 was 4.5% (2014: 4.4%), with the weighted average time for which rates are fixed being 4.0 years (2014: 4.3 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:

|                               | 29 August 2015 |                               |             | 30 August 2014 |                               |             |
|-------------------------------|----------------|-------------------------------|-------------|----------------|-------------------------------|-------------|
|                               | Floating<br>£m | Non-interest<br>bearing<br>£m | Total<br>£m | Floating<br>£m | Non-interest<br>bearing<br>£m | Total<br>£m |
| <b>Financial assets</b>       |                |                               |             |                |                               |             |
| Sterling                      | –              | 25.3                          | 25.3        | 28.5           | 29.4                          | 57.9        |
| Euro                          | 0.1            | 3.3                           | 3.4         | 0.1            | 2.7                           | 2.8         |
| US dollar                     | –              | 0.9                           | 0.9         | 0.6            | 0.7                           | 1.3         |
| Danish krone                  | –              | –                             | –           | 1.2            | –                             | 1.2         |
| Chinese yuan                  | –              | –                             | –           | 0.1            | –                             | 0.1         |
| Other                         | 1.6            | 1.5                           | 3.1         | 0.1            | 1.0                           | 1.1         |
| <b>Total financial assets</b> | <b>1.7</b>     | <b>31.0</b>                   | <b>32.7</b> | <b>30.6</b>    | <b>33.8</b>                   | <b>64.4</b> |

#### 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 then:

- Net profit would have been unaffected as the equity investments were classified as available-for-sale investments
- Other reserves would decrease/increase by £0.2 million (2014: £0.4 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 the bank facility fixed charge, senior notes and leverage covenants together with credit market requirements to ensure that 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 the US dollar, Euro, Chinese yuan and Danish krone, 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.

|                              | 29 August 2015              |                   | 30 August 2014              |                   |
|------------------------------|-----------------------------|-------------------|-----------------------------|-------------------|
|                              | Income statement loss<br>£m | Equity gain<br>£m | Income statement gain<br>£m | Equity gain<br>£m |
| 1% increase in interest rate | (0.3)                       | 2.9               | 0.3                         | 2.3               |

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.

|   | 29 August 2015                     |                          | 30 August 2014                     |                          |
|---|------------------------------------|--------------------------|------------------------------------|--------------------------|
|   | Income statement gain/(loss)<br>£m | Equity gain/(loss)<br>£m | Income statement gain/(loss)<br>£m | Equity gain/(loss)<br>£m |
| 5% weakening in sterling compared to US dollar    | (0.5)                              | 18.2                     | (0.4)                              | 20.7                     |
| 5% weakening in sterling compared to Euro         | 0.1                                | (3.1)                    | 0.5                                | (1.0)                    |
| 5% weakening in sterling compared to Chinese yuan | (0.1)                              | 2.0                      | –                                  | 2.2                      |
| 5% weakening in sterling compared to Danish krone | 0.9                                | –                        | 0.5                                | –                        |

A 5% strengthening in sterling compared to the US dollar, Euro, Chinese yuan or Danish krone 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 29 August 2015

## 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 shows the classification of the Group's financial assets and liabilities that are measured at fair value:

|   | 29 August 2015 |                   | 30 August 2014 |                   |
|---|----------------|-------------------|----------------|-------------------|
|   | Assets<br>£m   | Liabilities<br>£m | Assets<br>£m   | Liabilities<br>£m |
| <b>Current</b>  |                |                   |                |                   |
| Interest rate swaps – cash flow hedges                | –              | (0.2)             | –              | (0.2)             |
| Forward foreign currency contracts – cash flow hedges | 13.5           | (0.7)             | 1.4            | (8.4)             |
| Forward foreign currency contracts – held for trading | 3.9            | (0.4)             | 0.1            | (2.8)             |
|   | <b>17.4</b>    | <b>(1.3)</b>      | 1.5            | (11.4)            |
| <b>Non-current</b>                                    |                |                   |                |                   |
| Available-for-sale financial assets                   | 2.1            | –                 | 3.6            | –                 |
| Interest rate swaps – cash flow hedges                | –              | (0.5)             | 0.6            | (1.2)             |
| Forward foreign currency contracts – cash flow hedges | 12.1           | (0.6)             | 2.4            | (1.5)             |
|   | <b>14.2</b>    | <b>(1.1)</b>      | 6.6            | (2.7)             |

There were no material differences between the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables, current borrowings and non-current borrowings and their fair values at the balance sheet date.

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, the Group cancelled £30.0 million (2014: £150.0 million) of interest rate swap contracts with a combined balance sheet liability value of £0.1 million (2014: £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<br>£m | Level 2<br>£m | Total<br>£m   |
|---|---------------|---------------|---------------|
| <b>At 29 August 2015</b>                                      |               |               |               |
| <b>Assets</b>   |               |               |               |
| Available-for-sale financial assets                           | 2.1           | –             | 2.1           |
| Derivative financial instruments:                             |               |               |               |
| – Forward foreign currency contracts held as cash flow hedges | –             | 25.6          | 25.6          |
| – Other forward foreign currency contracts                    | –             | 3.9           | 3.9           |
| <b>Total assets</b>   | <b>2.1</b>    | <b>29.5</b>   | <b>31.6</b>   |
| <b>Liabilities</b>  |               |               |               |
| Derivative financial instruments:                             |               |               |               |
| – Interest rate swaps held as cash flow hedges                | –             | (0.7)         | (0.7)         |
| – Forward foreign currency contracts held as cash flow hedges | –             | (1.3)         | (1.3)         |
| – Other forward foreign currency contracts                    | –             | (0.4)         | (0.4)         |
| <b>Total liabilities</b>                                      | <b>–</b>      | <b>(2.4)</b>  | <b>(2.4)</b>  |
| <hr/>   |               |               |               |
|   | Level 1<br>£m | Level 2<br>£m | Total<br>£m   |
| <b>At 30 August 2014</b>                                      |               |               |               |
| <b>Assets</b>   |               |               |               |
| 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           |
| <b>Total assets</b>   | <b>3.6</b>    | <b>4.5</b>    | <b>8.1</b>    |
| <b>Liabilities</b>  |               |               |               |
| 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)         |
| <b>Total liabilities</b>                                      | <b>–</b>      | <b>(14.1)</b> | <b>(14.1)</b> |

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. There has been no transfer of assets or liabilities between levels of the fair value hierarchy during the year. None of the Group's financial assets and liabilities are classed as level 3 within the fair value hierarchy.



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 23 Retirement benefit schemes

### Defined contribution pension schemes

The Group operates defined contribution pension schemes for its employees. Group contributions to defined contribution pension schemes during the financial year were £14.7 million (2014: £14.7 million).

### Defined benefit pension schemes

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

The Group's pension 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
- Nominated by scheme members

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

The most recent actuarial valuation of the Group's pension schemes was carried out at 31 March 2014 and has been used by KPMG LLP, a qualified independent actuary, when calculating the IAS 19 revised "Employee benefits" valuation at 29 August 2015.

During June 2015, the Group agreed a recovery plan for the Group's pension schemes, which was intended to restore the schemes to a fully funded position on an ongoing basis. Under that agreement, the Group agreed to contribute £9.5 million per annum to the pension schemes for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. The agreement replaced an agreement made in 2012 under which the Group agreed to contribute £8.9 million per annum to the pension schemes for the period from 1 April 2012 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. Additionally during 2015, the Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund. Employees make no further contributions to the schemes. 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 than that assumed, resulting in higher payments from the schemes
- Scheme members may live longer than assumed
- Legislative changes could lead to an increase in the liabilities of the pension schemes

Investment of the schemes' assets is managed by Hewitt Risk Management Services Limited under a delegated consulting service agreement. As at 29 August 2015 most of the schemes' assets were invested in a delegated liability fund or a delegated growth fund.

The weighted average duration of the defined benefit obligation is 22 years (2014: 22 years).

The major assumptions used by the actuary were:

|  | 29 August 2015<br>per annum<br>% | 30 August 2014<br>per annum<br>% |
|--|----------------------------------|----------------------------------|
| Inflation assumption                                       | 3.2                              | 3.1                              |
| General salary and wage increase                           | 3.2                              | 3.1                              |
| Rate of increase in pension payments and deferred payments | 3.2                              | 3.1                              |
| Pension increase rate                                      | 3.0                              | 2.9                              |
| Discount rate  | 3.8                              | 3.9                              |

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:

|  | 29 August 2015 |                |                | 30 August 2014 |                |             |
|--|----------------|----------------|----------------|----------------|----------------|-------------|
|  | Quoted<br>£m   | Unquoted<br>£m | Total<br>£m    | Quoted<br>£m   | Unquoted<br>£m | Total<br>£m |
| <b>Assets</b>                              |                |                |                |                |                |             |
| Delegated liability fund                   | 158.4          | –              | 158.4          | 144.5          | –              | 144.5       |
| Delegated growth fund                      | 473.2          | 156.1          | 629.3          | 450.8          | 150.0          | 600.8       |
| Cash and other assets                      | 8.1            | –              | 8.1            | 3.1            | –              | 3.1         |
| <b>Total market value of assets</b>        | <b>639.7</b>   | <b>156.1</b>   | <b>795.8</b>   | 598.4          | 150.0          | 748.4       |
| <b>Present value of scheme liabilities</b> |                |                | <b>(769.6)</b> |                |                | (750.8)     |
| <b>Net surplus/(deficit) in schemes</b>    |                |                | <b>26.2</b>    |                |                | (2.4)       |
| Analysed as:                               |                |                |                |                |                |             |
| DEPP scheme surplus                        |                |                | 13.1           |                |                | 6.9         |
| DRS scheme surplus/(deficit)               |                |                | 13.1           |                |                | (9.3)       |

At 29 August 2015, 80.4% (2014: 80.0%) 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:

|                                    | 29 August 2015 |                 | 30 August 2014 |                 |
|------------------------------------|----------------|-----------------|----------------|-----------------|
|                                    | Years<br>Male  | Years<br>Female | Years<br>Male  | Years<br>Female |
| <b>Debenhams Retirement Scheme</b> |                |                 |                |                 |
| Member currently aged 65           | 22.0           | 24.3            | 22.5           | 24.4            |
| Member aged 65 in 15 years         | 23.4           | 25.7            | 23.5           | 25.6            |

|   | 29 August 2015 |                 | 30 August 2014 |                 |
|---|----------------|-----------------|----------------|-----------------|
|   | Years<br>Male  | Years<br>Female | Years<br>Male  | Years<br>Female |
| <b>Debenhams Executive Pension Plan</b> |                |                 |                |                 |
| Member currently aged 65                | 24.1           | 26.2            | 24.6           | 25.9            |
| Member aged 65 in 15 years              | 25.4           | 27.6            | 25.5           | 27.0            |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 23 Retirement benefit schemes continued

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

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Present value of obligations at start of the financial year      | 750.8                   | 693.6                   |
| Current service cost (including expenses)                        | 1.5                     | 1.4                     |
| Interest cost on the defined benefit liability                   | 28.6                    | 31.4                    |
| Benefit payments from plan assets                                | (27.1)                  | (20.4)                  |
| Settlements  | (10.0)                  | –                       |
| Remeasurements:  |                         |                         |
| – Losses from changes in financial assumptions                   | 34.8                    | 64.2                    |
| – Losses/(gains) from changes in demographic assumptions         | 2.8                     | (13.0)                  |
| – Experience gains   | (11.8)                  | (6.4)                   |
| <b>Present value of obligations at end of the financial year</b> | <b>769.6</b>            | <b>750.8</b>            |

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

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Fair value of pension scheme assets at start of the financial year      | 748.4                   | 673.6                   |
| Interest income on plan assets  | 28.7                    | 30.8                    |
| Benefit payments from plan assets                                       | (27.1)                  | (20.4)                  |
| Company contributions   | 11.1                    | 10.8                    |
| Settlements   | (8.9)                   | –                       |
| Remeasurements:   |                         |                         |
| – Return on plan assets, excluding amounts included in finance costs    | 43.6                    | 53.6                    |
| <b>Fair value of pension scheme assets at end of the financial year</b> | <b>795.8</b>            | <b>748.4</b>            |

Movement in the net surplus/(deficit) during the financial year is as follows:

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Net deficit in the schemes at start of the financial year                | (2.4)                   | (20.0)                  |
| Movement in the financial year:  |                         |                         |
| – Company contributions  | 11.1                    | 10.8                    |
| – Settlements  | 1.1                     | –                       |
| – Current service cost (including expenses)                              | (1.5)                   | (1.4)                   |
| – Net interest on net defined benefit liability                          | 0.1                     | (0.6)                   |
| – Remeasurements of pension schemes                                      | 17.8                    | 8.8                     |
| <b>Net surplus/(deficit) in the schemes at end of the financial year</b> | <b>26.2</b>             | <b>(2.4)</b>            |

During the financial year ended 29 August 2015, DRS members were given the opportunity to take a trivial commutation payment. The result of this exercise was the recognition of a settlement credit of £1.1 million.

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.

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Increase in schemes' liabilities arising from a 0.5% increase in inflation           | 85.4                    | 58.5                    |
| Increase in schemes' liabilities arising from a 0.5% reduction in the discount rate  | 93.1                    | 70.7                    |
| Increase in schemes' liabilities arising from a one year increase in life expectancy | 20.6                    | 23.1                    |

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

The above 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 surplus/obligations recognised within the balance sheet.

The contributions expected to be paid during the financial year ending 3 September 2016 amount to £11.2 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 (2014: 20.0%). Local tax rates have been used for overseas differences.

|                          | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------|-------------------------|-------------------------|
| <b>Non-current</b>       |                         |                         |
| Deferred tax assets      | 20.8                    | 51.0                    |
| Deferred tax liabilities | (54.8)                  | (53.4)                  |
|                          | <b>(34.0)</b>           | <b>(2.4)</b>            |

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

|                          | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------|-------------------------|-------------------------|
| Deferred tax assets      | 3.3                     | 2.8                     |
| Deferred tax liabilities | (4.9)                   | (1.9)                   |
|                          | <b>(1.6)</b>            | <b>0.9</b>              |

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 29 August 2015

## 24 Deferred tax assets and liabilities continued

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

| Assets  | Developers'<br>contributions<br>received<br>£m | Fair value<br>losses<br>£m | Other<br>provisions<br>£m | Retirement<br>benefit<br>obligation<br>£m | Total<br>£m |
|---|--|----------------------------|---------------------------|---|-------------|
| 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        |
| Charged to the income statement                                       | (3.6)  | –                          | (23.3)                    | –   | (26.9)      |
| Transfer from deferred tax liabilities                                | –  | (2.0)                      | –                         | (0.5)                                     | (2.5)       |
| Prior year adjustment to the income statement                         | (0.4)  | –                          | –                         | –   | (0.4)       |
| Exchange differences charged to the statement of comprehensive income | –  | –                          | (0.4)                     | –   | (0.4)       |
| <b>At 29 August 2015</b>  | <b>14.2</b>                                    | <b>–</b>                   | <b>6.6</b>                | <b>–</b>                                  | <b>20.8</b> |

| Liabilities   | Accelerated<br>tax<br>depreciation<br>£m | Fair value<br>gains<br>£m | Retirement<br>benefit<br>surplus<br>£m | Total<br>£m   |
|---|--|---------------------------|--|---------------|
| 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)        |
| Credited/(charged) to the income statement  | 7.6                                      | (0.1)                     | 0.1                                    | 7.6           |
| Transfer to deferred tax assets   | –  | 2.0                       | 0.5                                    | 2.5           |
| Prior year adjustment to the income statement   | 0.6                                      | –                         | –                                      | 0.6           |
| Charged to the statement of comprehensive income  | –  | (6.3)                     | (5.8)                                  | (12.1)        |
| <b>At 29 August 2015</b>  | <b>(45.2)</b>                            | <b>(4.4)</b>              | <b>(5.2)</b>                           | <b>(54.8)</b> |

Within other provisions is a deferred tax asset of £4.2 million (2014: £5.2 million) in relation to overseas operations which has been recognised. In addition to this there is an unrecognised deferred tax asset of £1.0 million (2014: £2.6 million) relating to operations in the Republic of Ireland.

## 25 Other non-current liabilities

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Property lease incentives received         | 340.6                   | 331.7                   |
| Other non-current liabilities              | –                       | 1.0                     |
| <b>Total other non-current liabilities</b> | <b>340.6</b>            | <b>332.7</b>            |

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

## 26 Provisions

|   | Promotional<br>activities<br>£m | Other<br>provisions<br>£m | Total<br>£m |
|---|---------------------------------|---------------------------|-------------|
| At 30 August 2014                             | 6.0                             | 1.1                       | 7.1         |
| Charged to the income statement               | 19.2                            | –                         | 19.2        |
| Unused amounts reversed in the financial year | –                               | (1.1)                     | (1.1)       |
| Utilised during the financial year            | (18.8)                          | –                         | (18.8)      |
| <b>At 29 August 2015</b>                      | <b>6.4</b>                      | <b>–</b>                  | <b>6.4</b>  |

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

|             | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------|-------------------------|-------------------------|
| Current     | 6.4                     | 6.0                     |
| Non-current | –                       | 1.1                     |
|             | <b>6.4</b>              | <b>7.1</b>              |

### Promotional activities provision

Provisions for promotional activities represent deferred income relating to 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 related to dilapidations on a property which are no longer required.

## 27 Share capital and reserves

|  | 29 August 2015 |                      | 30 August 2014 |                      |
|--|----------------|----------------------|----------------|----------------------|
|  | £              | Number               | £              | Number               |
| <b>Issued and fully paid – ordinary shares of £0.0001 each</b> |                |                      |                |                      |
| At start of year   | 128,684        | 1,286,843,441        | 128,684        | 1,286,843,441        |
| Allotted under share option schemes                            | 1              | 9,099                | –              | –                    |
| <b>At end of year</b>  | <b>128,685</b> | <b>1,286,852,540</b> | <b>128,684</b> | <b>1,286,843,441</b> |

No shares were purchased by the Company and transferred to treasury during the financial year ended 29 August 2015 (2014: 14,351,525 shares).



# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 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 2004 (“DRET”) was as follows:

|   | 29 August<br>2015            | 30 August<br>2014            |
|---|------------------------------|------------------------------|
|   | Ordinary<br>shares<br>Number | Ordinary<br>shares<br>Number |
| <b>Debenhams Retail Employee Trust 2004</b> | <b>273,537</b>               | <b>473,537</b>               |

The market value of the shares on 29 August 2015 was £0.2 million for the DRET (2014: £0.3 million). The cost of the shares held at the year end is £0.2 million (2014: £0.4 million).

### 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.

### 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<br>reserve<br>£m | Change in<br>fair value<br>of available-<br>for-sale<br>investments<br>£m | Total<br>£m   |
|--|------------------------------|---|---------------|
| 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)         |
| Currency translation differences                           | (5.2)                        | –   | (5.2)         |
| Currency translation differences - taxation                | (0.4)                        | –   | (0.4)         |
| Change in the fair value of available-for-sale investments | –                            | (1.5)   | (1.5)         |
| <b>At 29 August 2015</b>                                   | <b>(14.4)</b>                | <b>(2.1)</b>  | <b>(16.5)</b> |

## 28 Share-based payments

The total charge/(credit) to operating profit relates to the following equity settled schemes:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Performance Share Plan ("PSP")                | 1.1                     | (1.8)                   |
| Share Incentive Plan ("SIP")                  | –                       | 0.1                     |
| Deferred Bonus Matching Plan ("DBMP")         | –                       | (0.1)                   |
| <b>Charge/(credit) for the financial year</b> | <b>1.1</b>              | <b>(1.8)</b>            |

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<br>Number | SIP<br>Number | PSP<br>Number     | ESOP           |               |
|--|----------------|---------------|-------------------|----------------|---------------|
|  |                |               |                   | Number         | WAEP<br>Pence |
| 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)      | –             | –                 | –              | N/A           |
| Forfeited  | –              | –             | (1,081,969)       | –              | N/A           |
| Outstanding at 30 August 2014                              | –              | 200,000       | 8,652,656         | 643,650        | 85.5          |
| Granted  | –              | –             | 9,125,758         | –              | N/A           |
| Exercised  | –              | (200,000)     | (1,032,093)       | –              | N/A           |
| Lapsed   | –              | –             | (3,641,713)       | –              | N/A           |
| Forfeited  | –              | –             | (269,478)         | –              | N/A           |
| <b>Outstanding at 29 August 2015</b>                       | <b>–</b>       | <b>–</b>      | <b>12,835,130</b> | <b>643,650</b> | <b>85.5</b>   |
| <b>Exercisable</b>   |                |               |                   |                |               |
| <b>At 29 August 2015</b>                                   | <b>–</b>       | <b>–</b>      | <b>–</b>          | <b>643,650</b> | <b>85.5</b>   |
| At 30 August 2014  | –              | –             | –                 | 643,650        | 85.5          |
| <b>Weighted average remaining contractual life (years)</b> |                |               |                   |                |               |
| <b>At 29 August 2015</b>                                   | <b>–</b>       | <b>–</b>      | <b>–</b>          | <b>4.25</b>    |               |
| At 30 August 2014  | –              | –             | –                 | 5.25           |               |

### a) 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.

#### i) Awards granted on 1 November 2011 and 1 May 2012

The vesting of the shares granted under these awards was dependent upon the growth of both EPS and Return on Capital Employed ("ROCE").

75% of the awards were based upon EPS growth. Where growth was less than 6% per annum over the three year period, this element of the awards would lapse. Where growth was 6% per annum, 30% of the shares awarded would vest; where growth was 12% per annum, the EPS element of the awards would vest in full. Between these two points, awards would vest on a straight line basis between 30% and 100%.

The EPS element of the awards granted on 1 November 2011 and 1 May 2012 lapsed during the current year as the performance conditions associated with these awards were not met.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 28 Share-based payments continued

The remaining 25% of the awards were dependent upon ROCE. If average ROCE was below the cost of capital over the three year period, this element of the awards would lapse. If average ROCE was equal to the cost of capital over the three year period, then 30% of the shares awarded would vest. If average ROCE was equal to the cost of capital plus 5% then the ROCE element of the awards would vest in full. Between these two points, awards would vest on a straight line basis between 30% and 100%.

During the year ended 29 August 2015, 22% of the awards granted on 1 November 2011 and 1 May 2012 vested as the performance conditions associated with the ROCE element were met in part. The weighted average share price at the date of exercises for PSP awards exercised during the year was 66.7 pence.

### ii) 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 vest; 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%.

### iii) Awards granted on 1 November 2014 and 1 May 2015

The vesting of the shares granted under these awards is dependent upon a combination of EPS growth and strategic measures with the strategic measures being subject to meeting a ROCE underpin.

70% of the awards is based upon EPS growth. Where growth is less than 3% per annum over the performance period, this element of the awards lapses. Where growth is 3% per annum, 25% of the shares awarded vest. Where growth is 10% per annum, the EPS element of the awards vests in full. Between these two points, awards vest on a straight line basis between 25% and 100%.

The remaining 30% of the awards is dependent upon the performance of the four strategic measures (each with a maximum vesting of 7.5%). The strategic measures are: gross margin improvement, online EBITDA growth, UK GTV and International EBITDA growth. Each strategic measure is subject to a single performance test at the end of the performance period which will result in either vesting at 0% or in full (7.5%) of the award. If the Group's ROCE at the end of the applicable performance period is not greater than ROCE at the start of the applicable performance period the 30% of the awards subject to the strategic measures will not vest.

In accordance with IFRS 2 "Share-based payments", the vesting conditions attached to the PSP are classified as non-market conditions and therefore the shares have been fair valued at face value with a discount to take into account the non-entitlement to dividends in the vesting period where relevant. The fair value of these PSP awards is calculated based on the Black-Scholes model assuming the inputs in the table below:

| Grant date                   | 1 May<br>2015 | 1 November<br>2014 |
|------------------------------|---------------|--------------------|
| Number of shares under award | 1,017,556     | 8,108,202          |
| Expected term (years)        | 3.0           | 3.0                |
| Share price at grant (pence) | 88.8          | 64.8               |
| Exercise price (pence)       | –             | –                  |
| Risk-free rate               | 0.0%          | 0.0%               |
| Expected volatility          | 100.0%        | 100.0%             |
| Expected dividend yield      | 3.8%          | 5.2%               |
| Fair value of award (pence)  | 79.2          | 55.4               |

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

#### b) 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 ended 30 August 2014 was 103.1 pence. The rules of this plan will expire in 2016. The Company is not seeking shareholder approval to renew the plan.

#### c) 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. There are no unvested options under this plan.

#### Options granted on 6 December 2012

The options granted on 6 December 2012 over 200,000 shares vested on 6 December 2014. The weighted average share price at the date of exercise for SIP share options exercised during the year was 72.1 pence.

#### d) 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 are released to the employee within one month of the vesting date. There are no unvested options under this plan. The rules of this plan will expire in 2016. The Company is not seeking shareholder approval to renew the plan.

### 29 Operating lease commitments

|   | 29 August 2015           |             | 30 August 2014           |             |
|---|--------------------------|-------------|--------------------------|-------------|
|   | Land and buildings<br>£m | Other<br>£m | Land and buildings<br>£m | Other<br>£m |
| <b>The future aggregate minimum lease payments under non-cancellable operating leases are as follows:</b> |                          |             |                          |             |
| Within one year   | 206.5                    | 1.7         | 200.2                    | 1.8         |
| Later than one year and not later than five years   | 850.9                    | 2.0         | 843.6                    | 3.0         |
| Later than five years and not later than ten years  | 1,023.7                  | –           | 1,038.8                  | –           |
| Later than ten years and not later than 20 years  | 1,579.5                  | –           | 1,699.3                  | –           |
| Later than 20 years   | 1,052.7                  | –           | 1,143.9                  | –           |
|   | <b>4,713.3</b>           | <b>3.7</b>  | <b>4,925.8</b>           | <b>4.8</b>  |

The Group leases department stores, warehouses and offices 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 30 Cash generated from operations

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| <b>Profit before taxation</b>                      | <b>113.5</b>            | 105.8                   |
| Depreciation (note 14)                             | <b>87.7</b>             | 87.5                    |
| Amortisation (note 13)                             | <b>16.5</b>             | 13.3                    |
| Loss on disposal of property, plant and equipment  | <b>0.3</b>              | 1.4                     |
| Share-based payment charge/(credit) (note 28)      | <b>1.1</b>              | (1.8)                   |
| Fair value gains on derivative instruments         | <b>(4.4)</b>            | (1.1)                   |
| Net movements in provisions (note 26)              | <b>(0.7)</b>            | 0.4                     |
| Finance income                                     | <b>(0.2)</b>            | (0.6)                   |
| Finance costs                                      | <b>20.8</b>             | 23.4                    |
| Pension current service cost                       | <b>0.4</b>              | 1.4                     |
| Cash contributions to pension schemes (note 23)    | <b>(11.1)</b>           | (10.8)                  |
| Net movement in other long-term receivables        | <b>(0.5)</b>            | 0.2                     |
| Net movement in other non-current liabilities      | <b>7.9</b>              | 10.6                    |
| <b>Changes in working capital</b>                  |                         |                         |
| Decrease in inventories                            | <b>14.3</b>             | 12.4                    |
| (Increase)/decrease in trade and other receivables | <b>(3.9)</b>            | 2.8                     |
| Decrease in trade and other payables               | <b>(5.4)</b>            | (4.4)                   |
| <b>Cash generated from operations</b>              | <b>236.3</b>            | 240.5                   |

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

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Net book value  | <b>0.5</b>              | 1.4                     |
| Loss on disposal of property, plant and equipment (note 6)              | <b>(0.3)</b>            | (1.4)                   |
| <b>Cash proceeds from the disposal of property, plant and equipment</b> | <b>0.2</b>              | –                       |

## Non-cash transactions

Other non-cash movements comprise:

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| Amortisation of issue costs relating to term loan and revolving credit facilities | <b>1.0</b>              | 1.9                     |
| Amortisation of issue costs relating to senior notes                              | <b>0.6</b>              | 0.1                     |
| Write-off of unamortised issue costs relating to cancelled credit facilities      | <b>0.4</b>              | 4.5                     |
| Non-cash movements associated with term loan facility and senior notes            | <b>(0.6)</b>            | 1.2                     |
| Non-cash movements associated with finance lease obligations                      | <b>–</b>                | 3.8                     |
| Foreign exchange losses   | <b>(0.1)</b>            | –                       |
| <b>Non-cash transactions</b>  | <b>1.3</b>              | 11.5                    |

### 31 Analysis of changes in net debt

|   | 30 August<br>2014<br>£m | Cash flow<br>£m | Non-cash<br>movements<br>£m | 29 August<br>2015<br>£m |
|---|-------------------------|-----------------|-----------------------------|-------------------------|
| Analysis of net debt                          |                         |                 |                             |                         |
| Cash and cash equivalents                     | 64.4                    | (31.6)          | (0.1)                       | <b>32.7</b>             |
| Bank overdrafts                               | –                       | (18.3)          | –                           | <b>(18.3)</b>           |
| Net cash and cash equivalents                 | 64.4                    | (49.9)          | (0.1)                       | <b>14.4</b>             |
| Debt due within one year                      | (198.8)                 | 65.0            | (0.4)                       | <b>(134.2)</b>          |
| Debt due after one year                       | (220.6)                 | 24.6            | (0.8)                       | <b>(196.8)</b>          |
| Finance lease obligations due within one year | (3.3)                   | 3.3             | (2.9)                       | <b>(2.9)</b>            |
| Finance lease obligations due after one year  | (3.2)                   | –               | 2.9                         | <b>(0.3)</b>            |
|   | (361.5)                 | 43.0            | (1.3)                       | <b>(319.8)</b>          |

### 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 29 August 2015 were as follows:

| Company   | Share of issued<br>ordinary share capital<br>and voting rights | Country of<br>incorporation | Country of<br>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%   | Republic of<br>Ireland      | Republic of<br>Ireland     | Multi-channel retailing |
| Aktieselskabet Th. Wessel & Vett<br>Magasin du Nord | 100%   | Denmark                     | Denmark                    | Multi-channel 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.

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 29 August 2015 is shown in note 4 to the Debenhams plc Company financial statements.



# FIVE YEAR RECORD INCOME STATEMENTS

|   | 52 weeks<br>2015<br>£m | 52 weeks<br>2014<br>£m | 52 weeks<br>2013<br>£m | 52 weeks<br>2012*<br>£m | 53 weeks<br>2011*<br>£m |
|---|------------------------|------------------------|------------------------|-------------------------|-------------------------|
| Gross transaction value   | <b>2,860.1</b>         | 2,823.9                | 2,776.8                | 2,708.0                 | 2,679.3                 |
| <b>Revenue</b>  | <b>2,322.7</b>         | 2,312.7                | 2,282.2                | 2,229.8                 | 2,209.8                 |
| Cost of sales   | <b>(2,023.5)</b>       | (2,033.4)              | (1,982.6)              | (1,927.5)               | (1,913.1)               |
| <b>Gross profit</b>   | <b>299.2</b>           | 279.3                  | 299.6                  | 302.3                   | 296.7                   |
| Distribution costs  | <b>(111.1)</b>         | (98.5)                 | (97.5)                 | (81.0)                  | (70.2)                  |
| Administrative expenses   | <b>(54.0)</b>          | (52.2)                 | (46.7)                 | (46.3)                  | (42.8)                  |
| <b>Operating profit</b>   | <b>134.1</b>           | 128.6                  | 155.4                  | 175.0                   | 183.7                   |
| Net recurring finance costs   | <b>(20.6)</b>          | (18.3)                 | (16.4)                 | (16.7)                  | (23.4)                  |
| Non-recurring finance costs   | –                      | (4.5)                  | –                      | –                       | –                       |
| <b>Profit before taxation</b>   | <b>113.5</b>           | 105.8                  | 139.0                  | 158.3                   | 160.3                   |
| Taxation  | <b>(20.0)</b>          | (18.6)                 | (23.1)                 | (33.0)                  | (43.1)                  |
| <b>Profit for the financial year attributable to owners of the parent</b> | <b>93.5</b>            | 87.2                   | 115.9                  | 125.3                   | 117.2                   |

\* Prior to the application of IAS 19 revised "Employee benefits".

## FIVE YEAR RECORD BALANCE SHEETS

|  | 2015<br>£m     | 2014<br>£m     | 2013<br>£m     | 2012<br>£m     | 2011<br>£m     |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>Assets</b>                          |                |                |                |                |                |
| <b>Non-current assets</b>              |                |                |                |                |                |
| Intangible assets                      | 931.5          | 892.8          | 876.5          | 864.9          | 858.1          |
| Property, plant and equipment          | 675.3          | 689.2          | 692.1          | 661.6          | 634.6          |
| Financial assets                       | 14.2           | 6.6            | 3.0            | 2.7            | 4.0            |
| Trade and other receivables            | 14.9           | 15.6           | 16.8           | 19.3           | 18.3           |
| Retirement benefit surplus             | 26.2           | 6.9            | 4.6            | –              | 3.9            |
| Deferred tax assets                    | 20.8           | 51.0           | 69.3           | 83.2           | 75.7           |
| <b>Total non-current assets</b>        | <b>1,682.9</b> | <b>1,662.1</b> | <b>1,662.3</b> | <b>1,631.7</b> | <b>1,594.6</b> |
| <b>Net current liabilities</b>         | <b>(236.0)</b> | <b>(271.7)</b> | <b>(271.4)</b> | <b>(267.5)</b> | <b>(292.0)</b> |
| <b>Non-current liabilities</b>         | <b>(593.6)</b> | <b>(623.0)</b> | <b>(646.5)</b> | <b>(703.2)</b> | <b>(643.0)</b> |
| <b>Net assets</b>                      | <b>853.3</b>   | <b>767.4</b>   | <b>744.4</b>   | <b>661.0</b>   | <b>659.6</b>   |
| <b>Shareholders' equity</b>            |                |                |                |                |                |
| 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                         | 2.4            | (16.3)         | (3.5)          | (12.1)         | (8.3)          |
| Retained earnings/(accumulated losses) | 167.9          | 100.7          | 64.9           | (9.9)          | (15.1)         |
| <b>Total equity</b>                    | <b>853.3</b>   | <b>767.4</b>   | <b>744.4</b>   | <b>661.0</b>   | <b>659.6</b>   |

# 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 29 August 2015;
- 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

The financial statements, included within the annual report and accounts (the "annual report") comprise:

- The Company balance sheet as at 29 August 2015; 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, 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 International Standards on Auditing (UK & Ireland) ("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.

## **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 85, 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**

We conducted our audit in accordance with ISAs (UK & Ireland). 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 29 August 2015.

**JOHN ELLIS (SENIOR STATUTORY AUDITOR)  
FOR AND ON BEHALF OF PRICEWATERHOUSECOOPERS LLP  
CHARTERED ACCOUNTANTS AND STATUTORY AUDITORS  
LONDON  
22 OCTOBER 2015**

# COMPANY BALANCE SHEET

Company number 5448421

As at 29 August 2015

|   | Note | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|------|-------------------------|-------------------------|
| <b>Fixed assets</b>                                     |      |                         |                         |
| Investments   | 4    | <b>2,248.0</b>          | 2,248.0                 |
| Derivative financial instruments                        | 5    | –                       | 0.6                     |
|   |      | <b>2,248.0</b>          | 2,248.6                 |
| <b>Current assets</b>                                   |      |                         |                         |
| Debtors   | 6    | <b>98.3</b>             | 83.1                    |
| Cash at bank and in hand                                | 7    | <b>0.1</b>              | 1.2                     |
|   |      | <b>98.4</b>             | 84.3                    |
| <b>Current liabilities</b>                              |      |                         |                         |
| Creditors: amounts falling due within one year          | 8    | <b>(917.9)</b>          | (815.4)                 |
| Derivative financial instruments                        | 5    | <b>(0.2)</b>            | (0.2)                   |
|   |      | <b>(918.1)</b>          | (815.6)                 |
| <b>Net current liabilities</b>                          |      | <b>(819.7)</b>          | (731.3)                 |
| <b>Total assets less current liabilities</b>            |      | <b>1,428.3</b>          | 1,517.3                 |
| <b>Non-current liabilities</b>                          |      |                         |                         |
| Creditors: amounts falling due after more than one year | 9    | <b>(196.8)</b>          | (220.6)                 |
| Derivative financial instruments                        | 5    | <b>(0.5)</b>            | (1.2)                   |
|   |      | <b>(197.3)</b>          | (221.8)                 |
| <b>Net assets</b>                                       |      | <b>1,231.0</b>          | 1,295.5                 |
| <b>Capital and reserves</b>                             |      |                         |                         |
| Called up share capital                                 | 12   | <b>0.1</b>              | 0.1                     |
| Share premium account                                   | 13   | <b>682.9</b>            | 682.9                   |
| Hedging reserve   | 13   | <b>(0.6)</b>            | (0.5)                   |
| Profit and loss account                                 | 13   | <b>548.6</b>            | 613.0                   |
| <b>Total shareholders' funds</b>                        |      | <b>1,231.0</b>          | 1,295.5                 |

The financial statements on pages 142 to 150 were approved by the Board on 22 October 2015 and were signed on its behalf by:

**MATT SMITH**  
CHIEF FINANCIAL OFFICER

# NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the financial year ended 29 August 2015

## 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.



# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 1 Accounting policies continued

### 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 2004. 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.

#### 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 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.

#### 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 profit and loss account.

### Share capital

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

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

### 2 Profit and loss account

A loss of £23.8 million is attributable to shareholders for the financial year ended 29 August 2015 (2014: £21.5 million).

The contracts of employment for all the executive directors are held by Debenhams plc and Debenhams Retail plc. Information concerning directors' remuneration, shares and share interests is included in the directors' remuneration report on pages 56 to 81, which forms part of these financial statements.

Auditors' remuneration relating to the audit of the Company financial statements of £0.1 million (2014: £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 29 August 2015 were £nil (2014: £73,000, related to the senior notes issue).

### 3 Dividends

|  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--|-------------------------|-------------------------|
| Final paid 2.4 pence (2014: 2.4 pence) per £0.0001 share   |                         |                         |
| – Settled in cash  | 29.4                    | 29.4                    |
| Interim paid 1.0 pence (2014: 1.0 pence) per £0.0001 share |                         |                         |
| – Settled in cash  | 12.3                    | 12.3                    |
|  | 41.7                    | 41.7                    |

A final dividend of 2.4 pence per share (2014: 2.4 pence per share) was paid during the year in respect of the financial year ended 30 August 2014, together with an interim dividend of 1.0 pence per share (2014: 1.0 pence per share) in respect of the financial year ended 29 August 2015. The directors are recommending a final dividend in respect of the financial year ended 29 August 2015 of 2.4 pence per share (2014: 2.4 pence per share), which will absorb an estimated £29.4 million (2014: £29.4 million) of shareholders' funds. It will be paid on 22 January 2016 to shareholders who are on the register of members at close of business on 4 December 2015. 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<br>undertakings<br>£m |
|---|---|
| <b>Cost</b>                                 |   |
| <b>At 30 August 2014 and 29 August 2015</b> | <b>3,375.9</b>                                  |
| <b>Provision for impairment</b>             |   |
| <b>At 30 August 2014 and 29 August 2015</b> | <b>1,127.9</b>                                  |
| <b>Net book value</b>                       |   |
| <b>At 30 August 2014 and 29 August 2015</b> | <b>2,248.0</b>                                  |

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 (2014: £nil). The discount rate used in the calculation to arrive at the valuation was 7.5% (2014: 7.2%) 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 8.6% (2014: 7.6%).

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 4 Investments continued

At 29 August 2015 the Company held, either directly or indirectly, 20% or more of the allotted share capital of the following companies:

| 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%   | Republic of Ireland      | Republic of Ireland     | Multi-channel retailing      |
| Aktieselskabet Th. Wessel & Vett<br>Magasin du Nord | 100%   | Denmark                  | Denmark                 | Multi-channel retailing      |
| Debenhams Properties Limited                        | 100%   | UK                       | England                 | Property investment          |
| Debenhams Hong Kong Limited                         | 100%   | Hong Kong                | Hong Kong               | Sourcing of goods            |
| Baroness Group Holdings Limited*                    | 100%   | Jersey                   | Jersey                  | Dormant                      |
| BF III Limited*                                     | 100%   | UK                       | England                 | Dormant                      |
| BF Properties (No. 2) Ltd                           | 100%   | UK                       | England                 | Dormant                      |
| BF Properties (No. 3) Ltd                           | 100%   | UK                       | England                 | Dormant                      |
| Debenhams Finance Holdings Limited*                 | 100%   | UK                       | England                 | Dormant                      |
| Baroness Retail Limited                             | 100%   | UK                       | England                 | Dormant                      |
| Jerimain Investments Limited*                       | 100%   | UK                       | England                 | Group finance                |
| Debenhams Pension Trust Limited                     | 100%   | UK                       | England                 | Dormant                      |
| Debenhams (No. 2) Pension Trust Limited             | 100%   | UK                       | England                 | Dormant                      |
| Debenhams Card Handling Services Limited            | 100%   | UK                       | England                 | Dormant                      |
| Debenhams Direct Limited                            | 100%   | UK                       | England                 | Dormant                      |
| Debenhams Principles Limited                        | 100%   | UK                       | England                 | Intellectual property rights |
| Debenhams Retail Holdings (Ireland) Limited         | 100%   | Republic of Ireland      | Republic of Ireland     | Holding company              |
| debenhams.com Ltd                                   | 100%   | UK                       | England                 | Dormant                      |
| A&D Pension Services Limited                        | 50%  | UK                       | England                 | Dormant                      |

\* Denotes investments held by the Company. All other investments are held by subsidiary undertakings.

## 5 Derivative financial instruments

|  | 29 August 2015<br>£m | 30 August 2014<br>£m |
|--|----------------------|----------------------|
| <b>Non-current assets</b>              |                      |                      |
| Interest rate swaps – cash flow hedges | –                    | 0.6                  |
| <b>Current liabilities</b>             |                      |                      |
| Interest rate swaps – cash flow hedges | (0.2)                | (0.2)                |
| <b>Non-current liabilities</b>         |                      |                      |
| Interest rate swaps – cash flow hedges | (0.5)                | (1.2)                |
|  | <b>(0.7)</b>         | <b>(0.8)</b>         |

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

## 6 Debtors

|                                    | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|------------------------------------|-------------------------|-------------------------|
| Deferred tax asset (note 11)       | 0.1                     | 0.1                     |
| Amounts owed by Group undertakings | 98.1                    | 82.9                    |
| Prepayments and accrued income     | 0.1                     | 0.1                     |
|                                    | <b>98.3</b>             | <b>83.1</b>             |

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.4% (2014: 2.5%).

## 7 Cash at bank and in hand

|                          | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|--------------------------|-------------------------|-------------------------|
| Cash at bank and in hand | 0.1                     | 1.2                     |

## 8 Creditors: amounts falling due within one year

|                                     | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------------------------------|-------------------------|-------------------------|
| Bank loans and overdrafts (note 10) | 134.2                   | 198.8                   |
| Amounts owed to Group undertakings  | 783.4                   | 615.5                   |
| Accruals and deferred income        | 0.3                     | 1.1                     |
|                                     | <b>917.9</b>            | <b>815.4</b>            |

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.4% (2014: 2.5%) or are interest free.

## 9 Creditors: amounts falling due after more than one year

|                                     | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|-------------------------------------|-------------------------|-------------------------|
| Bank and other borrowings (note 10) | 196.8                   | 220.6                   |

## 10 Borrowings

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Creditors: amounts falling due within one year</b>       |                         |                         |
| Revolving credit facility                                   | 135.0                   | 200.0                   |
| Less: revolving credit facility issue costs                 | (2.1)                   | (3.1)                   |
| Senior notes accrued interest                               | 1.3                     | 1.9                     |
|   | <b>134.2</b>            | <b>198.8</b>            |
| <b>Creditors: amounts falling due in more than one year</b> |                         |                         |
| Senior notes  | 200.0                   | 225.0                   |
| Less: senior notes issue costs                              | (3.2)                   | (4.4)                   |
|   | <b>196.8</b>            | <b>220.6</b>            |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## Maturity of debt

|                                  | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|----------------------------------|-------------------------|-------------------------|
| Amounts falling due:             |                         |                         |
| In one year or less or on demand | 135.0                   | 200.0                   |
| In more than five years          | 200.0                   | 225.0                   |
|                                  | <b>335.0</b>            | <b>425.0</b>            |

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

During the year ended 29 August 2015, the Company repurchased £25.0 million of the £225.0 million senior notes for a consideration of £24.8 million. The repurchased senior notes were cancelled during the year ended 29 August 2015. Also during the year ended 29 August 2015, the Company cancelled £75.0 million of the £425.0 million revolving credit facility. This revolving credit facility was arranged and an existing term loan and revolving credit facility were cancelled during the year ended 30 August 2014. The revolving credit facility at 29 August 2015 of £350.0 million (2014: £425.0 million) is due to expire in October 2018 and contains an option to request an extension to October 2019.

At 29 August 2015, the Company's drawings under credit facilities outstanding comprised revolving credit facility drawings of £135.0 million (2014: £200.0 million). During the current and prior financial years, the Company has complied with its covenants relating to its credit facilities.

The amortisation charge relating to the issue costs of the revolving credit facility was £1.0 million for the year ended 29 August 2015 (2014: £1.9 million relating to the issue costs of term loan and revolving credit facility). The amortisation charge relating to the issue costs of the senior notes was £0.6 million for the year ended 29 August 2015 (2014: £0.1 million). The write-off of unamortised issue costs in relation to cancelled credit facilities was £0.4 million (2014: £4.5 million).

## 11 Deferred taxation

| Asset                                       | Fair value<br>gains<br>£m |
|---|---------------------------|
| <b>At 30 August 2014 and 29 August 2015</b> | <b>0.1</b>                |

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 20.0% (2014: 20.0%) for temporary differences expected to reverse within 12 months of the balance sheet date and 20.0% (2014: 20.0%) for temporary differences expected to reverse more than one year after the balance sheet date for the UK differences.

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19.0% from 1 April 2017 and to 18.0% from 1 April 2020. As these changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. If they had applied, there would have been an effect of £nil on the net deferred tax asset recognised at 29 August 2015.

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

|  | 29 August 2015 |                      | 30 August 2014 |               |
|--|----------------|----------------------|----------------|---------------|
|  | £              | Number               | £              | Number        |
| <b>Issued and fully paid – ordinary shares of £0.0001 each</b> |                |                      |                |               |
| At start of year   | 128,684        | 1,286,843,441        | 128,684        | 1,286,843,441 |
| Allotted under share option schemes                            | 1              | 9,099                | –              | –             |
| <b>At end of year</b>  | <b>128,685</b> | <b>1,286,852,540</b> | 128,684        | 1,286,843,441 |

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:

|                                      | 29 August 2015<br>Ordinary shares<br>Number | 30 August 2014<br>Ordinary shares<br>Number |
|--------------------------------------|---|---|
| Debenhams Retail Employee Trust 2004 | 273,537                                     | 473,537                                     |

The market value of the shares at 29 August 2015 was £0.2 million for the DRET (2014: £0.3 million). The cost of the shares held at the year end was £0.2 million (2014: £0.4 million).

### Share option schemes

At 29 August 2015 the Group had three (2014: three) schemes in operation: the Performance Share Plan (“PSP”), the Executive Share Option Plan (“ESOP”) and the Share Incentive Plan (“SIP”) (2014: the PSP, the ESOP and the SIP).

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

## 13 Reserves

|   | Share premium<br>account<br>£m | Hedging<br>reserve<br>£m | Profit and loss<br>account<br>£m |
|---|--------------------------------|--------------------------|----------------------------------|
| At 30 August 2014                                     | 682.9                          | (0.5)                    | 613.0                            |
| Loss for the financial year                           | –                              | –                        | (23.8)                           |
| Cash flow hedges – net fair value losses (net of tax) | –                              | (0.1)                    | –                                |
| Employee share ownership plans                        | –                              | –                        | 1.1                              |
| Dividends to shareholders (note 3)                    | –                              | –                        | (41.7)                           |
| <b>At 29 August 2015</b>                              | <b>682.9</b>                   | <b>(0.6)</b>             | <b>548.6</b>                     |

### 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 (2014: £41.7 million) was paid by the Company during the financial year ended 29 August 2015.



# NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the financial year ended 29 August 2015

## 14 Reconciliation of movements in shareholders' funds

|   | 29 August<br>2015<br>£m | 30 August<br>2014<br>£m |
|---|-------------------------|-------------------------|
| <b>Loss for the financial year</b>          | <b>(23.8)</b>           | (21.5)                  |
| Dividends paid (note 3)                     | (41.7)                  | (41.7)                  |
| <b>Accumulated deficit for the year</b>     | <b>(65.5)</b>           | (63.2)                  |
| Cash flow hedges:                           |                         |                         |
| – Net fair value (losses)/gains, net of tax | (0.1)                   | 2.0                     |
| Purchase of treasury shares                 | –                       | (15.1)                  |
| Employee share ownership plans              | 1.1                     | (1.8)                   |
| <b>Net decrease to shareholders' funds</b>  | <b>(64.5)</b>           | (78.1)                  |
| Opening shareholders' funds                 | 1,295.5                 | 1,373.6                 |
| <b>Closing shareholders' funds</b>          | <b>1,231.0</b>          | 1,295.5                 |

## 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  
 Borehamwood  
 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 – Parkway  
 Newcastle-upon-Tyne  
 Newry  
 Northampton  
 Norwich  
 Nottingham  
 Nuneaton  
 Oldham  
 Orpington  
 Oxford  
 Perth  
 Plymouth  
 Portsmouth

Preston  
 Reading  
 Redditch  
 Romford  
 Rushmere  
 Salisbury  
 Scarborough  
 Scunthorpe  
 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  
**Bahrain**  
 Manama  
**Bulgaria**  
 Sofia – Bulgaria Mall  
**Cyprus**  
 Apollon  
 Central  
 Engomi  
 Kinyras  
 Korivos  
 Ledra  
 Nicosia  
 Olympia  
 Zenon  
**Czech Republic**  
 Prague  
**Egypt**  
 Alexandria  
 Cairo, Festival City  
**Estonia**  
 Tallinn  
**Iceland**  
 Reykjavik  
**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

## Malta

Paola  
 Tigne Point

## Pakistan

Karachi

## Philippines

Davao Abreeza Mall  
 Fairview Terraces  
 Manila – ECC  
 Manila – Glorieta  
 Manila – Shangri La  
 Manila – Trinoma  
 Paeso Santa Rosa

## Qatar

Doha

## Romania

Vitan  
**Russia**  
 Moscow – Avia Park  
 Moscow – Mega  
 Belaya Dacha

## Saudi Arabia

Zenon  
 Hammam Othiam  
 Herra  
 Jeddah – Bin Homran  
 Jeddah – Mall of Arabia  
 Madinah Al Noor  
 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  
 Yas Island

# 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 clothing (eg Wallis, Oasis, Warehouse), accessories (eg Tripp luggage) and food (eg Costa Coffee).

## 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.

## 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.

## Full price sell-through

The number of units sold in store or online at the original selling price, as a percentage of total units sold.

## 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 & 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.

# 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

Stifel Nicolaus Europe 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: 0371 384 2766  
[www.shareview.co.uk](http://www.shareview.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](http://WWW.DEBENHAMS.COM)