DEBENHAMS

Annual Report
and Accounts
2010

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Debenhams

Debenhams is an iconic British department store group which was established over 200 years ago. Debenhams has a strong presence in key product categories including womenswear, menswear, childrenswear, home and health and beauty, and offers its customers a unique and differentiated mix of exclusive own bought brands including private label, Designers at Debenhams, international brands and concessions.

Operational Highlights

- Good performance from own bought product ranges
- Further progress in market share, especially menswear and childrenswear
- Acquisition of Denmark's leading department store chain Magasin du Nord
- Six new UK stores opened, creating 800 new jobs
- Eleven new international franchise stores opened in ten countries
- Continued strong growth in multi-channel business

Financial Highlights

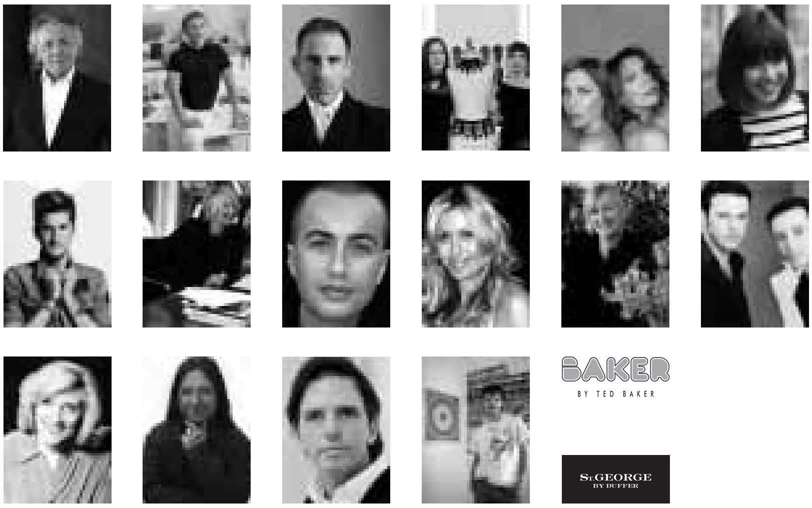
- Gross transaction value up 9.6%
- Revenue up 10.7%
- Gross margin up 70bps
- Headline profit before tax up 20.6%
- Net debt reduced by £73.5 million
- Bank facilities refinanced

Debenhams at a Glance

Key Facts

- Leading department store group
- 167 stores in UK, Republic of Ireland and Denmark
- 60 international franchise stores in 23 countries
- 29,000 employees
- 2010 gross transaction value: £2.56 billion
- 2010 revenue: £2.12 billion
- 2010 headline profit before tax: £151.0 million
- 2010 earnings per share: 7.5 pence

Designers at Debenhams

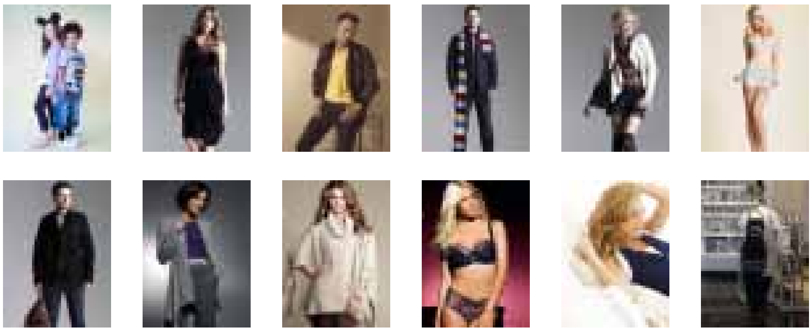


From Catwalk to High Street. Under the Designers at Debenhams banner, we sell a range of exclusive and stylish products designed by internationally renowned fashion designers.

From top left

Jeff Banks
Jasper Conran
Ben de Lisi
Erickson Beamon
Frost French
Pip Hackett
Henry Holland
Betty Jackson
Julien Macdonald
Melissa Odabash
Jane Packer
Pearce Fionda
Janet Reger
John Rocha
Eric van Peterson
Matthew Williamson
Ted Baker
St George by Duffer

Private Label Brands



OSBORNE
THOMAS NASH
tigerlily

Top row from left: Bluezoo, Debut, FFP, Maine New England, Mantaray, Presence

Middle row from left: Red Herring, Classics, Collection, Gorgeous, Pineapple, Le Vrai Gourmet

Debenhams Timeline

1813 Clark & Debenham established

1905 Debenhams Limited incorporated

1928 Debenhams becomes public company

1950 Debenhams is UK's largest department store

1985 Becomes part of Burton Group

1993 Designers at Debenhams launched

1997 First international franchise opens

1998 Separates from Burton Group

2003 Taken private by Baroness Retail

2005 Acquisition of stores from Allders

2006 Acquisition of stores from Roches

2006 Floated on London Stock Exchange

2008 Flagship stores in Westfield London and Liverpool opened

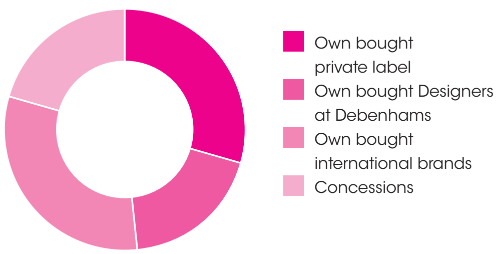
2009 Acquires Magasin du Nord

2010 Refinances borrowing facilities

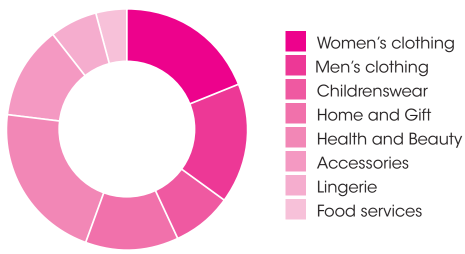
Sales Profile

Debenhams has a unique "multi-brand and multi-category" product offer that combines a unique brand mix with strength across key product categories.

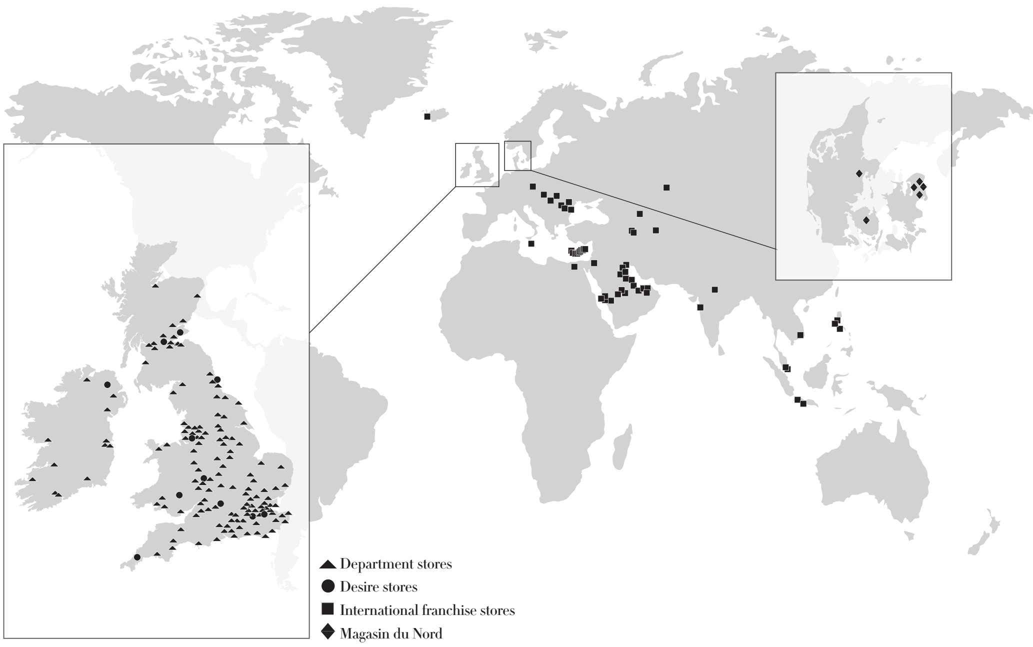
Multi-brand......



.....and multi-category



Debenhams Stores Worldwide



Chairman's Statement

Nigel Northridge
Chairman
21 October 2010

I am delighted to be making my first statement as Chairman of Debenhams. I was honoured to accept the role and have thoroughly enjoyed my first six months. Debenhams is a household name operating in a fascinating and highly competitive sector. As I said at the time of my appointment, I look forward to playing my part in the continued success of this great British retailer which has demonstrated its strengths by delivering a resilient performance over the past two years despite the difficult market environment.

So what have I found? I have found a great business with many great people.

Having joined the board in January and assumed the chair in April, I have spent much of the last few months acquainting myself with Debenhams' business and its people. I believe that only by being truly familiar with the business can I, as Chairman, know the right questions to ask and fully contribute to strategy development. I have obviously spent much time with the Company's senior management team but I have also visited a broad range of our stores around the country, met some of our excellent people on the front line and spoken to some of our customers. Our buying and merchandising directors and their teams have provided me with a crash course in design and fashion retailing to enable me to understand how we buy as well as how we sell. I have visited our newly acquired business in Denmark and spent time with our people who are responsible for the multi-channel operations. I have met with head office functions both in London and Taunton. I was also very keen to have the opportunity to meet with some of Debenhams' shareholders in order to gain their insight on our Company.

So what have I found? I have found a great business with many great people. Seeing our product ranges in store convinces me that our strategy to focus on own bought products makes huge sense. It is a clear point of difference and having seen the margin and profit benefit of this strategy in 2010 we should soon see the sales benefit too. Visiting stores has also reinforced my opinion that our space strategy of opening new stores and refurbishing older stores is correct; this is clearly demonstrated not only in the fantastic looking stores but also in the strong returns on capital achieved. I was extremely impressed with Magasin du Nord, which I visited along with a group of analysts and shareholders, and I am sure the early success we have seen from the introduction of Debenhams products will continue. Our multi-channel business, which brings together our stores and online activities, is extremely exciting and providing our customers with the flexibility to shop in different ways is a pre-requisite for success in this digital age.

As well as the operational side of the business, I have been equally impressed by the Company's corporate governance, financial, risk management and internal controls processes.

Living up to our responsibilities, not least as an employer, a retailer, a buyer of goods and a member of the community, is one of the most important issues we have to address. You can read more about our work in this area in the corporate responsibility review but I would like to highlight the efficacy of our supply chain practices, particularly in relation to ethical sourcing, and some of our leading edge employee development work in the area of NVQ qualifications. I must also mention some of the groundbreaking campaigns we have been involved with this year and recommend shareholders look at pages 18 to 19 for more information.

At the heart of corporate governance is the board of directors. I am confident that we have a good range of skills and experiences on the board of Debenhams and this view is confirmed by our annual board review process. I would like to convey the board's thanks to Paul Pindar who retired from the board during 2010. Particular thanks are due to my predecessor John Lovering who served as Debenhams' Chairman for six years. I would also like to welcome Mark Rolfe who has joined us as a non-executive director very recently and I am sure will play an active and constructive role.

It is far from just the board where Debenhams benefits from an extraordinary wealth of talent. I have met many dedicated, committed people throughout the Company – sales advisors, store managers, buyers and merchandisers, head office personnel – who work extremely hard to make our Company successful. On behalf of the board I would like to thank them all for their valuable contribution, especially through a year of structural change in a challenging market environment where getting it right has involved so much hard work from everyone.

High street favourite Principles returned exclusively to Debenhams stores during 2010 after we acquired the brand which had been a concession for many years. Principles is now designed by Ben de Lisi, one of Designers at Debenhams' best known designers.

Principles by Ben de Lisi is now available in all Debenhams stores.

Chief Executive's Review

Designers at Debenhams continued to be some of our best-performing brands in 2010, including Rocha.John Rocha (left).

Rob Templeman
Chief Executive
21 October 2010

Overall we were pleased with the performance of the business in 2010.

Market Conditions

The retail environment remained challenging throughout 2010, continuing the cautious trends of 2009. Consumers were unsettled by downbeat financial and economic news from around the world which had a direct impact on spending decisions on the high street. Consumer confidence data suggests that consumers were more optimistic in the first half of the financial year, reaching a peak for the period in February, before falling away in the second half (source: Nationwide Consumer Confidence Index). On a more positive note, interest rates remained low in the UK meaning many consumers with mortgages still enjoyed some level of higher disposable income which to a certain extent offset concerns over unemployment and government finances.

Overall, the total clothing market by value increased by 1.3 per cent during 2010. However, this appears to have been a function of price increases rather than underlying market growth. Average selling prices increased by 4.0 per cent whilst volumes decreased by 2.7 per cent (source for all data: Kantar Worldpanel Fashion 24 weeks market share data to 5 September 2010 vs 2009). The increase in selling prices accelerated as the year progressed, driven by a number of factors, most notably higher cost prices in the supply chain, as well as an increase in VAT from January 2010. A poor cotton harvest in a number of countries led to sharp increases in raw cotton prices during 2010 which in turn increased the cost of cotton fabrics. Synthetic fabric prices also increased. There were capacity concerns in some countries such as Bangladesh, which experienced some high-profile labour relations issues too. Labour costs were also increasing in other countries, most notably in parts of China. In addition, freight prices increased significantly. Further, sterling deteriorated against the US dollar – a key currency for sourcing in many parts of the world, especially China – in the autumn of 2009 and spring of 2010, reaching a low in May 2010, subsequent to which it has seen some recovery.

There were some clear peaks and troughs in terms of trading levels through the year. The year started well in autumn 2009 but warmer weather in October impacted outerwear sales. The peak trading season in November and December held up reasonably well. There were concerns over the impact of snow on the post-Christmas sale but in the event these proved to be unfounded. The early summer was impacted by the World Cup and customer caution ahead of the new government's emergency budget but trading levels recovered to more normal levels in July and August. The Republic of Ireland continued to be a tough market throughout the year but activity levels appear to have stabilised after several quarters of decline.

Performance Highlights

Overall, we were pleased with the performance of the business in 2010. We said at the outset that it was a year of structural change following the extensive shift in the sales mix during the last quarter of 2009 and therefore a year when we would judge the business on profit rather than sales. This was borne out in the results for the year which saw headline profit before tax increase by 20.6 per cent over the prior year to £151.0 million (note: headline profit before tax is after adding back £5.7 million of amortisation of capitalised bank fees and exceptional items of £5.4 million).

Chief Executive's Review continued

These Bluezoo squirters are sure to be on many children's wishlists for Christmas this year.

Mantaray for women was launched in AW09 and has since been extended to all Debenhams stores.

There was progress on the sales line too, with gross transaction value up by 9.6 per cent including Magasin du Nord ("Magasin"), the Danish department store group acquired during the course of the year, and by 1.4 per cent excluding Magasin. Like-for-like sales for the year were flat. We said throughout the year that like-for-like sales in 2010 would be impacted by some 1.5 per cent due to our strategy of improving gross margins by increasing the penetration of own bought sales which involved the conversion of over 530,000 square feet of trading space from concessions to own bought in the fourth quarter of 2009.

Market share gains were made in menswear and childrenswear increasing by 50 basis points and 20 basis points respectively to 5.1 per cent and 3.9 per cent. Our overall fashion share increased by 20 basis points to 4.6 per cent. Womenswear share was impacted by lower sales densities arising out of last year's sales moves and as a result is unchanged at 5.5 per cent. This impact will fall away as we move into the first quarter of 2011. (Source for market share data: Kantar Worldpanel Fashion 24 weeks' market share data to 5 September 2010 vs. 2009.)

The multi-channel business continued to grow with Debenhams Direct sales up 88.4 per cent to £103.8 million. Much of this growth was driven by our ongoing strategy of integrating the store business with the online business.

Strategy for Growth: Progress and Plans

Debenhams has a clear strategy for growth which is based around four key themes:

- Product strategy
- Space expansion
- Multi-channel development
- Balance sheet management

Our strong childrenswear offer, including Butterfly by Matthew Williamson, helped us to gain market share during 2010.

Product Strategy

The aim of our product strategy is to ensure we have the right products available for customers to buy at the right time and at the right price. In a crowded high street, it is our product strategy that offers a point of difference through our unique mix of own bought and concession brands.

Over the last 18 months we have been pursuing a product strategy that focuses on own bought brands – principally private label and Designers at Debenhams – rather than concession brands. Own bought brands are attractive because they generate higher margins than concessions and allow us total control over product ranges. For 2010, own bought sales accounted for 80.2 per cent of total sales (excluding Magasin). Whilst own bought sales will vary by store – brand new stores are already at over 90 per cent own bought whereas larger, older stores will always have a higher concession mix – our medium-term target for the whole estate is 85 per cent own bought sales, 15 per cent concession sales.

Towards the end of 2009, we converted 530,000 square feet of trading space from concessions to own bought. This space increase was achieved in a number of ways. First, several new own bought brands were introduced, including Mantaray and Butterfly by Matthew Williamson in womenswear and Bluezoo in childrenswear. Secondly, some existing brands were extended into other categories, such as

AW10 saw the launch of Ben de Lisi's first Home collection for Debenhams. Ben is one of eight Designers at Debenhams to be found in the Home department.

Chief Executive's Review continued

Pixie Geldof was the face of the SS10 launch of new Designers at Debenhams brand H! by Henry Holland. H! is our first designer brand aimed at 16-24 year old fashion-focused customers.


Menswear brand Fit For Purpose (F.F.P) was launched in July 2010. Champion boxers Frankie Gavin and Kevin Mitchell are the faces of the brand.


Designer Jeff Banks opened our new store in Bath in September 2010.

Ben de Lisi from womenswear into homeware. Finally, existing brands increased their footprint in existing stores and/or were introduced into additional stores. In 2010, we have focused on consolidating the space moves as well as moving the strategy forward by introducing further new own bought brands.

High street favourite Principles was relaunched in conjunction with designer Ben de Lisi for spring/summer 2010. Principles had been a successful concession in Debenhams but fell into administration in 2009 after several years of declining sales. We subsequently acquired the brand which led to it returning to the high street exclusively in 125 Debenhams stores as Principles by Ben de Lisi. Since launch, Principles has gone from strength to strength and for autumn/winter 2010 will be extended to all stores.

Our Designers at Debenhams portfolio entered a new market during 2010 with the launch of H! by Henry Holland for young fashion-focused customers in the 16-24 age bracket. We know these customers already shop in Debenhams because they buy young fashion concession brands and cosmetics and so an extensive PR and social media campaign accompanied the launch of H! specifically aimed to appeal to the brand's young target customers.

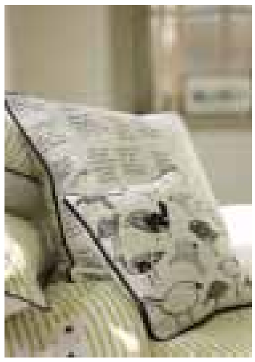
Increasing the penetration of Designers at Debenhams has been a key focus in the home department over the past couple of years. In difficult economic times when the property market is slow, many people look to refresh their homes with new accessories and co-ordinates rather than move house or undertake major refurbishment projects. This plays very much to the strengths of Designers at Debenhams for the home. To this end, 2010 has seen further additions to the designer portfolio, building on the success of Ben de Lisi's home launch in autumn/winter 2009. House and Home by Lisa Stickley arrived in store towards the end of the year. Lisa is a specialist home designer who has created a fresh, quirky and witty collection for the kitchen, breakfast and dinner table and bedroom. Butterfly Home by Matthew Williamson was introduced at the same time, the first home collection anywhere from the hugely successful catwalk designer. Matthew's home collection stays true to his daring approach to colour and pattern, inspired by cultures around the world.

Looking forward, we will continue to focus on own bought brands, both private label and Designers at Debenhams, working towards our 85 per cent target. New launches include a new menswear brand Fit For Purpose (F.F.P.) which targets 20-35 year old male customers, a new development in Designers at Debenhams called Edition and a new range from Julien Macdonald called Diamond. Women's footwear brand Faith will also be relaunched as an own bought brand.

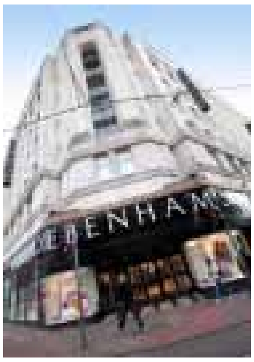
Space Expansion

New Stores

Although Debenhams has been a feature on the British high street for over 200 years, the store portfolio is still relatively immature with 148 department stores and 13 of our small format Desire stores in the UK and the Republic of Ireland and six department stores in Denmark. In addition, there are 60 international franchise stores in 23 countries. We generate strong returns on new stores and believe increasing the size of the store portfolio is a good use of shareholders' money. In total, we believe there are up to 240 locations which could support a


We were delighted to welcome Lisa Stickley's fresh, quirky House and Home range to Designers at Debenhams during 2010. Specialist home designer Lisa's quintessentially English brand includes kitchenware, china and bedlinen.

Chief Executive's Review continued



Debenhams' city centre store in Manchester has recently undergone a multi-million pound refurbishment to bring it up to the standard of a flagship store (above and right).

department store in the UK and Ireland and 100 which could support a Desire store. There is also the possibility to add two or three additional stores in Denmark and there are many opportunities for new international franchise stores,

In 2010, six new stores were opened in the UK. This comprised three department stores and three Desire stores. The new department stores were a flagship store in Newcastle-upon-Tyne (February 2010, 128,000 sq ft), Carmarthen (April 2010, 59,000 sq ft) and Bury, Greater Manchester (July 2010, 71,000 sq ft). The new Desire stores were Kidderminster (September 2009, 22,000 sq ft), Witney (October 2009, 14,000 sq ft) and Monks Cross, York (October 2009, 24,000 sq ft). In addition, Debenhams acquired six stores in Denmark through the acquisition of Magasin du Nord which completed in January 2010, adding 897,000 sq ft. In total, total trading space increased by 1,204,000 sq ft in 2010 (after the closure of two external locations totalling 11,000 sq ft), giving a year-end total of 12,250,000 sq ft, an increase of 10.9 per cent. Average new space increased by 8.8 per cent.

Looking to the future, the new store opening pipeline has inevitably been impacted by recent economic turmoil which has seen a number of shopping centre developments in the UK become delayed or cancelled. As a result, in 2011 we will open two new department stores comprising Bath, which opened in September 2010, and Wakefield which is currently scheduled to open in May 2011. Further out, there are another 30 contracted or possible new store openings.

In 2010, six new stores were opened in the UK.

Store Refurbishments

With the slowing of the store pipeline – generally due to circumstances beyond Debenhams' control – we are focusing on refurbishing some of our older core stores to improve their performance. As with new stores, refurbished stores generate strong returns on capital, with the current wave expected to generate 20-25 per cent return on capital. There are two main refurbishment formats. The first is flagship refurbishments which we undertake in large city centre heritage stores and market ownership stores (i.e. where Debenhams is the only department store in a town or city). The programme of works includes new flooring, new lighting, a new cosmetics hall including new house builds and new services such as a new food offer. The average cost of a flagship refurbishment is £25 per sq ft and the work takes around 120 days. Other stores undergo a store upgrade, which focuses on improved space utilisation and a visual make-over. These refurbishments cost some £20 per sq ft and take around 90 days to complete.

In 2010, we undertook flagship refurbishments in Glasgow and Manchester (both city centre heritage stores) and store upgrades in Swindon and Bristol. We have seen good uplifts in terms of sales and margins following the completion of each of these projects. In 2011, five major refurbishments will be undertaken in time for peak trading, namely Leeds City Centre, Merryhill, Milton Keynes, Portsmouth and Romford. In the second half of the year, refurbishments are planned for another five stores. In total, some 40 stores remain to be refurbished and we aim to complete these over the next three or four years.

Designer John Rocha joined us in Copenhagen on a rainy day to attend the 2010 Danish Fashion Awards.

Debenhams acquired Denmark's leading department store group Magasin du Nord in 2010, including its iconic store in Kongens Nytorv, Copenhagen.

Amongst the 11 new international franchise stores opened during 2010 was our first store in Baku, Azerbaijan.

Store Acquisitions

In January 2010, Debenhams completed the acquisition of Denmark's leading department store group Magasin du Nord. This comprised six well-invested department stores including the flagship store in central Copenhagen. The acquisition price was £6.7 million. The acquisition of Magasin was the third acquisition of stores in recent years, following Allders and Roches in 2005 and 2006 respectively.

Magasin is an iconic retail brand in Denmark. However, it had experienced declining profits for a number of years, chiefly due to an unstable ownership structure which left it cash constrained. This resulted in a brand mix comprised chiefly of low gross margin, high price concession and consignment brands which led to an unsustainably low profit margin. Private label own bought brands accounted for less than 5 per cent of total sales. Magasin was an attractive acquisition for Debenhams for a number of reasons: it was low cost and low risk; we had previous sales experience in Denmark through our international franchise stores; Denmark can be serviced from our UK distribution network; and English is widely spoken in Denmark. As well as the improvements we believe we can make to Magasin itself, this acquisition also creates a platform and business model for further expansion of internationally owned assets.

Magasin stores are not being rebranded as Debenhams, they will retain their current and much-loved branding. Instead, we will be focusing on widening consumer appeal and increasing margins by introducing selected Debenhams private label and Designers at Debenhams brands into the stores. Magasin will also benefit from leveraging Debenhams' buying and supply chain expertise which will again allow it to become more price competitive as well as increasing margins. Overall, we believe that Magasin's gross margin, which was 32.7 per cent in 2010, will increase by 500-600 basis points over the medium term which will result in its EBITDA margin improving to double-digit level over the same time period. We have been pleased with the performance of Magasin since acquisition. Danish customers are responding favourably to the Debenhams' product ranges introduced so far and the performance of the stores which have introduced the most Debenhams' merchandise have improved from the worst-performing stores in the portfolio to the best.

Going forward, we will continue to execute our plans for Magasin and we believe it will contribute some £13-14 million of EBITDA and £7-10 million of profit before tax in 2011.

As part of our aim to extend Debenhams' international reach and build global brands profitably, we will evaluate other store acquisition opportunities as and when they become available. We believe there are other department store chains in Europe which could benefit from the same approach as we have used for Magasin.

International Franchise Stores

A cornerstone of our international strategy is our franchise stores which complement owned assets such as Magasin. Franchise stores are particularly important in distant and emerging markets where the local knowledge of our franchise partner is crucial for success.

By the end of 2010 we had 60 franchise stores in 23 countries, a net increase of eight stores during the

Magasin is an iconic retail brand in Denmark.

Chief Executive's Review continued

In October 2010 we launched our iPhone app, expanding our multi-channel business into the mobile market. Find the app in the iTunes app store.

Another new innovation in our multi-channel business is Debenhams TV, a suite of online videos to provide customers with inspiration and advice.

year including market entry in Azerbaijan, Egypt, Kazakhstan, Malta and Vietnam.

The stores performed well in 2010, although some markets were affected by macroeconomic factors.

Over the medium-term we expect the franchise portfolio to expand to 100 stores.

Multi-Channel

Debenhams' multi-channel business has grown strongly over the last two years, with Debenhams Direct sales up nearly 150 per cent on a two-year basis. As a result, debenhams.com has become our largest store and we are now in the top ten online retailers for both fashion and home.

By 2014, online is expected to influence 50 per cent of all UK non-food sales whether through browsing online prior to buying instore, using click and collect or reserve, buying online or using instore ordering services. We want to engage with our customers fully through all these channels and to make them relevant, inspiring and convenient.

Our strategy for multi-channel development is based on:

- increasing multi-channel access points;
- effective multi-channel marketing;
- an easier customer journey; and
- improving product content and availability.

We want our multi-channel business to be engaging, inspiring, relevant and convenient.

Multi-channel access points: significant progress was made in this area in 2010 including the introduction of instore ordering to all stores and the trialling of self-service kiosks, the launch of collect from store and international delivery. Most recently, an iPhone app and Debenhams TV, our online video facility, have been launched. A euro-denominated website for the Republic of Ireland will be introduced during the first half of 2011.

Multi-channel marketing: our aim is to produce clear and consistent messaging across our stores and all customer communications. We have been using e-mail marketing for some time and have been actively increasing the size of our marketing database in 2010. We have also been seeking to improve search engine optimisation and were pleased to be ranked number one for UK fashion search in the third quarter of 2010 (source: Greenlight). We are fully engaged with social media such as Facebook and Twitter.

Easier customer journey: in 2010 we improved page layout and navigation on debenhams.com. We also introduced a much cleaner and faster checkout process. Looking forward, a new web platform will be introduced during 2011 which will improve the customer journey further.

Content: we want our online content to reflect what we are famous for instore: in particular Designers at Debenhams, health and beauty and gifting. We add new products and ranges to debenhams.com all the time and our SKU count online increased by 10.4 per cent during 2010. Going forward, we will be

We were delighted to welcome a new lingerie brand for AW10, B by Ted Baker (above and right). The exclusive range of lingerie and sleepwear is available in 63 Debenhams stores.

increasing our product content in the footwear, electrical, furniture and garden categories. In health and beauty, a number of top brands will be available online by spring/summer 2011 including MAC and Bobbi Brown.

Balance Sheet Management

Ensuring our business has a sound capital structure remains an important priority.

The balance sheet has been transformed over the past two years, including last year's capital raising through the issue of 404 million new shares to raise some £300 million and a debt buy-back programme which has bought back a total of £91.6 million over the past two years at an average discount of 4.2 per cent (of which £30.2 million took place in 2010).

Debenhams is a business that produces strong cash generation. In 2010, free cash flow before exceptional items amounted to £212.3 million, an increase of £55.8 million over the prior year.

In July 2010 we announced that Debenhams' bank facilities had been refinanced, well ahead of the April 2011 deadline. The new £650 million senior facility comprises a £250 million term loan and a £400 million revolving credit facility expiring in October 2013 with an option to extend to October 2014. Although the board did not propose a dividend for 2010, it is the board's intention that subject to satisfactory trading and economic conditions it will return to paying a dividend at the interim stage of the new financial year (April 2011) at an initial dividend cover of around three times.

Summary and Outlook

2010 was a year of structural change for Debenhams and we are pleased with the performance of the business. Our focus on margin and profit improvement has been successful with both gross margin and headline profit before tax moving ahead strongly.

Looking forward, the outlook for consumer confidence over the coming year remains uncertain. It is therefore right for us to be cautious in the way we plan and manage the business. There is, however, much to be optimistic about for Debenhams. The benefits of higher own bought sales will continue to be evident in 2011 and future years and now that the disruption to sales has annualised, we will look to move the sales line ahead as well as continuing growth in margins and profits. In particular we would expect to see some recovery in our womenswear market share in 2011. We are confident that Magasin du Nord will deliver on both the financial and strategic objectives that we set ourselves when we first looked at acquiring the business. Multi-channel will continue to develop into a truly integrated model that serves customers not only in our home markets but around the world and takes advantage of new technology to drive sales. Strong returns and sales uplifts from refurbished stores such as Glasgow and Manchester will offset any temporary gaps in the store opening pipeline. We will continue to generate high levels of cash and will also see lower interest costs starting from May 2011 when the new bank facility commences. All of this will collectively enable Debenhams to make further progress in the financial year ahead and beyond.

There is much to be optimistic about for Debenhams.

Chief Executive's Review continued

KPI	10	09	08	Strategy	2010 Performance
FINANCIAL PERFORMANCE INDICATORS					
Gross transaction value £m	2,564	2,340	2,336	GTV is a measure of overall sales for the business, including concession sales. The board believes it is a good guide to the overall activity of the Company.	GTV grew by 9.6 per cent during 2010 including the acquisition of Magasin du Nord and by 1.4 per cent excluding Magasin.
Like-for-like sales growth %	0	(3.6)	(0.9)	Like-for-like sales provides a measure of annual sales performance from stores that have been open for one year or more. This metric is therefore an indication of organic sales growth.	Like-for-like sales were impacted in 2010 by the strategy of improving gross margin by increasing own bought sales penetration. This impact is estimated to be c.1.5 per cent.
Headline profit before tax £m	151.0	125.2	110.1	Headline profit before tax is the board's principal measure of profitability.	Headline profit before tax increased by 20.6 per cent in 2010. Over the last two years it has risen by 37.1 per cent. The board believes this is a strong performance given the difficult trading environment.
STRATEGIC PERFORMANCE INDICATORS					
Percentage of own bought sales %	80.2	76.0	71.8	A key element of our product strategy is to increase the own bought sales mix and take advantage of the higher margins generated by own bought sales over concessions.	The extensive space moves undertaken at the end of last year resulted in this KPI moving ahead well in 2010, towards our medium-term target of 85 per cent. (Note: numbers exclude Magasin.)
Trading space m/sq ft	12.3	11.0	10.7	New store openings are the biggest driver of trading space. Our disciplined approach to capital expenditure on new stores ensures we generate strong returns from new space.	Trading space increased by 1,204,000 sq ft in 2010, including 897,000 sq ft arising out of the acquisition of Magasin. In the UK, six new stores were opened.
Debenhams Direct sales £m	103.8	55.1	42.1	The development of a multi-channel business that integrates the store and Debenhams Direct activities is a key part of our strategy for growth.	Online sales increased by 88.4 per cent in 2010 as the benefits of multi-channel development began to be realised. A host of new features and services were launched during the year.
Net debt £m	516.8	590.3	994.0	Net debt is the KPI used to measure balance sheet strength. Ensuring the Company has an appropriate capital structure to support future growth is key to our success.	Net debt reduced further in 2010 in light of strong cash generation within the business. Overall, net debt has nearly halved over the past two years.

Homeowners looking for relief from economic gloom started a shopping boom for ornate chandeliers in 2010. Sales in Debenhams reached an all-time high with new lines introduced in stores and online to meet demand.

Groundbreaking News

Debenhams

Groundbreaking News

Debenhams became the first high street retailer to break with the taboo of using disabled models in campaign photography during 2010. Following an approach from Nikki Fox and Natasha Wood, both disability campaigners and presenters of the hit Channel 4 show How To Look Good Naked With A Difference, Shannon Murray, who has used a wheelchair since breaking her neck in her teens, appeared in photography in our store windows and online.

Debenhams first with disabled model

Shannon joined three other models – Kate Fullman, a size 16 model, Tess Montgomery, a petite model, and Tokumbo Daniel, a size 10 model – in imagery to promote the new Principles by Ben de Lisi range. Following the huge response, further campaigns using disabled models are planned.

Nikki Fox said: "I am so happy and proud that Debenhams has used our disabled model for such a massive campaign. It's a really big deal. If seeing Shannon helps another disabled person, then we've done well."

Gok Wan added: "We in the UK have the best high street in the world. It's a multi-million pound industry that needs to recognise all shapes, sizes and disabilities. Filming How To Look Good Naked has been a life-changing experience for me, because I have learnt so much about a community I knew existed but have never been involved with. Debenhams is pushing the boundaries by producing the first ever disabled fashion campaign in conjunction with How To Look Good Naked and I hope that one day disabilities will be recognised by every chain in the high street."

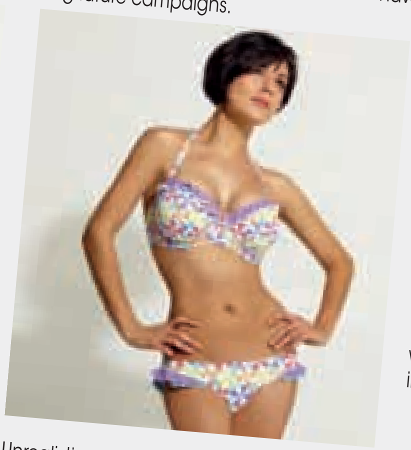
Groundbreaking News

Debenhams

Debenhams unveils beauty untouched

Debenhams broke ranks with the rest of the high street in 2010 by using un-airbrushed photography to launch this summer's swimwear lines. We believe that overuse of some digital technology to create unrealistic body shapes and flawless skin may make women feel insecure about their natural looks and size. As a responsible retailer, we want to help our customers make the most of their beauty without bombarding them with unattainable body images. We have been canvassing customers' opinions and will use their feedback when creating future campaigns.

Natural beauty: before airbrushing



Unrealistic: after airbrushing

Caryn Franklin, fashion commentator and broadcaster, said: "Retailers do have the power to take a stance on digital manipulation. Fashion and beauty imagery that is honest is absolutely crucial for all women to see. I'm delighted that Debenhams has taken the lead here and customer feedback will no doubt validate this important step."

Groundbreaking News

Debenhams

Size matters

In February 2010 we trialled the use of size 16 mannequins in our store windows and asked customers what they thought. Like most retailers, we generally use standard size 10 mannequins; however, the majority of British women are either size 14 or size 16. Signage next to the mannequins, which were dressed in the newly launched Principles by Ben de Lisi collection, read "I'm a size 16, do you want to see more of me?" Debenhams routinely stocks womenswear up to size 26.

Susan Ringwood, Chief Executive of the charity Beat that aims to combat eating disorders, said: "Women often feel it is their fault that clothes don't look as good on them as in the shop window, so we congratulate Debenhams on taking this initiative."

Debenhams gained market share in childrenswear throughout 2010, including Designers at Debenhams ranges such as Rocha.John Rocha (left).

Finance Director's Review

Chris Woodhouse
Finance Director
21 October 2010

The newly acquired Magasin business contributed gross transaction value of £191.1 million.

Sales

Gross transaction value increased during the 52 weeks to 28 August 2010 by 9.6 per cent including Magasin and by 1.4 per cent excluding Magasin. Revenue increased by 10.7 per cent including Magasin and 5.3 per cent excluding Magasin. The primary drivers of sales growth were new department stores, new Desire stores and new international franchise stores. Like-for-like sales were flat on the previous period, reflecting not only difficult trading conditions but also the impact of lower sales densities arising out of the space shift from concessions to own bought product ranges which took place in the final quarter of 2009.

The newly acquired Magasin business contributed gross transaction value of £191.1 million.

Debenhams Direct, the online store, saw its gross transaction value increase by 88.4 per cent to £103.8 million (2009: £55.1 million), a contribution to Group gross transaction value of 4.0 per cent.

International franchise stores increased their sales by 4.4 per cent from £63.3 million in 2009 to £66.1 million in 2010.

Gross Margin

Gross margin increased by 70 basis points over the previous year including the lower margin Magasin business and 160 basis points excluding Magasin. This strong performance was driven by the strategy of growing cash margin by focusing on product mix and gross margin improvement alongside the ongoing focus on tight stock control and markdown management.

Costs

Control of costs continues to be a major focus for the business. The main cost categories are store payroll, store rent, warehousing and distribution costs. Store payroll increased in line with new space plus inflation of 0.5 per cent, less restructure savings, to £283.4 million (2009: £258.2 million). Store rent as a ratio to gross transaction value was broadly maintained at 6.7 per cent (2009: 6.6 per cent) with store rent costs of £172.2 million in 2010 compared to £154.4 million in the prior year. Warehousing and distribution costs increased by 21.6 per cent to £55.1 million (2009: £45.3 million) as a result of higher levels of activity in the Direct business.

Stocks

Stock levels were kept extremely tight throughout the year in light of the difficult trading conditions and the focus on maximising cash margin. Although total stock units increased by 2.8 per cent, like-for-like unit density decreased by 0.3 per cent. Terminal stock at the end of the year was 2.6 per cent, an historically low level for Debenhams.

Interest

The net interest charge of £49.8 million for the financial year ended 28 August 2010 decreased by £11.6 million versus the prior year (2009: £61.4 million). The decrease is due to the reduction in the Group's level of debt.

Exceptional Items

Net exceptional costs (before tax) of £5.4 million were recorded in the year. These comprised: an exceptional cost of £9.4 million arising out of the restructuring of the business in the Republic of Ireland which will ensure the business has the flexible and right-sized workforce it needs for the future; and

Finance Director's Review continued

Red Herring for girls brought a fashionable look to the childrenswear department during 2010.

Debenhams was off to the races in 2010, dressing Channel 4 presenters Alice Plunkett (right) and Lesley Graham for the Cheltenham Gold Cup.

exceptional income of £4.0 million in respect of the acquisition of Magasin (see note 28 on page 98).

Profits
Gross profit for the year increased from £264.9 million to £290.4 million before exceptional costs. Operating profit increased from £182.2 million to £195.1 million before exceptional costs. Profit before tax and exceptional items rose by 20.3 per cent to £145.3 million (2009: £120.8 million).

Taxation
The Group's tax charge after exceptional items of £42.9 million on a profit after exceptional items of £139.9 million gives an effective rate of tax of 30.7 per cent.

Earnings
The basic earnings per share of 7.5 pence per share (2009: 10.0 pence) and diluted earnings per share of 7.5 pence (2009: 10.0 pence) reflect the full year impact of 404 million ordinary shares issued on 26 June 2009.

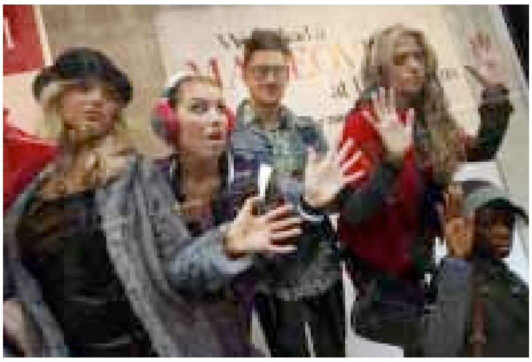
Dividends
The board has not proposed a final dividend for 2010. Subject to satisfactory trading and economic conditions, it is the board's current intention to recommence dividends at the interim stage of the 2011 financial year (April 2011). The board expects to adopt a policy targeting an initial level of dividend cover of three times adjusted earnings per share.

Capital Expenditure
Capital expenditure increased during the year to £98.6 million from £84.5 million in the prior year. The increase reflects primarily the acquisition of Magasin du Nord.

Cash Flow
Net cash generated from operating activities in the year to 28 August 2010 was £207.2 million. This was an increase of £48.8 million on the previous year (2009: £158.4 million). The increase was due to improved trading and positive working capital movements.

Borrowings
The Group's net debt position was £516.8 million as at 28 August 2010, a reduction of £73.5 million during the course of the year (£590.3 million as at 29 August 2009). Repayments against borrowings of £100.0 million and £75.0 million were made in October 2009 and January 2010 respectively. In addition, during the year the Group purchased debt with a par value of £30.2 million in the market at an average discount of 1.3 per cent.

The process of refinancing Debenhams' debt facilities was completed in July 2010, well ahead of the scheduled date of April 2011. The new £650 million forward start senior facility comprises a £250 million term loan and a £400 million revolving credit facility expiring in October 2013 with an option to extend to October 2014. A proportion of the debt has been hedged into fixed rate finance and as a result it is anticipated that the interest cost net of fees will fall from c.7.0 per cent in the 2010 financial year to c.4.5 per cent during the first full year of the new facility. The new facility becomes effective on the cancellation or expiry of the existing facility which is scheduled for April 2011. Associated refinancing costs of £10.3 million were incurred and will be amortised over the life of the new facility, starting in April 2011.



Henry Holland opened the refurbished Debenhams store in Manchester on Wednesday 22 September with his stylish live mannequins.

Debenhams Home department enjoyed a good performance in 2010, including Designer bedding ranges such as this one from Jasper Conran.

Menswear market share moved ahead strongly in 2010, helped by Designer ranges including Jeff Banks.

Financial Risk and Treasury Management

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

The policies and strategies for managing financial risk are summarised in note 22 of the Group Financial Statements.

Pensions

The Group provides a number of pension arrangements for its employees, which include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together the "pension schemes") which closed for future service accrual from 31 October 2006. The pension schemes' deficit as at 28 August 2010 was £80.7 million (2009: £53.6 million).

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

Corporate Responsibility Review

Introduction

As a retail business, Debenhams' activities can impact the lives of millions of people: our customers, our employees, the communities in which we operate, those who work in the supply chain and their own communities. We have a responsibility to all these people and to our planet to try to have a positive impact upon them and to take their needs into account when we make decisions about our business.

A cross-functional steering committee meets regularly and as a measure of the importance of sustainability issues to Debenhams it has now become a committee of the board, chaired by Martina King, non-executive director.

Our corporate responsibility work falls into three main areas. First, Environmental which covers energy usage, including Debenhams carbon footprint reporting, waste management and recycling. Secondly, the Supply Chain which includes our factory approval and audit process, our purchasing practices and our involvement with the Ethical Trading Initiative. The third category is Workplace and Community which covers employment practices, learning and development, health and safety, charitable work and customer engagement.

Environmental

Debenhams Carbon Footprint 2010

At Debenhams we recognise the importance of documenting our emissions sources and understanding our ongoing impact on the environment. The environmental consultancy AEA continues to engage with key stakeholders within the business to provide an accurate and robust footprint that places the environmental impact of our key business operations in context.

The table below summarises our headline carbon footprint figures for 2009 and 2010. Figures are provided for both the activities included within the 2009 footprint scope and the footprint scope in 2010, which now includes Magasin stores and overseas freight emissions. Although emissions have increased since 2009, our carbon efficiency has remained stable. This is determined by the intensity ratios. However, with the acquisition of Magasin, our emissions performance per £million of turnover has improved since 2009.

An exclusive Ben de Lisi scarf sold in aid of Breast Cancer Care.

In 2010 our personal shoppers helped people on the Life Skills Programme, run by Quintessentially and the House of St. Barnabas to support the homeless.

	2009	**2010**
Footprint		
Total tonnes CO_2e	210,505	**213,847**
Tonnes CO_2e excluding Magasin and overseas freight	190,273	**192,988**
Intensity ratios		
Tonnes CO_2e per £m	87.0	**83.0**
Tonnes CO_2 per £m excluding Magasin and overseas freight	81.3	**81.3**
Tonnes CO_2e per m² excluding Magasin	0.11	**0.11**

As we continue our annual footprinting process, we will endeavour to expand the boundaries and improve data accuracy in order to gain a more complete picture of our global impact.

A notable new addition to our footprint scope is overseas freight operations. Air, sea and road freight are critical links in our supply chain and understanding their relative footprint is important for managing our global environmental impact. Another important addition to the footprint is the Magasin stores in Denmark. Magasin was acquired in 2010 and as our operational procedures become embedded, emissions reduction within these stores will become core to our overall carbon efficiency goals.

The results of our 2010 footprint analysis are shown in the following table. This also documents the percentage changes from our 2009 footprint, providing an indication of year-on-year emissions performance.

To ensure a consistent approach, our 2009 footprint has been recalculated not only to account for the inclusion of additional emissions sources but also due to the availability of more accurate energy data and relevant carbon conversion factors. Magasin store emissions have also been retrospectively included in our 2009 base year following the acquisition of this business. Our recalculated 2009 footprint now provides the best reference for future comparison because emissions are the lowest since we began reporting, the footprint boundary is more inclusive than in previous years and the reporting period is aligned to our financial year.

Emissions source	GHG Protocol scope	Activity data units	2009 Activity data	2009 CO_2e emissions (tonnes/year)	**2010 Activity data**	**2010 CO_2e emissions (tonnes/year)**	% change CO_2e
UK premises – gas	1	kWh	41,635,402	7,712	**40,161,525**	**7,439**	-4%
UK premises – oil	1	kWh	4,099,696	1,090	**3,854,775**	**1,025**	-6%
Ireland stores – gas	1	kWh	3,425,785	635	**3,937,202**	**729**	15%
Ireland stores – oil	1	kWh	588,008	156	**136,547**	**36**	-77%
Denmark stores – gas	1	kWh	5,619,064	1,041	**7,312,054**	**1,354**	30%
UK and Ireland stores – food services refrigerant	1	kg	219	625	**166**	**465**	-26%
UK and Ireland stores – air conditioning refrigerant	1	kg	n/a	n/a	**70**	**57**	n/a
UK company car	1	km	2,393,283	477	**n/a**	**n/a**	n/a
UK road freight transport	1	litres	3,018,939	8,067	**2,828,606**	**7,558**	-6%
Sub-total	1			19,803		**18,664**	-6%
UK premises – electricity	2	kWh	280,304,076	152,825	**288,491,208**	**157,288**	3%
Ireland stores – electricity	2	kWh	25,356,268	16,110	**24,063,244**	**15,288**	-5%
Denmark stores – electricity	2	kWh	16,249,959	5,968	**15,211,440**	**5,587**	-6%
Sub-total	2			174,902		**178,163**	2%
UK business travel – flights	3	pKm	9,237,366	1,195	**13,188,320**	**1,704**	43%
UK business travel – rail	3	pKm	1,216,286	72	**4,423,990**	**247**	244%
UK water	3	m^3	601,550	609	**628,474**	**636**	4%
Ireland water	3	m^3	40,880	41	**55,637**	**56**	36%
Denmark water	3	m^3	33,712	22	**42,194**	**28**	25%
UK DC landfill waste	3	tonnes	110	9	**142**	**12**	29%
UK store landfill waste	3	tonnes	8035	651	**5,518**	**447**	-31%
Overseas air freight	3	tonne/km	7,675,230	5,181	**8,065,412**	**5,445**	5%
Overseas sea freight	3	tonne/km	466,454,620	7,487	**496,983,721**	**7,977**	7%
Overseas road freight	3	tonne/km	5,947,346	533	**5,234,008**	**469**	-12%
Sub-total	3	–	–	15,800	**–**	**17,020**	8%
Total gross	ALL	–	–	210,505	**–**	**213,847**	2%
Total net*	ALL	–	–	91,475	**–**	**64,911**	-29%

*Once emissions from green electricity have been subtracted.

	2009	**2010**
CO_2e tonnes deductible for green electricity	(119,030)	**(148,936)**

How We Account For Our Emissions

We use the Greenhouse Gas Protocol methodology to calculate our footprint. Emissions are defined by the following scopes:

Scope 1 – direct emissions from emissions sources we control.

Scope 2 – indirect emissions from our electricity consumption.

Scope 3 – indirect emissions from products and services we use but do not control.

We apply these scope definitions using an operational control approach. This enables us to claim greater responsibility for emissions sources where we control and influence the operational procedures.

The footprint is expressed in terms of carbon dioxide equivalent (CO_2e) in order to take all greenhouse gases into account. Although the predominant greenhouse gas is CO_2, traces of other gases result from fuel combustion, waste disposal and refrigerant gas leaks.

Although a number of assumptions were required to complete certain datasets, statistical analysis indicates certainty within the overall footprint calculation is high, with an error margin of only 3 per cent.

Corporate Responsibility Review continued

With our footprint scope broadened to include the Magasin stores and overseas freight operations, our total 2010 carbon footprint is now 213,847 tonnes CO_2e. This is an increase of 2 per cent (from 210,505 tonnes) since 2009. Placing the footprint in context of UK and Ireland alone gives a 2010 emissions total of 192,988 tonnes CO_2e. This is an increase of 1 per cent (from 190,273 tonnes) since 2009.

Scope 2 electricity emissions continue to dominate our carbon footprint, predominantly as a result of operating store lighting, air conditioning and other mechanical services. These emissions have increased by 2 per cent from 2009, largely due to growth in UK stores.

Scope 1 emissions have decreased by 6 per cent since 2009, largely due to a 6 per cent reduction in emissions from UK road freight and a 4 per cent reduction in UK gas consumption.

Documenting emissions from overseas freight for the first time allows this supply chain activity to be put into context of our wider environmental impact. When combined, these freight operations account for 6 per cent of our global footprint and, at 83 per cent, are the largest contributor to our scope 3 emissions. The overall increase in scope 3 emissions of 8 per cent can be largely attributed to increased volumes shipped in overseas freight operations but also through increased business travel.

Although absolute emissions have increased by 2 per cent from 2009, part of our environmental strategy involves offsetting our carbon emissions from electricity consumption by purchasing from certified renewable sources. As a result, this year we have indirectly reduced our emissions by 148,936 tonnes CO_2e, offsetting our gross carbon footprint by 70 per cent. This has subsequently reduced our net footprint by 29 per cent from 2009 levels. However, we still recognise the requirement to reduce our direct impact and will continue to focus investment on reducing actual electricity consumption. This is advantageous for both the environment and for reducing our operational and regulatory costs of energy.

Our emissions intensity has improved considerably since 2009 in line with our financial growth.

Emissions Intensity Ratios

Emissions data can be made to be more meaningful when compared to a core business variable. We have developed intensity ratios for our total emissions using the context of annual turnover and premises floor area. These both enable an emissions performance to be gained in relation to an important aspect of business growth. Comparison of intensity ratios for 2009 and 2010 are given below.

Intensity ratio	2009	**2010**
Total tonnes CO_2e/£m	87	**83**
Total tonnes CO_2e/m^2	0.11	**0.11**

Note: Intensity ratios for 2009 have been recalculated on the basis of the updated footprint. The turnover intensity ratio omits the Magasin footprint in 2009 and Magasin emissions are included in the 2010 ratio, although on a pro rata basis to account for only 42 weeks of trading under Debenhams. The floor area intensity ratio is a total of UK and Ireland emissions only and Magasin emissions are omitted.

The resulting ratios demonstrate our emissions intensity has improved considerably since 2009 in line with our financial growth and has remained stable as our buildings footprint has expanded. This highlights our improving carbon efficiency as we grow our business.

Focus on Store Energy Efficiency

Combined electricity emissions from the UK and Ireland have increased on an absolute basis by 3,641 tonnes since 2009. Electricity in these stores contributes 81 per cent of our overall footprint and therefore is our most significant emissions source. However, looking in depth at Debenhams' store performance provides a much greater context behind the efficiency of energy use.

The following table provides the specific electricity use (kWh/m^2) in UK and Ireland stores for those that were operational for the entire year (this prevents any skewing of figures resulting from store openings). A best practice benchmark for electricity consumption is also included to provide a basis for performance comparison.

Stores fuel mix	**2010**	2009	Best practice*
Only electricity (kWh/m^2)	**218**	220	209
Mixed fuel (kWh electricity$/m^2$)	**178**	180	194

Best practice benchmark taken from CIBSE Guide F.

The results demonstrate that even though electricity emissions have increased, the efficiency per unit has still improved since 2009. Compared to industry benchmarks, it is clear that electricity use in mixed fuel stores is more efficient than best practice while the stores that only use electricity are approaching best practice. These results provide positive reinforcement of our energy efficient approach to store operations. However, we will continue to endeavour to focus our strategy on reducing absolute electricity emissions.

Conclusions

2010 has seen our footprint boundary widen to include recently acquired Magasin stores and also overseas freight operations. Although total absolute emissions have increased by 2 per cent and 3,343 tonnes in comparison with 2009, our emissions intensity ratios demonstrate an improvement in our relative emissions performance. Efficiency improvements are further highlighted through the specific electricity use in UK and Ireland stores. Furthermore, due to our increased purchasing of green electricity from renewable sources, we have reduced our net carbon footprint by 29 per cent and 26,563 tonnes CO_2e since 2009.

Our ongoing focus will be placed on achieving absolute emissions reductions across all three scopes. As part of this process, we will look to establish meaningful reduction targets for our core emissions.

The footprint is expressed in terms of carbon dioxide equivalent (CO_2e) in order to take all greenhouse gases into account. Although the predominant greenhouse gas is CO_2, traces of other gases result from fuel combustion, waste disposal and refrigerant gas leaks.

Although a number of assumptions were required to complete certain datasets, statistical analysis indicates certainty within the overall footprint calculation is high, with an error margin of only 3 per cent.

Energy Usage

Debenhams' energy policy recognises that energy management plays an important role in supporting business objectives, is aware of the link between energy use and environmental stress and is conscious of the need to control the use of finite resources. We have recently updated this policy to reflect our wider corporate responsibility remit and our participation in Carbon Reduction Commitment.

Performance

Overall our electricity use increased by 2.3 per cent, due to the opening of six new stores, the full year effect of last year's new store openings and the refurbishment of a number of large stores which required additional working hours. Buildings which had been open through the year on a like-for-like basis achieved a modest energy saving. We believe this was a creditable performance given the colder, longer winter and the very warm weather in early summer, both of which require additional energy usage.

New Store Energy Usage

Our target for new stores is to be 30 per cent more energy efficient than the average Debenhams store. As we improve our energy efficiency throughout the estate, the target for new stores gets harder in absolute terms. In 2009 we achieved our target. In 2010, we did not do so, largely because the average existing Debenhams store has improved its energy use. Our new store design is being further improved to get back to ensure we meet our target for future new stores.

Year	New store kWh/sq ft	Average store kWh/sq ft	Difference
2009	22.4	34.0	34%
2010	22.9	30.3	24%

Renewable Energy

Since October 2008, our UK stores have been supplied with 100 per cent renewable electricity from a wind farm in Scotland. Stores in the Republic of Ireland and Northern Ireland are supplied with grid supply electricity that includes a small element of renewable sourcing.

In the UK, DECC's guidance on reporting "green" sources and the methodology of reporting under the mandatory CRCEES has diminished the benefit of buying from truly renewable sources. Consequently, from October 2010, most of our supplies will switch to good quality combined heat and power electricity as their source.

Raising Awareness of Energy Efficiency for Employees

We have continued to run awareness campaigns with individual store targets and rewards. A form of Energy Display Certificate has been used to convey information.

Debenhams' energy policy recognises that energy management plays an important role in supporting business objectives.

Corporate Responsibility Review continued

Under the banner of "Do the Right Thing", store targets have been published and regular feedback on performance with ideas on how to minimise waste have been published.

Carbon Reduction Commitment – Energy Efficiency Scheme (CRCEES)

As we use more than 6,000 MWh/year of electricity, we are included in this mandatory league table scheme. Our registration was completed in May 2010. Our first footprint and annual report will be produced to meet the Scheme's timetable in June 2011.

During the first year of the Scheme, success in the league table depends on two "early action" metrics. The first is gaining the Carbon Trust Standard (CTS) – an externally moderated assessment of our energy efficiency progress – and the second relates to progress in installing voluntary "smart" meters to our minor electricity and gas supplies. Work is in progress to achieve the CTS and install as many "smart" meters as is possible within the limits of present technology and cost effectiveness.

2011 Energy Reduction Projects

It is our intention to increase our investment in cost-effective energy reduction projects. Our plan is to concentrate on upgraded lighting and temperature controls to ensure a comfortable shopping and working environment for our customers and staff whilst reducing our energy bills and pollution.

Waste Recycling

Debenhams is committed to reducing the amount of waste generated by its activities. We seek to divert as much waste away from landfill as possible through a number of recycling schemes.

In 2010 the volume of recyclable materials handled at the Peterborough Distribution Centre (DC) from both stores and the DC network increased to 6,043 tonnes, an increase of 581 tonnes or 11 per cent over last year. This reflects the benefits of our investment in an additional cardboard baler at Peterborough which has allowed additional waste volumes to be backhauled from our stores to the DC.

Waste studies have shown that the amount of waste passed to landfill as a result of implementing backhauling drops by as much as 80 per cent as the bulk of store waste is card and plastic. In addition to backhauling waste to the DC, all stores also action some form of recycling using multi-stream recovery units. In 2010 we narrowly missed our target for 98 per cent of DC waste to be recycled, achieving a 97.7 per cent recycling rate (2009: 98.4 per cent). We are confident that we have the systems and processes in place to meet the target next year.

Transport and Logistics

Debenhams' logistics fleet within the UK and Ireland is operated by DHL.

In 2010, the fuel usage for delivering products from our DC network to our stores decreased by 6.3 per cent, despite increases in both miles driven (up 1.6 per cent) and volume of product delivered (up 0.7 per cent). This was achieved through the use of Isotrak vehicle tracking and engine management monitoring to assess the performance of every vehicle and driver in the fleet.

Print Operations

The Debenhams print department is registered to use FSC and PEFC paper to produce certified printed material. These standards provide assurance that the timber content of the paper is sourced from a legal and sustainable source. Since 2008, the print department (which trades as Magenta Print & Display) has been certified to ISO14001: 2004 environmental management system certification. This demanding, internationally recognised standard ensures that we can be confident that all the work undertaken by the department is produced in such a way that the environmental impact of production is minimised.

A major objective has been to reduce emissions to air through a programme of solvent reduction. In line with printing industry best practice, new working methods have led to a total elimination of IPA (alcohol) for all printing undertaken within the department, which has led to a 35 per cent decrease in VOC (solvent) emissions.

Supply Chain

Ethical Sourcing

An important part of our sourcing strategy is the concept of "right product, right country". Through this, we endeavour to source products in the appropriate countries. Our commitment is to ensure our products are made in factories which are both socially ethical and quality assurance compliant.

Our suppliers and manufacturers are required to adhere to our Code of Conduct and their compliance is regularly monitored to ensure that all employees involved in the manufacture of products for Debenhams work in a well-maintained, safe and caring environment. We believe our customers have a right to expect every product we sell to be produced in a safe and free environment, be compliant with our Code of Conduct and that all employees are treated with dignity, not exploited or discriminated against in any way.

Ethical Trading Initiative

Debenhams has been a member of the Ethical Trading Initiative (ETI) since 2001. The ETI was established in 1989 and is a tri-partite alliance of companies, non-governmental organisations (such as Oxfam, Labour Behind The Label and Fair Labour Organisation) and trade unions (such as the Leather and Textile Federation). It aims to improve the lives of workers in global supply chains by promoting responsible corporate practices that support this goal. The ETI is funded by member contributions and a grant from the UK Department of International Development. As a corporate member, Debenhams works with the ETI and is involved in various activities and projects.

Factory Approval and Audit

Debenhams continues to develop and strengthen its robust supplier and factory approval process by regular monitoring and assessment of its processes and functions. The level of data collection and analysis for each factory is comprehensive and allows us to analyse the performance of our suppliers and identify trends.

As part of the approval process, it is a pre-requisite that an ethical social compliance audit, conducted by our nominated monitoring partner, Société Générale de Surveillance (SGS), is submitted for review before approval is given to a supplier's factory.

We require SGS to use the specific "SMETA" audit tool which is recognised by the ETI, NGOs and other retail members of the ETI. This audit tool requires a standardised approach with set rules, therefore giving us maximum continuity within our programme. It is important to note that we do not pass or fail existing factories; our approach is the ongoing monitoring of factory compliance and supplier practices to maintain the highest standards, working together with our suppliers and their factories. The process of identifying non-compliance throughout our supply chain allows us to filter and reject as necessary. No purchase orders can be placed with a new factory until it has been approved by Debenhams' Compliance Team and a code reference has been made "live" in order to activate an order.

As well as the ethical social compliance audit, part of the factory set-up approval process also includes a review of documentation and policies to verify fundamental Quality Assurance practices are in place for each factory. It is now mandatory that a Debenhams-specific technical audit must be conducted by SGS before a factory can be considered for approval. The technical audit verifies: the practices described by the supplier; documentation of safety policies and procedures; process flow; and the manufacturer's suitability to produce the required product type. For our existing supply chain, we randomly request technical audits by SGS to support documentation already held and visits made by Debenhams' supply chain management team also check that due diligence is adhered to.

In 2010, we rejected 86 factories from coming into the business for not meeting our compliance requirements and Code of Conduct. 272 factories were approved as new suppliers.

In addition to the review and assessment of new factories, supply chain management continues to review and deactivate factories that are no longer manufacturing our own bought product.

Our core hub areas account for over three-quarters of our business. The two largest areas are China and India where 98 per cent of our factories are audited with the balance work-in-progress as part of our ongoing programme. 97 per cent of our factories in Bangladesh, the UK and Turkey are audited with the remaining 3 per cent being new factories that are currently in the auditing process. All third-party audits continue to be unannounced, within a given two-week window, and unannounced visits by Debenhams' senior management are a regular occurrence. Currently over 50% of our factory audits are less than a year old from the date of the actual audit, the balance are conducting re-audits and fresh audits.

Our commitment is to ensure our products are made in factories which are both socially ethical and quality assurance compliant.

Corporate Responsibility Review continued

As a result of reviewing the audit findings, corrective action plans are tracked and monitored with our suppliers and factories. Time scales for remediation of corrective actions are agreed, working closely with our suppliers to deliver the required improvements, which is globally supported with SGS.

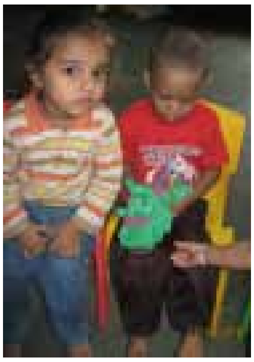
Following management's visits to overseas factories to review compliance, we continue to send donations of new toys to crèche facilities at factories. In 2010 we again have sent toys to children in India, China and Bangladesh.

Decent Work Project

Over the past two years we have been working with one of our major suppliers in China in a project with the ETI called Decent Working Practices. This pilot project is proving to be successful and is the first time any tri-partite group has successfully rolled out such a project. The ETI, Wintop of China (our partner manufacturer) and China Women's Working Network (a Hong Kong-based NGO) are working together with union collaboration from Hong Kong and academics from the Hong Kong University. The main aims of the project are to establish a mechanism for sustainable employee labour and management dialogue within the factory to seek ways to improve the work environment according to the practical circumstances of the factory and the expectations of various parties.

The first employee elections took place in November 2009. The successful candidates have been representing their fellow employees throughout the year. The next elections are due to take place in November 2010. The objectives are to seek ways to improve the work environment, to increase the employees' participation and awareness of the labour law and occupational health and safety and to build their confidence and ability to solve labour management issues. It also helps to strengthen employees' approval and commitment to the factory, reducing labour turnover, which in the current climate is extremely important due to the lack of skilled workers and labour shortages, particularly in the southern part of China.

The project learnings have been shared with other ETI members, NGOs and unions and will continue to evolve into 2011 with further development for continuing projects, which we hope to encourage further into our Chinese supply chain.



In 2010 we have again sent toys to crèche facilities at factories in India, China and Bangladesh.

Purchasing Practices

We believe that one of the best ways to ensure our ethical sourcing goals are met is to embed them into the purchasing process. Otherwise, as noted in reports by Oxfam, Cafod and Acona, purchasing practices can undermine the effectiveness and impact of ethical trading programmes by inadvertently restricting suppliers' abilities to uphold labour standards. Our company process review continues to analyse our end-to-end processes in depth and further changes have been made to our purchasing practices in 2010 as a result. We have also continued our "expert" training sessions on the elements of ethical auditing and pre-factory set up processes, which all employees can attend. In addition to this, the standard Debenhams induction for all new staff includes an in-depth overview of our procedures and requirements. We are also continuing to run our London College of Fashion buying school programme.

Throughout the course of 2010 briefing sessions with all our buying teams have taken place to reiterate our requirements, standards and overall ethical trading position and policies. Part of these training sessions specifically covers the importance of purchasing practices, the impact unplanned changes and/or delayed decision making can have on the employees in the factories manufacturing our products. The process review is being driven by the supply chain management team, with nominated buying and merchandising "champions" to drive progress throughout the business. As part of the ETI purchasing practice project we met with an NGO called SPYM (Society for the Promotion of Youth and Masses) last June in India with our Indian partner and two key suppliers already producing hand-embellished products for Debenhams. We discussed our next steps for further development of our purchasing practices work, with continuing focus on handwork predominantly in the manufacture of womenswear and home products. This is an ongoing project with the training of women in local communities providing them with an opportunity to work close to home, learn a skill, earn money to help support their families and in time gain an "artisan" card.

Workplace and Community

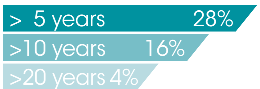
Our People

Debenhams had an average of 27,750 employees during 2010 (2009 average: 26,800) in the UK and Republic of Ireland. We are pleased to be able to continue creating new jobs around the UK as we open new stores in cities such as Newcastle-upon-Tyne which now employs nearly 250 people in the store. In addition, Magasin du Nord employs some 1,200 people in Denmark.

Labour turnover for the UK and Republic of Ireland improved slightly from 29.7 per cent in 2009 to 28.6 per cent in 2010 as some of the positive steps we have taken to increase employee retention offset an improved labour market.

Gender

Length of service



We are always keen to celebrate long service with Debenhams. For example, the Banbury store celebrated its tenth birthday by holding a champagne breakfast for the 20 employees who have worked at the store since its opening.

Debenhams is committed to ensuring that every individual connected with the Company – whether employee, applicant, customer or other third party – receives fair and equitable treatment, regardless of their differences. These include but are not restricted to:

- gender;
- race;
- ethnic or national origin;
- religious, political or philosophical beliefs;
- disability;
- marital or civil partnership status;
- sexual orientation;
- gender reassignment; and
- age.

This policy helps us to create a culture of respect and tolerance, a wider and more diverse talent pool from which we can recruit the best possible people for our business and supports our corporate reputation by enduring we provide an excellent customer and employee experience. Whilst we recognise that few people would deliberately breach the policy, it is possible to do so unintentionally. We therefore require everyone to familiarise themselves with its contents. We are committed to ensuring equality of opportunities for all our employees. Through our equal opportunities policy we aim to create an environment that offers all employees the chance to use their skills and talent.

We are committed to supporting all our employees to achieve an acceptable balance between their work and personal life. Where appropriate, we offer a number of flexible contracts to suit the different needs of employees. We recognise there are times when an employee may need to take time off work due to personal situations and have a number of policies in place to support employees through such events including maternity, paternity and adoption leave, flexible working and a career break scheme.

Disability Awareness

We are continuing to improve the accessibility of our premises for employees, customers and visitors. Disability awareness is an important component of the induction programme for all new store staff and training is given on customer care for disabled people. We provide information on accessibility matters relating to our stores via www.directenquiries.com. This includes information such as: lift facilities; location of accessible toilet facilities; availability of personal shopper services; collect-by-car arrangements; and details of accessible customer collection points.

We are also continuing to develop our website, www.debenhams.com, to improve accessibility and when considering any change to the website we go through a process that includes the needs and considerations of anyone with disabilities.

We are committed to supporting all our employees to achieve an acceptable balance between their work and personal life.

Corporate Responsibility Review continued

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

Debenhams is a member of the Employers' Forum on Disability which seeks to enable companies to become disability confident by making it easier to recruit and retain disabled employees and to serve disabled customers.

Learning and Development

We have a long-established reputation for developing our people and are very proud that the majority of management appointments are made from within the business.

Skills, internal progression and opportunities for people to develop new capabilities and realise their potential have always been important to us and this year we have embarked on two major initiatives:

- *Design Your Future* – a programme for Store Managers; and
- a pioneering project to provide qualifications for employees in stores.

Launched at the annual Store Manager Conference in April 2010, *Design Your Future* is a development programme that firmly puts the responsibility for growth and progression in the hands of the individual. A diagnostic tool kit gives current store managers and future store managers the opportunity to map and identify gaps in their experiences. It helps them to map out and value the practical knowledge gained in all the aspects of

DESIGN your future

their complex roles and to identify routes to gaining knowledge or experience that may be missing. Given our extensive growth over recent years, opportunities for projects, new store openings, the integration of acquired businesses both in the UK and abroad have presented many store managers with the chance to develop and demonstrate new skills. *Design Your Future* encourages them to bring these experiences together and reflect on them, before determining their future hopes and aspirations. Following the launch, every store manager has designed a development plan and reviewed their portfolio of experiences with their regional sales director.

In addition, a small group of high-potential store managers and senior store managers have embarked on an intensive *Design Your Future* training programme intended to fast track their development and support Debenhams' continued organic growth.

Nikki Zamblera, HR Director, has served for many years on the board of Skillsmart Retail, the skills sector for the council for the industry. Following the formation of the Skillshop Network in April 2009, Debenhams was very pleased to become the first national retailer to begin a Retail Skills qualification trial with the Skillshop network.

Using competencies already mapped to the roles of sales advisor and senior sales advisor and working with Skillshop, the trial involved 11 stores across England offering consistent qualifications at NVQ Retail Skills level 2. Seven more stores have subsequently been added and the qualification has been extended to supervisors wishing to gain an NVQ Retail Skills level 3 qualification. In less than a year we have over 500 learners who have either earned their qualification or are in the process of gaining it. On job coaching and assessment has impacted positively on motivation and morale and the partnership with Skillshop means that internal resources have not been stretched beyond their means. Soft measures are easy to gauge but hard measures are there too. In 10 out of 11 trial stores labour turnover is lower per NVQ trainee than store average and absence is substantially lower. On average, absenteeism in the trial stores was 2.4 per cent amongst the NVQ population compared with 5.0 per cent for the store average and labour turnover was 4.2 per cent for NVQ trainees compared with 15.6 per cent for the store as a whole.

Anne Seaman, Chief Executive of Skillsmart Retail Limited, said: *"We are delighted that Debenhams has taken the initiative to be the first national retailer to use the services of the National Skills Academy for Retail's network of retail skills shops which have delivered retail qualifications to their employees. Already the benefits of providing qualifications can be seen in the reduction of labour turnover and absenteeism."*

One of our store managers commented: *"We have noticed a marked improvement in our staff's confidence and business awareness and those who are taking part in the qualifications are offering a more professional approach to the business."*

The participants themselves are equally enthusiastic. One said: *"In the future I may want to progress to Supervisor. Getting a qualification has whetted my appetite."* Another commented: *"I now feel more confident and realise my job has many facets I have previously taken for granted. Since completing my qualification I have taken a vital role in the store training team, training new starters, using my skills to help others."*

At Debenhams we are now convinced that gaining a Retail Skills qualification helps individuals to enhance their retail skills, develop their knowledge and understanding of the business and most importantly boosts the confidence and aspirations of those who achieve them. As a result, an apprenticeship trial is now under way.

Employee Consultation Forum (ECF)

The ECF is a group of elected representatives from all areas of the business that meets annually with members of the board. The purpose of these meetings is to allow our employees the opportunity to receive information about Debenhams and to be consulted on certain parts of our business activities. The representatives elected by stores also meet during the year on a local basis to discuss regional business issues and to prepare for the national annual meeting.

Celebrating Success

With people so critical to our success, we are rigorous in ensuring that contributions are recognised, large or small. Our Celebrating Success policy encourages managers and colleagues to acknowledge the efforts of others and each year culminates in the annual Celebrating Success Awards where the best of the best are honoured for their outstanding achievement in customer service or behind the scenes.

This year, once again annual winners from every store and each head office division spent the day relaxing at Alton Towers before being joined by the executive directors and other senior managers for an evening of celebration and recognition.

Health and Safety

Information on Debenhams' health and safety policies and procedures can be found at the Corporate Responsibility section of www.debenhamsplc.com.

In 2010, a key focus for health and safety training was the topic of slips and falls which was the subject of this year's annual health and safety week in June. By undertaking a comprehensive review of incidents, we were able to determine training needs for all store employees, including the participation of our concession partners and our contract cleaning teams.

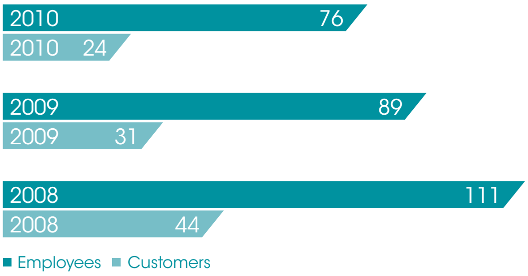
The maintenance of safety standards and the performance of key health and safety tasks form a major part of the risk management review. The outcome and remedial actions required after risk management inspections are followed up by the store manager, regional sales director and the risk management team. The results of the risk review programme indicate an improving store performance on matters of health and safety (as indicated below).

	FY 2010	
Area	Score %	% versus last year
Health and safety	83.7	5.6

Debenhams records and reviews its performance in relation to the number and nature of the accidents reportable to the enforcement authority. Despite the increasing size of the business in terms of employee numbers, trading space and customer footfall, the results set out below demonstrate an encouragingly low level and an improving trend in the number of reportable accidents/incidents in 2010.

Corporate Responsibility Review continued

Reportable Accidents/Incidents in 2010



Charities and Community Work

Debenhams is a strong supporter of charities at both a national and local level.

Our key national charity is Breast Cancer Campaign which we have supported for ten years, raising over £2.3 million to date through the sale of special products and in-store events. Our main fundraising event for 2010 was "Cycle To The Moon" which saw store employees and customers aim to cycle the 225,622 miles distance to the moon during the month of October (meaning each store had to cycle 47 miles every day). This complemented other activities including a range of exclusive T-shirts designed by Designers at Debenhams Jasper Conran, Betty Jackson, Julien Macdonald, John Rocha and Matthew Williamson. For 2011, we are increasing our fundraising activities for Breast Cancer Campaign and are aiming to raise £1 million. The theme for the year will be "Step On It" which involves a series of walks 46,000 steps long – one for each person diagnosed with breast cancer in the UK each year.

Another key charity is NSPCC for whom stores raised over £225,000 over Christmas 2009 at events including those linked to the arrival of Santa Claus in store.

Our clothing brand Mantaray continues to be a proud supporter of the Marine Conservation Society (MCS). Our support for the MCS's work for clean seas, sustainable fisheries and protected sealife is not just financial. We are also helping in more practical ways by encouraging employees and customers to take part in voluntary beach cleans and surveys, helping to clear the UK's beaches of the tide of litter currently endangering the life of coastal wildlife such as seabirds, dolphins, porpoises and marine turtles.

Members of Debenhams' head office staff participating in the "Step On It" walk in aid of Breast Cancer Care.

Through our food services division we are a supporter of the Anaphylaxis Campaign charity. We fully support the great work they do, helping people with severe allergens and persuading the food industry (including catering) of the need to provide detailed and accurate allergen information.

We also encourage our employees to support charities and since 1999 have worked with Hands on Helping supporting the Give As You Earn scheme. We now have around 6 per cent of Debenhams employees who participate in the scheme.

We support many other charities on a local level including medical charities, children's charities, animal charities and a host of local and community groups. Amongst those we helped in 2010 were the Haiti earthquake appeal, Children First, Dress for Success, Macmillan Cancer Support and Wellbeing of Women.

In 2010 Debenhams personal shoppers have been helping people on the Life Skills Programme. The unique partnership between Quintessentially, the world's leading private members' club and concierge service, and The House of St Barnabas, a charity supporting the homeless, is guiding those affected by homelessness through the acquisition and development of life-changing skills. As part of their graduation week, all 14 volunteers had a personal shopping appointment at Debenhams Oxford Street for expert advice on what to wear to an interview. We also donated a full outfit to each volunteer as a graduation present to set them on their way to successful careers.

Debenhams Retirement Association (DRA)

The DRA is a registered charity established to provide help and support to any of the retired employees in receipt of pension who need assistance. There are currently over 5,000 pensioners and the charity keeps in touch with them using a network of pensioner support officers who each cover specific areas of the UK. Helplines are provided for those in need and funds/grants are available to pensioners to buy essential items or in emergency circumstances.

The main source of funding is a donation from the Company but many stores and head office departments hold fundraising events for the DRA.

Getting People Back to Work

For several years Debenhams has been involved in local programmes which aim to offer opportunities to people who are at a disadvantage in the labour market, such as lone parents or those on incapacity benefit. These programmes aim to raise employment rates and reduce the number of working people dependent on benefits and operate in conjunction with Jobcentre Plus and the Learning and Skills Council.

To date, Debenhams has employed over 200 people through these programmes in a number of different regions, including recent new store openings in Newcastle-upon-Tyne, Carmarthen, Bury and Bath. Our involvement has been recognised with a wealth of award nominations.

Customers

Our customers are extremely important to us.

Customer Feedback

We believe that keeping in touch with our customers and understanding what they think about Debenhams is paramount to achieving our goals. Equally important for us is to seek ways to make our customers feel good about themselves when so much of the fashion business focuses on body shapes and lifestyles which are very different from reality for the majority of our customers.

Debenhams Design Team

We have increased the size of our online research community, the Debenhams Design Team, to over 19,000 members. In the last year Design Team members have participated in over 35 surveys and over 25 online discussions, capturing over 70,000 individual responses.

We also ran a series of customer focus groups throughout the year to gain feedback on new product ranges, including the Principles by Ben de Lisi, H! by Henry Holland and B by Ted Baker ranges.

Customer Experience Programme

We continue to invite every customer in Debenhams stores to give us feedback on their in-store experience.

This year we received feedback from 167,868 customers, of which 60 per cent were "extremely likely" to recommend Debenhams to their friends or family, and 75 per cent said we were "better" or "much better" than other retailers they shop at.

76,955 customers said that a member of staff went above and beyond their expectation, and we also had the opportunity to rescue 2,777 dissatisfied customers.

59 per cent of customers opted in to receive future email promotions adding to our marketing database.

Next financial year we will extend the customer experience programme to debenhams.com and to Magasin stores.

As well as seeking their views, it is equally important for us to seek ways to make our customers feel good about themselves when so much of the fashion business focuses on body shapes and lifestyles which are very different from reality for the majority of our customers. We have been at the forefront of several high-profile campaigns in 2010 which have really pushed the boundaries. You can read about these on pages 18 to 19. Another new initiative launched in September 2010 is The Style List, a pioneering campaign featuring models in their 40s, 50s and 60s. We have teamed up with fashion commentator and inclusivity campaigner Caryn Franklin to provide an informative fashion destination for women who are 40+.

Helping customers feel good about themselves with The Style List.

The Board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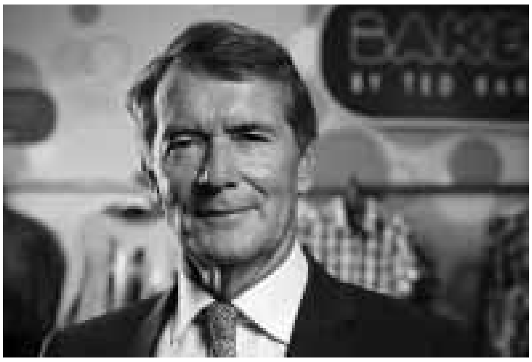
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1 Nigel Northridge
Chairman*† (54)
Nigel Northridge joined the Company on 1 January 2010 as an Independent Non-Executive Director and was appointed Chairman of the Company and of the Nomination Committee on 1 April 2010. Mr Northridge is currently Chairman of Paddy Power plc and a non-executive director of Inchcape plc. Previously he was senior independent director of Aggreko, Chief Executive of Gallaher Group plc and a non-executive director of Thomas Cook Group plc.

2 Rob Templeman
Chief Executive (53)
Rob Templeman became Chief Executive of the Company in May 2006. Prior to the IPO he was Chief Executive of Debenhams Limited having been appointed in December 2003. Previously Mr Templeman was Chief Executive and subsequently Chairman of Halfords Group plc, Chief Executive Officer of Homebase Group plc and Chief Executive Officer of Harveys Furnishing plc.

3 Michael Sharp
Deputy Chief Executive (53)
Michael Sharp was appointed Deputy Chief Executive in November 2008 having previously held the post of Chief Operating Officer since May 2006. From 1997 to 2004, Mr Sharp was Trading Director of Debenhams Limited and from January 2004 to May 2006 was Chief Operating Officer. He previously worked in various capacities within the Burton Group, including as Managing Director of Principles and Racing Green, and Buying and Merchandising Director of Topshop and Top Man.

4 Chris Woodhouse
Finance Director (49)
Chris Woodhouse has been the Finance Director of the Company since May 2006. Prior to the IPO in May 2006 he was Finance Director of Debenhams Limited having been appointed in December 2003. Mr Woodhouse is currently Group Non-Executive Chairman of Gondola Group Limited. He was previously Deputy Chairman of Halfords Group and Commercial Director and Deputy Chief Executive at Homebase Group. He is a former Finance Director of Birthdays Group and Superdrug Stores. Mr Woodhouse is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the Association of Corporate Treasurers.

5 Adam Crozier
Independent Non-Executive Director•*† (46)
Adam Crozier became a director of the Company in April 2006 and was appointed Chairman of the Remuneration Committee in April 2009. Mr Crozier is currently Chief Executive of ITV plc. He was previously Chief Executive of Royal Mail Holdings plc and the Football Association Limited, a non-executive director of Camelot Group plc and has held a number of senior positions at Saatchi & Saatchi UK including Joint Chief Executive.

6 Martina King
Independent Non-Executive Director•*† (49)
Martina King joined the Company on 1 August 2009. Ms King is currently a non-executive director of Capita Group Plc, Independent Media Distribution Plc, Johnston Press Plc, Cineworld PLC, Goodpak LLP and Trade Doubler AB. Her former appointments include Managing Director, Europe of Yahoo Limited and Sales Director and then Managing Director of Capital Radio. Ms King is also a trustee of Coram and Suffolk Foundation and Governor of Seekford Foundation and Woodbridge School.

7 Dennis Millard
Independent Non-Executive Director•*† (61)
Dennis Millard became a director of the Company in April 2006, is Chairman of the Audit Committee and became the Senior Independent Non-Executive Director on 1 May 2010. Mr Millard is also Chairman of Halfords Group plc and Smiths News plc and a non-executive director of Xchanging PLC and Premier Farnell plc. His former appointments include Group Finance Director of Cookson Group plc, Finance Director of Medeva plc and non-executive director of Exel plc, Arc International and EAG Ltd. Mr Millard is a member of the South African Institute of Chartered Accountants.

8 Mark Rolfe
Independent Non-Executive Director•*† (51)
Mark Rolfe joined the Company on 1 October 2010. He is currently a non-executive director of Barratt Developments plc, Hornby plc and The Sage Group plc. He is also chairman of Lane, Clark and Peacock LLP. Mr Rolfe spent 20 years with Gallaher Group plc in various finance and executives roles, latterly in the role of Finance Director for seven years until the company was acquired in 2007.

9 Sophie Turner Laing
Independent Non-Executive Director•*† (50)
Sophie Turner Laing joined the Company on 1 August 2009. She is currently Managing Director, Entertainment and News at British Sky Broadcasting Group Plc. In addition, she is a trustee of BAFTA, The Media Trust and The National Film & TV School. Her previous roles include Controller, Programme Acquisition at the BBC and Vice-President, Broadcasting at Flextech (now Virgin Media Television). Ms. Turner Laing was also Co-founder and Managing Director of HiT Entertainment.

•Member of the Audit Committee

*Member of the Nomination Committee

†Member of the Remuneration Committee

Directors' Report

Principal Activities

Debenhams is a leading department stores group with a strong presence in key product categories including womenswear, menswear, childrenswear, home and health and beauty. Debenhams is the second largest department store chain in the UK.

Debenhams operates 167 stores in the UK, Republic of Ireland and Denmark, comprising 154 full department stores and 13 Desire by Debenhams stores, which is a small store concept featuring an edited product range. Debenhams also has 60 international franchise stores in 23 countries. Debenhams trades over approximately 12,250,000 sq ft of trading space and has around 29,000 employees. Debenhams extends its customer reach via its online store at www.debenhams.com.

Business Review

This review has been prepared in accordance with The Companies Act 2006 which requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 28 August 2010, including an analysis of the position of the Group at the end of the financial year and the trends and factors likely to affect the future development, performance and position of the business. The purpose of the Business Review is to enable shareholders to assess how the directors have performed their duty under section 172 of The Companies Act 2006.

The contents of this Directors' Report, together with the Chairman's Statement and Chief Executive's Review on pages 4 to 16, the Finance Director's Review, the Corporate Responsibility Review and The Board on pages 21 to 37, Risk Management, the Remuneration Report and the Statement of Directors' Responsibilities on pages 45 to 59 constitute the Business Review and are therefore incorporated into this report by reference. Any liability is restricted to the extent prescribed by the Companies Act 2006.

Events Since the Year End

Since the year end Debenhams has opened a department store in Bath. Additionally, the Group has disposed of the long leases on six stores and entered into new lease contracts for these stores. Further details of this disposal can be found in note 36 to the Financial Statements.

Profit and Dividends

The profit after tax for the financial year ending 28 August 2010 was £97.0 million (2009: £95.1 million). The directors are not recommending the payment of a final dividend. No dividends will therefore have been paid during the year (2009: nil).

Major Shareholders

As at 21 October 2010, Debenhams plc has received notification of the following significant holdings of voting rights pursuant to the Disclosure and Transparency Rules:

Shareholder	Number of shares	Issued share capital %
Bestinver Gestion, S.A.	155,250,436	12.1
Oz Management LP	148,222,891	11.5
Milestone Resources Group Ltd	89,183,155	6.9
Standard Life Investments Ltd	69,060,939	5.4
Schroders plc	67,086,373	5.2
Artemis Investment Management Ltd	63,855,868	5.0
AXA S.A.	60,803,116	4.7
Legal & General Group plc	42,075,474	3.3

Share Capital and Control

The issued share capital of the Company is shown in note 29 to the Financial Statements on page 98 and consist of ordinary shares of 0.01 pence each. All the shares rank pari passu. The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary. The Company was authorised by shareholders at the January 2010 Annual General Meeting to purchase in the market up to 128,680,629 ordinary shares. 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 this standard authority for a further year. It is the Company's present intention, should shares be bought back, for them to be cancelled or retained in treasury pending a subsequent sale, cancellation or transfer. The Company does not currently hold any shares in treasury. The Company will only buy back shares if the directors believe that it is in shareholders' best interests and will increase earnings per share.

Changes to the Articles of Association must be approved by special resolution of the Company. New Articles are being proposed at this year's Annual General Meeting to include a provision that will allow the Company to continue to function in circumstances where an insufficient number of directors are elected or re-elected at one of the Company's general meetings, thereby leaving the board inquorate. Explanatory notes relating to these changes are included in the appendix to the Notice of Meeting which accompanies this report.

The Debenhams Retail Employee Trust 2004 holds 1,413,536 ordinary shares in the Company (0.10 per cent); any voting or other similar decisions relating to those shares are taken by the trustees, who may take account of any recommendations of the Company.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company except that the supplier agreements with certain major cosmetic suppliers contain termination provisions on change of control and the Credit Agreement dated 19 April 2006 (as amended by supplemental agreements dated 28 November 2007, 3 June 2009 and 19 August 2010) contains mandatory prepayment as does the new £650 million Senior Facility which starts in April 2011. 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 55 of the Remuneration Report.

Market Value of Properties
The Group has a small number of properties for which it owns the freehold. The directors are of the opinion that the market value of these properties at 28 August 2010 exceeded their net book value by approximately £23 million.

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

Board of Directors
The membership of the board and biographical details of the directors are given on page 37 and are incorporated into this report by reference. The rules governing the appointment and replacement of the board members are set out in the Company's Articles of Association.

Directors' Indemnities
In addition to the indemnity provisions in their Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the directors and certain other officers or senior employees of the Group. The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against its directors.

Directors' Interests
The beneficial and non-beneficial interests of the directors and their connected persons in the shares of the Company are shown on page 57 of the Remuneration Report. Their interests in options and awards over shares in the Company are shown on page 58 of the Remuneration Report.

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

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

The ratio, expressed in days, between the amounts owed by the Company to trade creditors at the end of the year and the amounts invoiced by suppliers in the financial year ended 28 August 2010 was nil days (2009: nil days). The ratio, expressed in days between the amounts owed by the Group to trade creditors and the amount invoiced by suppliers in the financial year ended 28 August 2010 was 61 days (2009: 57 days).

Financial Instruments
Debenhams does not enter into financial instruments for speculative trade. Details of financial instruments entered into for underlying risks are set out in note 23 on page 91.

Directors' Report continued

Political Donations

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

Charitable Giving

During the year the Group made charitable donations totalling £0.7 million (2009: £0.5 million). Details of the Company's charitable activities are given in the Corporate Responsibility Review on pages 24 to 35.

Going Concern

After making enquiries, the directors consider that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they have adopted the going concern basis in preparing the Financial Statements.

Corporate Governance Statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 are within the Corporate Governance Review on pages 41 to 44 and Risk Management on pages 45 to 49 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 themself aware of any information needed by the Company's auditors in connection with preparing the report and to establish that the Company's auditors are aware of that information.

Auditors

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

Annual General Meeting

The Annual General Meeting of Debenhams plc will be held at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on Tuesday 11 January 2011 at 2.00pm. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the board

Paul Eardley
Company Secretary
21 October 2010

Corporate Governance

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that, throughout the year ended 28 August 2010 and as at the date of this Annual Report, it was fully compliant with the provisions of and applied the principles as set out in the 2008 Combined Code on Corporate Governance ("the Code") issued by the Financial Reporting Council. Further information on the Code can be found at www.frc.org.uk.

The Board
The board is responsible to shareholders for the strategy and control of the Company. In accordance with good practice there is a formal schedule of matters reserved for the board's decision which is regularly reviewed and this can be found on the Company's website www.debenhamsplc.com. Specific matters reserved for the board's consideration include approval of the Company's business model and strategy, the Company's financial statements, major capital expenditure, major acquisitions and disposals and changes to governance and business policies.

The board considers at each of its meetings reports which are circulated in advance of the meeting from the executive directors on major operational matters. Reports are also made by specialists on general and Company business areas and by other executives and external advisers on key business areas. During the year matters covered by such reports included stock management, e-commerce, logistics, health and safety, refinancing and the Bribery Act. In addition to the directors, board meetings are attended by Nigel Palmer (Retail Operations Director), Nikki Zamblera (Human Resources Director), Suzanne Harlow (Group Trading Director) and the Company Secretary.

The Chairman's main responsibilities are to lead the board ensuring its effectiveness in all aspects, to facilitate the contribution of the non-executive directors and the relationship between them and the executive directors, to set the board's agenda and when necessary to manage relationships and communication with the shareholders of the Company. The day-to-day management and achievement of the strategic objectives of the Company is the responsibility of the Chief Executive. There are clear divisions of responsibilities between the Chairman and the Chief Executive and these are set out in writing and agreed by the board. The description of the roles and responsibilities of the Chairman and Chief Executive is available on www.debenhamsplc.com.

As at 28 August 2010, the board of Debenhams plc comprised three executive directors, four independent non-executive directors and Nigel Northridge, non-executive Chairman. No individual or small group of individuals dominates the board's decision taking. In accordance with the Company's Articles of Association, since Nigel Northridge was appointed during the year, he will be subject to election by shareholders at the Annual General Meeting (the "AGM") in 2011.

The executive directors are Rob Templeman (Chief Executive), Michael Sharp (Deputy Chief Executive) and Chris Woodhouse (Finance Director). Michael Sharp and Chris Woodhouse will stand for re-election, in accordance with the Company's Articles of Association, at the 2011 AGM.

The four independent non-executive directors are Dennis Millard (Senior Independent Director), Adam Crozier, Martina King and Sophie Turner Laing. Adam Crozier will stand for re-election at the AGM. All the non-executive directors are considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement.

Since year end the number of independent non-executive directors has increased to five following the appointment of Mark Rolfe on 1 October 2010. In accordance with the Company's Articles of Association, Mr Rolfe will stand for election at the AGM.

The Company is actively considering the provisions relating to the annual re-election of all directors contained in the new UK Corporate Governance Code and, in particular, whether and how to implement a policy of annual re-election.

Biographies for the members of the board can be found on page 37 of this report.

The following details changes to the board composition since 29 August 2009:

Nigel Northridge	Non-Executive Director	Appointed 1 January 2010
John Lovering	Chairman	Retired 31 March 2010
Nigel Northridge	Chairman	Appointed 1 April 2010
Paul Pindar	Non-Executive Director	Retired 30 April 2010
Mark Rolfe	Non-Executive Director	Appointed 1 October 2010

Board Committees
The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference (which are reviewed annually) of each committee can be found on our website at www.debenhamsplc.com. During the year each committee has conducted a review of its own effectiveness and actions have been taken in light of any matters identified.

Corporate Governance continued

Nomination Committee

The Nomination Committee is chaired by Nigel Northridge. The other members are Adam Crozier and Martina King (both of whom were appointed members on 1 May 2010) together with Dennis Millard and Sophie Turner Laing. Mark Rolfe, who was appointed to the Board on 1 October 2010, is also a member of the Committee. Other individuals such as the Chief Executive, the HR Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate. The Company Secretary also attends any meeting in his capacity of Secretary of the Committee.

The Committee is responsible for making appropriate recommendations to the board for the appointment of replacement or additional directors. It is also responsible for board succession planning and for reviewing board size, structure and composition having regard to the balance of skills, knowledge, experience and independence required. The Committee recommends which directors should be put forward for re-election by shareholders and reviews each director's time commitment and other external directorships held. The Nomination Committee is also responsible for monitoring and approving any director's conflicts of interest.

Following a recruitment process facilitated by external search consultants, Nigel Northridge joined the board as an independent non-executive director on 1 January 2010 and on 29 January 2010 the Company announced that he was to become Chairman with effect from 1 April 2010 following John Lovering's retirement on 31 March 2010. Mark Rolfe was appointed to the board on 1 October 2010 following a recruitment process facilitated by external search consultants. This process was managed by the Senior Independent Director.

In accordance with Company policy Mr Northridge received a full induction. Such induction aims to enable new members of the board to make a full contribution to its discussions, be aware of the business policies in place and to refresh their knowledge on corporate governance, best practice and general compliance. On the anniversary of each appointment the induction process is reviewed with the respective board member in order to obtain feedback on the induction provided with a view to enhancing future inductions. Mr Rolfe is currently in the induction process.

The Remuneration Committee

The Committee's membership and responsibilities are detailed within the Remuneration Report on pages 50 to 58.

The Audit Committee

The Audit Committee is chaired by Dennis Millard who has recent and relevant financial experience. The other members are Adam Crozier, Martina King and Sophie Turner Laing who became a member of the Committee on 1 May 2010. Mark Rolfe, who was appointed to the board on 1 October 2010, is also a member of the Committee. The Audit Committee meetings are also attended by the Chairman, the Finance Director, the Head of Internal Audit and Risk Management, the external auditors, PricewaterhouseCoopers LLP, and the Treasurer for the presentation of his report. The Chief Executive periodically attends meetings of the Committee at the discretion of the Committee Chairman. The Company Secretary also attends any meeting in his capacity of Secretary of the Committee.

The Audit Committee's primary responsibilities are to review all financial statements and any formal announcements relating to the Company's financial performance, to review the Group's internal and external audit activity and to review and monitor the effectiveness of the risk management process and internal controls within the business. In addition to the meetings set out in the attendance table overleaf, the Committee met with the Company's auditor and the Head of Internal Audit and Risk Management privately without any management being present.

During the year the Committee has monitored and reviewed the efficiency of risk management and internal control, considered the external auditors' performance, resource, independence and objectivity to enable them to recommend to the board their re-election as auditors for financial year 2011, reviewed all financial statements, key accounting policies, the auditors' report on the year end audit and management's responses to the issues. The internal audit programme and the external audit strategy and scope for 2010 were also agreed and approved. The Company's whistleblowing policy was also updated to encapsulate The Bribery Act 2010. Treasury and legal reports are also presented to each meeting as necessary. Historically, health and safety reports were also presented to each meeting, however these are now delivered to the board. After each meeting the chairman of the Committee reports to the board on the matters discussed and raises any significant findings or identified weaknesses to the appropriate board member.

Meetings and Attendance

Full attendance is expected at all meetings of the board, its committees and the AGM. Agendas are set by the chairman of the meeting and papers are usually circulated to the members one week in advance. The board held five meetings during the year.

The attendance by individual directors at scheduled meetings of the board and its committees during the year was as follows:

	Board Meeting	Nomination Committee	Remuneration Committee	Audit Committee
Number of meetings	**5**	**1**	**2**	**3**
Nigel Northridge(1)	3	0		2
Rob Templeman	5			
Michael Sharp(2)	4			
Chris Woodhouse	5			
Adam Crozier(3)	4	0	2	2
Martina King(4)	5	0	0	3
Sophie Turner Laing(5)	5	1	0	1
Dennis Millard	5	1	2	3

(1) Three board meetings have been held since Nigel Northridge became a member of the board on 1 January 2010. The Nomination Committee did not meet again in the financial year under review after his appointment to the Committee on 1 January 2010. The Chairman is not a member of the Audit Committee, however the Committee invites him to attend each meeting so long as no conflict of interest arises. There have been two meetings of the Committee since his appointment.

(2) Michael Sharp was unable to attend one board meeting due to a family commitment.

(3) Adam Crozier was unable to attend one board meeting and one Audit Committee meeting (which were on the same day) due to a schedule clash. The Nomination Committee did not meet again in the financial year under review since he became a member of that committee on 1 May 2010.

(4) The Remuneration Committee and Nomination Committee did not meet again in the financial year under review since Martina King's appointment to those committees on 1 May 2010.

(5) Sophie Turner Laing became a member of the Audit and Remuneration Committees on 1 May 2010. Since that date the Audit Committee has met once and there were no further meetings of the Remuneration Committee in the financial year under review.

Where directors have not been able to attend meetings due to conflicts in their schedule, they receive and read the papers for consideration at that meeting relaying any comments to the Chairman in advance of the meeting where possible.

Information and Support

The Company Secretary facilitates the flow of information within the board and its committees and between senior management and the non-executive directors. The Company makes available the necessary resources to develop and update the directors' knowledge and skills in order that they may perform the functions required of a director of a listed company. All directors have access to the advice and services of the Company Secretary, who is appointed by, and can only be removed by, the board. The Company Secretary ensures compliance with board processes and corporate governance. Independent professional advice is also available to the non-executive directors and the board committees at the Company's expense in order to fulfil their duties. None of the directors sought such advice during the year. Debenhams provides insurance cover and indemnities for its directors and officers.

Performance Evaluation

A formal evaluation of the performance of the board, its committees, the individual directors and the Chairman was conducted during the year in order to review past performance and to develop future performance. The performance of the internal and external auditors was also evaluated.

As in previous years, the evaluation was conducted internally through the circulation of a number of confidential questionnaires which covered the key responsibilities and attributes required of members of the board and its committees. These were completed by all directors in relation to the board and any committee of which they were a member. The Chairman met with each Director upon his appointment as Chairman and he will continue to do that annually as part of the ongoing performance evaluation process. The Senior Independent Director will appraise the Chairman's performance.

The results of the evaluations were collated by the Company Secretary and analysed in detail by the Chairman, the Chairman of the relevant committee, the Senior Independent Director and the Company Secretary. The Chairman led the full board in a discussion about the results of the board evaluation and a similar session took place in respect of each committee led by the Committee Chairman.

The results of the evaluation were satisfactory and concluded that the board and its committees operate effectively and that a sound corporate governance framework is in place. Generally the view was that the processes are robust and thorough and feedback from various board members has enabled the questionnaire to be tailored so that it will be even more focused in future years. The evaluation has led to the Company Secretary putting more structure into training and development needs of the directors and also giving better visibility on the anticipated length of meetings.

The results of the evaluation of both the internal and external audit teams is disclosed within the Risk Management section on page 46.

Corporate Governance continued

Directors' Conflicts of Interest
The Nominations Committee reviewed and considered the interests and other appointments of the board members in August and any conflicts were considered and approved. Directors have a continuing duty to update any changes to the registered conflicts.

Share Capital and Control
Information which the directors are required to provide pursuant to Section 992 of the Companies Act 2006 can be found on pages 38 to 39 of the Directors' Report.

Auditor Independence
In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is regularly reviewed. This covers matters such as the requirement that auditors and their staff should have no family, financial, employment, investment or business relationship with the Company, the employment by the Company of former audit employees, the rotation of audit partners and the provision of non-audit services. The Audit Committee makes recommendations to the full board in respect of re-appointment annually of the auditors and the board then ensures that this is included on the Notice for the Annual General Meeting. PricewaterhouseCoopers LLP ("PwC") has a policy that requires the audit partner to rotate off an audit client's account every five years and this rotation has recently taken place in respect of the Debenhams audit. As regards the risk of PwC's withdrawal from the market, the Company considers that there are sufficient other auditors in the market place should this situation ever arise.

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

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

£0.2 million was paid by the Company to PricewaterhouseCoopers for non-audit services in respect of advisory services. The audit fees paid by the pension schemes were £27,000.

Relations with Shareholders
The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and Senior Independent Director are always available to meet with major shareholders at their request on relevant issues and the Chairman met with several shareholders shortly after his appointment. Formal trading updates were issued on six occasions during the year: September 2009 (full year trading update), October 2009 (full year results), January 2010 (first half interim management statement), March 2010 (first half trading update), April 2010 (first half results) and July 2010 (second half interim management statement). Presentations for shareholders and analysts were held following the announcements of results in October and April with conference calls held after all other trading updates. A programme of individual and group meetings and conference calls is organised throughout the year at which the Chief Executive, Deputy Chief Executive, Finance Director and Head of Investor Relations discuss the Company's performance and strategy with shareholders. In 2010, meetings were held in London, Dublin, Birmingham, Manchester, Liverpool, Paris, Boston and New York. Analysts and investors were invited to visit the newly-acquired Magasin du Nord business in Copenhagen in May 2010. In April 2010, an investor perception study was commissioned in order to gain the views of major shareholders and some non-holders on a number of issues including strategy, business activities, financial strength, management, governance, disclosure and communication. The results of this study were presented to and discussed by the board.

Risk Management

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

The board 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 risk issues facing the business in order to provide assurance that strategic targets can be met. This approach combines the board's own assessment of risk with risk factors identified through organisation-wide risk reviews.

Internal Control

The board is responsible for reviewing the effectiveness of the internal control systems in place. Such systems are designed to manage rather than eliminate the risk of failure to achieve the business objectives and can only provide a reasonable and not an absolute assurance against material misstatement or loss.

Debenhams maintains a framework of internal controls based on a combination of five components of the internationally recognised COSO Framework for Internal Control, together with other enterprise risk management guidelines and any related guidance provided by the Financial Reporting Council. The five components are:

- Control environment
- Risk assessment
- Information and communication
- Control activities
- Monitoring

Control Environment

The board exemplifies the control environment to its stakeholders through its compliance with the Combined Code of Corporate Governance, Debenhams' own internally published risk management strategy, related policies and procedures and, in particular, the Debenhams Code of Business Conduct.

Risk Assessment

Risks to the achievement of Debenhams' strategic and operational goals have been identified through various organisation-wide control environment reviews, the most recent of which was completed in August 2010. Each participant considered the risks to their objectives and part of this exercise covered any changes in legislation (i.e. anti-bribery and corruption). The senior management team participated in this exercise which considered the business strategy, related objectives, internal and external risks to their achievement, together with existing and any new controls required to mitigate those risks. Risks were ranked according to a matrix of severity and likelihood of occurrence and the Group's risk register was updated accordingly.

Information and Communication

The board reviews the key risks and their relevant mitigation strategies annually. In addition, the Audit Committee satisfies itself that the key risks are being managed effectively and monitored by senior management and that the internal audit plan is focused on high priorities.

The internal audit team updates the board on the effectiveness of risk management within each discrete area audited throughout the year. Internal audit also highlights any new or emerging risks together with an assessment of how effectively they are managed.

Control Activities

A series of control activities used to mitigate the risks identified include risk transfer (through a third-party contract), financing the risk through insurance or consideration by management of re-engineering the process in question.

In addition, only suitably qualified employees are responsible for each of the functions within Debenhams. Training, performance reviews and support mechanisms are in place to ensure standards of performance are maintained.

Monitoring

The risks that have been identified are monitored through a variety of mechanisms which include: monthly management accounts, board meetings, the audit programme, fraud detection systems across point of sale and certain central data repositories, the critical and serious risk monitor, internal procedures such as stocktakes and stockfile counts, prevention tools such as CCTV and through management controls.

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

Risk Management continued

Risk Management and Internal Audit

Debenhams' risk management function includes the internal audit, anti-fraud, insurance and profit protection departments. This combination enables the Company to maintain a cohesive approach to all aspects of risk management whilst allowing the internal audit team to benefit from the insights that other elements of the function can provide. The internal audit plan focuses on critical and serious risk testing of high-priority areas.

An evaluation of the effectiveness of both internal and external audit teams was undertaken by the Company Secretary in August 2010. The respondents included all members of the Audit Committee, members of the board, function heads, senior retail managers and a self-assessment by the Head of Internal Audit and Risk Management.

In relation to the internal audit function, this evaluation considered effectiveness in a number of categories: interaction with the Audit Committee, robustness of audit, quality of delivery and quality of team. The categories for external audit were: robustness of audit, quality of delivery and quality of people and service. The overall feedback was very positive for both internal and external audit with both scoring 93 per cent for effectiveness.

Whistleblowing

All Debenhams' employees are required to adhere to the Code of Business Conduct, with senior employees required to confirm their compliance in writing. This sets out the ethical standards expected by the Company and includes details of how matters can be raised in strict confidence. Two main routes are available to employees at all levels within the Company to raise concerns over malpractices. The first, "Employees' guideline to problem solving", encourages employees to talk to their line manager, their manager's line manager or, if still concerned, to call HR Connect (the Debenhams central human resources team) directly. The second route is a confidential reporting line through which employees can speak to the Debenhams 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 should contact the Company Secretary or the Head of Internal Audit and Risk Management directly and contact details are provided for all these routes. The Company's policy on whistleblowing and these methods of raising issues of concern are published on the Debenhams intranet and emphasised on posters. All serious matters are raised with the Chairman of the Audit Committee.

Principal Risks and Uncertainties

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

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

Risk	Impact	Examples of mitigation
External Risk		
Consistent fall in customer spending as a result of economic downturn, inflation or deflation	Reduction in gross transaction value and a decline in sales on discretionary purchases	The board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the growth strategy through new stores, brand development, enhanced multi-channel offer and expanding international opportunities.
Competitive pressures in existing markets influencing customer behaviour	Place pressure on our pricing strategy, margins and profitability	Debenhams differentiates its customer offer through its unique brand and product mix. An understanding of customers and their needs is developed by listening to their views, market intelligence and reviewing key performance indicators which ensures that pricing is competitive.
Sustained supplier cost price increases due to rising cost of raw materials, labour, etc	Place pressure on margin and will also divert financial and management resources from more beneficial uses	Debenhams fosters excellent relationships with its suppliers that are mutually beneficial. Both parties work towards the objective of optimising fulfilment and costs, which is measured regularly by management through key performance indicators. Alongside this, Debenhams develops multiple sourcing routes to ensure pricing remains competitive.
Loss of profit or additional expenditure caused by increased energy costs	Place pressure on margin and will also divert financial and management resources from more beneficial uses	The Energy Committee works on the key objectives to control energy usage, including the impact of the Carbon Reduction Commitment scheme. An energy hedging policy is in place to provide a higher degree of cost certainty.

Risk	Impact	Examples of mitigation
Strategic Risk		
Inability to predict or fulfil customer demands or preferences	Sales will be lower, market share reduced and forced to rely on markdowns and sales to dispose of excess or slow-moving inventory or inventory shortfalls on popular merchandise	Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. It delivers these requirements through multiple channels including its stores and website. To achieve this, Debenhams constantly develops these channels and maintains high operational standards to differentiate itself from its competitors. Debenhams manages stock levels and the supply chain closely in order to ensure product newness is maximised.
Departure of key personnel and failure to attract or retain talent	Significantly delay or prevent achievement of business plan	In order to attract and retain talent, both succession and personal development plans are in place throughout the organisation. In addition, target-led performance-related incentive schemes exist.
Failure to develop and implement the new store roll out or acquisition successfully	Reduced growth or a decline in gross transaction value and may be required to write down the value of any stock acquired for sale in an uncompleted store	Debenhams undertakes research of key markets and demographics to identify potential locations to drive growth through new space. A full investment appraisal is conducted as part of the decision-making process and a specialist team has responsibility for end-to-end management of each project once the decision is made.
Failure of ethical trading policy, poor perception in the market on corporate responsibility matters, or negative impact to brand due to product quality, supply chain practices, health and safety, etc	Negative effect on reputation leading to loss of stakeholder trust and confidence, material adverse effect on the ability to attract and retain third-party brands, suppliers, designers, concessionaires and franchisees with subsequent impact on performance and results	The Sustainability Committee works on the key objectives such as ethical sourcing, legislative change and sustainability matters. The work includes consideration of key topics such as Waste Electrical and Electronic Equipment (WEEE); Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH); and the Carbon Reduction Commitment (CRC). To ensure that Debenhams has the most current information available, it is a member of relevant industry bodies that provide awareness of changes to standards and legislation. Debenhams is an active member of the Ethical Trading Initiative (ETI) and expects all suppliers to follow the ETI base code and adhere to Debenhams' own Supplier Code of Conduct. A robust approval process is in place, to underpin the ETI base code, for the selection of factories for both new and existing suppliers. Adherence is monitored through regular third-party audits. Factory outputs are also checked by the internal Quality Assurance team to ensure the integrity of Debenhams' own bought products.
Financial Risk		
Risks associated with currency, hedging, interest rates, credit, counterparties and financial covenants under the credit facilities	Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition	Debenhams has a Treasury policy in place which covers counterparty limits and hedging for both foreign exchange and energy. There is also an internal Treasury function which is mandated by the board and audited annually. Debenhams closely monitors all aspects of working capital to support its objective of deleveraging the balance sheet and effectiveness is measured regularly by management through a series of key performance indicators.
Shortfall in the pension fund	Increases in pension-related liabilities could impact profit and cash flow	The Trustees carefully monitor the pension fund and adjust the investment strategy appropriately with any shortfall being brought to the board's attention.

Risk Management continued

Risk	Impact	Examples of mitigation
Operational Risk		
Failure to deliver a business critical project	Divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems	A full investment appraisal is conducted as part of the decision-making process and must be signed off by a board member before any projects are undertaken. As part of project governance, a steering committee monitors all key areas involved in the delivery of the project, a project framework is used, selected projects will be reviewed by internal audit and post-investment appraisals are undertaken.
Ineffective brand awareness and marketing programmes	Loss of market share, customer loyalty, reduction in gross transaction value and a decline in sales on discretionary purchases	Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. This information is used to identify specific segments of the market to target and to form a proposal as a marketing campaign. A full investment appraisal is conducted as part of the decision-making process and must be signed off by a board member before any campaign is undertaken. Campaign effectiveness is monitored through external feedback and internal analysis.
Risks associated with leasehold properties or former properties for which Debenhams may have potential liabilities in event of default of the current tenant	Significant alterations in rental terms could have a material adverse effect on the business, as would failure to secure desirable locations Disputes over refit of stores may lead to reinstatement costs being incurred and termination of leases may lead to dilapidation costs being incurred Failure to manage asbestos in specific properties may lead to fines or other liabilities affecting Debenhams' reputation and the full or partial closure of properties	Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store refit process, lease renewals and adherence to all legal obligations under the lease. Debenhams is also a member of key industry bodies which provide awareness of changes to standards and legislation.
Hazard		
Loss of business or additional expenditure caused by terrorism, increased energy costs, natural disaster, pandemics or tax/regulatory changes	Adverse effect on inventory and gross transaction value and will also divert financial and management resources from more beneficial uses In the case of terrorism, customer confidence may also be impacted	The Business Continuity Committee works on the key objectives such as planning, testing and invoking. As part of this, the Committee is responsible for: the selection of recovery sites which are equipped to minimise the disruption of Head Office operations; ensuring that key third parties have suitable business continuity plans in place; and the effective communication of matters surrounding business continuity to the organisation as a whole. Insurance policies have been placed as appropriate to minimise the impact of specific risks.

Risk	Impact	Examples of mitigation
Hazard continued		
Disruptions or other adverse events affecting relationships with or the performance of major suppliers, store card providers, designers or concessionaires	Costs associated with the transfer of the operations, potential of additional operational cost from a new provider. Changes in exclusivity arrangements with designers or any decline in their popularity could have a material adverse impact on the business Loss of a number of important concession partners may have an adverse affect on gross transaction value Adverse events within the supply chain could restrict the availability or significantly increase the cost of merchandise Credit insurance difficulties for a significant number of suppliers could lead to a detrimental variation of terms or alternative suppliers used to source some goods	In order to minimise the impact of any third-party relationship or performance issues, Debenhams' objectives are to maintain excellent third-party relationships by ensuring strategies are aligned; to have appropriate, unambiguous contracts in place; to ensure third parties are financially robust; and to have contingency plans in place in the event of a failure (e.g. conversion of space to own bought should a concessionaire fail, multiple sourcing routes).
Personal injury or property damage relating to a major Debenhams or supplier location	Injury or loss of life to staff or customers Negative effect on reputation and will divert financial and management resources from more beneficial uses	The executive Health and Safety Committee works to review compliance for Debenhams in this area and a number of participants are members of various relevant industry bodies. The Committee receives input from a number of specialist teams which focus on discrete aspects; these include health and safety, building services, buying and merchandising and insurance. To support compliance and to maintain high operational standards, health and safety awareness programmes are in place across the organisation and each site has its own health and safety committee.
Theft of customer data or breach of payment card industry data security standards	Negative effect on reputation leading to loss of stakeholder trust and confidence, with subsequent impact on performance and results and will also divert financial and management resources from more beneficial uses	The Information Security Committee reviews projects and key activities for compliance to the relevant standards. Debenhams' compliance to the PCI standard is monitored by management and reported to the Audit Committee. A number of security tools are employed to protect data including encryption, intruder detection and data loss prevention.
Fraud	Negative effect on reputation and will divert financial and management resources from more beneficial uses	In order to mitigate fraud, Debenhams has a number of preventative measures in place, such as accounting policies and procedures; systems access restrictions; expenditure authorisation levels; and a code of business conduct. A variety of monitoring mechanisms are used to identify fraudulent activity, including data mining across point of sale and head office functions. In addition, if an employee wishes to report concerns confidentially, a whistleblowing policy is in place. Both the code of business conduct and the whistleblowing policy refer to bribery and corruption as well as theft and fraud. As a part of the organisation-wide risk assessment process, all management signs an anti-fraud, bribery and corruption declaration. Issues identified are investigated and reported to the Audit Committee.

Remuneration Report

This Remuneration Report for the year ended 28 August 2010 has been prepared by the Remuneration Committee on behalf of the board for approval by shareholders at the Annual General Meeting to be held on 11 January 2011. The report complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the 2008 Combined Code on Corporate Governance.

On 1 October 2010, Mark Rolfe was appointed as an independent non-executive director and he is a member of the Remuneration, Nomination and Audit Committees of the board. Since Mr Rolfe was appointed post-year end, all regulatory disclosures will be included within next year's annual report. The terms of his appointment and remuneration arrangements are in line with those of other non-executive directors.

Part 1: Unaudited Information

The Remuneration Committee

The Remuneration Committee comprises the following non-executive directors: Adam Crozier (Committee Chairman), Dennis Millard, Sophie Turner Laing, Martina King (who was appointed on 1 May 2010) and Nigel Northridge (who was appointed a member on 3 September 2010). Details of non-executive directors' experience and their other roles are set out in the directors' biography section on page 37. The Company Secretary is secretary to the Committee. There were two meetings of the Committee during the year under review. The individual attendance of the directors is detailed in the table within the Corporate Governance Report on page 43.

The Committee has responsibility for setting the remuneration of the executive directors and the Company Secretary, reviewing the bonus structure for senior managers below board level, reviewing the appropriateness and relevance of the remuneration policy and administering all aspects of any share incentives in operation for senior management. The Committee is governed by formal terms of reference which are reviewed annually and can be downloaded from the Company's website at www.debenhamsplc.com under the corporate governance section on the investors' page.

Deloitte LLP ("Deloitte") acted as external advisers to the Committee throughout the financial year, providing independent advice on directors' remuneration and share incentives. Deloitte also provides industry and comparative employee remuneration data to Debenhams' management. The Company's Chief Executive, Finance Director and Human Resources Director have also provided advice to the Committee during the year but not on matters relating to their own compensation or contracts. Deloitte also provided unrelated advisory services in respect of corporate tax planning during the year.

The Remuneration Committee reviews external data produced through surveys and benchmarking from Deloitte about total remuneration in other comparable companies, and the elements of that total remuneration, in order to inform its consideration of the remuneration of Company executives.

During the year the Committee:

- Reviewed the executive directors' remuneration packages;
- Approved the executive directors' bonuses for 2009;
- Approved the executive directors' bonus plan for 2010; and
- Consulted with shareholders in relation to performance conditions to be operated for options/awards made under the Company's share schemes during the financial year and administered the awards made in November 2009.

Following the year end, the Committee also considered the operation of the Deferred Bonus Matching Plan and consulted with shareholders regarding this.

Remuneration Policy

When determining remuneration policy and arrangements for executive directors, the Remuneration Committee considers pay and employment conditions elsewhere in the Group and that offered by other comparable companies to ensure that the pay of executive directors remains appropriate. The Committee particularly takes into account pay increases throughout the Group when determining salary increases for executive directors. It is the Company's policy to provide remuneration packages that will attract, motivate and retain high-calibre employees in a competitive retail market and, where possible, to do this in the most cost-effective way for the business. In addition to basic salary and pension provision (or equivalent cash contribution), the Company seeks to incentivise its executives and senior managers through an annual bonus scheme and through its share incentives when appropriate.

In 2009 there was a pay freeze for all senior management and the executive directors. As disclosed last year, the pay freeze continued for the executive directors in 2010 whilst the salary reviews of senior management were reinstated.

Summary of Remuneration

The following table summarises the various elements of executive remuneration:

Element	Purpose and link to remuneration policy	Maximum award	Key features
Base salary	• Reflects the competitive market salary level for the individual and their role • Takes account of personal performance and contribution to corporate performance	n/a	• In cash • Based on individual contribution • Reviewed annually • Salary freeze for executive directors for the last two years • Modest salary increase of 2 per cent with effect from 1 September 2010
Annual bonus	• Rewards the achievement of stretching annual profit charges	• 100 per cent of base salary	• In cash following year end • Based on PBT performance • For bonuses earned in respect of 2010 directors will be given the opportunity to defer up to 50 per cent of their post-tax bonus into shares under the Deferred Bonus Matching Plan (see below)
Benefits	• Reflects market practice	n/a	• Car allowance • Healthcare • Dental Insurance • Life Insurance
Deferred Bonus Matching Plan ("DBMP")	• Encourages executives to invest further in the success of the Company • Aligns with shareholders' interest through the delivery of shares • Rewards growth in earnings and creation of shareholder value	• Executives are given the opportunity to defer up to 100 per cent of their post-tax bonus into shares (invested shares) • Executives are then entitled to receive a matching award equal to the pre-tax level of bonus deferred	• Invested shares deferred for a period of three years. • Matching shares vest after three years subject to the achievement of EPS and ROCE performance conditions
Performance Share Plan ("PSP")	• Aligns with shareholder interests through the delivery of shares • Rewards growth in earnings	• Maximum award 200 per cent of base salary (250 per cent of base salary in exceptional circumstances)	• Awards vest after three years • Subject to achieving stretching performance targets • It is intended that no awards will be made under the PSP in the forthcoming year (other than in exceptional circumstances)
Executive Share Option Plan ("ESOP")	• Direct link to value creation through share price growth • Aligns with shareholder interests through the delivery of shares	• Maximum award 100 per cent of base salary • HMRC approved element (up to £30,000)	• Awards vest after three years and remain exercisable up to the tenth anniversary • Subject to achieving stretching performance targets • It is intended that no awards will be made under the ESOP in the forthcoming year (other than in exceptional circumstances)
Pension	• Provides funds to allow executives to save for retirement	• 15 per cent of base salary	• Executive directors are provided a salary supplement in lieu of a pension provision

Remuneration Report continued

Components of Remuneration

Base Salary

The Committee considers base salary and salary increases for executives based on the median level paid within a group of comparable companies of a similar size and complexity and comparable companies in the FTSE 350 Retail sector, as well as considering salary increases across the Group's wider employee population. To ensure the attraction and retention of the quality of individuals required to successfully run the business, the Committee's policy is for base pay to be at or close to the market median of companies of a similar size and complexity.

In 2010 executive directors continued to take a pay freeze (there already being no increase in 2009), whereas base salary throughout the Group increased by c.2 per cent. The Committee reviewed salaries during the year and concluded that, given the performance of executives in recent years, it would be appropriate to give a modest salary increase of 2 per cent with effect from 1 September 2010. Salary increases throughout the Group are of a similar level.

Executive Directors' Bonus Schemes

2010 Bonus

As disclosed in last year's remuneration report, the annual bonus scheme for executive directors for 2010 was based on one measure: Earnings Before Interest and Tax ("EBIT") to ensure the executive directors focused on achieving exceptional earnings performance and to provide a clear objective in a year where a refinancing of the Company's debt was anticipated. The maximum bonus potential for 2010 was 100 per cent of base salary. Achieving an EBIT before exceptional items of £193.1 million would result in a maximum bonus payment of 100 per cent of base salary.

The Company achieved EBIT before exceptional items of £195.1 million (representing growth of 7.1 per cent) which resulted in bonus payouts of 100 per cent of salary. The Committee believes that this represents exceptional performance in challenging economic circumstances and that the resulting bonus payments reflect the value added for shareholders and in particular noted that despite the difficult market conditions experienced across the retail sector in the past two years, the Company has delivered five consecutive halves of profit growth.

The Committee has agreed that executives will be given the opportunity to defer up to 50 per cent of their post-tax bonus into shares and will be able to earn a matching award under the Deferred Bonus Matching Plan. Further details are provided below.

2011 Bonus

It is intended that the maximum bonus opportunity will remain at 100 per cent of base salary for 2011. Now that the refinancing of the business is complete, the Committee has determined that the performance measure for the 2011 bonus will revert to Profit Before Tax and will be adopting this metric as a single measure. The Committee believes that this measure is strongly aligned with shareholder value creation and will effectively incentivise executives to grow profit on an annual basis. We cannot disclose the target for 2011 due to commercial sensitivities, but as for 2010 we will provide details of the target and performance against it in next year's Remuneration Report.

The Company's Share Incentives

In 2009 the Committee reviewed the performance measures for the PSP and the ESOP. It was agreed that going forward PSP awards would be subject to stretching EPS targets and options granted under the ESOP would be subject to performance against ROCE targets. The Committee believes that the combined use of performance share awards with an EPS measure and share options with a ROCE performance measure effectively incentivises management to achieve both share price and efficient earnings returns, goals which are aligned with the Company's long-term strategy and shareholder value creation. The Committee consulted with major shareholders regarding these proposed measures who were generally supportive. Following the review of targets, awards were made to Michael Sharp, the Deputy Chief Executive, in November 2009 (the Chief Executive and the Finance Director having elected not to receive awards).

It is intended that the Deferred Bonus Matching Plan will be the primary long-term incentive vehicle for 2010 and it is currently intended that no awards will be granted under the PSP or ESOP to directors this year (other than in exceptional circumstances).

The Debenhams Deferred Bonus Matching Plan (the "DBMP")
The DBMP was approved by shareholders in 2006. However, no awards have been made to date under the plan. During the year the Committee reviewed the plan and consulted with the Company's major shareholders regarding its operation. It was agreed that executives and approximately 400 members of the management team would be invited to invest to up 50 per cent of their net annual bonus earned in respect of 2010 into shares ("invested shares") which will be held in trust for the duration of the performance period. The terms of DBMP provide the ability for the participants to defer 100 per cent of their bonus. However, the Committee determined that for the current year participation would be limited to 50 per cent of bonus earned. If the participant remains in service for three years s/he will, subject to the satisfaction of stretching performance targets, be eligible to receive a matching share award equal to the pre-tax amount of the bonus that has been invested, i.e. in this instance the matching award will have a maximum value of 50 per cent of base salary. If the performance target is not met at the end of the performance period, the matching share awards will lapse immediately (invested shares will be retained by the participant) and there will no opportunity to re-test the performance condition.

The Committee determined that for these matching awards earnings per share ("EPS") would be used as the primary performance metric. In addition, the vesting of awards would be subject to the achievement of an underpin level of return on capital employed ("ROCE") performance. The Committee considered that EPS is an appropriate measure as it incentivises strong earnings growth over a sustained period which is in line with our long-term strategy and the generation of future shareholder value. The ROCE underpin ensures that profit performance remains sustainable and efficient. An absolute EPS growth of 6 per cent per annum over the three-year performance period will trigger 30 per cent vesting of the matching share award and an EPS growth of 12 per cent per annum will trigger 100 per cent vesting. Targets triggered between 6 per cent and 12 per cent would result in vesting of the matching share award on a straight-line basis between 30 per cent and 100 per cent. When setting these targets the Committee reviewed internal projections, analysts' expectations and market practice and believes these targets to be sufficiently stretching. In addition, no portion of the award shall vest unless ROCE exceeds the cost of capital by 2 per cent.

Invitations under the DBMP will create alignment throughout the organisation with executives focusing on a common goal.

The Debenhams Performance Share Plan (the "PSP")
The Committee has discretion to grant awards under the PSP up to a maximum of 200 per cent of base salary to executive directors and other senior executives. Up to 250 per cent of base salary may be awarded in exceptional circumstances (e.g. for recruitment). Michael Sharp was the only executive director to receive an award under the plan during the year. His award represented 75 per cent of his salary. Details of the award are disclosed on page 58 of this report.

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

Historically awards have been subject to two performance targets, 50 per cent being based on the Adjusted Earnings Per Share growth of the Company above the percentage increase in the Retail Prices Index over a three-year performance period and the other 50 per cent being based on the Company's Total Shareholder Return against the weighted TSR of the FTSE 350 General Retailers Index over a three-year performance period. If the performance condition(s) is/are not met at the end of the performance period, 50 per cent or 100 per cent (as appropriate) of the awards will lapse immediately without any opportunity to re-test the relevant performance condition.

As noted above, for awards granted in 2009 to Michael Sharp, the Committee determined that just one performance measure would apply, earnings per share growth. The Committee believes that using this sole measure increases focus on delivering strong earnings growth and generating shareholder value throughout the performance period.

Remuneration Report continued

The table below sets out the performance conditions of PSP awards existing during the year:

Date of grant	Vesting criteria	Performance condition over three-year period
7 May 2008	50 per cent on EPS growth against RPI growth	Below RPI + 3 per cent pa = zero vesting RPI + 3 per cent pa = 30 per cent vesting RPI + 8 per cent pa = 100 per cent Between 3 per cent and 8 per cent pa = straight-line basis between 30 per cent and 100 per cent
	50 per cent on TSR against FTSE 350	Debenhams TSR is less than the weighted TSR = zero vesting Debenhams TSR is equal to the weighted TSR = 30 per cent Debenhams TSR is ≥ 12 per cent above the weighted TSR = 100 per cent Between the latter two points = straight-line basis between 30 per cent and 100 per cent
24 November 2009	EPS growth against RPI growth	Below absolute growth of 6 per cent pa = zero vesting Absolute growth of 6 per cent pa = 30 per cent vesting Absolute growth of 10 per cent pa = 100 per cent Between absolute growth of 6 per cent and 10 per cent pa = straight-line basis between 30 per cent and 100 per cent

No PSP awards vested during the year, the performance condition for November 2006 and May 2007 awards having not being met. The awards granted in May 2008 to participants below the board have also lapsed since the performance conditions attaching to those awards were not satisfied as at 28 August 2010.

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

The Committee has discretion to grant options to acquire shares to eligible employees. Options with a face value of up to a maximum of 100 per cent of base salary can be granted under the plan. Options may, in exceptional circumstances, be granted with a market value in excess of this amount at the discretion of the Remuneration Committee. Options can be granted in the form of unapproved options or Her Majesty's Revenue & Customs approved options (up to the prescribed limit, currently £30,000).

Michael Sharp was the only executive director to receive an option under the scheme during the year. His options (in the form of approved and unapproved options) represented 75 per cent of his salary. Details of the options granted are disclosed on page 58 of this report.

Share options are granted at the closing mid-market price on the day prior to the date of grant and normally become exercisable three years after grant, expiring seven years later. The exercise of the options is subject to performance conditions set by the Remuneration Committee at the time awards are granted. Historically, options exercised under the ESOP have been subject to the Adjusted Earnings Per Share ("EPS") growth of the Company increasing above the percentage increase in the Retail Prices Index ("RPI") over a three-year performance period. For the options granted in November 2009 the performance criteria was based upon the Company's Return on Capital Employed ("ROCE") exceeding the Cost of Capital. The Committee believes ROCE is an appropriate performance condition as it incentivises sustainable, efficient profit performance. In addition, in order for the award to vest the Remuneration Committee must be satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the award. If the performance condition is not met at the end of the performance period the options will lapse immediately without any opportunity to re-test the relevant performance condition.

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

Date of grant	Vesting criteria	Performance condition over three-year period
12 November 2007	EPS growth against RPI growth	RPI ≥ 3 per cent pa = 100 per cent vesting
24 November 2009	ROCE against Cost of Capital	ROCE ≤ Cost of Capital = zero vesting ROCE > Cost of Capital = 30 per cent vesting ROCE > Cost of Capital + 5 per cent = 100 per cent vesting Between these points the options vests on a straight-line basis between 30 per cent and 100 per cent

No options under the ESOP were exercised during the year. The options granted in November 2007 to participants below the board lapsed since the performance conditions attaching to those options were not satisfied as at 28 August 2010.

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

The Debenhams 2008 Share Incentive Plan (the "Plan")
The Debenhams 2008 Share Incentive Plan is an unapproved plan operated by the Company. This Plan is focused at key senior managers and executive directors do not participate in this Plan. The first tranche of options granted under the Plan was awarded on 24 November 2009 for nil consideration. These options were granted to a small number of key senior employees below board level to retain and incentivise those employees in the short to medium term and have an 18-month vesting period.

The Debenhams Retail Employee Trust 2004 (The "Trust")
The Debenhams Retail Employee Trust 2004 (the Trust) currently holds 1,413,536 shares in the Company. 715,000 shares held in the trust were allocated to participants as a result of the grant of options under the Debenhams 2008 Share Incentive Plan. The Trust is also to be used to hold the invested shares of participants of the Deferred Bonus Matching Plan ("DBMP"). Dividends receivable on the shares held in the Trust, which are not subject to the DBMP, are waived on the recommendation of the Company.

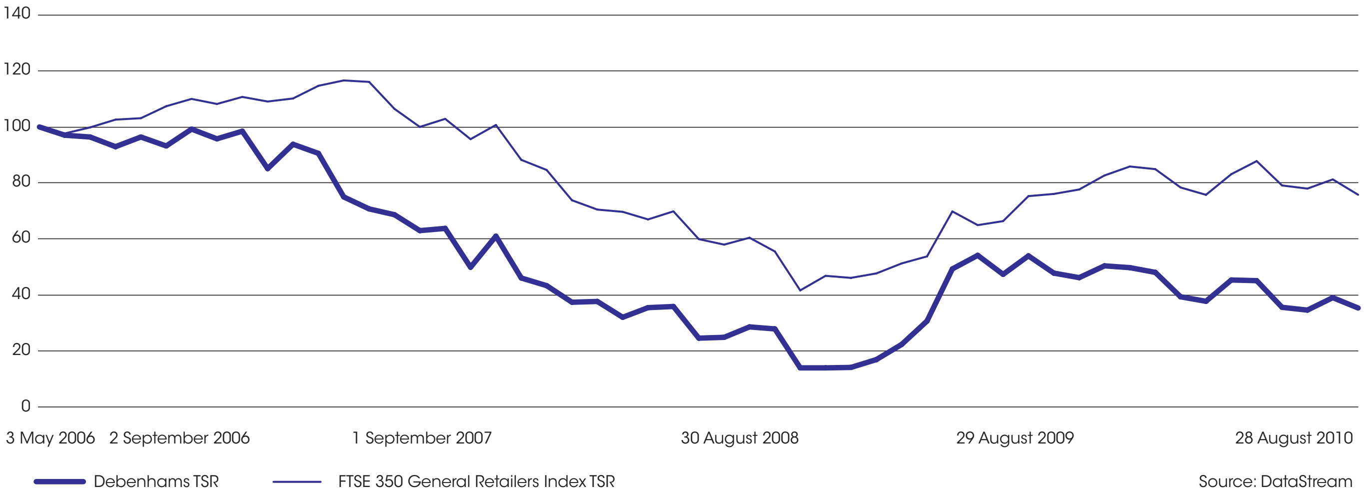
Funding of Share Schemes
It is the Company's current intention to satisfy any future requirements of its share schemes in a method best suited to the interests of the Company, either by acquiring shares in the market, or, subject to institutional guidelines, issuing new shares. Where the awards are satisfied by newly issued shares, the Company will comply with ABI guidelines on shareholder dilution. Current levels of shareholder dilution are 0.23 per cent (2009: 0.38 per cent) of share capital.

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

Pension
The directors are not members of a Company pension plan, except for Michael Sharp who is a deferred member of the Debenhams Executive Pension Plan. Full details are disclosed on page 58 of this report. However, under the terms of their contracts of employment, the executive directors are entitled to a salary supplement of 15 per cent of base salary in lieu of pension provision. These amounts are disclosed in the directors' emoluments table on page 57.

Performance Graph
The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from flotation (3 May 2006) to 28 August 2010. The FTSE 350 has been chosen as Debenhams has been a member throughout the period and it is made up of a broad spectrum of retail competitors (including major general retail listed competitors) in the principal product areas in which the Company trades.

Total Shareholder Return Since IPO (May 2006)



Source: DataStream

Remuneration Report continued

Letters of Appointment and Service Contracts

Nigel Northridge's appointment as Chairman is subject to the terms of a letter of appointment dated 28 January 2010. The appointment is for a term of three years ending on 31 March 2013, subject to the Company's Articles of Association and the shareholders' re-election provisions. In addition to time commitment, the annual engagement fee and other business interests, the Chairman is permitted to hold the office of a director or Chairman of certain named companies 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 appointments of Adam Crozier and Dennis Millard may be terminated by either party giving one month's notice. Sophie Turner Laing and Martina King are appointed for a term of three years ending on 31 July 2012, subject to the Company' Articles of Association and shareholders' re-election provisions.

Fees for non-executive directors are determined by the board and are made up of an annual fee for acting as a non-executive director of the Company together with additional fees for membership of and chairing a board committee. There is a further fee for acting as Senior Independent Director ("SID"). The non-executive directors do not take part in discussions on their own remuneration which is reviewed annually. The fees are set to reflect the time which they are required to commit to their duties, their experience and the amounts paid to non-executive directors in comparable companies. Fees for the non-executive directors remained frozen for 2010, however their total fee increased due to each non-executive director agreeing to become members of all committees of the board effective 1 May 2010. Martina King joined the Nomination and Remuneration Committees, Sophie Turner Laing joined the Audit and Remuneration Committees and Adam Crozier joined the Nomination Committee. In addition, upon the resignation of Paul Pindar on 30 April 2010, Dennis Millard assumed the position of Senior Independent Director.

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

Name	Date of joining the Group	Basic fee	Committee member fee	Committee Chairman fee	SID fee	Total annual fee
Nigel Northridge	1 January 2010	175,000	0	0	0	175,000
Dennis Millard	9 May 2006	40,000	5,000	10,000	10,000	65,000
Adam Crozier	9 May 2006	40,000	5,000	7,500	0	52,500
Martina King	1 August 2009	40,000	7,500	0	0	47,500
Sophie Turner Laing	1 August 2009	40,000	7,500	0	0	47,500

Rob Templeman, Chris Woodhouse and Michael Sharp entered into service agreements with the Company on 3 May 2006. Each agreement is terminable by either party giving not less than 12 months' written notice. It is the Company's policy that the notice periods of executive directors' should not exceed one year. The Remuneration Committee has considered the financial consequences of early termination of directors' service contracts; in order to limit and provide certainty in the event of termination of a contract without cause, the directors' contracts contain liquidated damages clauses. If the Company terminates the employment without due notice, other than in circumstances such as gross misconduct or other immediate justifiable cause, the Company is required to make a payment equal to the aggregate of the executive director's basic salary and the value of their contractual benefits for the notice period together with a payment equal to the average of the annual bonus paid to the executive director in the two bonus years prior to the termination of employment. The liquidated damages clause within service agreements of any future executive directors appointed to the board will exclude the requirement to make a payment by reference to any bonus payments made prior to termination.

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

Rob Templeman and Chris Woodhouse's contracts permit each of them to hold up to two non-executive directorships in non-competing companies and to retain payments received in respect of those other directorships. Chris Woodhouse, who is Group non-executive Chairman of Gondola Group Limited, retained fees of £150,000 (2009: £170,000).

Directors' Shareholdings

The interests of the directors in the share capital of the Company as at 28 August 2010 are shown below. Awards granted under the PSP and ESOS are shown in Part 2 of this report.

Director	Ordinary shares held as at 29 August 2009 or date of appointment	Ordinary shares held as at 28 August 2010	Ordinary shares held as at 21 October 2010
Nigel Northridge	0	100,000	100,000
Rob Templeman	14,558,769	14,558,769	14,558,769
Michael Sharp(1)	5,854,579	5,854,579	5,854,579
Chris Woodhouse	11,828,664	3,152,387	3,152,387
Adam Crozier	32,681	32,681	32,681
Martina King	0	10,000	10,000
Dennis Millard	69,455	69,455	69,455
Sophie Turner-Laing	0	20,000	20,000

(1) As at 21 October 2010 Mr Sharp's holding includes 218,904 shares held by The Sharp Discretionary Settlement of which the director is a Trustee.

Given the level of shareholding by executive directors, at this time the Committee does not feel it is necessary to have formal shareholding guidelines. This will, however, be kept under review.

Part 2: Audited Information

Directors' Emoluments

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

Director	Salary/fees £	Benefits £	Bonus £	Annual allowance in lieu of pension £	Total 2010 £	Total 2009 £
John Lovering(1)	145,833				145,833	250,000
Nigel Northridge(2)	83,542				83,542	–
Rob Templeman(3)	673,070	30,506	673,070	100,961	1,477,607	1,245,642
Chris Woodhouse	457,678	23,445	457,678	68,652	1,007,453	1,007,349
Michael Sharp	540,000	34,182	540,000	81,030	1,195,212	968,644
Adam Crozier	50,833				50,833	46,872
Martina King	44,167				44,167	3,542
Dennis Millard	58,333				58,333	55,000
Paul Pindar(4)	40,000				40,000	53,744
Sophie Turner-Laing	44,167				44,167	3,542
Total	2,137,623	88,133	1,670,748	250,643	4,147,147	3,634,335

(1) Mr Lovering retired from the board on 31 March 2010.
(2) Mr Northridge was appointed as Chairman on 1 April 2010. Prior to that date he had served as a non-executive director since 1 January 2010 for which his fees were based on the basic non-executive fee of £40,000 pa.
(3) Rob Templeman's taxable benefits this year have decreased as a result of the now minimal remaining P11D charge for the company car returned during 2009.
(4) Mr Pindar retired from the board on 30 April 2010.

Remuneration Report continued

Pension

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

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

Director	Increase in accrued pension during the year £	Increase in accrued pension during the year (net of inflation) £	Accumulated total accrued pension at 28 August 2010 £	Transfer value as at 29 August 2009 of accrued pension as at 29 August 2009 £	Transfer value as at 28 August 2010 of accrued pension as at 28 August 2010 £	Increase in transfer value during the period £
Michael Sharp	249	249	181,695	3,306,194	3,843,656	537,462

Directors' Interests in the Performance Share Plan

Director	Date of award	Number of shares held at 29 August 2009	Shares awarded during the year	Shares lapsed during the year	Number of shares held at 28 August 2010	Market value on date of award	Earliest date of vesting	Expiry date of option
Rob Templeman	24 November 2006	169,857	–	169,857	–	196.00p		
Chris Woodhouse	24 November 2006	115,501	–	115,501	–	196.00p		
Michael Sharp	24 November 2006	107,348	–	107,348	–	196.00p		
	24 November 2009	–	485,902	–	485,902	83.53p	24/11/2012	24/05/2013

Note: The November 2006 awards lapsed since the applicable performance conditions were not achieved as at 29 August 2009.

Directors' Interests in the Executive Share Option Scheme

Director	Date of grant	Number of shares under option held at 29 August 2009	Shares granted during the year	Shares lapsed during the year	Option price	Number of shares held at 28 August 2010	Earliest date of exercise	Expiry date of option
Michael Sharp	Approved Scheme: 24 November 2009	–	35,108	–	85.45p	35,108	24/11/2012	24/11/2019
	Unapproved Scheme: 24 November 2009	–	438,853	–	85.45p	438,853	24/11/2012	24/11/2019

The closing mid-market price of the Company's shares on 28 August 2010 was 58.75 pence and ranged from 53 pence to 89.5 pence during the period from 29 August 2009 to 28 August 2010.

On behalf of the board

Adam Crozier
Chairman of the Remuneration Committee
21 October 2010

Statement of Directors' Responsibilities

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the 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 the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement Pursuant to Disclosure and Transparency Rule 4.1.12
Each of the directors, whose names and functions are detailed on page 37, confirm that to the best of his/her knowledge:

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

Independent Auditors' Report to the Members of Debenhams plc (Group)

We have audited the Group Financial Statements of Debenhams plc for the year ended 28 August 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Changes in Equity, the Consolidated Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 59, the directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 28 August 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Report, set out on pages 38 to 40, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other Matter

We have reported separately on the Parent Company Financial Statements of Debenhams plc for the year ended 28 August 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

M R Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 October 2010

Consolidated Income Statement

For the financial year ended 28 August 2010

	Note	For the financial year ended: 28 August 2010 £m	29 August 2009 £m
Revenue	4	**2,119.9**	1,915.6
Cost of sales		**(1,838.9)**	(1,650.7)
Analysed as:			
Cost of sales before exceptional items		**(1,829.5)**	(1,650.7)
Exceptional cost of sales	7	**(9.4)**	–
Gross profit		**281.0**	264.9
Distribution costs		**(55.1)**	(45.3)
Administrative expenses		**(43.0)**	(37.4)
Analysed as:			
Administrative expenses before exceptional items		**(40.2)**	(37.4)
Exceptional administrative expenses	7	**(2.8)**	–
Other exceptional income	7	**6.8**	–
Operating profit	6	**189.7**	182.2
Analysed as:			
Operating profit before exceptional items		**195.1**	182.2
Exceptional items	7	**(5.4)**	–
Interest receivable and similar income	9	**6.7**	1.3
Interest payable and similar charges	10	**(56.5)**	(62.7)
Profit before taxation		**139.9**	120.8
Taxation	11	**(42.9)**	(25.7)
Analysed as:			
Taxation before exceptional items		**(44.6)**	(25.7)
Taxation credit on exceptional items		**1.7**	–
Profit for the financial year attributable to equity shareholders		**97.0**	95.1

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

		Pence per share	Pence per share
Basic	13	**7.5**	10.0
Diluted	13	**7.5**	10.0

Dividends per share (expressed in pence per share)

		Pence per share	Pence per share
Proposed final dividend per share	12	**–**	–

Consolidated Statement of Comprehensive Income

For the financial year ended 28 August 2010

	Note	28 August 2010 £m	29 August 2009 £m
Profit for the financial year		**97.0**	95.1
Other comprehensive income/(expense)			
Actuarial losses recognised in the pension schemes	24	**(37.1)**	(93.6)
Deferred tax movement on actuarial losses	25	**7.8**	26.2
Currency translation differences		**(6.8)**	(0.3)
Change in the valuation of the available-for-sale investments	16	**(1.0)**	(2.2)
Cash flow hedges			
– net fair value gains/(losses)		**24.0**	(12.8)
– tax on net fair value (gains)/losses		**(6.5)**	3.6
– reclassified and reported in net profit		**6.8**	–
– tax on items reclassified and reported in net profit		**(1.9)**	–
– recycled and adjusted against the cost of inventory		**(4.3)**	(27.9)
– tax on items recycled against the cost of inventory		**1.2**	7.8
Total other comprehensive expense		**(17.8)**	(99.2)
Total comprehensive income/(expense) for the year		**79.2**	(4.1)

Consolidated Balance Sheet

Company number 5448421

As at 28 August 2010

	Note	28 August 2010 £m	29 August 2009 £m
Assets			
Non-current assets			
Intangible assets	14	**846.2**	839.9
Property, plant and equipment	15	**676.1**	669.2
Available-for-sale investments	16	**7.8**	8.8
Derivative financial instruments	23	**0.9**	0.2
Other receivables	18	**17.2**	–
Deferred tax assets	25	**92.0**	80.6
		1,640.2	1,598.7
Current assets			
Inventories	17	**295.3**	270.9
Trade and other receivables	18	**73.4**	68.5
Derivative financial instruments	23	**8.9**	9.5
Cash and cash equivalents	19	**69.5**	188.2
		447.1	537.1
Liabilities			
Current liabilities			
Bank overdraft and borrowings	21	**(545.7)**	(92.6)
Derivative financial instruments	23	**(1.8)**	(24.2)
Trade and other payables	20	**(494.2)**	(458.6)
Current tax liabilities		**(37.5)**	(34.0)
Provisions for liabilities and charges	27	**(4.4)**	(2.1)
		(1,083.6)	(611.5)
Net current liabilities		**(636.5)**	(74.4)
Non-current liabilities			
Bank overdraft and borrowings	21	**(40.6)**	(685.9)
Derivative financial instruments	23	**(7.5)**	(8.0)
Deferred tax liabilities	25	**(83.8)**	(78.3)
Other non-current liabilities	26	**(285.7)**	(273.0)
Provisions for liabilities and charges	27	**(2.0)**	(0.2)
Retirement benefit obligations	24	**(80.7)**	(53.6)
		(500.3)	(1,099.0)
Net assets		**503.4**	425.3
Shareholders' equity			
Share capital	29	**0.1**	0.1
Share premium		**682.9**	682.9
Merger reserve		**1,200.9**	1,504.7
Reverse acquisition reserve		**(1,199.9)**	(1,199.9)
Hedging reserve		**0.8**	(18.5)
Other reserves		**(5.2)**	2.6
Retained earnings		**(176.2)**	(546.6)
Total equity		**503.4**	425.3

The Financial Statements on pages 61 to 104 were approved by the board on 21 October 2010 and were signed on its behalf by:

C K Woodhouse
Director

Consolidated Statement of Changes in Equity

As at 28 August 2010

	Share capital and share premium £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m
Balance at 31 August 2008	683.0	1,200.9	(1,199.9)	10.8	5.1	(574.6)	125.3
Profit for the financial year	–	–	–	–	–	95.1	95.1
Actuarial loss on pension schemes	–	–	–	–	–	(93.6)	(93.6)
Deferred tax movement on pension schemes	–	–	–	–	–	26.2	26.2
Change in the value of available-for-sale investments	–	–	–	–	(2.2)	–	(2.2)
Currency translation differences	–	–	–	–	(0.3)	–	(0.3)
Cash flow hedges							
– net fair value losses (net of tax)	–	–	–	(9.2)	–	–	(9.2)
– recycled and adjusted against the cost of inventory (net of tax)	–	–	–	(20.1)	–		(20.1)
Total comprehensive income and expense for the financial year	**–**	**–**	**–**	**(29.3)**	**(2.5)**	**27.7**	**(4.1)**
Share-based payment charge	–	–	–	–	–	0.3	0.3
Share issue	–	303.8	–	–	–	–	303.8
Discount arising on repurchase of term loan facility (net of tax)	–	–	–	–	–	2.4	2.4
Dividends paid	–	–	–	–	–	(4.3)	(4.3)
Shares issued in lieu of dividends	–	–	–	–	–	1.9	1.9
Total transactions with owners	**–**	**303.8**	**–**	**–**	**–**	**0.3**	**304.1**
Balance at 29 August 2009	**683.0**	**1,504.7**	**(1,199.9)**	**(18.5)**	**2.6**	**(546.6)**	**425.3**
Profit for the financial year	–	–	–	–	–	97.0	97.0
Actuarial loss on pension schemes	–	–	–	–	–	(37.1)	(37.1)
Deferred tax movement on pension schemes	–	–	–	–	–	7.8	7.8
Change in the value of available-for-sale investments	–	–	–	–	(1.0)	–	(1.0)
Currency translation differences	–	–	–	–	(6.8)	–	(6.8)
Cash flow hedges							
– net fair value gains (net of tax)	–	–	–	17.5	–	–	17.5
– reclassified and reported in net profit (net of tax)	–	–	–	4.9	–	–	4.9
– recycled and adjusted against the cost of inventory (net of tax)	–	–	–	(3.1)	–	–	(3.1)
Total comprehensive income and expense for the financial year	**–**	**–**	**–**	**19.3**	**(7.8)**	**67.7**	**79.2**
Share-based payment charge	–	–	–	–	–	1.3	1.3
Redemption of preference shares	–	(303.8)	–	–	–	303.8	–
Discount arising on repurchase of term loan facility (net of tax)	–	–	–	–	–	(2.4)	(2.4)
Total transactions with owners	**–**	**(303.8)**	**–**	**–**	**–**	**302.7**	**(1.1)**
Balance at 28 August 2010	**683.0**	**1,200.9**	**(1,199.9)**	**0.8**	**(5.2)**	**(176.2)**	**503.4**

For a description of the nature and purpose of each reserve see note 29.

Consolidated Cash Flow Statement

For the financial year ended 28 August 2010

	Note	28 August 2010 £m	29 August 2009 £m
		For the financial year ended:	
Cash flows from operating activities			
Cash generated from operations	32	**299.2**	241.0
Interest received		**2.7**	1.1
Interest paid		**(49.6)**	(58.4)
Tax paid		**(44.1)**	(25.3)
Transaction costs on acquisition of Magasin		**(1.0)**	–
Net cash generated from operating activities		**207.2**	158.4
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		**(9.1)**	–
Purchase of property, plant and equipment		**(78.5)**	(77.0)
Purchase of intangible assets		**(11.2)**	(7.5)
Proceeds from sale of property, plant and equipment	32	**0.2**	–
Net cash used in investing activities		**(98.6)**	(84.5)
Cash flows from financing activities			
Repayment of term loan facility	21	**(159.7)**	(150.0)
Repurchase of term loan facility		**(52.3)**	(35.5)
Proceeds from issue of ordinary shares	29	**–**	323.2
Share issue costs		**(4.7)**	(14.7)
Dividends paid	12	**–**	(2.4)
Finance lease payments		**(0.5)**	(0.1)
Debt issue costs	21	**(10.1)**	(3.3)
Net cash (used)/generated in financing activities		**(227.3)**	117.2
Net (decrease)/increase in cash and cash equivalents		**(118.7)**	191.1
Net cash and cash equivalents at beginning of financial year	19	**188.2**	(2.9)
Net cash and cash equivalents at end of financial year	19	**69.5**	188.2

Notes to the Financial Statements

For the financial year ended 28 August 2010

1 Basis of Preparation and General Information

Introduction

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

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

The Group prepares its Financial Statements for the financial year ending on the nearest Saturday to 31 August of a given calendar year.

The principal companies within the Group during the financial year ended 28 August 2010 are disclosed in note 35.

Basis of Preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The Consolidated Financial Statements for the financial year ended 28 August 2010 and 29 August 2009 have been prepared under the historical cost convention as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

2 Accounting Policies

The Group's principal accounting policies are described below.

Consolidation

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

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

2 Accounting Policies continued

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

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

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

Segmental Reporting
IFRS 8 "Operating Segments" requires segment information to be presented based on what is reported to the Chief Operating Decision Maker. The Group has identified the executive management board as its Chief Operating Decision Maker and has identified one operating segment, Retail.

Interest Recognition
Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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

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

Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the Income Statement and presented in the Statement of Comprehensive Income.

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

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

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

2 Accounting Policies continued

Share-Based Payments

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

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

The proceeds received net of any directly attributable transaction costs are credited to share capital (at nominal value) and share premium when the options are exercised.

Exceptional Items

Exceptional items are events or transactions which, by virtue of their size or nature, have been disclosed in order to improve a reader's understanding of the Financial Statements.

Foreign Exchange

a) Functional and Presentational 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 presentational 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); and
- resulting exchange differences are recognised as a separate component of equity.

c) Transactions and Balances

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

2 Accounting Policies continued

Taxation

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

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

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

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

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

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

Leased Assets

a) Finance Leases

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

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

b) Operating Leases

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

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

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

2 Accounting Policies continued

Business Combinations

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

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

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

Intangible Assets

a) Goodwill

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

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

b) Other Intangible Assets

Acquired licences and trademarks are capitalised at cost and are amortised on a straight-line basis over their useful life, not to exceed ten years.

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. The software is amortised on a straight-line basis over its useful economic life, being three to eight years.

Property, Plant and Equipment

It is the Group's policy to hold properties at cost less accumulated depreciation, subject to the requirement to test assets for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

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

Freehold land	Not depreciated
Freehold buildings	1 per cent
Long leasehold land and buildings including landlords' fixtures and fittings	1 per cent or life of lease if shorter
Short leasehold land and buildings including landlords' fixtures and fittings	Life of lease
Retail fixtures and fittings	4 – 25 per cent
Office equipment	10 – 12.5 per cent
Computer equipment	14 – $33^1/_3$ per cent
Vehicles	25 per cent or life of lease

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

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

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

2 Accounting Policies continued

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

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

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

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

Inventories
Inventories are stated at the lower of cost and net realisable value using the retail method and represent goods for resale. Concession inventories are not included within inventory held by the Group.

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

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

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

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

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

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

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

2 Accounting Policies continued

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.

Provisions

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

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

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

Share Capital

Ordinary shares are classified as equity.

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

Derivatives

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

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

i) Cash Flow Hedges

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

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the Balance Sheet or in the Income Statement.

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

ii) Derivatives That Do Not Qualify For Hedge Accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Income Statement within interest payable and other charges.

2 Accounting Policies continued

New Standards and Interpretations

During the year the Group adopted the following new standards, which have had an impact on the Group:

- IAS 1 (revised) "Presentation of Financial Statements" requires that the Group presents either one performance statement – "Statement of Comprehensive Income"; or two statements – "Income Statement" and "Statement of Comprehensive Income". The Group has elected to present two statements. IAS 1 also requires the presentation of a "Statement of Changes in Equity" to be presented with the same prominence as all other statements. The Financial Statements have been prepared using these revised disclosures.

- IFRS 8 "Operating Segments" requires a management approach to the reporting of segmental information. Further details regarding the adoption of this standard and the new disclosures required are set out in note 3.

- IFRS 3 (revised) "Business Combinations" requires some significant changes to the way business combinations are accounted for. All costs associated with business combinations are expensed directly to the Income Statement. Additionally any changes to contingent consideration classified as debt must now be dealt with through the Income Statement subsequent to acquisition.

- IFRS 7 "Financial Instruments – Disclosures". The amendment requires additional disclosures regarding fair value measurement and liquidity risk. Full disclosures are set out in these Financial Statements. Transitional provisions of the amendment to IFRS 7 have been applied, i.e. comparatives have not been disclosed for the fair value hierarchy.

The following new standards and interpretations are mandatory for the first time this year; however these have no significant impact on the Group:

- IFRIC 12 "Service Concession Arrangements"

- IFRIC 14/IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"

- IFRIC 15 "Agreements for the Construction of Real Estate"

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

- IFRIC 17 "Distributions of Non-Cash Assets to Owners"

- IFRS 2 (amendment) "Share-based Payments" "Amendment to Vesting Conditions and Cancellations".

- IAS 23 (Revised) "Borrowing Costs"

- IAS 27 (Revised) "Consolidated and Separate Financial Statements"

- Amendment to IAS 32 "Financial Instruments: Presentation" relating to puttable financial instruments and obligations arising on liquidation

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" on eligible hedged items

- Annual improvements to IFRSs (2008)

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

2 Accounting Policies continued

During the year, the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these Financial Statements:

		Effective date
International Accounting Standards (IFRS)		
IFRS 2 amendment	Share-based Payments – Group settled share-based payment transactions	1 January 2010
IFRS 9	Financial instruments	1 January 2013
IAS 32 amendment	Presentation on classification of rights issue	1 February 2010
IAS 24 amendment	Related party disclosures	1 January 2011
Annual improvements to IFRSs (2009)		
IFRIC Interpretations		
IFRIC 14 amendment	Prepayments on a minimum funding requirement	1 January 2011
IFRIC 18	Transfers of assets from customers	31 October 2009
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010

IFRS 9 has not yet been adopted by the European Union.

The Group is currently considering the implications of the adoption of these standards and interpretations. They are not expected to have a material impact on the Group's Financial Statements.

3 Segmental Reporting

The Group has adopted IFRS 8 "Operating Segments" with effect from 30 August 2009. IFRS 8 requires disclosure of the operating segments which are reported to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the executive management board, which includes the executive directors and other key management. It is the executive management board that has responsibility for planning and controlling the activities of the Group.

The Group's reportable segment has been identified as Retail. The operating segment Magasin is not a reportable segment as it does not exceed 10 per cent of Group revenues, profits or gross assets; however, this information has been presented voluntarily within the segmental analysis below. The segments are reported to the CODM to operating profit level, using the same accounting policies as applied to the Group accounts.

The Group has elected to adopt early the 2009 amendment to IFRS 8, which is effective for periods commencing on 1 January 2010. This amendment states that an entity should only disclose a measure of segment assets when one is provided to the CODM. No analysis is provided to the executive management board of the assets and liabilities of each operating segment within the monthly reporting pack.

3 Segmental Reporting continued

Segmental analysis of results

	Retail £m	Magasin £m	Total £m
Year ended 28 August 2010			
Gross transaction value	**2,373.2**	**191.1**	**2,564.3**
Concessions, consignments, staff discounts and loyalty schemes	**(356.9)**	**(87.5)**	**(444.4)**
External revenue	**2,016.3**	**103.6**	**2,119.9**
Operating profit before exceptional items	**193.6**	**1.5**	**195.1**
Exceptional items	**(3.6)**	**(1.8)**	**(5.4)**
Operating profit/(loss) after exceptional items	**190.0**	**(0.3)**	**189.7**
Other segment items			
– Depreciation	**82.0**	**2.9**	**84.9**
– Amortisation of intangible assets	**8.3**	**1.0**	**9.3**
Year ended 29 August 2009			
Gross transaction value	2,339.7	–	2,339.7
Concessions, staff discounts and loyalty schemes	(424.1)	–	(424.1)
External revenue	1,915.6	–	1,915.6
Operating profit	182.2	–	182.2
Other segment items			
– Depreciation	88.0	–	88.0
– Amortisation of intangible assets	8.1	–	8.1

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

	28 August 2010 £m	29 August 2009 £m
United Kingdom	**1,799.8**	1,690.4
Republic of Ireland	**150.4**	161.9
Denmark	**103.6**	–
Rest of the world	**66.1**	63.3
Total	**2,119.9**	1,915.6

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

	28 August 2010 £m	29 August 2009 £m
United Kingdom	**1,469.6**	1,462.0
Republic of Ireland	**40.8**	47.1
Denmark	**29.1**	–
Total	**1,539.5**	1,509.1

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

4 Gross Transaction Value

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

	28 August 2010 £m	29 August 2009 £m
Gross transaction value	**2,564.3**	2,339.7

5 Critical Accounting Estimates and Judgements

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

Estimated Impairment of Goodwill

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

Taxation and Deferred Taxation

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

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

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

Share-Based Payments

The Group issues equity-settled share-based payments to certain employees. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period. The fair value is calculated using the appropriate fair value model with the estimated level of vesting being reviewed annually by management. The key assumptions of this model are set out in note 30.

Pension Liability

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

Other key assumptions for pension obligations are based in part on current market conditions; additional information relating to this is disclosed in note 24.

Estimated Useful Life of Property, Plant and Equipment

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

6 Operating Profit

	28 August 2010 £m	29 August 2009 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**11.3**	10.2
Cost of inventories recognised as an expense	**1,082.3**	983.6
Employment costs (note 8)	**378.1**	321.2
Depreciation of property, plant and equipment (note 15)	**84.8**	87.9
Accelerated depreciation of property, plant and equipment (note 15)	**0.1**	0.1
Amortisation of intangible assets (note 14)	**9.3**	8.1
Loss on disposal of property, plant and equipment	**0.4**	0.2
Operating lease rentals	**189.9**	168.0
Foreign exchange gains	**(6.3)**	(3.4)
Repairs and maintenance expenditure on property, plant and equipment	**11.6**	10.5
Auditors' remuneration	**0.5**	1.0

Services Provided by the Company's Auditor and Network Firms

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

	28 August 2010 £m	29 August 2009 £m
Audit services		
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	**0.2**	0.2
Other services		
The audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services		
– Tax advisory services	**–**	0.1
– Other services	**0.2**	0.6

Other services comprise advisory work relating to the acquisition of Magasin of £0.1 million (2009: capital raising through the Firm Placing and the Placing and Open offer of shares in June 2009, totalling £0.6 million) and £27,000 (2009: £46,000) relating to the defined benefit pension scheme audits. It is cost effective for the Group that such services are provided by its auditor in view of their knowledge of the Group's affairs.

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

7 Exceptional Items

Exceptional items comprise the following (the operating segment of each item is shown in brackets):

	Note	28 August 2010 £m
Exceptional cost of sales		
Restructuring costs (Retail)	a	**(9.4)**
Exceptional administrative expenses		
Restructuring costs (Magasin)	b	**(1.8)**
Costs on acquisition of Magasin (Retail)	c	**(1.0)**
		(2.8)
Other exceptional income		
Bargain purchase credit – Magasin (Retail)	d	**6.8**
Net exceptional items		**(5.4)**

There were no exceptional items in the 52 weeks to 29 August 2009.

a Restructuring costs included in cost of sales represents the amount incurred for redundancies within the Republic of Ireland.

b Restructuring costs recognised in administrative expenses represents the amount incurred in respect of restructuring costs in Magasin.

c The total of the directly attributable transaction costs on the acquisition of Magasin included in exceptional administrative expenses is £1.0 million.

d Further details of the bargain purchase credit on acquisition of Magasin are set out in note 28.

8 Employees

	28 August 2010 £m	29 August 2009 £m
Wages and salaries	**337.5**	294.6
Social security costs	**23.9**	23.3
Pension cost/(credit)	**8.2**	(0.3)
Share-based payments (note 30)	**1.3**	0.3
Short-term employee benefits	**7.2**	3.3
Total employment costs	**378.1**	321.2

	Number	Number
Average number of employees (including key management):		
– Full time	**9,019**	8,601
– Part time	**21,398**	19,165
Total	**30,417**	27,766

Included in pension cost/(credit) above is £0.7 million (2009: £0.6 million) of contributions payable to key management's personal pension plans.

Information concerning directors' remuneration, interest in shares and share options is included in the Remuneration Report on pages 50 to 58, which forms part of these Financial Statements.

Key Management Compensation

	28 August 2010 £m	Restated 29 August 2009 £m
Salaries and short-term benefits	**5.5**	5.0
Compensation for loss of office	**–**	0.5
Post-employment benefits	**0.7**	0.6
Share-based payments	**0.2**	–
	6.4	6.1

Members of the executive management board (which includes the executive directors) and the non-executive directors are deemed to be key management. It is the board who has responsibility for planning and controlling the activities of the Group. During the year key management consisted of 13 members (2009: 17 members). The disclosures for the year ended 29 August 2009 have been restated to include the non-executive directors.

9 Interest Receivable and Similar Income

	28 August 2010 £m	29 August 2009 £m
Interest on bank deposits	**2.9**	1.3
Discount arising on debt repurchase	**3.8**	–
	6.7	1.3

10 Interest Payable and Similar Charges

	28 August 2010 £m	29 August 2009 £m
Bank loans and overdrafts	**41.7**	55.0
Charge arising from recycling of cash flow hedge	**6.8**	–
Amortisation of issue costs on loans (note 21)	**5.7**	4.4
Interest payable on finance leases	**2.3**	3.3
	56.5	62.7

11 Taxation

Analysis of Tax Charge in the Financial Year

	28 August 2010 £m	29 August 2009 £m
Current tax:		
UK corporation tax charge on profit for the year	**47.5**	39.8
Adjustments in respect of prior periods	**(0.2)**	(10.5)
Current tax expense	**47.3**	29.3
Deferred taxation:		
Origination and reversal of timing differences	**(6.3)**	(8.5)
Pension cost relief in excess of pension charge	**0.6**	4.2
Adjustments in respect of prior periods	**1.3**	0.7
Deferred tax credit (note 25)	**(4.4)**	(3.6)
Tax charge for the financial year	**42.9**	25.7

The tax for the year is higher (2009: lower) than the rate of corporation tax in the UK of 28.0 per cent (2009: 28.0 per cent). The differences are explained below.

	28 August 2010 £m	29 August 2009 £m
Profit on ordinary activities before tax	**139.9**	120.8
Profit on ordinary activities at standard rate of corporation tax in the UK of 28.0 per cent (2009: 28.0 per cent)	**39.2**	33.8
Effects of:		
Expenses not deductible for tax purposes	**0.1**	0.5
Overseas tax rates	**2.0**	(1.2)
Adjustments in relation to prior periods	**1.1**	(9.8)
Non-qualifying depreciation	**3.2**	2.4
Effect on deferred taxation of the change in corporation tax rate	**(0.1)**	–
Bargain purchase credit not taxable	**(1.9)**	–
Other	**(0.7)**	–
Tax charge for the financial year	**42.9**	25.7

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

11 Taxation continued

A number of changes to the UK corporation tax system were announced in the June 2010 budget statement. The Finance (No2) Act 2010, which was substantially enacted on 20 July 2010, included legislation reducing the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 24 per cent by 1 April 2014. These further changes had not been substantially enacted at the balance sheet date and are therefore not included in these Financial Statements.

As at the balance sheet date, the effect of the reduction in the corporation tax rate enacted in the Finance (No 2) Act 2010 has been to reduce the net deferred tax asset recognised at 28 August 2010 by approximately £0.3 million. This £0.3 million decrease has been recognised partly as an increase to profits in the Income Statement (£0.1 million) and partly as a loss in the Statement of Comprehensive Income of £0.4 million in line with the treatment of the assets and liabilities giving rise to the net deferred tax asset.

The proposed reductions of the main rate of corporation tax by 1 per cent per year to 24 per cent by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27 per cent to 24 per cent, if applied to the deferred tax balances at 28 August, would be to reduce the net deferred tax asset by approximately £0.8 million.

12 Dividends

	28 August 2010 £m	29 August 2009 £m
Final paid nil pence (2009: 0.5 pence) per £0.0001 share		
– Settled in cash	**–**	2.4
– Settled in scrip issue	**–**	1.9
	–	4.3

The directors are not proposing a final dividend in respect of the financial year ended 28 August 2010 (2009: nil pence per share). The final dividend in respect of the year ended 30 August 2008, which was paid in the year ended 29 August 2009, absorbed £4.3 million of shareholders' funds.

13 Earnings Per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. 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 year.

Basic and Diluted Earnings Per Share

	28 August 2010		29 August 2009	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Profit for the financial year after taxation	**97.0**	**97.0**	95.1	95.1
	Number m	**Number m**	Number m	Number m
Weighted average number of shares	**1,286.8**	**1,286.8**	950.8	950.8
Shares held by ESOP (weighted)	**(0.9)**	**(0.9)**	(1.4)	(1.4)
Shares issuable (weighted)	**–**	**0.2**	–	–
Adjusted weighted average number of shares	**1,285.9**	**1,286.1**	949.4	949.4
	Pence per share	**Pence per share**	Pence per share	Pence per share
Earnings per share	**7.5**	**7.5**	10.0	10.0

14 Intangible Assets

	Goodwill £m	Licences and trademarks £m	Software £m	Total £m
Cost				
At 30 August 2008	818.5	2.7	47.5	868.7
Additions	–	–	6.3	6.3
Exchange rate movement	0.7	–	0.2	0.9
Disposals	–	–	(1.3)	(1.3)
At 29 August 2009	819.2	2.7	52.7	874.6
Additions	–	4.5	9.6	14.1
Acquisition of Magasin du Nord	–	–	2.2	2.2
Exchange rate movement	(0.5)	–	(0.2)	(0.7)
Disposals	–	–	(3.0)	(3.0)
At 28 August 2010	**818.7**	**7.2**	**61.3**	**887.2**
Accumulated amortisation				
At 30 August 2008	–	0.4	27.5	27.9
Charge for the year	–	0.2	7.9	8.1
Disposals	–	–	(1.3)	(1.3)
At 29 August 2009	–	0.6	34.1	34.7
Charge for the year	–	0.3	9.0	9.3
Exchange rate movement	–	–	(0.1)	(0.1)
Disposals	–	–	(2.9)	(2.9)
At 28 August 2010	**–**	**0.9**	**40.1**	**41.0**
Net book amount				
At 28 August 2010	**818.7**	**6.3**	**21.2**	**846.2**
At 29 August 2009	819.2	2.1	18.6	839.9
At 30 August 2008	818.5	2.3	20.0	840.8

Software Development Costs

Internally generated computer software capitalised during the period was £5.8 million (2009: £6.3 million). Externally developed application software capitalised during the year amounted to £3.8 million (2009: £2.9 million).

Amortisation of Intangible Assets

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

	28 August 2010 £m	29 August 2009 £m
Included within:		
– cost of sales	**7.1**	6.7
– distribution costs	**0.6**	0.5
– administrative expenses	**1.6**	0.9
	9.3	8.1

Impairment Test for Goodwill

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

	North £m	**Midlands £m**	**South-East £m**	**South-West £m**	**South £m**	**Other £m**	**Total £m**
Goodwill	159.3	184.3	180.1	185.3	102.8	6.9	818.7

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

14 Intangible Assets continued

For the purposes of this impairment review, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These cash flow projections are based on financial budgets approved by management covering a five-year period. The key assumptions used in these projections are sales growth and discount rates. The projections also assume that the change in sales mix from concessions to own bought stock will result in improved gross margins. The five-year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Cash flows beyond the five-year period are extrapolated based on the assumption of no growth after year five. The growth rates do not exceed the long-term average growth rate for the retail sector in which the CGUs operate. The pre-tax discount rate used to calculate the value-in-use was 8.0 per cent (2009: 8.0 per cent) and reflects the specific risks in the retail business.

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

As a result of the impairment review, as at 28 August 2010, no impairment of goodwill has been required (2009: nil).

15 Property, Plant and Equipment

	Land and buildings				
	Freehold £m	Long-leasehold £m	Short-leasehold fixtures and fittings £m	Vehicles, fixtures and equipment £m	Total £m
Cost					
At 30 August 2008	51.0	11.4	324.3	680.8	1,067.5
Additions	–	–	11.8	49.0	60.8
Exchange rate movements	–	–	0.6	3.8	4.4
Disposals and write-offs	–	–	(0.1)	(12.5)	(12.6)
At 29 August 2009	51.0	11.4	336.6	721.1	1,120.1
Additions	–	0.1	11.9	71.1	83.1
Acquisition of Magasin du Nord	–	–	2.0	10.6	12.6
Exchange rate movements	–	–	(0.7)	(4.8)	(5.5)
Disposals and write-offs	(0.4)	–	–	(32.4)	(32.8)
Reclassification	–	–	(10.7)	10.7	–
At 28 August 2010	**50.6**	**11.5**	**339.1**	**776.3**	**1,177.5**
Accumulated depreciation					
At 30 August 2008	1.8	1.0	55.5	315.9	374.2
Charge for the year	0.4	0.2	13.6	73.7	87.9
Exchange rate movements	–	–	–	1.1	1.1
Accelerated depreciation	–	–	–	0.1	0.1
Disposals and write-offs	–	–	–	(12.4)	(12.4)
At 29 August 2009	2.2	1.2	69.1	378.4	450.9
Charge for the year	0.3	0.3	14.0	70.2	84.8
Exchange rate movements	–	–	(0.1)	(2.0)	(2.1)
Accelerated depreciation	–	–	–	0.1	0.1
Disposals and write-offs	(0.4)	–	–	(31.9)	(32.3)
Reclassification	–	–	0.2	(0.2)	–
At 28 August 2010	**2.1**	**1.5**	**83.2**	**414.6**	**501.4**
Net book value					
At 28 August 2010	**48.5**	**10.0**	**255.9**	**361.7**	**676.1**
At 29 August 2009	48.8	10.2	267.5	342.7	669.2
At 30 August 2008	49.2	10.4	268.8	364.9	693.3

15 Property, Plant and Equipment continued

Assets in the course of construction included in property, plant and equipment at the financial year end are as follows:

	28 August 2010 £m	29 August 2009 £m
Assets in the course of construction	**38.0**	40.3

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

	Vehicles, fixtures and equipment		Freehold and long-leasehold land and buildings	
	28 August 2010 £m	29 August 2009 £m	**28 August 2010 £m**	29 August 2009 £m
Cost	**4.2**	3.4	**53.5**	53.5
Aggregate depreciation	**2.3**	2.4	**3.2**	2.9
Net book value	**1.9**	1.0	**50.3**	50.6

Contractual commitments at 28 August 2010 were £3.9 million (2009: £7.2 million).

16 Financial Assets – Available-for-Sale Investments

	£m
At 30 August 2008	11.0
Decrease in the market value charged to the Statement of Comprehensive Income	(2.2)
At 29 August 2009	8.8
Decrease in the market value charged to the Statement of Comprehensive Income	(1.0)
At 28 August 2010	**7.8**

The Group holds 10 per cent (2009: 10 per cent) of the issued shares of Ermes Department Stores Limited ("Ermes"), a company listed on the Cyprus Stock Exchange. The market value of the shares at 28 August 2010 was £2.8 million (2009: £3.9 million). Ermes is a company that is registered and trades in Cyprus and their shares are quoted in euros.

The Group holds 100 per cent (2009: 100 per cent) of the "A" ordinary shares in BF Properties (No.4) Limited, which cost £3.0 million and have a fair value of £5.0 million (2009: £4.9 million). These shares carry no voting rights. The directors consider that the ultimate parent undertaking and controlling party of BF Properties (No.4) Limited is The British Land Company plc.

BF Properties (No.4) Limited was incorporated in Great Britain. The address of its principal place of business is York House, 45 Seymour Street, London W1H 7LX.

BF Properties (No.4) Limited's year-end is 31 March and it continues to report in accordance with UK GAAP. The aggregate amount of the capital and reserves of BF Properties (No.4) Limited at 31 March 2009 was £51,018,999. The loss of BF Properties (No.4) Limited for the year ended 31 March 2009 was £90,004,969. This is the most recent set of published results for the company.

The investment in BF Properties (No.4) Limited has been calculated by discounting the future expected proceeds from the investment at the prevailing interest rate of 1.02 per cent (2009: 1.36 per cent).

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

17 Inventories

	28 August 2010 £m	29 August 2009 £m
Items held for resale	**295.3**	270.9

Inventory is valued at the lower of cost and net realisable value using the retail method. This method intrinsically takes into account any stock loss or mark down to goods sold below cost.

Write downs of inventories are disclosed in note 6.

18 Trade and Other Receivables

	28 August 2010 £m	29 August 2009 £m
Non-current		
Other receivables	**17.2**	–

Other receivables include contractual lease deposits of £16.1 million (2009: nil).

	28 August 2010 £m	29 August 2009 £m
Current		
Trade receivables	**20.1**	22.4
Allowance for doubtful debts	**(0.1)**	(0.6)
	20.0	21.8
Other receivables	**1.1**	0.9
Prepayments and accrued income	**52.3**	45.8
	73.4	68.5

At the year-end, £17.6 million (2009: £21.9 million) of the trade receivables are denominated in sterling, £0.4 million (2009: £0.5 million) are denominated in euros and £2.1 million (2009: nil) in Danish kroner.

Trade receivables which are up to 90 days past their due date but not impaired amount to £3.4 million (2009: £4.1 million).

Trade receivables between 60 days and 90 days are provided based on estimated irrecoverable amounts from the sale of goods.

At 28 August 2010, £0.1 million (2009: £0.6 million) of trade receivables were past their due date and impaired.

19 Cash and Cash Equivalents

Net cash and cash equivalents include the following for the purposes of the Cash Flow Statement and Balance Sheet:

	28 August 2010 £m	29 August 2009 £m
Cash at bank and in hand	**28.6**	30.6
Short-term bank deposits	**40.9**	157.6
	69.5	188.2

	28 August 2010	29 August 2009
Effective interest rate on short-term bank deposits (per cent)	**0.6**	0.5
Average maturity date (days)	**1.0**	11.6

20 Trade and Other Payables

	28 August 2010 £m	29 August 2009 £m
Trade payables	**299.8**	274.8
Other payables	**60.3**	73.9
Other taxation and social security	**31.6**	23.9
Accruals	**101.2**	85.4
Deferred income	**1.3**	0.6
	494.2	458.6

Included in other payables at 28 August 2010 was nil (2009: £25.9 million) relating to debt buy-backs pending settlement at the balance sheet date.

21 Bank Overdraft and Borrowings

	28 August 2010 £m	29 August 2009 £m
Current		
Term loan facility(1)	**541.9**	88.9
Lease obligations	**3.8**	3.7
	545.7	92.6
Non-current		
Term loan facility(1)	**–**	642.8
Lease obligations	**40.6**	43.1
	40.6	685.9

(1) Term loan facility includes unamortised issue costs of £10.8 million (2009: £8.6 million).

The Group's credit facilities include a term loan of £555.6 million (2009: £800.0 million) and a Revolving Credit Facility ("RCF") of £250.0 million (2009: £250.0 million) both expiring and repayable in April 2011. The RCF facility was not drawn at 28 August 2010 or 29 August 2009. Interest rates are based on LIBOR and denominated in sterling. In October 2009 a prepayment on the term loan of £100.0 million was made. A further £75.0 million voluntary repayment of the term loan was made in January 2010.

The Group has also taken advantage of current credit market conditions to buy back its debt in the market. During the year the Group purchased debt with a par value of £30.2 million (2009: £61.4 million).

During the year the Group has complied with its covenants relating to its credit facilities.

Issue costs, which mainly relate to facility costs, are being amortised over the term of the facilities at the effective interest rate based on the committed amount of the term loan. The amortisation charge relating to the issue costs of the credit facilities for the year ended 28 August 2010 was £5.7 million (2009: £4.4 million).

The Group signed a new forward starting facility in July 2010, comprising a term loan of £250.0 million and a Revolving Credit Facility of £400.0 million. The new facility is available to the Group from April 2011, upon expiry or cancellation of the existing facility, and expires in October 2013 with an option to extend to October 2014. Additional refinancing costs of £10.3 million were incurred in the year, of which £7.9 million has been capitalised against debt representing the proportion of the facility that is expected to be drawn down. The balance of £2.4 million is included in prepayments at 28 August 2010.

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

21 Bank Overdraft and Borrowings continued

Finance Lease Obligations

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

	28 August 2010		29 August 2009	
	Property leases £m	**Other leases £m**	Property leases £m	Other leases £m
Not later than one year	**7.4**	**0.7**	7.2	0.6
Later than one year but not more than five years	**45.2**	**1.1**	54.1	0.6
	52.6	**1.8**	61.3	1.2
Interest element of future instalments	**(9.9)**	**(0.1)**	(15.5)	(0.2)
	42.7	**1.7**	45.8	1.0

i) Property Lease Obligations

In 1988 a number of properties were sold to a bank on 125-year leases at peppercorn rentals. The Group subsequently entered into full tenant and landlord repairing sub-leases for 125 years. At the year-end the following amounts remained outstanding under the leases:

	28 August 2010 £m	29 August 2009 £m
Principal	**37.7**	37.7
Accrued interest	**5.0**	8.1
Outstanding liability	**42.7**	45.8

The rentals payable are structured so as to give the lessors a financing return linked to LIBOR in the first 25 years and, in the following ten years, a LIBOR linked return together with the repayment of capital. Thereafter, market rentals are payable subject to revision every five years. In the early years, the amounts payable are below LIBOR and in the later years are in excess of LIBOR. The financing costs are, however, allocated over the 25-year period so as to achieve an annual funding cost which is consistent with LIBOR. The Group has limited rights up to the 25th year of the leases to vary the terms of the leases to buy out the rental obligations based on the properties' original sales proceeds. The leases are reflected in fixed assets at their cost to the Group.

Subsequent to the balance sheet date, the Group disposed of six of the nine properties. Further details of the disposal can be found in note 36 to the accounts.

ii) Other Lease Obligations

Other lease obligations relate mainly to security systems, print machinery and vehicles leased under hire purchase contracts.

Maturity of Borrowings

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

	28 August 2010 £m	29 August 2009 £m
Amounts falling due:		
In one year or less or on demand	**545.7**	92.6
In more than one year but not more than two years	**2.3**	646.2
In more than two years but not more than five years	**38.3**	39.7
	586.3	778.5

Interest Rates

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

	28 August 2010 %	29 August 2009 %
Term loan facility	**3.19**	3.58
Lease obligations	**3.78**	4.08

22 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 Finance Director. The board and Audit Committee receive regular reporting covering Treasury activities and policy compliance. Group Treasury manages the Group's funding requirements and financial risks in line with the agreed treasury policies and procedures.

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

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

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

- funding and liquidity risk;
- credit risk;
- foreign exchange risk; and
- interest rate risk.

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

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

i) Funding and Liquidity Risk

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

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

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

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 28 August 2010				
Non-derivative financial liabilities:				
Borrowings	**(548.6)**	**-**	**-**	**-**
Interest payments due on borrowings	**(4.0)**	**-**	**-**	**-**
Finance lease liabilities	**(4.6)**	**(3.2)**	**(38.4)**	**-**
Trade and other payables	**(447.4)**	**-**	**-**	**-**
Derivative financial liabilities:				
Interest rate swaps				
– Net settled derivative contracts – payments	**(5.3)**	**(2.6)**	**(2.7)**	**-**
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	**309.5**	**115.5**	**-**	**-**
– Gross settled derivative contracts – payments	**(302.6)**	**(115.8)**	**-**	**-**
Total	**(1,003.0)**	**(6.1)**	**(41.1)**	**-**

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

22 Financial Risk Management continued

a) Financial Risks and Treasury Management continued

i) Funding and Liquidity Risk continued

	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 29 August 2009				
Non-derivative financial liabilities:				
Borrowings	(92.3)	(646.3)	–	–
Interest payments due on borrowings	(1.7)	–	–	–
Finance lease liabilities	(4.4)	(4.3)	(40.7)	–
Trade and other payables	(415.8)	–	–	–
Derivative financial liabilities:				
Interest rate swaps				
– Net settled derivative contracts – payments	(24.1)	(2.4)	(0.3)	–
Forward foreign exchange contracts				
– Gross settled derivative contracts – receipts	181.0	43.8	–	–
– Gross settled derivative contracts – payments	(177.7)	(44.8)	–	–
Total	(535.0)	(654.0)	(41.0)	–

ii) Credit Risk

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

iii) Foreign Exchange Risk

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

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

A gain of £4.3 million (2009: £27.9 million) was reclassified from equity to the Income Statement within cost of sales during the year in respect of forward foreign exchange contracts designated as cash flow hedges.

The notional value of open forward foreign exchange contracts at 28 August 2010 was £425.0 million (2009: £258.5 million). The net fair value gains on open forward foreign exchange contracts at 28 August 2010 are £6.4 million (2009: losses of £1.6 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next two years.

During the year there were no contracts reclassified to "held for trading" due to cash flow hedges being ineffective.

iv) Interest Rate Risk

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

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

22 Financial Risk Management continued

a) Financial Risks and Treasury Management continued

iv) Interest Rate Risk continued

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

The Group's main interest rate exposure is from the floating rate loans under the credit facilities. At the year end the Group's hedged borrowings amounted to £302.5 million, being 51 per cent of the Group's total borrowings. Following the refinancing in July 2010, the Group is currently reviewing its longer term interest rate hedging arrangements and as part of this process, subsequent to 28 August 2010, additional hedging has been put in place such that the hedging level has increased to above the minimum 60 per cent required by policy.

Interest Rate Swaps

The Group's interest rate swaps switch interest from floating rates to fixed rates. The Group's interest rate swap portfolio is summarised as follows:

	Notional £m	Rate %	Maturity
Interest rate swaps	302.5	1.654–5.373	November 2011 to October 2013

The notional principal amount of interest rate swaps at 29 August 2009 was £727.5 million. The net gains and losses on these swaps, which are deferred in equity, will reverse through interest in the Income Statement over the life of the swaps. During the year a loss of £6.8 million was transferred from equity to the Income Statement within interest payable in respect of a portion of an interest rate swap that was closed during the year.

Financial Liabilities and Assets

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

	At 28 August 2010			At 29 August 2009		
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Financial liabilities						
Sterling[1]	**(306.5)**	**(290.6)**	**(597.1)**	(730.2)	(56.9)	(787.1)

(1) Debt issue costs of £10.8 million (2009: £8.6 million) are excluded from the financial liabilities above.

Fixed sterling financial liabilities comprise the hedged portion of the term loan of £302.5 million and £4.0 million of accrued interest at 28 August 2010. The weighted average interest rate on the fixed rate borrowings as at 28 August 2010 was 5.2 per cent (2009: 7.4 per cent), with the weighted average time for which rates are fixed being 2.9 years (2009: 1.0 years). Floating rate borrowings are interest bearing at interest rates based on LIBOR. Cash deposits are interest bearing at rates based on LIBID or relevant base rates. Non-interest bearing cash refers to cash in stores or in transit.

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

The interest rate profiles of financial assets were as follows:

	At 28 August 2010				At 29 August 2009			
	Fixed £m	**Floating £m**	**Non-interest bearing £m**	**Total £m**	Fixed £m	Floating £m	Non-interest bearing £m	Total £m
Financial assets								
Sterling	**–**	**25.8**	**22.9**	**48.7**	157.6	–	22.7	180.3
Euro	**–**	**11.8**	**1.2**	**13.0**	–	6.6	1.3	7.9
US dollars	**–**	**3.3**	**–**	**3.3**	–	–	–	–
Danish kroner	**–**	**3.0**	**1.5**	**4.5**	–	–	–	–
Total financial assets	**–**	**43.9**	**25.6**	**69.5**	157.6	6.6	24.0	188.2

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

22 Financial Risk Management continued

a) Financial Risks and Treasury Management continued

v) Other Price Risk

The Group is exposed to equity 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 valuations had been 10 per cent higher/lower when all other variables were held constant:

- net profit would have been unaffected as the equity investments were classified as available-for-sale investments; and
- other reserves would decrease/increase by £0.3 million (2009: £0.4 million) for the Group as a result of the changes in the fair value of available-for-sale investments.

b) Capital Management

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

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

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

c) Fair Value Estimates

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

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

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

d) Sensitivity Analysis

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

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

	28 August 2010		29 August 2009	
	Income Statement loss £m	**Equity gain £m**	Income Statement loss £m	Equity gain £m
1 per cent increase in interest rate	**(2.4)**	**5.4**	(1.6)	3.6

	28 August 2010		29 August 2009	
	Income Statement gain £m	**Equity gain/(loss) £m**	Income Statement gain/(loss) £m	Equity gain £m
5 per cent weakening in sterling compared to US dollar	**–**	**11.5**	0.8	6.4
5 per cent weakening in sterling compared to the euro	**–**	**(2.0)**	(3.1)	–
5 per cent weakening in sterling compared to Danish kroner	**0.1**	**–**	–	–

A 1 per cent decrease in interest rate or 5 per cent strengthening in sterling compared to the US dollar, euro or Danish kroner would result in an equal and opposite change in the Income Statement and equity respectively.

23 Financial Instruments

Financial Assets and Liabilities by Category

Information regarding the Group's financial risk management policies has been disclosed in note 22. All financial assets and liabilities are held at amortised cost with the exception of derivative financial instruments and available-for-sale assets, which are held at fair value. The following table sets out the classification and carrying value of each class of financial assets and liabilities within the financial statements:

	Available-for-sale £m	Held for trading £m	Derivatives designated as cash flow hedges £m	Loans, receivables and other financial liabilities £m	Total £m
At 28 August 2010					
Assets					
Current assets					
Cash and cash equivalents	**–**	**–**	**–**	**69.5**	**69.5**
Trade and other receivables	**–**	**–**	**–**	**21.1**	**21.1**
Forward foreign currency contracts	**–**	**1.4**	**7.5**	**–**	**8.9**
Non-current assets					
Available-for-sale financial assets	**7.8**	**–**	**–**	**–**	**7.8**
Forward foreign currency contracts	**–**	**–**	**0.9**	**–**	**0.9**
Liabilities					
Current liabilities					
Trade and other payables	**–**	**–**	**–**	**(461.3)**	**(461.3)**
Current borrowings	**–**	**–**	**–**	**(545.7)**	**(545.7)**
Forward foreign currency contracts	**–**	**(0.6)**	**(1.2)**	**–**	**(1.8)**
Non-current liabilities					
Non-current borrowings	**–**	**–**	**–**	**(40.6)**	**(40.6)**
Interest rate swaps	**–**	**–**	**(6.8)**	**–**	**(6.8)**
Forward foreign currency contracts	**–**	**–**	**(0.7)**	**–**	**(0.7)**
Total	**7.8**	**0.8**	**(0.3)**	**(957.0)**	**(948.7)**
At 29 August 2009					
Assets					
Current assets					
Cash and cash equivalents	–	–	–	188.2	188.2
Trade and other receivables	–	–	–	22.7	22.7
Forward foreign currency contracts	–	5.0	4.5	–	9.5
Non-current assets					
Available-for-sale financial assets	8.8	–	–	–	8.8
Forward foreign currency contracts	–	–	0.2	–	0.2
Liabilities					
Current liabilities					
Trade and other payables	–	–	–	(434.1)	(434.1)
Current borrowings	–	–	–	(92.6)	(92.6)
Interest rate swaps	–	–	(17.5)	–	(17.5)
Forward foreign currency contracts	–	(1.5)	(5.2)	–	(6.7)
Non-current liabilities					
Non-current borrowings	–	–	–	(685.9)	(685.9)
Interest rate swaps	–	–	(6.9)	–	(6.9)
Forward foreign currency contracts	–	–	(1.1)	–	(1.1)
Total	8.8	3.5	(26.0)	(1,001.7)	(1,015.4)

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

23 Financial instruments continued

Fair Value Measurement

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

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

The following table shows the Group's financial assets and liabilities as measured at fair value at 28 August 2010:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	**2.8**	**–**	**5.0**	**7.8**
Derivative financial instruments:				
– Forward foreign currency contracts held as cash flow hedges	**–**	**8.4**	**–**	**8.4**
– Other forward foreign currency contracts	**–**	**1.4**	**–**	**1.4**
Total assets	**2.8**	**9.8**	**5.0**	**17.6**
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**(6.8)**	**–**	**(6.8)**
– Forward foreign currency contracts held as cash flow hedges	**–**	**(1.9)**	**–**	**(1.9)**
– Other forward foreign currency contracts	**–**	**(0.6)**	**–**	**(0.6)**
Total liabilities	**–**	**(9.3)**	**–**	**(9.3)**

Reconciliation of level 3 fair value measurements of financial assets	Available-for-sale assets £m
Opening balance	4.9
Total gains or losses:	
In profit or loss	–
In other comprehensive income	0.1
Closing balance	**5.0**

24 Retirement Benefit Obligation

The Group operates defined benefit type pension schemes, being the Debenhams Executive Pension Plan and the Debenhams Retirement Scheme (together "the Group's pension schemes"), the assets of which are held in separate trustee-administered funds.

Both pension schemes were closed for future service accrual from 31 October 2006. The closure to future accrual will not affect the pensions of those who have retired or the deferred benefits of those who have left service or opted out before 31 October 2006. Future pension arrangements are provided through a money purchase stakeholder plan or a defined contribution scheme for the employees in the Republic of Ireland.

In accordance with the recovery plan for the Group's pension schemes, the Group has agreed to contribute £5.8 million per annum from 1 April 2009 to 31 March 2011 increasing by annual RPI from the year to 31 December 2009 to fund past service benefits. The Group has also agreed to contribute a further £7.0 million from 1 April 2011 until 31 August 2021, increasing by annual RPI from the year to 31 December 2009. If the Company pays or declares a dividend during the period from 1 April 2009 to 31 March 2011, the Group shall make further contributions of 3.1 per cent and 1.9 per cent of the total amount of the ordinary dividend to the Debenhams Retirement Scheme and Debenhams Executive Pension Plan respectively. The Group has also agreed to fund all non-investment expenses and levies incurred by the Group's pension schemes.

24 Retirement Benefit Obligation continued

Actuarial valuations of the Group's pension schemes using the projected unit basis were carried out at 31 March 2008, and updated as at each relevant year end for the purposes of IAS 19 "Employee Benefits" by Towers Watson Limited, a qualified independent actuary. The 31 March 2008 actuarial valuation has been used when calculating the IAS 19 "Employee Benefits" valuation at 28 August 2010. The major assumptions used by the actuary were:

	28 August 2010 per annum %	29 August 2009 per annum %	30 August 2008 per annum %
Inflation assumption	**3.20**	3.30	3.80
General salary and wage increase	**3.20**	3.30	3.80
Rate of increase in pension payments and deferred payments	**3.20**	3.30	3.80
Pension increase rate	**3.10**	3.30	3.80
Discount rate	**5.00**	5.45	6.35

The expected return on scheme assets is based on market expectations at the beginning of the year for return over the entire life of the defined benefit obligation.

	28 August 2010		29 August 2009		30 August 2008	
	Long-term rate of return expected per annum %	**Value £m**	Long-term rate of return expected per annum %	Value £m	Long-term rate of return expected per annum %	Value £m
Assets						
Equities	**8.2**	**247.0**	9.0	230.6	10.0	277.7
Bonds	**5.0**	**244.9**	4.4	217.5	5.1	204.5
Property	**7.3**	**20.3**	8.0	20.1	7.9	19.9
Cash and other assets	**3.8**	**11.6**	4.3	20.2	5.1	23.5
Total market value of assets	**6.6**	**523.8**	6.7	488.4	7.8	525.6
Present value of scheme liabilities		**(604.5)**		(542.0)		(500.6)
(Deficit)/surplus in scheme		**(80.7)**		(53.6)		25.0

Assumptions regarding future mortality experiences are based on the mortality tables shown below.

	28 August 2010 Male and female	29 August 2009 Male and female
Debenhams Retirement Scheme	**PNMA00 +1**	PNMA00 +1
Debenhams Executive Pension Plan	**PNFA00 –2**	PNFA00 –2

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

24 Retirement Benefit Obligation continued

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

	28 August 2010		29 August 2009	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**21.3**	**23.1**	21.3	23.0
Member age 65 in 15 years	**22.2**	**23.9**	22.2	23.9

	28 August 2010		29 August 2009	
	Years Male	**Years Female**	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**23.9**	**25.7**	23.8	25.7
Member age 65 in 15 years	**24.7**	**26.5**	24.7	26.4

The actual return/(loss) on scheme assets was as follows:

	28 August 2010 £m	29 August 2009 £m
Return/(loss) on scheme assets	**44.4**	(22.3)

The amounts recognised in the Income Statement are as follows:

	28 August 2010 £m	29 August 2009 £m
Interest on pension scheme liabilities	**29.0**	31.2
Expected return on pension scheme assets	**(31.1)**	(39.1)
Total credit included within staff costs	**(2.1)**	(7.9)

The total credits included are as follows:

	28 August 2010 £m	29 August 2009 £m
Cost of sales	**(1.8)**	(6.6)
Administrative expenses	**(0.3)**	(1.3)
Total credit	**(2.1)**	(7.9)

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

	28 August 2010 £m	29 August 2009 £m
Present value of obligation at start of the financial year	**542.0**	500.6
Interest on pension scheme liabilities	**29.0**	31.2
Benefit payments by the fund	**(15.6)**	(20.7)
Loss on change of assumptions	**41.5**	49.1
Experience loss/(gain)	**7.6**	(18.2)
Present value of obligation at end of the financial year	**604.5**	542.0

24 Retirement Benefit Obligation continued

Changes in the fair value of pension scheme assets are as follows:

	28 August 2010 £m	29 August 2009 £m
Fair value of pension scheme assets at start of the financial year	**488.4**	525.6
Benefits paid	**(15.6)**	(20.7)
Company contributions	**7.9**	7.1
Expected return on pension scheme assets	**31.1**	39.1
Actuarial gains/(losses)	**12.0**	(62.7)
Fair value of pension scheme assets at end of the financial year	**523.8**	488.4

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

	28 August 2010 £m	29 August 2009 £m
(Deficit)/surplus in the schemes at start of the financial year	**(53.6)**	25.0
Movement in year:		
– Pension credit	**2.1**	7.9
– Company contributions	**7.9**	7.1
– Net actuarial losses	**(37.1)**	(93.6)
Deficit in the schemes at end of financial year	**(80.7)**	(53.6)

Cumulative actuarial gains and losses recognised in equity:

	28 August 2010 £m	29 August 2009 £m
At start of the financial year	**(89.1)**	4.5
Net actuarial losses recognised in the financial year	**(37.1)**	(93.6)
Net actuarial losses recognised at end of the financial year	**(126.2)**	(89.1)

History of experience gains and losses:

	28 August 2010	29 August 2009	30 August 2008	1 September 2007	2 September 2006
Actuarial (gain)/loss arising on scheme assets:					
– Amounts	**£(12.0)m**	£62.7m	£55.7m	£2.4m	£(23.6)m
– Percentage of scheme assets	**(2.3)%**	12.8%	10.6%	0.4%	(4.5)%
Experience loss/(gain) arising on defined benefit obligation:					
– Amounts	**£7.6m**	£(18.2)m	£14.6m	£4.1m	£3.7m
– Percentage of the present value of scheme liabilities	**1.3%**	(3.4)%	2.9%	0.9%	0.7%
Present value of scheme liabilities	**£(604.5)m**	£(542.0)m	£(500.6)m	£(465.0)m	£(513.3)m
Fair value of scheme assets	**£523.8m**	£488.4m	£525.6m	£552.3m	£527.1m
(Deficit)/surplus	**£(80.7)m**	£(53.6)m	£25.0m	£87.3m	£13.8m

The contributions expected to be paid during the year ended 3 September 2011 amount to £7.8 million.

Other Debenhams Defined Contribution Schemes
The Group contributions to other defined contribution schemes during the year were £9.8 million (2009: £7.2 million).

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

25 Deferred Tax Assets and Liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27 per cent (2009: 28 per cent) for the UK differences and the local tax rates for overseas differences.

	28 August 2010 £m	29 August 2009 £m
Non-current		
Deferred tax assets	**92.0**	80.6
Deferred tax liabilities	**(83.8)**	(78.3)
	8.2	2.3

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

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

Assets	Developers contribution received £m	Fair value losses £m	Other provisions £m	Retirement benefit asset £m	Total £m
At 30 August 2008	36.6	–	20.8	–	57.4
Credited/(charged) to the Income Statement	3.1	(4.9)	(0.4)	(4.2)	(6.4)
Credited to the Statement of Comprehensive Income	–	10.4	–	19.2	29.6
At 29 August 2009	39.7	5.5	20.4	15.0	80.6
(Charged)/credited to the Income Statement	6.3	(0.6)	1.3	(0.6)	6.4
Restatement to the standard rate of corporation tax charged to the Income Statement	(1.6)	(0.1)	(0.7)	(0.4)	(2.8)
Credited to the Statement of Comprehensive Income	–	–	–	7.8	7.8
At 28 August 2010	**44.4**	**4.8**	**21.0**	**21.8**	**92.0**

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit asset £m	Total £m
At 30 August 2008	(84.4)	(3.9)	(7.0)	(95.3)
Credited to the Income Statement	6.1	3.9	–	10.0
Credited to the Statement of Comprehensive Income	–	–	7.0	7.0
At 29 August 2009	(78.3)	–	–	(78.3)
(Charged)/credited to the Income Statement	(3.4)	1.2	–	(2.2)
Restatement to the standard rate of corporation tax charged to the Income Statement	3.0	–	–	3.0
Credited to equity	–	0.9	–	0.9
Charged to the Statement of Comprehensive Income	–	(7.2)	–	(7.2)
At 28 August 2010	**(78.7)**	**(5.1)**	**–**	**(83.8)**

No deferred tax asset is recognised in relation to any pre-existing Magasin losses at acquisition or the tax value of Magasin assets in excess of net book value. The total of the unrecognised deferred tax asset is approximately £17 million.

26 Other Non-Current Liabilities

	28 August 2010 £m	29 August 2009 £m
Other liabilities	**285.7**	273.0

Included within other liabilities are lease incentives received from landlords either through initial contributions or rent-free periods. These incentives are being credited to the Income Statement on a straight-line basis over the term of the relevant lease. Additionally, the creditor relates to the smoothing of the charges relating to leases with fixed annual increments in rent.

27 Provisions for Liabilities and Charges

	Vacant properties £m	Closure provisions £m	Promotional activities £m	Restructuring provision £m	Other provisions £m	Total £m
At 30 August 2008	0.2	0.2	–	–	0.6	1.0
Charged to the Income Statement	–	–	1.7	–	–	1.7
Utilised during the financial year	(0.2)	–	(0.1)	–	(0.1)	(0.4)
At 29 August 2009	–	0.2	1.6	–	0.5	2.3
Charged to the Income Statement	–	–	4.6	11.1	0.2	15.9
Arising on the acquisition of a subsidiary undertaking	–	–	–	–	2.2	2.2
Unused amounts reversed in the period	–	–	(1.0)	–	–	(1.0)
Utilised during the financial year	–	(0.1)	(1.9)	(10.6)	(0.4)	(13.0)
At 28 August 2010	**–**	**0.1**	**3.3**	**0.5**	**2.5**	**6.4**

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

	28 August 2010 £m	29 August 2009 £m
Current	**4.4**	2.1
Non-current	**2.0**	0.2
	6.4	2.3

Vacant Properties
Provision for vacant properties represents the residual lease commitments, after taking into account existing sub-lease arrangements, in respect of one property and was utilised over the remaining term of the lease which expired in August 2009.

Closure Provision
Relating to one vacated building which will be utilised over the term of the lease, being the next four years.

Promotional Activities Provision
Provisions for promotional activities represent the cost to the business of operating an internal cosmetics loyalty scheme and is expected to be utilised during the next 12 months.

Restructuring Provision
This includes provisions for redundancy and restructuring costs within the Republic of Ireland and Denmark. It is expected to be used within the next 12 months.

Other Provisions
The majority of the Group's other provisions relate to dilapidations on properties based upon the directors' best estimate of the Group's future liability. The remainder of the other provisions, none of which is individually significant, represent the best estimate of the expenditure required to settle present obligations in respect of other liabilities. These provisions are expected to be utilised within the next three years.

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

28 Acquisition of Magasin du Nord ("Magasin")

On 7 November 2009 the Group entered into an agreement to purchase 100 per cent of the shares of A/S Th. Wessell & Vett, Magasin du Nord ('Magasin'), a company registered in Denmark owning six department stores. Consideration of DKK 56.8 million (£6.7 million) was paid in cash. The Group finalised the post closing issues related to the purchase of Magasin in July 2010. Costs of £1.0 million were incurred on the acquisition of Magasin; these costs are included within exceptional administrative expenses in the Income Statement.

Restructuring costs of £1.8 million were incurred subsequent to the date of acquisition and have been charged to exceptional administrative expenses during the year.

The fair value of the assets and liabilities acquired is set out below:

Recognised assets and liabilities of Magasin at 7 November 2009	Fair value £m
Property, plant and equipment	12.6
Intangible assets	2.2
Inventories	13.4
Trade and other receivables	23.4
Trade and other payables	(35.8)
Bank overdrafts and borrowings	(2.3)
Total	**13.5**
Fair value of consideration transferred	(6.7)
Bargain purchase credit	**6.8**

The Group has recognised a bargain purchase credit within other exceptional operating income, of £6.8 million, relating to the acquisition of Magasin, as the fair value of the net assets was in excess of the amount paid. The Group considers that the bargain purchase credit arose due to the economic climate at the time of the acquisition.

Total trade and other receivables include contractual lease deposits of £17.4 million at the date of acquisition. These amounts have been presented as non-current assets within other receivables. Trade and other receivables are all stated at fair value.

The impact on the results of Debenhams plc for the period from acquisition to 28 August 2010 is to increase revenue by £103.6 million and increase operating profit before exceptional items by £1.5 million.

Magasin demerged certain business activities on 31 October 2009. Prior to this date Magasin reported all businesses as one unit within its management accounts. For this reason it has not been practicable to estimate the effects of the acquisition of Magasin on the results for the full 52-week period to 28 August 2010.

29 Share Capital and Reserves

	28 August 2010		29 August 2009	
	£	**Number**	£	Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start of year	**128,680**	**1,286,806,299**	87,477	874,770,325
Shares issued in lieu of dividends	–	–	805	8,054,691
Firm placing and placing	–	–	33,059	330,592,432
Open offer	–	–	7,339	73,388,851
At end of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

On 4 June 2009 the Company announced a share issue to raise additional funds through a firm placing and placing and open offer. New ordinary shares issued in respect of the open offer amounted to 73.4 million and 330.6 million new ordinary shares were issued through a placing, both at an issue price of 80 pence per share, which raised net proceeds of £303.8 million after issue costs of £19.4 million. This share issue was approved by shareholders on 23 June 2009 and all issued shares had a nominal value of £0.0001 each. The shares were issued and commenced trading on the London Stock Exchange on 26 June 2009.

29 Share Capital and Reserves continued

Employee Share Trust – Interest in Share Capital

The number of ordinary shares in the Company held by the DRET were as follows:

	28 August 2010 Ordinary shares Number	29 August 2009 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**1,413,536**	1,413,536

The market value of the shares on 28 August 2010 was £0.8 million for DRET (2009: £1.1 million). The cost of the shares held at the year end is £1.2 million (2009: £1.2 million).

A description of the nature and purpose of each reserve is set out below:

Share Premium Account

On admission to the London Stock Exchange, the Company issued 358,974,359 shares at £1.95, generating proceeds of £700.0 million. Costs directly associated with the issue of the new shares totalled £17.1 million and in accordance with the Companies Act these costs were set off against the premium generated on issue of the new shares.

Merger Reserve

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

On 26 June 2009, a share issue was completed and 404.0 million ordinary shares with a total nominal value of £0.04 million were issued for net consideration of £303.8 million. The share issue was effected through a structure which resulted in a merger reserve arising under section 612 of the Companies Act 2006. During the year ended 28 August 2010 this amount was transferred to retained earnings following the settlement of this structure.

Reverse Acquisition Reserve

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

Hedging Reserve

The hedging reserve represents the change in fair value of all interest rate swaps and forward foreign currency contracts which have been designated as cash flow hedges.

Other Reserve

The other reserve represents the change in fair value in respect of the Group's available-for-sale investments (see note 16) and exchange differences arising as part of a reporting entity's net investment in a foreign operation.

Retained earnings

During the year ended 28 August 2010 the discount arising on the repurchase of the term loan of £2.4 million was recycled to the Income Statement.

During the year ended 29 August 2009 dividends not taken up in cash of £1.9 million have been written back to retained earnings.

Notes to the Financial Statements continued

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30 Share-Based Payments

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

	28 August 2010 £m	29 August 2009 £m
Performance Share Plan – Equity-settled element	**0.9**	0.4
Executive Share Option Plan – Equity-settled element	**0.1**	(0.1)
Share Incentive Plan – Equity-settled element	**0.3**	–
Charge for the year	**1.3**	0.3

	SIP Number	PSP Number	ESOP Number
Outstanding at 30 August 2008	–	13,431,313	6,442,076
Granted following the rights issue	–	210,723	80,265
Lapsed	–	(2,951,121)	(2,275,984)
Forfeited	–	(2,567,428)	(1,065,770)
Outstanding at 29 August 2009	–	8,123,487	3,180,587
Granted	715,000	2,028,207	962,692
Lapsed	–	(4,713,395)	(1,662,505)
Forfeited	–	(55,720)	(66,400)
Outstanding at 28 August 2010	**715,000**	**5,382,579**	**2,414,374**

i) The Debenhams Performance Share Plan (the "PSP")

The PSP is intended to facilitate the retention of senior executives of the Company by enabling executives to receive shares provided that they remain in the Group. 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 will comprise an option to receive free shares or nil cost options with performance conditions attached. Awards under the scheme have been made since May 2006.

Options Granted on 7 May 2008

The vesting of half of the shares granted is dependent on Earnings Per Share ("EPS") growth. In accordance with IFRS 2 "Share-based Payments" this is classified as a non-market condition and therefore the shares have been fair valued at face value. The vesting of the remaining half of the shares is dependent upon Total Shareholder Return ("TSR") over a three-year period when compared to total shareholder return of the FTSE 350 General Retailers Index. The fair value of the PSP options granted for this proportion of the award is calculated based on a Monte Carlo simulation model assuming the inputs shown in the table below.

Options Granted on 24 November 2009

The vesting on the shares granted under this plan is dependent on Earnings Per Share ("EPS") growth. In accordance with IFRS 2 "Share-based Payments", this is classified as a non-market condition and therefore the shares have been fair valued at face value. The fair value of the PSP options granted for these awards is calculated based on a Black Scholes model assuming the inputs shown in the table below.

Grant date	24 November 2009	7 May 2008
Number of shares under option (number)	1,972,487	3,410,092
Expected term (years)	3.0	3.0
Share price at grant (pence)	83.3	65.0
Exercise price (pence)	–	–
Risk free rate	2.3%	5.7%
Expected volatility	70.0%	34.0%
Expected dividend yield	0%	3.5%
Fair value of option (pence):		
– TSR	–	29.0
– EPS	83.3	59.0

Volatility has been estimated by taking the historic volatility in the Company's share price.

30 Share-Based Payments continued

In accordance with the plan rules, options issued in November 2006 and May 2007 have lapsed during the year as neither the EPS nor the TSR performance conditions were met.

ii) Executive Share Option Plan (the "ESOP")

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. Options are granted with an exercise price equal to the middle market value of the shares on the day immediately preceding the date of grant.

Options Granted on 12 November 2007

The vesting of options granted under this plan is dependent on EPS growth and the fair value of the share options has been calculated using a binomial model. The key assumptions are set out in the table below.

Options Granted on 24 November 2009

The vesting of options granted under this plan is dependent on Return on Capital Employed ("ROCE") growth and the fair value of the share options has been calculated using a Black Scholes model. The key assumptions are set out in the table below.

Grant date	24 November 2009	12 November 2007
Number of shares under option (number)	962,692	1,451,682
Expected term (years)	3.0	6.0
Share price at grant (pence)	85.5	103.0
Exercise price (pence)	85.5	103.0
Risk free rate	2.3%	5.8%
Expected volatility	70.0%	32.0%
Expected dividend yield	0%	3.5%
Fair value of option (pence)	40.7	30.0

In accordance with the plan rules, options issued in November 2006 and May 2007 have lapsed as the performance conditions associated with these options were not met.

The weighted average exercise price of the ESOP at 28 August 2010 was 95.1 pence (2009: 146.4 pence).

iii) Share Incentive Plan (the "SIP")

The SIP allows the Company to grant options to a small number of key, senior employees below board level, whom the Company wishes to retain and incentivise in the short to medium term. The options currently granted under the SIP have an 18-month vesting period based on the employee's continued employment and are granted with no exercise price.

The fair value of the SIP options granted is calculated based on a Black Scholes model assuming the inputs shown below:

Grant date	24 November 2009
Number of shares under option (number)	715,000
Expected term (years)	1.5
Share price at grant (pence)	83.3
Exercise price (pence)	–
Risk free rate	0.6%
Expected volatility	95.0%
Expected dividend yield	–
Fair value of option (pence)	83.3

Notes to the Financial Statements continued

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31 Operating Lease Commitments

	28 August 2010		29 August 2009	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
The future aggregate minimum lease payments under non-cancellable operating leases are as follows:				
Within one year	**181.7**	**0.8**	156.1	0.4
Later than one year and less than five years	**726.8**	**1.1**	644.7	0.6
After five years	**4,042.3**	**–**	3,846.8	–
	4,950.8	**1.9**	4,647.6	1.0

The Group leases department stores and warehouses under non-cancellable operating leases. The leases have various terms, escalation clauses and renewal rights. The Group also leases vehicles and fixtures and equipment under non-cancellable operating leases.

32 Cash Generated from Operations

	28 August 2010 £m	29 August 2009 £m
Profit for the financial year	**97.0**	95.1
Taxation (note 11)	**42.9**	25.7
Depreciation (note 15)	**84.8**	87.9
Accelerated depreciation (note 15)	**0.1**	0.1
Amortisation (note 14)	**9.3**	8.1
Loss on disposal of property, plant and equipment	**0.4**	0.2
Employee options granted during the year (note 30)	**1.3**	0.3
Fair value losses/(gains) on derivative instruments	**3.1**	(0.6)
Net movements in provisions for liabilities and charges (note 27)	**1.8**	1.3
Interest income	**(6.7)**	(1.3)
Interest expense	**56.5**	62.7
Bargain purchase on acquisition of Magasin (net of transaction costs incurred)	**(5.8)**	–
Difference between pension charge and contributions paid (note 24)	**(10.0)**	(15.0)
Net movement in other long-term debtors	**(1.1)**	–
Net movement in other non-current liabilities	**12.6**	47.2
Changes in working capital		
Increase in inventories	**(11.0)**	(33.4)
Decrease/(increase) in trade and other receivables	**4.4**	(7.3)
Increase/(decrease) in trade and other payables	**19.6**	(30.0)
Cash generated from operations	**299.2**	241.0

32 Cash Generated from Operations continued

In the Cash Flow Statement, proceeds from the sale of property, plant and equipment comprise:

	28 August 2010 £m	29 August 2009 £m
Net book amount (notes 14 and 15)	**0.6**	0.2
Loss on sale of property, plant and equipment	**(0.4)**	(0.2)
Cash proceeds from the sale of property, plant and equipment	**0.2**	–

Non-Cash Transactions

Other non-cash changes comprise:

	28 August 2010 £m	29 August 2009 £m
Amortisation of issue costs relating to debt issues	**5.7**	4.4
Non-cash movements associated with term loan facility	**26.6**	(24.4)
Non-cash movements associated with finance lease obligations	**(1.9)**	(3.7)
Non-cash transactions	**30.4**	(23.7)

33 Analysis of Changes in Net Debt

	At 29 August 2009 £m	Cash flow £m	Non-cash movements £m	**At 28 August 2010 £m**
Analysis of net debt				
Cash and cash equivalents	188.2	(118.7)	–	**69.5**
Debt due within one year	(88.9)	124.8	(577.8)	**(541.9)**
Debt due after one year	(642.8)	97.3	545.5	**–**
Finance lease obligations due within one year	(3.7)	0.5	(0.6)	**(3.8)**
Finance lease obligations due after one year	(43.1)	–	2.5	**(40.6)**
	(590.3)	103.9	(30.4)	**(516.8)**

34 Contingent Liabilities

At the year-end the Group gave guarantees in the normal course of business which related to an insurance letter of credit for £5.0 million (2009: £5.0 million) and a duty deferment guarantee of £6.3 million (2009: £6.4 million).

The Group is subject to litigation from time to time as a result of its activities. The Group establishes provisions in connection with litigation where it has a present legal or constructive obligation as a result of past events and, where it is more likely that not an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Since these provisions, which are reflected in the Group's consolidated financial statements, represent estimates, the final resolution of any such matters could have a material affect on the Group's operating results and cash flows for a particular reporting period.

Notes to the Financial Statements continued

For the financial year ended 28 August 2010

35 Principal Subsidiary Undertakings

The principal subsidiary undertakings of Debenhams plc at 28 August 2010 were as follows:

Company	Country of incorporation	Country of registration	Activity
Debenhams Retail plc	UK	England	Department Store Retailing
Debenhams Group Holdings Limited*	UK	England	Holding Company
Debenhams Retail (Ireland) Limited	Ireland	Ireland	Department Store Retailing
Aktieselskabet Th. Wessel & Vett Magasin du Nord	Denmark	Denmark	Department Store Retailing
Debenhams Properties Limited	UK	England	Property Investment

* Denotes investments held by the Company. All other investments are held by subsidiary undertakings.

All companies are wholly owned. All subsidiary companies are consolidated. A full list of subsidiaries is available from the registered office.

36 Post Balance Sheet Events

Subsequent to the balance sheet date, the Group cancelled the long leases on six stores and at the same time entered into new sale and leaseback contracts on these stores. The total value of the new contracts was £58.3 million, generating an immediate cash benefit to Debenhams of £29.5 million.

Five-Year Record Income Statements

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Gross transaction value	**2,564.3**	2,339.7	2,336.0	2,305.6	2,192.9
Revenue	**2,119.9**	1,915.6	1,839.2	1,774.4	1,707.7
Cost of sales	**(1,829.5)**	(1,650.7)	(1,571.6)	(1,494.9)	(1,376.3)
Gross profit	**290.4**	264.9	267.6	279.5	331.4
Distribution costs	**(55.1)**	(45.3)	(50.0)	(46.2)	(53.0)
Administrative expenses	**(40.2)**	(37.4)	(41.5)	(39.2)	(40.2)
Operating profit before exceptional items	**195.1**	182.2	176.1	194.1	238.2
Exceptional items	**(5.4)**	–	–	(14.3)	(14.6)
Operating profit	**189.7**	182.2	176.1	179.8	223.6
Net interest	**(49.8)**	(61.4)	(70.2)	(66.6)	(125.4)
Exceptional interest payable and similar charges	**–**	–	–	–	(36.1)
Profit before taxation	**139.9**	120.8	105.9	113.2	62.1
Taxation	**(42.9)**	(25.7)	(28.8)	(34.2)	(18.4)
Profit for the financial year attributable to equity shareholders	**97.0**	95.1	77.1	79.0	43.7

Gross Transaction Value

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

Five-Year Record Balance Sheets

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
ASSETS					
Non-current assets					
Intangible assets	**846.2**	839.9	840.8	842.9	836.1
Tangible assets	**676.1**	669.2	693.3	667.7	639.5
Financial assets	**8.7**	9.0	19.2	40.0	16.0
Other receivables	**17.2**	–	–	–	–
Retirement benefit assets	**–**	–	25.0	87.3	13.8
Deferred tax assets	**92.0**	80.6	57.4	52.3	51.1
Total non-current assets	**1,640.2**	1,598.7	1,635.7	1,690.2	1,556.5
Net current liabilities	**(636.5)**	(74.4)	(296.7)	(215.8)	(156.6)
Non-current liabilities	**(500.3)**	(1,099.0)	(1,213.7)	(1,311.4)	(1,346.6)
Net assets	**503.4**	425.3	125.3	163.0	53.3
SHAREHOLDERS' EQUITY					
Share capital	**0.1**	0.1	0.1	0.1	0.1
Share premium account	**682.9**	682.9	682.9	682.9	682.9
Other reserves	**(3.4)**	288.9	16.9	29.5	3.5
Retained earnings	**(176.2)**	(546.6)	(574.6)	(549.5)	(633.2)
Total equity	**503.4**	425.3	125.3	163.0	53.3

Independent Auditors' Report to the Members of Debenhams plc (Company)

We have audited the Parent Company Financial Statements of Debenhams plc for the year ended 28 August 2010 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial Statements.

Opinion on Financial Statements

In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 28 August 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Parent Company Financial Statements are prepared is consistent with the Parent Company Financial Statements.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other Matter

We have reported separately on the Group Financial Statements of Debenhams plc for the year ended 28 August 2010.

M R Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 October 2010

Company Balance Sheet

As at 28 August 2010

	Notes	28 August 2010 £m	29 August 2009 £m
Fixed assets			
Investments	4	**2,745.9**	4,030.3
		2,745.9	4,030.3
Current assets			
Debtors	6	**194.9**	352.0
		194.9	352.0
Creditors: amounts falling due within one year	7	**(1,642.6)**	(1,502.2)
Derivative financial instruments	5	**–**	(17.5)
Net current liabilities		**(1,447.7)**	(1,167.7)
Total assets less current liabilities		**1,298.2**	2,862.6
Creditors: amounts falling due after more than one year	8	**–**	(696.5)
Derivative financial instruments	5	**(6.8)**	(5.8)
Net assets		**1,291.4**	2,160.3
Capital and reserves			
Called-up share capital	11	**0.1**	0.1
Share premium account	12	**682.9**	682.9
Merger reserve	12	**–**	1,274.6
Hedging reserve	12	**(3.9)**	(16.7)
Profit and loss account	12	**612.3**	219.4
Total shareholders' funds	13	**1,291.4**	2,160.3

The Financial Statements on pages 108 to 114 were approved by the board of directors on 21 October 2010 and were signed on its behalf by:

C K Woodhouse
Director

Notes to the Company Financial Statements

For the financial year ended 28 August 2010

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 and loss. These Financial Statements have been prepared in accordance with applicable accounting standards within the United Kingdom and the Companies Act 2006.

The Company has taken advantage of the exemption from preparing a cash flow statement in accordance with FRS 1 (revised 1996) "Cash Flow Statement".

The Company is also exempt under the terms of FRS 8 "Related Party Disclosures" from disclosing related party transactions with entities that are part of the Debenhams Group.

The principal accounting policies, which have been applied consistently during the year, are set out below.

Investments

Investments are held at cost less any provision for impairment.

Impairment Testing

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value in use.

Borrowings

All borrowings are stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs, are charged to the profit and loss account over the term of the borrowings. Finance costs represent a constant proportion of the balance of capital repayments outstanding.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates that are in force during the period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

Dividend Distribution

A final dividend distribution to the Company shareholders is recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company shareholders. Interim dividends are recognised when paid.

Share-Based Payments

Where the Company has granted options over the Company shares to employees of its subsidiaries, a capital contribution has been deemed to be made by the Company. This is then recharged to the subsidiary and is based on the fair value of the options issued spread over the options vesting period. At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, with a corresponding adjustment to equity.

Notes to the Company Financial Statements continued

For the financial year ended 28 August 2010

1 Accounting Policies continued

Derivatives

The derivative instruments used by the Company to manage its interest rate risk are interest rate swaps.

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

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

i) Cash Flow Hedges

The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the profit and loss account which will be affected by the underlying hedged item.

Amounts accumulated in equity are reclassified and adjusted against the initial measurement of the underlying hedged item when the underlying hedged item is recognised on the Balance Sheet or in the profit and loss account.

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

ii) Derivatives That Do Not Qualify for Hedge Accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

2 Profit and Loss Account

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone. A loss of £883.0 million is attributable to shareholders for the financial year ended 28 August 2010 (2009: profit £70.9 million).

The contracts of employment for all the executive directors are held by Debenhams plc. The total cost of employing the directors is disclosed in the Remuneration Report.

Auditors' remuneration of £0.1 million (2009: £0.1 million) is borne by another Group undertaking.

3 Dividends

	28 August 2010 £m	29 August 2009 £m
Final paid nil pence (2009: 0.5 pence) per £0.0001 share		
Settled in cash	–	2.4
Settled in scrip issue	–	1.9
	–	4.3

The directors are not proposing a final dividend in respect of the financial year ended 28 August 2010 (2009: nil pence per share).

4 Investments

	Investments in subsidiary undertakings £m
Cost	
At 29 August 2009	4,382.4
Redemption of preference shares	(313.6)
At 28 August 2010	**4,068.8**
Provision for impairment	
At 29 August 2009	352.1
Impairment	970.8
At 28 August 2010	**1,322.9**
Net book value	
At 28 August 2010	**2,745.9**
At 29 August 2009	4,030.3

Investment in Subsidiary Undertakings

As part of the Firm Placing and Placing and Open Offer which was announced on 4 June 2009, the Company acquired 89 ordinary shares at a price of £1 per share and 250,000,000 preference shares at a price of £1.255 per share, amounting to £313.6 million, in Kylie (Jersey) Limited, a Jersey incorporated company. During the year ended 28 August 2010 the preference shares in Kylie (Jersey) Limited were redeemed.

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 £970.8 million (2009: nil). As in previous years the impairment has been charged to the profit and loss account, which is set off in full by a reserves transfer from the merger reserve. The discount rate used in the calculation to arrive at the valuation was 8.0 per cent (2009: 8.0 per cent) on a pre-tax basis.

The principal subsidiary undertakings of the Company at 28 August 2010 are shown in note 35 of the Debenhams Group Financial Statements.

5 Derivative Financial Instruments

	28 August 2010 £m	29 August 2009 £m
Current liabilities		
Interest rate swaps – cash flow hedges	**–**	(17.5)
Non-current liabilities		
Interest rate swaps – cash flow hedges	**(6.8)**	(5.8)

Information relating to the derivatives held by the Company are shown in note 22 of the Debenhams Group Financial Statements.

6 Debtors

	28 August 2010 £m	29 August 2009 £m
Deferred tax asset (note 10)	**1.5**	6.5
Amount owed by Group undertakings	**191.0**	345.5
Prepayments	**2.4**	–
	194.9	352.0

Amounts owed by Group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.7 per cent (2009: 4.6 per cent).

Notes to the Company Financial Statements continued

For the financial year ended 28 August 2010

7 Creditors: Amounts Falling Due Within One Year

	28 August 2010 £m	29 August 2009 £m
Bank loans and overdraft (note 9)	**548.8**	96.6
Amounts owed to Group undertakings	**1,092.3**	1,399.7
Corporation tax	**0.5**	0.9
Other creditors	**–**	4.4
Accruals and deferred income	**1.0**	0.6
	1,642.6	1,502.2

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.7 per cent (2009: 4.6 per cent) or are interest free.

8 Creditors: Amounts Falling Due After More Than One Year

	28 August 2010 £m	29 August 2009 £m
Term loan facility (note 9)	**–**	696.5

9 Borrowings

	28 August 2010 £m	29 August 2009 £m
Term loan facility	**559.6**	801.7
Less: issue costs	**(10.8)**	(8.6)
	548.8	793.1

Maturity of Debt

	28 August 2010 £m	29 August 2009 £m
Amounts falling due:		
In one year or less or on demand	**559.6**	101.7
In more than one year but not more than two years	**–**	700.0
	559.6	801.7

Information relating to the borrowings of the Company is shown in note 21 of the Debenhams Group Financial Statements.

The Company signed a new forward starting facility in July 2010, comprising a term loan of £250.0 million and an RCF of £400.0 million. The new facility is available to the Company from April 2011, upon expiry or cancellation of the existing facility, and expires in October 2013 subject to an option to extend to October 2014. Additional refinancing costs of £10.3 million were incurred in the year, of which £7.9 million has been capitalised against debt representing the proportion of the facility that is expected to be drawn down. The balance of £2.4 million is included in prepayments at 28 August 2010.

10 Deferred Taxation

	Fair value gains £m
At 29 August 2009 – asset	6.5
Credited to reserves	(5.0)
At 28 August 2010 – asset	**1.5**

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 27.0 per cent (2009: 28.0 per cent).

A number of changes to the UK corporation tax system were announced in the June 2010 budget statement. The Finance (No. 2) Act 2010, which was substantially enacted on 20 July 2010, included legislation reducing the main rate of corporation tax from 28 to 27 per cent and has been reflected in these Financial Statements. The proposed future changes in the years to 2014 bringing the rate from 27 to 24 per cent have not been applied. The effect of these changes would be to reduce the deferred tax asset by £0.2 million.

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

11 Called-up Share Capital

	28 August 2010		29 August 2009	
	£m	**Number**	£m	Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start of year	**128,680**	**1,286,806,299**	87,477	874,770,325
Shares issued in lieu of dividends	**–**	**–**	805	8,054,691
Firm placing and placing	**–**	**–**	33,059	330,592,432
Open offer	**–**	**–**	7,339	73,388,851
At end of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

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:

	28 August 2010 Ordinary shares Number	29 August 2009 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**1,413,536**	1,413,536

The market value of the shares at 28 August 2010 was £0.8 million for DRET (2009: £1.1 million). The cost of the shares held at the year end was £1.2 million (2009: £1.2 million).

Notes to the Company Financial Statements continued

For the financial year ended 28 August 2010

12 Reserves

	Share premium account £m	Hedging reserve £m	Merger reserve £m	Profit and loss account £m
At 29 August 2009	682.9	(16.7)	1,274.6	219.4
Loss for the financial year	–	–	–	(883.0)
Cash flow hedges – net fair value gains (net of tax)	–	12.8	–	–
Merger reserve transfer on redemption of preference shares	–	–	(303.8)	303.8
Impairment of investment – reserve movement (note 4)	–	–	(970.8)	970.8
Employee share ownership plans (net of tax)	–	–	–	1.3
At 28 August 2010	**682.9**	**(3.9)**	**–**	**612.3**

Hedging Reserve

The hedging reserve represents the change in fair value of the interest rate swaps which have been designated as cash flow hedges.

Merger Reserve

The merger reserve was created as a result of the Company acquiring the Baroness Group Holdings Limited Group on 24 May 2005. The merger reserve represents the difference between both the nominal value of the share capital and loan notes issued by the Company and the fair value of Baroness Group Holdings Limited Group at the date of acquisition less any subsequent adjustments as a result of an impairment. During the year to 28 August 2010, an impairment was made of £970.8 million resulting in a transfer from the merger reserve to retained earnings (see note 4).

On 26 June 2009 the share issue in relation to the firm placing and the placing and open offer was completed and 404.0 million ordinary shares with a total nominal value of £0.04 million were issued for consideration of £303.8 million, net of issue costs of £19.4 million. The issue was effected through a structure which resulted in a merger reserve arising under Section 612 of the Companies Act 2006. These shares have been redeemed during the year resulting in a transfer from the merger reserve to the profit and loss account of £303.8 million.

Profit and Loss Account

No dividends were paid by the Company during the year ended 28 August 2010.

13 Reconciliation of Movements in Shareholders' Funds

	28 August 2010 £m	29 August 2009 £m
(Loss)/profit for the financial year	**(883.0)**	70.9
Dividends paid (note 3)	**–**	(4.3)
Retained (loss)/profit	**(883.0)**	66.6
Merger reserve arising on issue of shares	**–**	303.8
Issue of ordinary share capital in lieu of dividend	**–**	1.9
Cash flow hedges:		
– net fair value losses (net of tax)	**12.8**	(20.6)
Employee share ownership plans (net of tax)	**1.3**	0.3
Net (decrease)/increase to shareholders' funds	**(868.9)**	352.0
Opening shareholders' funds	**2,160.3**	1,808.3
Closing shareholders' funds	**1,291.4**	2,160.3

14 Contingent Liabilities

The Company has guaranteed certain of its subsidiary property finance lease obligations totalling £42.7 million at 28 August 2010 (2009: £45.8 million).

The Company is also liable for the pension schemes' contributions and deficits for both the Debenhams Executive Pension Plan and the Debenhams Retirement Scheme. The deficit in the schemes at 28 August 2010 was £80.7 million (2009: £53.6 million).

Store List

UK and Ireland

Aberdeen
Ashford
Ayr
Banbury
Bangor
Barrow
Basildon
Basingstoke
Bath*
Bedford
Belfast
Birmingham
Blackburn
Blackpool
Bolton
Bournemouth
Brighton
Bristol
Bromley
Bury (Gtr Manchester)
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Carmarthen
Chatham
Chelmsford
Cheltenham
Chester
Clapham
Colchester
Cork – Mahon Point
Cork – Patrick Street
Coventry
Crawley
Croydon
Derby
Doncaster
Dublin – Blackrock
Dublin – Blanchardstown
Dublin – Henry Street
Dublin – Tallaght
Dundee
Dunfermline
East Kilbride
Eastbourne
Edinburgh
Eltham
Exeter
Farnborough
Folkestone
Foyleside
Galway
Gateshead – Metro Centre
Glasgow
Glasgow Silverburn
Gloucester
Gravesend
Guildford
Great Yarmouth
Hanley
Harrogate
Harrow
Hastings
Hemel Hempstead
Hounslow
Hull
Ilford
Inverness
Ipswich
Kings Lynn
Lakeside
Leeds – City Centre
Leeds – White Rose
Leicester
Leith
Limerick
Lincoln
Liverpool
Livingston
Llandudno
Llanelli
London – Oxford Street
London – Westfield
Luton
Manchester
Manchester – Trafford Park
Mansfield
Merryhill
Middlesbrough
Milton Keynes
Newbridge
Newbury
Newcastle-upon-Tyne
Newry
Northampton
Norwich
Nottingham
Nuneaton
Oldham
Oxford
Perth
Plymouth
Portsmouth
Preston
Reading
Redditch
Romford
Rushmere
Salisbury
Scarborough
Sheffield
Sheffield – Meadowhall
Slough
Southampton
Southend
Southport
Southsea
Staines
Stirling
Stockport
Stockton
Stratford
Sunderland
Sutton
Swansea
Swindon
Taunton
Telford
Torquay
Tralee
Uxbridge
Walsall
Warrington
Waterford
Welwyn Garden City
Westwood Cross
Weymouth
Wigan
Wimbledon
Winchester
Woking
Worcester
Workington
Worthing
Wrexham
York

Desire by Debenhams

Altrincham
Ballymena
Birmingham Fort
Falkirk
Kidderminster
Kirkcaldy
Merthyr Tydfil
Monks Cross
Orpington
South Shields
Truro
Walton
Witney

International

Azerbaijan – Baku
Bahrain – Manama
Cyprus – Avenue
Cyprus – Apollon
Cyprus – Central
Cyprus – Engomi
Cyprus – Korivos
Cyprus – Kinyras
Cyprus – Ledra
Cyprus – Nicosia
Cyprus – Olympia
Cyprus – Zenon
Czech Republic – Prague
Egypt – Alexandria
Iceland – Reykjavik
India – Delhi
Indonesia – Jakarta Senayan City
Indonesia – Karawaci
Iran – Mashad
Iran – Tehran
Iran – Tehran – Jame Jam
Jordan – Amman
Kazakhstan – Astana
Kuwait – Airport
Kuwait – Avenues
Kuwait – Souq Sharq
Malaysia – Kuala Lumpur
Malaysia – Kuala Lumpur – The Curve
Malta – Tigne Point
Moldova – Chisinau
Philippines – Manila Glorieta
Philippines – Manila Shangri La
Philippines – Manila Trinoma
Qatar – Doha
Romania – Banessa
Romania – Bucharest
Romania – Cluj Polis
Romania – Constanta
Romania – Oradea
Romania – Plaza
Romania – Sun Plaza
Saudi Arabia – Gallery
Saudi Arabia – Jeddah
Saudi Arabia – Jeddah Airport
Saudi Arabia – Khobar
Saudi Arabia – Madinah Al Noor
Saudi Arabia – Mecca
Saudi Arabia – Riyadh Kingdom Mall
Saudi Arabia – Riyadh Granada Mall
Saudi Arabia – Riyadh Sahara Mall
Slovakia – Bratislava
Turkey – Istanbul
UAE – Abu Dhabi
UAE – Dubai – Deira
UAE – Dubai – Ibn Battuta
UAE – Dubai – Mall
UAE – Dubai – Mall of Emirates
UAE – Dubai – Mirdiff
UAE – Sharjah
Vietnam – Ho Chi Min City

Magasin du Nord

Århus
Field's – Copenhagen
Kgs Nytorv – Copenhagen
Lyngby
Odense
Rødovre

Glossary

Celebrating Success
Our annual employee recognition programme for store and head office employees.

Concessions
Brands which are sold through our stores where the stock belongs to a third-party concessionaire. They are found chiefly in womenswear (e.g. Wallis, Oasis, Warehouse) and accessories (e.g. Tripp luggage).

Designers at Debenhams
Exclusive diffusion ranges designed for Debenhams by leading international designers including Julien Macdonald, Jasper Conran and John Rocha.

Desire
Our smaller format store, typically 15-20,000 sq ft, which sells a mix of own bought womenswear, women's accessories, lingerie, childrenswear and health and beauty.

Direct
Our online store available at www.debenhams.com.

Earnings Per Share (EPS)
The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue.

EBITDA
Earnings before interest, taxation, depreciation and amortisation.

Flagship Store
A large store, typically over 100,000 sq ft, in a major city. They include Oxford Street and Westfield in London, Henry Street in Dublin, Birmingham, Liverpool and Newcastle-upon-Tyne.

Footfall
The number of people who visit our stores.

Free Cash Flow
Cash generated from operations before exceptional items less net cash used in investing activities.

Gross Margin
Gross transaction value less the cost of goods sold, as a percentage of gross transaction value.

Gross Transaction Value
Revenue (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts.

Headline Profit Before Tax
Profit before tax, exceptional items and amortisation of capitalised bank fees.

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

Market Share
The percentage of the market or market segment that is being serviced by Debenhams. For instance, if 100 T-shirts were sold a year in the UK and Debenhams sold ten of them, it would have 10 per cent market share.

Own Bought
Brands for which Debenhams owns the stock. They include private label brands, Designers at Debenhams and international brands.

Private Label
Brands designed and produced exclusively for Debenhams. They include brands such as Collection, Mantaray, Maine New England and Red Herring.

* Opened after 28 August 2010.

Shareholder Information

Registered Office and Head Office
1 Welbeck Street
London W1G 0AA
Registered in England and Wales
Company number: 5448421

Financial Advisors
Lazard
50 Stratton Street
London W1J 8LL

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

Bank of America Merrill Lynch
Bank of America Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Solicitors
Freshfields Bruckhaus Deringer
65 Fleet Street
London EC4Y 1HS

Auditors
PricewaterhouseCoopers LLP
1 Embankment Place
London WC2N 6RH

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

*Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday.

www.debenhams.com

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
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FSC

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DEBENHAMS

Debenhams
1 Welbeck Street
London
W1G 0AA

www.debenhams.com