Debenhams

Annual Report and Accounts 2011

A leading multi-channel, international retailer

DEBENHAMS

2011 highlights

Financial highlights*

Gross transaction value
£2.7bn +4.5%

Revenue
£2.2bn +4.2%

Headline profit before tax
£166.1m +10.0%

Basic earnings per share
9.1p +21.3%

Dividend per share
3.0p

*All numbers calculated on 53 week basis

Operational highlights

- Market share growth in most key categories: women's casualwear, menswear, childrenswear and premium health & beauty
- Strong multi-channel growth; online GTV up 73.8% to £180.4 million[1]
- Excellent performance from Magasin du Nord: EBITDA up 141.1% to £13.5m[2]
- Sales in international franchise stores up 16.5% to £77.0m[1]
- Three new UK stores opened, creating 350 new jobs
- Eleven store modernisations undertaken
- New ranges including Edition, Diamond by Julien Macdonald and J Jeans for Men by Jasper Conran
- "Life Made Fabulous" marketing campaign introduced

[1] 53 weeks to 3 September 2011

[2] 53 weeks to 3 September 2011 vs 42 weeks to 28 August 2010

Welcome

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Chief Executive's review
New Chief Executive Michael Sharp reviews the past year and sets the strategy going forward

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Focusing on UK retail
Improving and widening the brand in the UK

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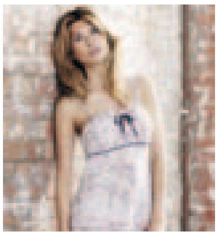

Delivering a compelling customer proposition
Living up to our brand promise

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Multi-channel
Increasing availability and choice through multi-channel

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International
Expanding the reach of the brand internationally

To view our online report visit:
ar11.debenhamsplc.com

Overview 2011
Our business model

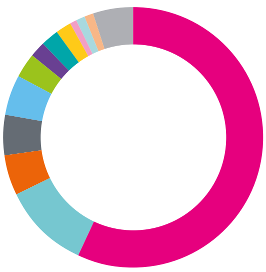
Debenhams is an iconic British department store group which was established over 200 years ago. Debenhams has a strong presence in key product categories including womenswear, menswear, childrenswear, home and health & beauty and offers its customers a unique and differentiated mix of brands. It has growing multi-channel and international businesses.

How we buy

A diverse supply chain

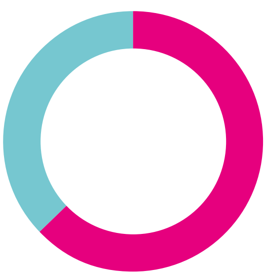
We buy from around the world using a strategy of "right product, right country". Years of direct sourcing experience have resulted in long-standing supplier relationships.

Country sourcing



Country	%
China/HK	57%
India	11%
Vietnam	5%
Romania	5%
Bangladesh	5%
Turkey	3%
Pakistan	2%
UK	2%
Cambodia	2%
Sri Lanka	1%
Egypt	1%
Morocco	1%
Rest of world	5%

Direct vs indirect sourcing

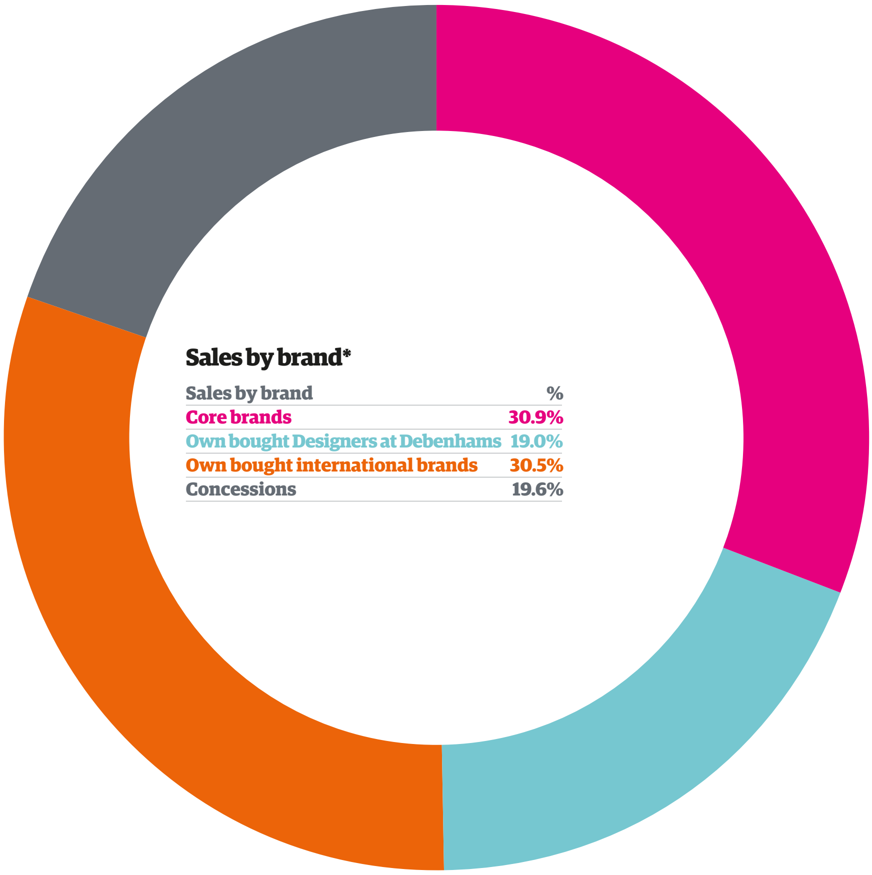


	%
Direct	63%
Indirect	37%

What we sell

Driving growth through differentiated brands and products

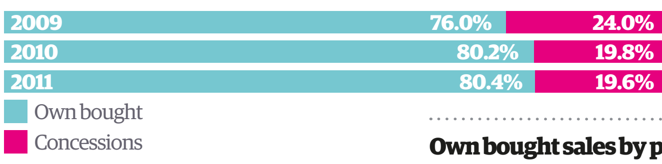
Debenhams sells a unique mix of brands and products which is a major point of differentiation on a crowded high street.



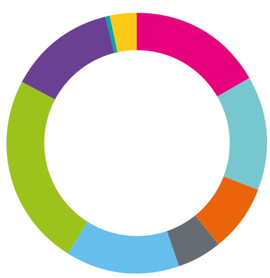
Sales by brand*

Sales by brand	%
Core brands	30.9%
Own bought Designers at Debenhams	19.0%
Own bought international brands	30.5%
Concessions	19.6%

Own bought products vs concessions trend*



Own bought sales by product category*



	%
Womenswear	16.8%
Menswear	14.1%
Childrenswear	8.3%
Lingerie	5.7%
Accessories	14.1%
Health & beauty	24.0%
Home and gift	13.2%
Sports and leisure	0.6%
Food services	3.2%

*excluding Magasin

How we sell

A store portfolio at home and overseas plus growing multi-channel sales

Debenhams sells through an increasing number of channels: owned stores in the UK, Ireland and Denmark, franchise stores in 25 countries and multi-channel activities.

UK & Ireland
163 stores and online
Gross transaction value
£2,355.6m

Denmark
6 stores
Gross transaction value
£246.7m

International franchises
65 stores
Gross transaction value
£77.0m

87.9% 9.2% 2.9%

Sales by channel

Instore
93.3% £2,498.9m

Online
6.7% £180.4m

Instore vs online sales trend

Our customers

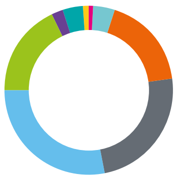
Growing market share through a loyal customer base

Debenhams' customers reflect our role as a family department store. Our core customer is a woman aged 25-45, which also happens to be the largest part of the market.

Customer age

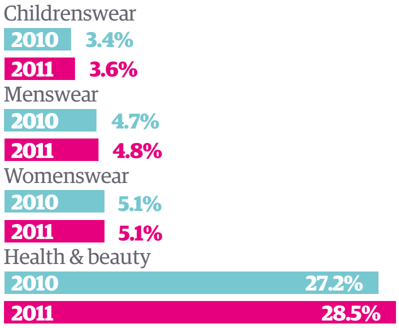
Age	%
<24 years	8%
25-34 years	19%
35-44 years	24%
45-54 years	22%
55-64 years	17%
65+ years	10%

Frequency of visit



Frequency	%
Daily	1%
2-3 times a week	4%
Once per week	18%
Once per fortnight	24%
Once per month	28%
Once every couple of months	18%
Once a year	2%
Less often	4%
First visit	1%

Market share



Clothing: Kantar Worldpanel Fashion 52 weeks market share data to 4 September 2011 vs 2010
Health & beauty: NPD 52 weeks to 27 August 2011

Chairman's statement

Making good progress

"We are continuing to invest in the UK to provide our customers with the best possible shopping experience, whether instore or through one of our growing range of multi-channel access points."

Nigel Northridge, Chairman

Debenhams made good progress in 2011 despite what has undoubtedly been one of the most difficult years in the retail sector for some time. We achieved growth in sales and profit before tax, made a further substantial reduction in net debt and reinstated the dividend for the first time since 2009.

Reintroducing the dividend

The board was pleased to be able to reinstate dividend payments during the course of 2011 for the first time since 2009. This is a testament to the significant reduction in net debt that has been achieved over the past three years and the strongly cash generative nature of the business. The initial dividend cover is three times earnings. An interim dividend of 1.0 pence per share was paid to shareholders in July. A final dividend payment of 2.0 pence per share has been proposed which will be paid in January 2012. The total dividend for the year is therefore 3.0 pence per share.

Board succession

One of the most important functions for the board of any company is succession planning. It was announced in April that Rob Templeman would retire as Chief Executive of Debenhams at the end of the 2011 financial year. Rob led Debenhams for nearly eight years and the board and all his colleagues would like to thank him for the enormous contribution he has made.

At the same time we were delighted to announce that Michael Sharp would succeed Rob as Chief Executive and he did so on 5 September 2011. Michael has worked for Debenhams or its predecessor the Burton Group since 1985. After serving as Chief Operating Officer between 2004 and 2008, he became Deputy Chief Executive in November 2008. Michael's commitment to and knowledge of Debenhams is therefore second to none and he has played a key role in managing the business at the highest level as Deputy Chief Executive. We look forward to the Company's continued success under Michael's leadership.

You can read about Michael's plans for the future strategy of Debenhams in detail starting on page 8. As a board, we believe there are many opportunities for growth across the business, both in our home market in the UK and in our growing international business.

Investing in the UK
Our UK operations are the cornerstone of our business. We are continuing to invest in the UK to provide our 11.5 million store customers and many millions more multi-channel customers with the best possible shopping experience, whether instore or through one of the growing range of multi-channel access points. We are investing in UK infrastructure and over the past five years we have created over 3,000 jobs in the UK through our new store opening plan, including three new stores in 2011 which employ a total of 350 people. The pace of our store modernisation programme is accelerating so that all of our customers will have a local store they and we can be proud of: this too is creating much-needed jobs around the country. We are investing in technology and logistics for both customer facing and back of house systems to create a truly multi-channel business. And of course we are investing in British design talent through the highly successful Designers at Debenhams programme.

Expanding our global reach
At the same time we are taking advantage of opportunities to expand our global reach as we know that our exclusive own brands are just as attractive to overseas consumers as they are in the UK. Our Danish business Magasin du Nord has had a very good year and has met all expectations since we acquired it in 2009. We have ambitious plans to increase the number of international franchise stores from the current 65 in 25 countries. The number of countries we deliver to using the UK online infrastructure is increasing from seven to 67 and a number of local language, local currency websites will be introduced over the next year.

A sustainable future
During the year we have begun work on a major sustainability project that aligns the long-term interests of our business with those of the environment, our employees and our communities. You can read more about this work from Martina King, who is chairing the project, on pages 38 to 40.

The board and governance
We have a strong and diverse board which is well equipped to meet its obligations to shareholders and to drive the business forward.

During the year Mark Rolfe joined the board as a non-executive director and of course Rob Templeman retired from the board when he stepped down as Chief Executive on 4 September 2011.

The board welcomes the new UK Corporate Governance Code. In accordance with the Code, all the directors will offer themselves for re-election at the Annual General Meeting to be held on 10 January 2012. You can find the board's corporate governance report, including the reports of the board's committees, on pages 42 to 60 of this annual report.

To summarise, whilst it has been a difficult year in the retail sector, we are pleased with the performance of Debenhams. Quite clearly this has only been achieved through the dedication and hard work of all our employees. They have had a lot to contend with over the past 12 months, not least struggling to get to work in some of the worst winter weather for years and coping admirably with the challenges presented by the August 2011 riots. The board thanks them for their ongoing support and commitment. We all look forward to a successful year under the leadership of our new Chief Executive.

Nigel Northridge
Chairman

Earnings per share

9.1p

A 21.3% increase over last year

Dividend per share

3.0p

Reinstated in April 2011

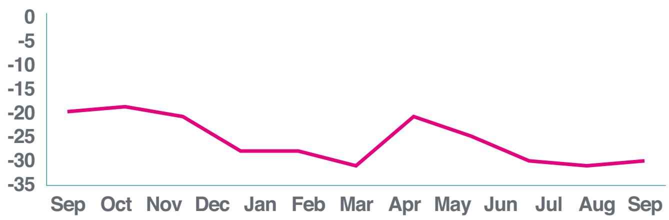
Gaining share in health & beauty
One of the biggest areas of market share growth in 2011 was in health and beauty where our share of the premium market increased to 28.5%, aided by our Beauty Club loyalty scheme which now has 1 million members.

Market overview

Putting our performance in context

Across the retail sector, 2011 was undoubtedly a difficult year with harsh winter weather, soaring input prices and downbeat consumer confidence all taking their toll.

UK consumer confidence

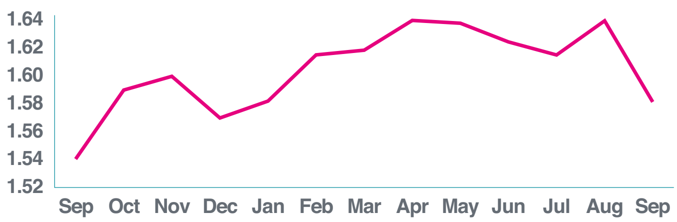


(source: NOP GfK)

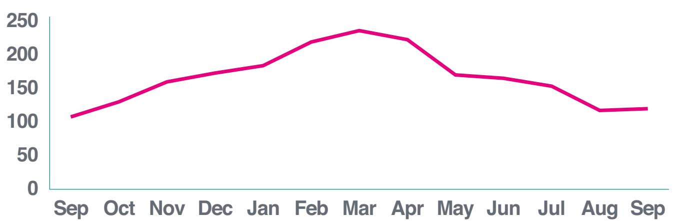
UK high street sales (%)

(source: BRC-KPMG Retail Sales Monitor)

GBP/USD exchange rate



Monthly average cotton prices (US cents per pound)



(source: National Cotton Council of America, "A" Index)

An independent view of the UK retail market from Verdict

Retail in the UK is undergoing a fundamental evolution, one that was inevitable, was accelerated by the recession and is forcing retailers to become much more professional.

Retail growth over the decade up to 2009 was boosted by deflation and low inflation in virtually all non-food sectors. This factor, combined with increases in household disposable income and easy credit, enabled consumers to buy more and more products with very little impact on their overall income. Yet, despite this, retail growth has been slowing; it halved to an average 2.8% in the decade after the millennium and has declined each decade since the 1960s.

Therefore, as a mature sector, with the prospect of an ageing population dampening demand further, retail was inevitably going to become more challenging. Moreover UK consumers have not only cut back on their shopping as confidence has fallen but have also changed their style of shopping.

Rising utility bills, transports costs, higher education costs and actual job losses (or the prospect of them) have all led to consumers having less to spend and less willingness to spend. Rather than rack up more debt they are paying it off, or saving. And when they do buy, price inflation means they buy fewer items and are far more selective about their choices. Therefore if a retailer is not first choice it is unlikely to get any share of spend.

Sectors and retailers dependent on the housing market have suffered the highest number of casualties. Between them, since 2008 DIY, electricals, furniture & floorcoverings and homewares have seen a £7.9 billion reduction in consumer expenditure. Sectors that continue to grow are those related to family and personal needs, food & grocery, clothing & footwear and health & beauty, but even in these sectors retailers with a single specialism, like footwear, are under pressure, finding it hard to drive the volumes necessary to cover rising costs.

Retailers therefore need to adapt to a new low growth, inflationary environment. No longer can they rely on opening more space to drive growth, now it is a case of having an efficient multi-channel model that incorporates the optimum range and number of stores in the right locations, combined with e-Retail and m-Commerce operations. Future success will be based on being far better than competitors: growth will come at someone else's expense, therefore retailers need a strong brand and a distinctive proposition that generates constant customer loyalty. Furthermore, managing operations and costs to generate maximum efficiency and flexibility will be essential.

We at Verdict expect 2012 to be another tough year for retail with little improvement until 2013 (global financial traumas permitting). Whatever the outcome the new normality will be low growth and low volumes with little room for error.

Key market facts 2011

Consumer confidence
Consumer confidence remained negative throughout 2011. After a stable autumn, confidence dropped sharply in January, possibly due to the increase in VAT which was the first of the government's austerity measures which had a widespread impact on consumers. There was an unprecedented improvement in late spring, in large part due to warm weather, the Royal Wedding and extended bank holiday weekends creating a temporary "feel good" factor. However, this was short-lived and by the end of the year confidence had fallen again.

High street sales
High street sales, as measured by the BRC-KPMG Retail Sales Monitor, were volatile during the year on a monthly basis. For the year from September 2010 to August 2011 total sales increased by 0.6% but the monthly range varied from -3.1% in March 2011 to +5.0% in April 2011. On a like-for-like basis, sales fell by 0.8% with a monthly range from -4.2% in March 2011 to an increase of 3.8% in April 2011.

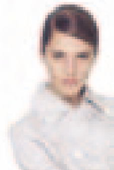
Input prices
2011 was characterised by significant rises in input prices. A poor harvest, crops ruined by bad weather and rising demand from the Chinese domestic market led to a sharp upward movement in the price of cotton. The average month price in 2011 of 167 cents/pound was more than double the previous year (source: National Cotton Council of America "A" index). There was also upward pressure on wool, polyester and other material prices. Labour rates in China rose in line with the government's plans. On the positive side, freight costs fell during the year as new vessels added capacity at a time when volumes were declining and sterling traded in a reasonably narrow range against the US dollar during the year.

UK clothing selling prices
Higher input prices and concerns over consumer confidence led many retailers to increase prices during 2011. Over the spring summer season, total clothing market selling prices increased by 5.5% (source: Kantar Worldpanel Fashion, 24 weeks market share to 4 September 2011 vs 2010). There was a corresponding volume decline over the period of 3.8%.

Our conclusions
Debenhams performed well in 2011 in a market that was clearly difficult on many levels. Although like-for-like sales fell by 0.3%, they outperformed the market which fell by 0.8%. The impact of higher input prices was managed well and average price increases over the spring summer season of c.4% were lower than the market as a whole which increased by 5.5%. Debenhams is well placed to take advantage of the trends referred to in Verdict's view of the market with our broad category mix, predominantly in the clothing, footwear and health & beauty sectors, and growing multi-channel offer.

Key trends by category

Overview
Suzanne Harlow, Debenhams' Group Trading Director, reviews the key trends in the major product categories over the past year.



Womenswear
Dresses have continued to be a key line, especially day dresses and prom dresses. Fun prints have been very popular, as has colour. Quilted jackets and faux fur are big.

Menswear
Men are becoming more confident in what they wear. Denim is being replaced by chinos in a range of colours. Footwear is becoming a big trend area.

Childrenswear
Price and value are becoming ever more important. Key trends include dresses and leggings for girls and chinos and fun graphic prints for boys.

Health & beauty
Anti-ageing skincare is growing fast. Designer and classic fragrances are providing affordable luxury and new fragrance launches are very popular.

Accessories
Occasion footwear and nude shoes have seen very strong growth as a result of the "Kate" effect. Handbag shoppers are becoming more price conscious.

Lingerie
Solution lingerie, such as fuller bust bras and shapewear, is one of the fastest growing areas.

Home
Trends are moving away from loft-style minimalism with a strong shift towards colour and texture. Home baking and food preparation are growing. Overall, value is key.

2011 performance

Key performance indicators

Financial performance indicators

Strategy	2011 performance	KPI

Gross transaction value

Strategy: Gross transaction value (GTV) is a measure of overall sales in the business and includes both own bought sales and concession sales. The board believes GTV is a good guide to the overall level of activity in the Company.

2011 performance: Debenhams reported a pleasing increase in GTV of 4.5% in 2011 (2.9% on a 52 week basis). It was driven by new UK store space from stores opened in 2010 and 2011 and growth in Magasin and the international franchise stores as well as online sales growth in the UK.

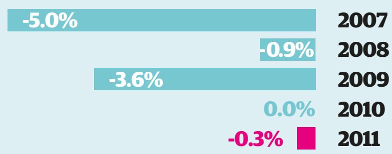
Gross transaction value £m

Like-for-like sales

Strategy: 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.

2011 performance: Like-for-like sales for the 52 weeks to 27 August 2011 fell by 0.3%. On a VAT inclusive basis, like-for-like sales grew by 1.2%. This was a creditable performance given the bad weather during peak trading which we estimate impacted like-for-like sales by c.1% across the year as a whole.

Like-for-like sales growth %

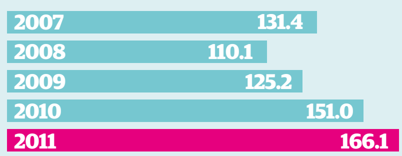


Headline profit before tax

Strategy: Headline profit before tax is the board's principal measure of profitability.

2011 performance: Headline profit before tax grew by 10.0% in 2011 (up 4.4% on a 52 week basis). The main driver of growth was a lower interest charge resulting from the reduction in net debt and a lower interest rate following refinancing of the bank facility which was negotiated in July 2010 and took effect in October 2010.

Headline profit before tax £m

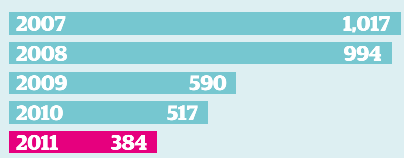


Net debt

Strategy: Net debt is the KPI used by the board to measure balance sheet strength. Ensuring the Company has an appropriate capital structure to support its strategic aims is clearly vital.

2011 performance: Net debt fell sharply in 2011, ending the year £133.1 million lower than at the start. As well as strong cash generation, net debt benefited from the cancellation of a number of finance leases. Leverage (calculated as net debt divided by EBITDA) at year end stood at 1.4 times.

Net debt £m



Non-financial performance indicators

Strategy	2011 performance	KPI

Own bought sales mix

Strategy

The mix of sales between own bought and concessions is an important driver of gross margin. Own bought sales produce a higher margin than concession sales.

2011 performance

Own bought sales increased slightly in 2011 to 80.4% compared with 80.2% in 2010. Improvements in the own bought mix from the store modernisation programme were offset by a better performance from some concessions.

Our medium-term target remains 85%.

KPI

Own bought sales mix %

Trading space

Strategy

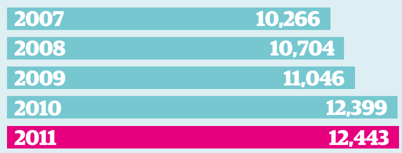
Trading space is driven by new store openings and expansion of existing stores, usually when they are being modernised. A disciplined approach to capital expenditure ensures strong returns are generated from new space.

2011 performance

Three new stores were opened during the year adding a total of 193,000 sq ft of trading space. The store portfolio at year end comprised 163 stores in the UK and Ireland and 6 in Denmark. We believe we could trade from up to 240 stores across the UK and Ireland.

KPI

Trading space m/sq ft



Online sales

Strategy

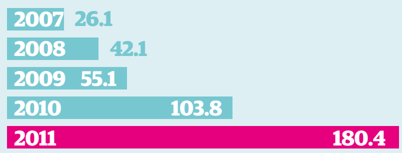
The development of Debenhams' multi-channel business is a key part of the Company's strategy. Online sales are a good indicator of the performance of Debenhams' multi-channel activities as a whole as the website is the largest of the non-store sales channels.

2011 performance

2011 was another year of strong growth in online sales. Total sales increased by 73.8% on a 53 week basis and like-for-like sales on a 52 week basis grew by 71.9%. We expect to grow online sales to £500 million over the medium-term.

KPI

Online sales £m



Chief Executive's review

Setting a clear vision

"Our ambition is for Debenhams to be a leading international, multi-channel retailer."

Michael Sharp, Chief Executive

This is my first report to shareholders as Chief Executive, although I am far from new to Debenhams. This is a business I am truly passionate about and it is a privilege to lead such a talented and committed team. I want to share with you my thoughts on 2011 and my plans for taking the business forward over the next few years, setting out what I believe is a clear strategy for growth.

Introducing Michael Sharp

The right experience to drive growth
Michael Sharp became Chief Executive of Debenhams on 5 September 2011, having served as Deputy Chief Executive since November 2008. Michael has worked for Debenhams or its predecessor the Burton Group since 1985.

Michael has spent his entire career in retail. In 1985 he joined the Burton Group where he held positions as Buying & Merchandising Controller at Top Man and Burton menswear and Buying & Merchandising Director at Top Man, Topshop and Debenhams' womenswear. Michael became Managing Director of Principles in 1996 and Managing Director of Racing Green the following year. Michael became Group Trading Director of Debenhams Limited in 1997 and in 2004 was appointed Chief Operating Officer of Debenhams Limited and subsequently Debenhams plc.

2011 highlights
We were pleased with the performance of the business in 2011 despite the difficult trading environment. We have now delivered seven consecutive halves of growth in sales and profit before tax which is a great achievement given the market environment we have faced during this period. You can read about our financial performance in detail on pages 28 to 30 but let me give you some of my highlights of the year.

Gross transaction value, like-for-like-sales including VAT and profit before tax all increased during the year. Another year of strong cash generation saw net debt fall and the dividend reintroduced. Overall these are strong results and are a testament to our pragmatic and flexible approach to trading which aims to maximise cash margin in a challenging market.

Growing market share is a key goal for Debenhams. In 2011 we saw growth in key product categories including menswear and childrenswear (source: Kantar Worldpanel Fashion, 52 weeks to 4 September 2011 vs 2010). We also gained share in women's casualwear which is one of the product areas we have specifically targeted as an opportunity for market share growth.

We continued to see an excellent performance in health & beauty in 2011. We have a market leading position in the premium market and our share increased by 130 basis points to 28.5% over the past year (source: NPD Health & Beauty market share, 52 weeks to August 2011). Our beauty loyalty scheme Beauty Club, which now has one million members, has undoubtedly driven a large measure of this growth.

One of the biggest challenges this year has been the severe pressure on margins due to rising input costs, in particular higher commodity prices such as cotton. I believe we have managed this well. 2011 has definitely been a year when our first class buying and supply chain infrastructure has been invaluable. This, along with our many years' experience of direct sourcing and long-standing supplier relationships, has enabled us to remain competitively priced and keep stock levels firmly under control.

In the spring we launched Edition, a new concept under the Designers at Debenhams banner which is investing in some of the most exciting British design talent. Our first designers for spring summer 2011 were Jonathan Saunders, Preen and Jonathan Kelsey and they have now been joined by Roksanda Ilincic for autumn winter 2011. Overall Designers at Debenhams continues to go from strength to strength with sales up by 5.3% in 2011, demonstrating its resilience even in the most difficult markets.

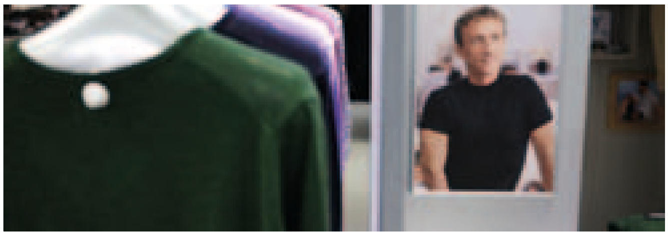
Three new stores were opened during the year in Bath, Wakefield and Fareham and they each performed in line with our expectations. Our store modernisation programme, which recommenced last year, accelerated at pace this year with 11 modernisations completed, including some of our largest, oldest stores such as Gloucester and Southampton. Our customers are clearly as excited about their upgraded stores as we are: the refits are delivering improvements in sales and margins as well as a healthy return on capital.

2011 has seen a step up in the development of our multi-channel business with a host of new developments. Like-for-like online sales increased by 71.9% in 2011 and are up by 224% on a two year basis.

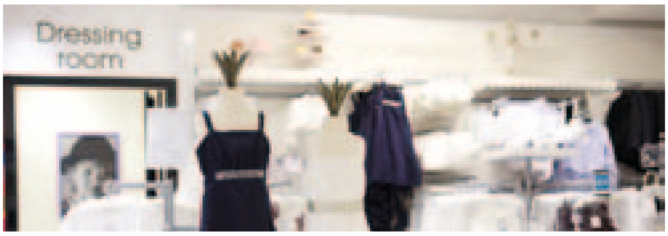
This was the first full year of ownership of our Danish business Magasin du Nord and we were very pleased with the performance of that business. Like-for-like sales increased by 6.3% in local currency and gross margin was up by 200 basis points. We remain on course to meet the targets we set at the time of acquisition in November 2009.

One of the most important projects we have undertaken this year is a comprehensive review of our approach to sustainability. You can read about this in detail on pages 38 to 40 but I want to add my commitment to this project. The way our business interacts with the wider world and meets the needs of all our stakeholders is vital to our success.

Setting a clear strategy for growth
Our ambition is for Debenhams to be a leading international, multi-channel retailer. We are aware that every retailer says this. What is different when we say it is our exclusive brand and product portfolio. Half of what we sell cannot be bought anywhere else. Debenhams today is a successful, profitable, cash generative business with strong financial discipline. None of this is going to change. We have been listening to our customers and looking at the way consumer behaviour is changing. Customers tell us we are good at lots of things: exclusive brands especially Designers at Debenhams; broad product categories; services such as personal shopper and gift list; and promotions that offer great value. But they also tell us that our stores could be less cluttered and more modern and contemporary. Importantly, they want more choice: of brands, of products, of ways to shop. As a result, after a period when department stores were perhaps seen as an anachronism on the high street, they are becoming increasingly relevant. As the Wall Street Journal put it recently: "Dowdy department stores start looking cool again." This gives us a great platform from which to build. We believe there are significant organic opportunities to drive profitable sales growth in Debenhams. Our strategy for growth centres around four pillars: a focus on UK retail; delivering a compelling customer proposition; increasing choice and availability through multi-channel; and expanding the brand internationally.



Raising our standards instore
Improving visual merchandising and product presentation are key parts of delivering a compelling customer proposition. We want to be more inspiring and ensure our standards are consistently high.



Innovative presentation
Imaginative and stylish product displays are the hallmark of our revamped stores, ensuring a memorable customer experience. This includes innovative use of contemporary mannequins that deliver an eye-catching look to our childrenswear department.

Debenhams at your service
Services such as personal shopper, gift list, bra fit and beauty services (including brow bars) are an important way to ensure customers see Debenhams as a premium shopping destination.

Focusing on UK retail
Our UK store portfolio is the engine room of our business. Our ambitions are threefold: to improve the performance of core stores; to complete the modernisation of all core stores within the next two years; and to open new stores in target locations.

There are 45 stores in the UK which have yet to be modernised and which we term "core stores". These stores all make a cash contribution to the business and deserve their place in the Debenhams estate. However, there are opportunities to improve the performance of these stores and drive sales growth even before they are modernised. We will do this through focus rather than additional cost or capital spend.

Customers' views of Debenhams are very much coloured by their local store. The condition of our stores varies considerably and so we understand that some customers living near older stores which have not been modernised for some time will have a less favourable view. This needs to change. All of the 45 core stores will be modernised within the next two years, starting with 20 stores in the 2012 financial year. The Oxford Street flagship in Central London will be modernised in 2013. Modernisations drive sales, improve margins and generate good returns on capital. You can read more about the store modernisation programme on page 14.

Despite its long history, Debenhams still has a relatively immature store portfolio in the UK and Ireland of 163 stores. We continue to believe that these markets can together support up to 240 stores without cannibalising sales from existing stores.

Delivering a compelling customer proposition
The second pillar of our strategy focuses very much on our customers and how we deliver our brand promise of making Designers accessible, offering great value every day and inspiring and helping our customers.

Our brand and product strategy is centred on our unique and differentiated mix of own bought and concession ranges. It remains our target to grow own bought sales participation to 85% over the medium-term but our ultimate focus is on maximising cash margin. Growing Designers at Debenhams is crucial to this goal and our medium-term target is £750 million of sales. You can read more about how we plan to achieve this on page 18. At the same time, our core brands remain very important and there will always be a role for concessions in Debenhams stores. We are looking at the way we communicate our customer proposition, whether through making our instore visual merchandising and product presentation more inspiring or challenging how we spend our marketing budget.

And we must not forget service. Although our model is essentially self-service – and customers tell us they are quite happy with that – we need to make sure our store employees have the skills and tools to inspire and help our customers. Using technology to facilitate great customer service will be very important.

You can read more about how we plan to deliver a compelling proposition on pages 16 to 19.

Increasing availability and choice through multi-channel
Forecasts suggest that by 2015 47% of all clothing and footwear sales will be "multi-channel", that is to say they involve customers using more than one access point in a single sale, up from just 28% in 2010 (source: Javelin Consulting). Our multi-channel business has grown very strongly over the past three years with online sales increasing by over 300% during this period. In 2011, online contributed 7.4% of total gross transaction value excluding Magasin. Our ambition is to increase online sales over the medium-term to £500 million.

At the centre of our multi-channel strategy is the desire to increase choice and availability. Increasing the choice of products and ways to shop results in more customers and more cross-shopping between product categories. Increasing availability to satisfy demand that is not currently being met drives full price sales which leads to lower markdown and better working capital.

You can read more about the future developments of our multi-channel business on pages 20 to 23.

Expanding the brand internationally
In 2011, 16.2% of Debenhams' total revenue originated outside the UK. Our approach of using franchises in distant and emerging markets, owned assets closer to home and international online delivery is working well and will continue to form the basis of our international strategy.

We are upgrading our ambitions for new franchise store openings and now expect to double the existing store number of 65 over the next five years, 14 of these planned new stores are under contract.

We are confident in further growth of Magasin du Nord. Although there are limited opportunities for new store openings in Denmark, the launch of an online proposition in 2012 should deliver incremental sales. Magasin serves as a model for other potential acquisitions and we will continue to assess any opportunities that may arise.

The number of countries we deliver to outside the UK is increasing from the initial seven to 67 in the spring of 2012. The next stage is the launch of local language, local currency websites, starting with Germany in 2012. Our aim is for international to contribute 20% of total multi-channel sales over the medium-term.

You can read more about our international ambitions on pages 24 to 27.

Summary and outlook
In summary, 2011 was a successful year for Debenhams in many ways. Looking forward, we believe there are significant opportunities for growth. Although in the current market environment it is right to remain cautious over the strength of consumer confidence and the health of the overall economy, we are optimistic about our own prospects. In this market there are inevitably winners and losers and I firmly believe that Debenhams is well placed to be one of the winners. I look forward to reporting our progress to you over the coming years.

Michael Sharp
Chief Executive

Setting a clear strategy for growth

We are building on the existing successful strategy to make Debenhams a leading international, multi-channel retailer.

Focusing on UK retail p12

Improving and widening the reach of the brand in the UK

- UK stores are the engine room of the business and remain as relevant as ever
- We are improving the performance of UK core stores ahead of modernisation
- We are accelerating our store modernisation programme: all 45 core store modernisations will be completed by the end of 2013
- We will continue to open new stores in target locations; nine new stores are contracted, nearly 30 more are in discussion

Delivering a compelling customer proposition p16

Living up to our brand promise

- Our brand and product strategy will ensure we have the right products at the right prices
- Designers at Debenhams will continue to be the cornerstone of our brand strategy and we aim to grow it to £750 million of sales over the medium-term
- We are raising our standards instore
- We are communicating the proposition differently through a more joined-up approach to marketing

Multi-channel p20

Increasing availability and choice through multi-channel

- Online sales will grow to £500 million over the medium-term
- We are giving customers more choice of products, brands and ways to shop
- We are increasing availability through instore ordering and "Endless Aisle"
- We are ensuring that we have the right technology and logistics to deliver our ambitions

International p24

Expanding the brand internationally

- We will double the number of international franchise stores over the next five years
- We are continuing to make progress at Magasin du Nord
- We will use Magasin as a blueprint for other acquisitions
- We will grow international online to 20% of total online sales over the medium-term

Focusing on UK retail
Improving and widening the reach of the brand in the UK

UK and Ireland stores

Although Debenhams has been in existence for over 230 years, its UK store footprint is still relatively small compared with its largest competitors.

Debenhams operates 163 stores in the UK and Ireland of which 141 are full department stores, with an average space of 75,000 sq ft. and 22 small format stores, all of which are below 25,000 sq ft. We believe there is demand for up to 240 stores. One of the strengths of the Debenhams model is that we can tailor store sizes to suit local market conditions and can generate strong returns from all sizes of store.

Although new store opportunities have been limited over the past two years and will continue to be so in 2012 when only the resited Newbury store will open, the property market is beginning to improve. Further out, we are contracted to open nine new stores over the next five years, with the first scheduled to open in 2013. They will collectively add nearly 435,000 sq ft of new trading space. Nearly 30 more new store opportunities are under discussion.

New stores are only one part of the picture. All of the 45 UK core stores will be modernised during the next two years (see more about the modernisation programme on pages 14 and 15). And we are not waiting for modernisation to take place to start to improve the performance of these stores.

UK and Ireland

163 stores

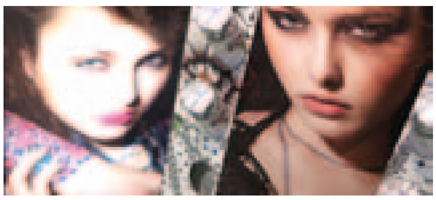
141 full department stores

22 small format stores

9 new stores contracted to open, starting in 2013

c.30 new stores in discussion

240 possible stores in UK and Ireland



Modernising Manchester
Our Manchester store was modernised in 2010. An improved food offer and new visuals were just two of many changes.

5.8%
average sales increase after modernisation

17%
average ROCE of 2010 and 2011 modernisations

350
UK jobs created in new stores in 2011

3,000
UK jobs created in new stores over past 5 years

Improving UK core stores

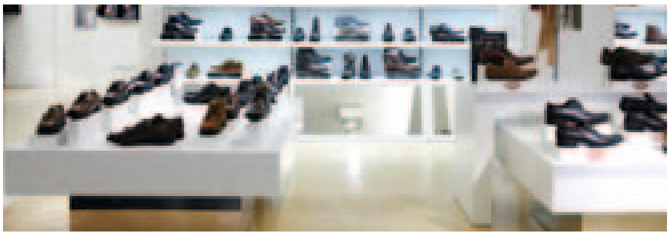
We use the term core store to describe an older store that is awaiting modernisation. We have committed to modernise all of these stores by the end of 2013. However there are many things we can do to improve the performance ahead of modernisation by focusing on key retailing principles. This is a question of focus, not of additional cost or capital spend. We review the management team and determine any training needs across the store. We replace choice that may have been lost through recent concession closures. We improve presentation standards. We optimise the space to increase its productivity. And we ensure that costs, margins and stock loss are managed very closely. These actions mean that the core stores are in the best possible shape they can be when they are modernised.

Breaking new ground at Westfield
Debenhams is the largest store at Westfield London, one of Europe's premier shopping centres. Opened in 2008, it has been a blueprint for the new stores we have opened subsequently, giving customers the modern, contemporary shopping environment they want.

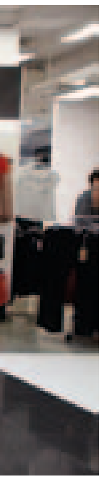
Store modernisations

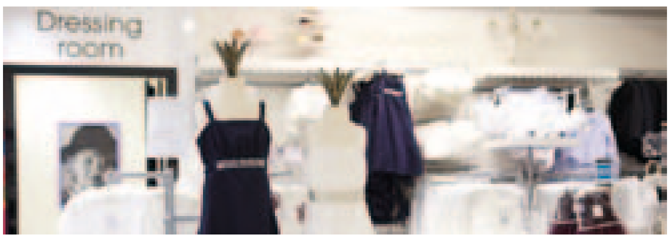
We are accelerating our store modernisation programme so that all our customers can have a local store to be proud of. Store modernisations focus on newness – new brands, new product categories and new services as well as new layouts and store infrastructure – and on increased choice. We improve lighting. We open up the circulation of the store, revise walkway patterns and increase the visibility of lifts and escalators. We introduce a new food offer to match a new restaurant format and where possible we add new space, especially in productive, high sales density areas like the ground floor. Although modernising a store inevitably causes disruption to sales whilst the work is underway, we know how to manage this and minimise disruption by advance planning, driving sales immediately prior to modernisation through special promotions and bringing large blocks of space such as the cosmetics department back on stream as early as possible.

These pictures show Debenhams Gloucester which prior to modernisation was one of the worst stores in the whole estate. Now it is one of the best.



45
core stores modernised by end of 2013





Delivering a compelling customer proposition
Living up to our brand promise

To drive growth we need to ensure we deliver a compelling proposition to our customers, ensuring we have the right products at the right prices and great customer service. We call it our "brand promise."

It all starts with the products. As a department store, customers expect us to offer a wide range of brands and product categories. Our biggest strength is a differentiated brand and product strategy which provides both exclusivity and flexibility and means that over half of what we sell can only be bought in Debenhams. Our strong own bought sales participation puts us in control of most of what we sell and also offers enhanced margins. Own bought sales accounted for 80.4% of gross transaction value in 2011 (excluding Magasin) and our target is 85%.

We also need to provide a shopping experience that customers value and see as a compelling reason to shop with us. So we are raising our standards instore in terms of merchandising, product presentation and service.

And we need to make sure customers know that Debenhams is changing through the communication of our proposition and so we are taking a more joined-up approach to marketing.

The Debenhams brand promise

Make designers accessible
We offer an unrivalled collection of designer brands at high street prices. Designers at Debenhams democratises design. And our customers love it. Three quarters of them tell us that Designers at Debenhams is one of the most important reasons they shop with us.

Offer great value every day
Debenhams is famous for sales and promotions. But we also offer great value every day, especially through our core brands like Mantaray, Collection and Red Herring.

Inspire and help
Our model is essentially self-service – and customers want this – but we need to make sure we are there to offer inspiration and help when it's needed.

£524m
Designers at Debenhams sales 2011

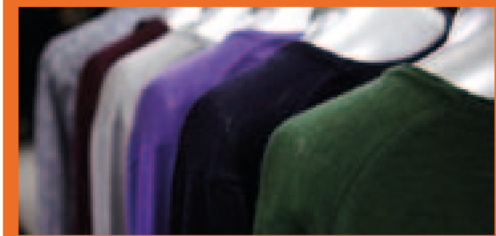
£750m
Designers at Debenhams sales target

80.4%
own bought sales participation 2011

85%
own bought sales participation target

A differentiated brand portfolio

Debenhams is different from many department stores because it has a unique and differentiated brand offer. Over half of what we sell is exclusive to Debenhams. You can read more about Designers at Debenhams overleaf. Our core brands are also extremely important to us. Brands such as Mantaray, Red Herring and Bluezoo are just as unique and exclusive as Designers. They provide the lower and middle components of our price architecture and are a key part of our ability to offer great value every day. Debenhams' own brands are complemented by our offer of international brands, particularly in health & beauty where the availability of some of the world's most prestigious brands such as Chanel, Estée Lauder and MAC creates a halo effect over the rest of the store. There is also a role for concessions in our brand portfolio. Concessions such as Coast, Miss Selfridge and Jacques Vert add choice and drive footfall.



Raising standards instore

We need to raise our instore standards to change customers' perceptions of Debenhams, reinforcing it as a modern and contemporary place to shop. We are starting to do this through improved visual merchandising which makes extensive use of large format photography which not only looks good but increases product rate of sale. We need to improve our product presentation so it is more inspiring and to a consistently high standard. We also need to demonstrate more price and value confidence within our range of "good, better and best" products. Service standards instore are also crucial. Our model is predominantly self-service but we need to provide great service in areas like personal shopping, bra fit, gift list and in the restaurants. Technology is an important enabler of service and we are introducing a number of new systems to help us achieve this.

Communicating the proposition

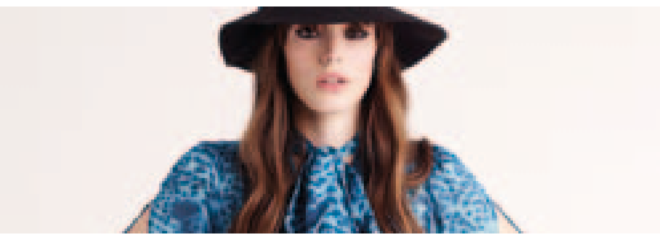
Our marketing is becoming more joined up. Messaging is consistent around the themes of "Life made fabulous" and Designers at Debenhams. We are speaking with one voice for both brand marketing and promotional marketing whereas in the past we have used different approaches for each which customers found confusing. Our marketing and PR activities are now completely aligned. We are also changing the mix of marketing media. Traditional media such as TV, print and direct marketing will continue to be important but new media will become increasingly important. 2012 will see some exciting developments, including the use of augmented reality. We are not spending any more money, instead we are making it go further.

Designers at Debenhams

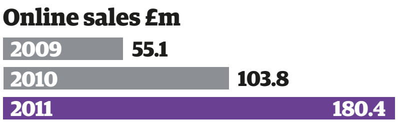
Launched in 1995, Designers at Debenhams is an exclusive collection of diffusion brands designed for Debenhams by some of Britain's leading fashion designers. Designers at Debenhams has proved to be extremely resilient and demonstrated good growth in 2011 despite the difficult trading environment. We expect to grow sales to £750 million over the medium-term, a 43% increase on 2011, by expanding Designers further down the chain, introducing more categories and attracting new designers.

Developments in 2011 included Edition, a new concept which showcases some of Britain's best new design talent, including Jonathan Saunders, Preen, Roksanda Ilincic and Jonathan Kelsey. Edition was launched in its own pop-up shop in London's Carnaby Street and has received many favourable reviews in the fashion press.

We are delighted to be welcoming Jenny Packham to Designers at Debenhams in 2012, as well as extending Edition into the home department.



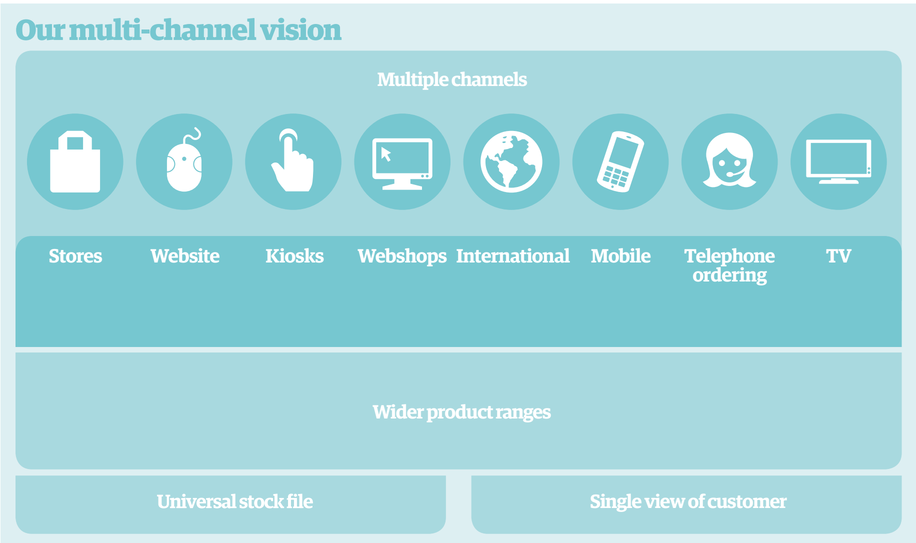
Multi-channel
Increasing availability and choice through multi-channel

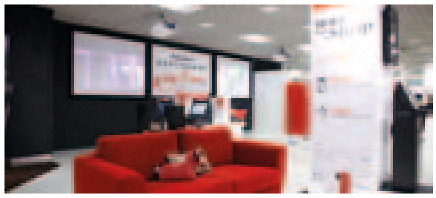


Customer behaviour is changing. Customers already have a multi-channel mindset: they still love the high street but they also browse online before shopping instore, they click and collect, they use instore ordering facilities and they shop on the go through apps and mobile websites.

We believe that department stores like Debenhams, with a wide product range and large high street space, are ideally placed to take advantage of these changes. The integration of our stores and other sales channels is what makes us a true multi-channel retailer.

We're making progress. We use online sales as an indicator of multi-channel growth as it is the largest non-store sales channel. Online sales grew by 73.8% in 2011 to £180.4 million. But the opportunity is enormous and we are determined to be at the forefront of it. Our medium-term target is to grow online sales to £500 million.





Debenhams Extra
Every floor of every Debenhams store now contains at least one instore ordering kiosks under the new Debenhams Extra branding.

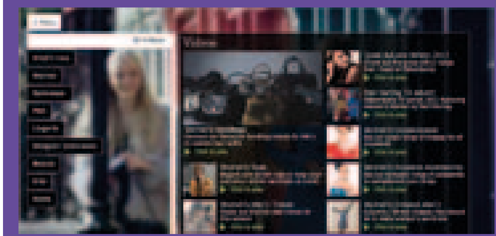
2.5m
visits per week to debenhams.com

13th
largest e-tailer in the UK

500%
increase in small store range from instore kiosks

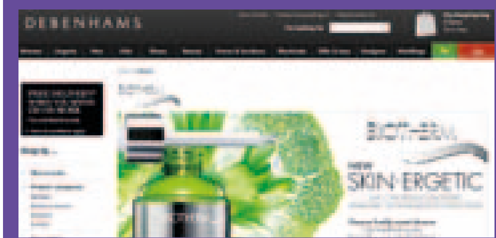
50%
increase in large store range from instore kiosks

Increasing choice: more products
We already offer a wide range of product categories instore but there are others that customers associate with department stores that we do not currently sell. Multi-channel allows us to widen our product offer, particularly for large items like furniture, household appliances and TVs, in a way that is convenient for the customers and low risk for us. There is also an increasing number of online only brands. And online is a great way to sell additional and peripheral sizes.

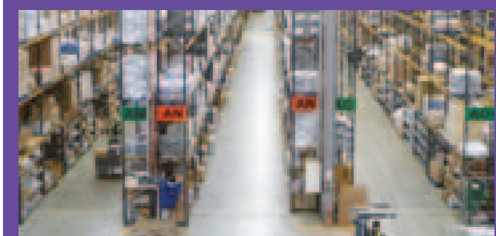


Increasing choice: more ways to shop
Customers can buy Debenhams products in an ever-increasing number of ways. Our stores are clearly the biggest of our sales channels but we also offer websites, a range of mobile apps for smartphones and tablets, Debenhams TV, instore kiosks, telephone ordering and catalogues.

Instore ordering
We have been investing in instore ordering over the past year and have installed nearly 650 kiosks across the store portfolio. They use the latest "big button" touchscreen technology which feels more like using an app than a website. We are also trialling webshops in 14 stores. A number of different approaches are being tried out with various groupings, locations and numbers of kiosks. The largest is in Coventry where a full scale webshop is being trialled.



Increasing availability
We want to be able to satisfy demand that is not currently being met. In a small store this means demand for products that are not ranged. In all stores and online it is demand for items which are out of stock. We want fewer instances when a product is reduced in price even though there is full price demand elsewhere in the business. This will help us to reduce markdown. Our goal is to be able to fulfil demand from any location in the business through a concept known as "Endless Aisle." We have already started and already supplement warehouse stock with the stockrooms of 30 large stores. By the start of 2013 we will be able to utilise stock from across the business including the stockroom and shop floor of every store.



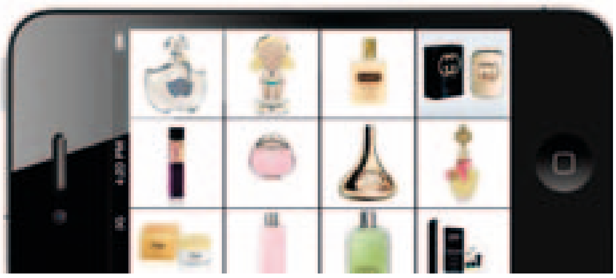
Systems and logistics
We are investing to make sure we have the systems in place to meet our multi-channel aspirations. As well as upgrading the website, we are investing in additional warehousing and distribution capacity which will see our Peterborough Distribution Centre converted to an online fulfilment centre which will allow us to expand delivery options and increase the profitability of multi-channel by improving collation of orders and reducing delivery costs.

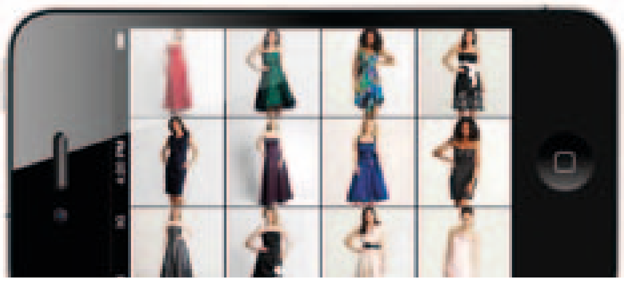
Shopping on the go

Shopping has been revolutionised by the advent of the smartphone. The first Debenhams app was launched for the iPhone in October 2010. This was followed in spring 2011 by Nokia and Android apps and a dedicated Beauty Club app. The latest addition is an iPad app. So far the apps have been downloaded 650,000 times between them. They boast a host of value added features, such as a barcode scanner for easy product identification, the ability to create gift lists and wish lists, a location-based store finder and access to Debenhams TV.

The latest innovation is a dedicated mobile site which launched in September 2011 and makes using the website on a mobile device much quicker and easier. Users are automatically directed to the site by their smartphone browser or can find it direct at m.debenhams.com.

Already one in ten visits to our online offer comes through mobile and this is likely to increase significantly in the coming years.






SCAN
& SHOP
THIS WINDOW
NOW

International
Expanding the brand internationally

International franchise stores sales £m

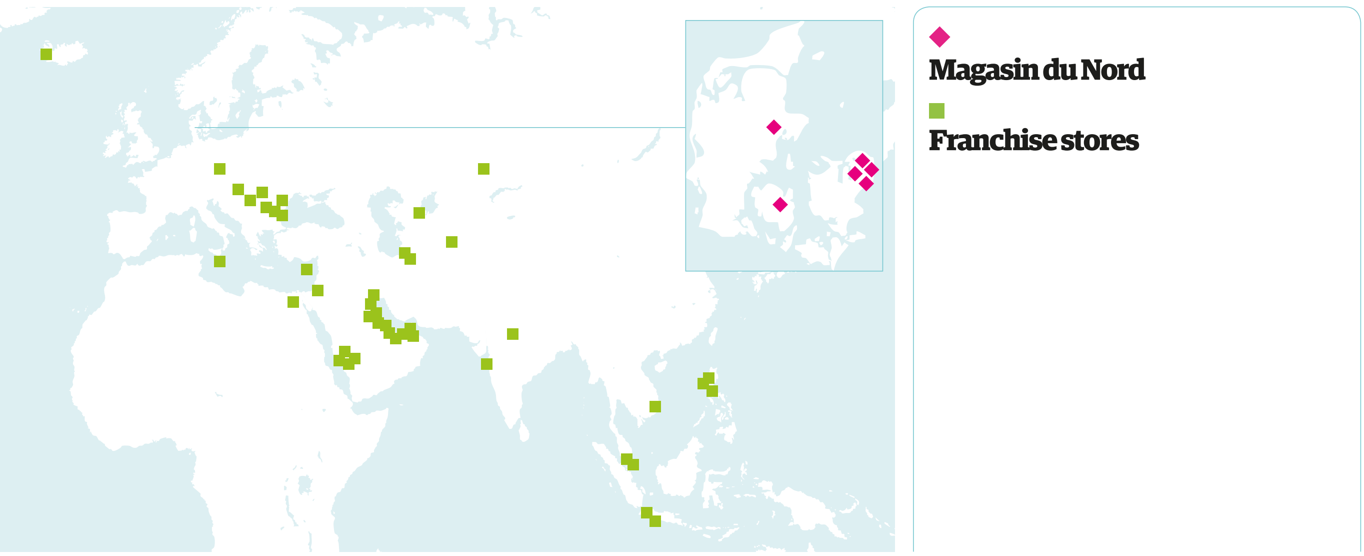
We know that consumers outside of our home market like our brands and products just as much as those in the UK. Our experience of our franchise store programme and our Danish business Magasin du Nord convinces us of this.

We have ambitious plans for expanding our international business. We intend to double the number of franchise stores over the next five years, including entry in a number of new markets.

Following the success of Magasin du Nord, acquisitions remain on the agenda to increase owned international assets.

Our international online business is gaining momentum too. In 2011, it accounted for just a fraction of total online sales. Over time we expect this to grow to 20%. By next spring we will have expanded international delivery from seven countries to 67 countries. We already have a country dedicated website for the Republic of Ireland and will be launching a German local currency and local language site in 2012. The new Websphere 7 website technology opens the door to the creation of country dedicated sites and we expect to launch several more over the medium-term.

Our current international store footprint



65
international franchise stores

25
franchise countries

67
countries we will deliver to by spring 2012

20%
target international contribution to online sales

International franchise stores

Franchise stores are a successful low capital, low risk way to expand internationally and will continue to be our preferred route for entry into distant and emerging markets. The first store opened in Kuwait in 1997. There are now 65 stores in 25 countries, from Iceland to Indonesia. We expect to double this in the next five years. Fourteen stores have already been contracted, including seven new openings in 2012, amongst them our first store in Pakistan. Over 50 more stores are in discussion. These include 10 new markets including China, Russia, Brazil and Colombia and expansion in large markets such as India and Turkey. As well as the revenue they generate - £77.0 million in 2011 - the franchise stores enable us to increase the size of our own brand sourcing which often allows us to negotiate better cost prices.

Debenhams in Iran

Debenhams opened its first international franchise store in Iran in January 2009. Since then, two further stores have been opened. As with all our franchise stores, we work closely with our partner in Iran to ensure the stores carry the right range of products and brands for the local market.

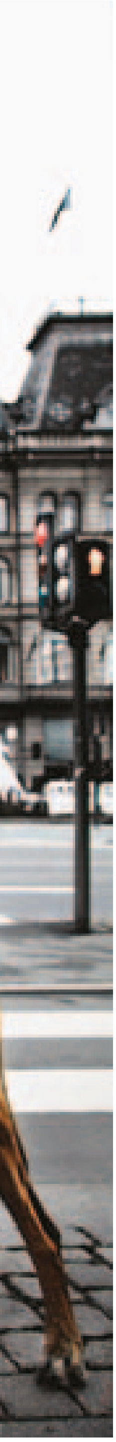
The Magasin du Nord blueprint

Debenhams acquired Magasin du Nord, Denmark's leading department store chain, in November 2009. Since then the business has grown strongly. In 2011, Magasin delivered £246.7 million of sales, with like-for-like sales increasing by 6.3% on a local currency basis in 2011. EBITDA of £13.5 million means that Magasin was acquired on an EV/EBITDA ratio of less than one times. There are further opportunities for growth at Magasin, both in terms of sales and margins as it benefits from leveraging Debenhams' supply chain scale and knowledge. Growth will also come from the launch of an online offer in Denmark during 2012.

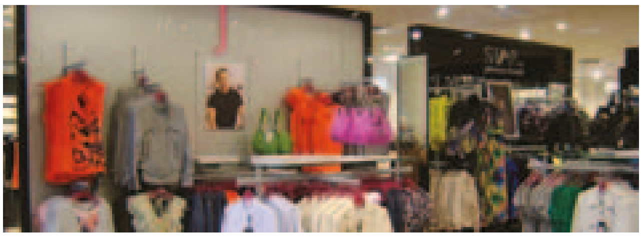
Magasin du Nord is also a blueprint for other potential acquisitions. It has demonstrated that our model of servicing owned international assets from the UK works. We will continue to assess acquisition opportunities as they become available.

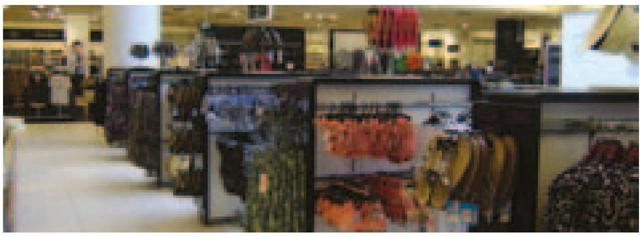
£246.7m

Magasin sales in 2011




Julen 2011
749,-
MAGASIN JULEN 2011
Magasin





Finance Director's review

Delivering profitable growth

Chris Woodhouse, Finance Director

Note: the 2011 financial year comprised the 53 weeks to 3 September 2011. The following review uses comparisons for the 52 weeks to 27 August 2011 where management believes this better reflects the underlying performance of the business.

Financial highlights	2011 53 weeks	2011 52 weeks	2010 52 weeks	Change
Gross transaction value	£2,679.3m	£2,639.5m	£2,564.3m	+2.9%
Revenue	£2,209.8m	£2,176.4m	£2,119.9m	+2.7%
Like-for-like sales (inc. VAT)	n/a	n/a	n/a	+1.2%
Like-for-like sales (exc. VAT)	n/a	n/a	n/a	-0.3%
Gross margin	-20bps	n/a	n/a	n/a
Headline profit before tax*	£166.1m	£157.7m	£151.0m	+4.4%
Reported profit before tax	£160.3m	£151.9m	£139.9m	+8.6%
Basic earnings per share	9.1p	8.6p	7.5p	+14.7%
Dividend per share	3.0p	3.0p	-	+3.0p

*after adding back amortisation on capitalised bank fees of £5.8m (2010: £5.7m) and exceptional items of £nil (2010: £5.4m)

Sales and profit performance

Group

Gross transaction value for the Group for the 53 weeks to 3 September 2011 of £2,679.3 million increased by 4.5% over the previous year. For the 52 weeks to 27 August 2011, Group gross transaction value grew by 2.9%. The primary drivers of gross transaction growth were the multi-channel business, Magasin du Nord, international sales and new UK space.

Revenue for the 53 week period was £2,209.8 million, 4.2% higher than last year. On a 52 week basis, revenue increased by 2.7%.

Like-for-like sales including VAT increased by 1.2% over the 52 week period. Excluding VAT, like-for-like sales for this period were slightly lower, down 0.3%. This was a good result given the difficult economic environment and the disruption to sales arising out of the adverse winter weather across the UK in November and December which alone adversely impacted like-for-like sales for the year by some 1%.

Group gross margin fell slightly by 20 basis points during the year. This was partly a result of a decision to maximise cash profit by driving sales during the second half of the year and partly some one-off benefits in last year's figure as result of the acquisition of the Faith footwear brand.

Gross profit before exceptional items for the year increased from £290.4 million to £296.7 million, an increase of 2.2% for the year.

Headline profit before tax for the year, which adds back amortisation of capitalised bank fees and exceptionals, for the 53 week year increased by 10.0% year-on-year from £151.0 million to £166.1 million. Reported profit before tax and exceptionals rose by 10.3% to £160.3 million from £145.3 million for the same period last year.

Basic earnings per share for 2011 were 9.1 pence (2010: 7.5 pence) and diluted earnings per share were also 9.1 pence (2010: 7.5 pence).

Magasin du Nord

Magasin du Nord contributed gross transaction value of £246.7 million to the 53 week year. Last year Magasin contributed £191.1 million for the 42 weeks from acquisition on 7 November 2009. Like-for-like sales at Magasin for the period since acquisition grew by 6.3% in Danish kroner and by 4.8% in sterling.

The work which has been done over the past two years to increase Magasin's gross margin by introducing Debenhams' own brand product ranges and leveraging the Debenhams' supply chain has driven growth of 200 basis points in the year. Magasin's gross margin for the year was 34.7% compared with 32.2% at the time of acquisition.

Magasin delivered operating profit before exceptionals of £8.5 million for the year against £1.5 million for the 42 weeks of the prior year.

Online

The multi-channel business delivered another strong year of sales growth. Online gross transaction value increased by 73.8% to £180.4 million from £103.8 million. As such, the online contribution to gross transaction value (excluding Magasin) increased to 7.4% from 4.4% last year.

International franchise stores

Sales from the international franchise stores increased by 16.5% to £77.0 million from £66.1 million a year ago. The contribution to gross transaction value (excluding Magasin) increased from 2.8% to 3.2%.

Store portfolio

The store portfolio stood at 169 stores at the end of the year. This comprised 141 full department stores and 22 small department stores (25,000 sq ft or less) in the UK and Republic of Ireland and six full department stores in Denmark. Total trading space at year end stood at 12,443,000 sq ft, an increase of 1.6% over last year. Average new space across the year was 2.6% excluding Magasin and 3.9% including Magasin. Three new stores opening during the course of the year. These were Bath (83,000 sq ft, opened September 2010), Wakefield (70,000 sq ft, opened May 2011) and Fareham (24,000 sq ft, opened June 2011). All three performed in line with our expectations.

Eleven store modernisations were undertaken during the year. Five were completed in the first half of the year in time for peak trading: Leeds City Centre, Merryhill, Milton Keynes, Portsmouth and Romford. A further six commenced in the second half for completion early in the 2012 financial year: Coventry, Gloucester, Nottingham, Southampton, Stirling and Trafford Park. The average investment in these refits was £23 per sq ft. For the modernisations finished at the end of 2010 and during the first half of 2011, the average sales increase compared to the pre-refit period was 5.8%.

Costs

Cost discipline continues to be a major focus for the business. The main cost categories are store payroll, store rent and warehousing and distribution costs.

- Store payroll as a ratio to gross transaction value improved to 10.9% (2010: 11.1%) as a result of efficiency savings.
- Store rent costs of £187.7 million in 2011 compared to £172.2 million in the prior year, the increase a result of accounting changes following the cancellation of long leases on nine stores and at the same time entering into new sale and operating lease contracts on those stores. The ratio to gross transaction value increased from 6.7% last year to 7.0%.
- Warehousing and distribution costs increased by 27.4% as a result of higher levels of activity in the online business and £10 million of dual running costs associated with the new Sherburn distribution centre.

Food for thought
Improving our food services offer is a key part of store modernisations. We are sure to update the menu as well as the surroundings. Many of our restaurants and cafes provide stunning local views.

Looking after our best customers
We are sure to make our best customers feel valued. In many stores, Debenhams gold cardholders can use a dedicated lounge to take a break from shopping or store their purchases whilst they continue to shop.

Stocks
Stock levels continued to be managed very tightly during the year in light of the difficult trading environment. Overall, stock increased by £26.0 million (8.8%), largely due to increased cross prices, expansion of the multi-channel business and new stores. Like-for-like stock unit density fell by 2.6%. Terminal stock at the end of the year stood at 2.6%, in line with Debenhams' historical low.

Interest
The net interest charge of £23.4 million for the 53 weeks ended 3 September 2011 represented a significant reduction from the previous year (2010: £49.8 million). This reflects the lower interest rate associated with the refinancing of the senior credit facility, the reduction in the Group's level of debt and the cancellation of finance leases.

Taxation
The Group's tax charge was £43.1 million on a profit of £160.3 million. This gives an effective tax rate of 26.9% compared with 30.7% last year. The reduction in effective tax rate is largely due to reductions in the headline rate of corporation tax (accounting for 1.3% of the 3.8% nominal decrease) and the net effect of operations overseas (a further 2.4%).

Dividends
The board reinstated dividend payments during the year with an initial target dividend cover of three times earnings. An interim dividend of 1.0 pence per share (2010: nil) was paid to shareholders on 8 July 2010. The board has proposed a final dividend of 2.0 pence per share (2010: nil) which will be paid to shareholders on 13 January 2012, taking the total dividend for the year to 3.0 pence (2010: nil).

Capital expenditure
Capital expenditure increased during the year to £114.0 million from £98.8 million last year. The increase is mainly due to the investment in new warehousing and distribution facilities, notably a new distribution centre at Sherburn, Yorkshire. This investment will provide the capacity to meet the expected needs of the Group until at least 2018 and will enable the Peterborough distribution centre to be converted to an online fulfilment centre, reducing current distribution costs and increasing the profitability of the multi-channel business.

Cash flow
Net cash generated from operating activities in the 53 weeks to 3 September 2011 was £199.4 million. This was a decrease of £7.8 million on the previous year (2010: £207.2 million).

Borrowings
The Group's net debt position as at 3 September 2011 was £383.7 million (28 August 2010: £516.8 million), a reduction of £133.1 million during the course of the year.

On 18 July 2011 it was announced that a refinancing of the £650 million senior credit facility had been completed. The refinancing extends the maturity date for the borrowing facility to October 2015 from October 2013, with a further option to extend to October 2016. In addition to the extension in tenor, the amended terms reduced the Group's cash interest rate by 0.5% to around 4% with immediate effect. Associated refinancing costs of £3.3 million will be amortised over the life of the facility. The £650 million facility continues to comprise a £250 million term loan and a £400 million revolving credit facility.

Property transactions
During the year, the Group cancelled long leases on nine stores and at the same time entered into new sale and operating lease contracts on those stores. The combination of the cancellation of the existing finance leases and the new sale and operating lease transactions generated a net cash inflow of £36.6 million and reduced net debt by £79.2 million.

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

The policies and strategies for managing financial risks are described in Note 22 of the Group financial statements starting on page 87.

Pensions
The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together the "pension schemes") which closed for future service accrual from 31 October 2006. The pension schemes' surplus as at 3 September 2011 was £3.9 million (28 August 2010: £80.7 million deficit). Further information can be found in Note 24 to the Group financial statements starting on page 93.

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

Chris Woodhouse
Finance Director

Roksanda Ilincic
Roksanda Ilincic is part of the new Edition womenswear concept in Designers at Debenhams which was launched in 2011 and brings some of the best new British design talent to the high street.

Risk review

Safeguarding future returns

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

The board of Debenhams is responsible for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. As part of its decision-making process, the board, which has overall responsibility for risk management and internal control, considers it important that there should be a regular and systematic approach to risk issues in order to provide assurance that strategic targets can be met. This approach includes the board's own assessment of risk which takes into consideration factors identified through organisation-wide risk reviews.

Internal control

The board is responsible for the Company's system of internal control and for reviewing the effectiveness of the internal control systems in place. Such systems are designed to manage rather than eliminate the risk of failure to achieve the business objectives and can only provide a reasonable and not an absolute assurance against material misstatement or loss. The board has conducted a review of the effectiveness of internal controls and is satisfied that the controls in place remain appropriate.

Debenhams maintains a framework of internal controls using the COSO model, which covers the following activities: control environment; risk assessment; information and communication; control activities; and monitoring. These activities are described in more detail below. In addition, the board takes into consideration relevant guidance provided by the Financial Reporting Council and other enterprise risk management best practices.

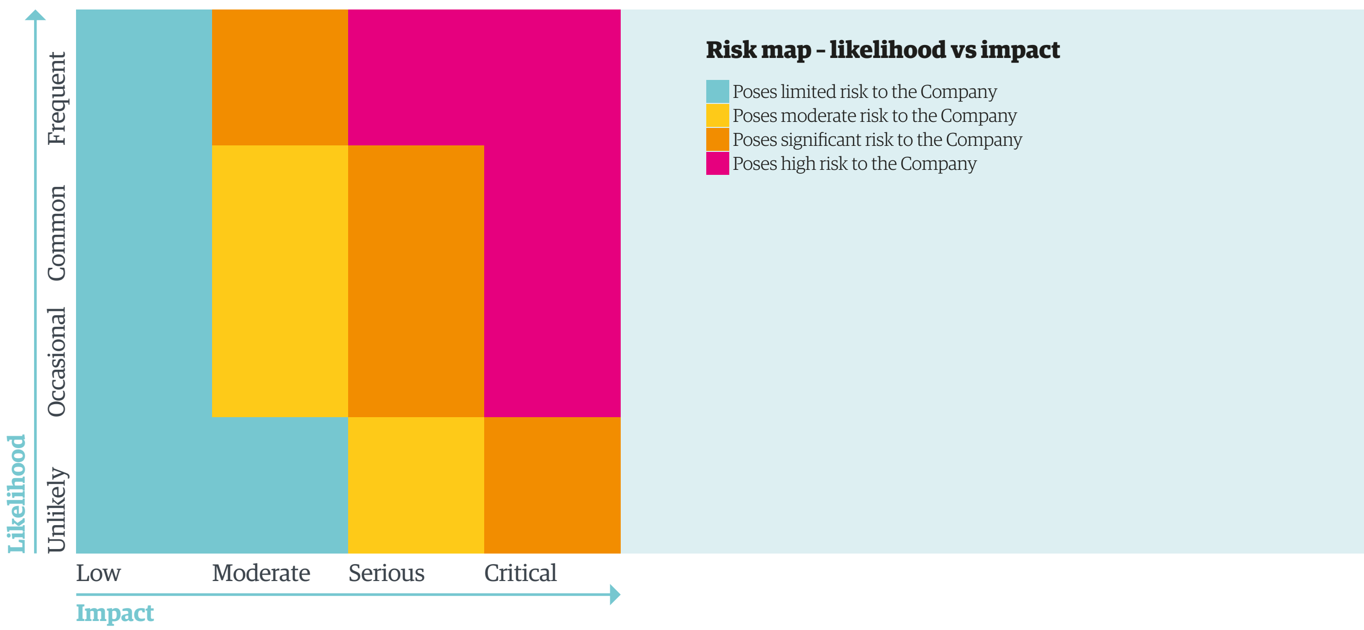
Control environment

The board demonstrates the control environment to Debenhams' stakeholders through its compliance with the UK Corporate Governance Code, 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 reviews, the most recent of which was completed in October 2011. The senior management team, including the board, participated in this exercise which considered the business strategy, related objectives, internal and external risks to their achievement, changes in legislation and any new or emerging risks, together with existing and any new controls required to mitigate those risks. Risks were ranked according to a matrix of likelihood and impact of occurrence and plotted onto the Company risk map, an example of which is shown below.

The calculation of the impact and likelihood was supported by guideline bandings of how to classify the risk based on the overall change in performance across a number of KPIs to ensure consistency. The Group's risk register was also updated and the internal audit plan adjusted accordingly.



Information and communication

The board reviews the key risks and relevant mitigation strategies annually, which could include that the risk is tolerated, transferred, treated or terminated, to ensure that all key issues are being managed effectively, taking action to strengthen where necessary. In addition, the Audit Committee satisfies itself that the key risks are being monitored by senior management and that the internal audit plan is focused on high priority areas.

The internal audit team updates the board and the Audit Committee on the effectiveness of risk management within each discrete area audited throughout the year. The Audit Committee will bring any areas of concern to the attention of the board.

Control activities

A series of control activities is 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 to ensure that each area operates effectively. Training, performance reviews and support mechanisms are also 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 including new developments for multi-channel operations, 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 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 an external company in August 2011. The respondents included all members of the Audit Committee, members of the board, function heads and senior retail managers.

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. Whilst improvements can always be made, the overall feedback was very positive for both internal and external audit effectiveness.

Whistleblowing

All Debenhams' employees are required to adhere to the Code of Business Conduct and the Anti-Bribery and Corruption Policy, with senior employees required to confirm their compliance in writing. These policies set out the ethical standards expected by the Company and include 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 Debenhams' anti-fraud team. If an employee feels that the matter is so serious that it cannot be discussed in any of these ways, they should contact the Company Secretary or the Head of Internal Audit and Risk Management directly and contact details are provided. The Company's policy on whistleblowing and these methods of raising issues of concern are published on the Debenhams intranet and emphasised on posters. The policy is also reviewed annually by the Audit Committee. All serious matters identified are raised with the Chairman of the Audit Committee.

Principal risks and uncertainties

The risks detailed overleaf and in the Notes to the Financial Statements 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.

External risk

Risk and impact	Examples of mitigation	Change*
Consistent fall in customer spending as a result of economic downturn, inflation or deflation Reduction in gross transaction value and a decline in sales on discretionary purchases	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, water 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. Whilst the impact of higher input prices was managed well and average price increases over the spring and summer season were lower than the market as a whole. Debenhams and its suppliers will continue to work hard to deliver the best performance possible in a very challenging market.	↑
Loss of profit or additional expenditure caused by increased energy or fuel costs Place pressure on margin and will also divert financial and management resources from more beneficial uses	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 high degree of cost certainty.	↔

Financial risk

Risk and impact	Examples of mitigation	Change*
Risks associated with currency, hedging, interest rates, credit, counterparties and financial covenants under the credit facilities Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition Inappropriate decisions could be made using wrong or ambiguous information or lack of knowledge	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. Business critical spreadsheets and databases used by the Finance department have been identified and appropriate control measures put in place in line with Debenhams policy to ensure data integrity. The risk has been decreased since net debt at year end was £373.7 million, a reduction of £133.1 million since the start of the year. On 18 July 2011 we announced a further refinancing of the senior credit facility which has extended its duration from October 2013 to October 2015 and reduced the cash interest rate from c.4.5% to c.4.0% with effect from that date.	↓
Shortfall in the pension fund Increases in pension related liabilities could impact profit and cash flow	Trustees carefully monitor the pension fund and adjust the investment strategy appropriately with any shortfall being brought to the board's attention.	↔

Please refer to the Notes to the financial statements for other risks in this category.

*Change in severity and/or likelihood of risk during course of 2011.

Strategic risk

Risk and impact	Examples of mitigation	Change*
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. Although Debenhams remains cautious about the strength of consumer confidence and the timing of an economic recovery, Debenhams will be focusing on the retail basics of giving our customers great products in an inspirational shopping environment, whether in our stores or through one of our multi-channel access points. We are therefore confident that Debenhams can continue to make progress over the coming year.	↓
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 acquisitions 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 corporate responsibility 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 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 to 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 brand products. A reliance on third party suppliers, the challenges in the current economic environment and the complexity of the new and existing legislation make this an increasing risk which Debenhams and its suppliers must work harder to manage.	↑

*Change in severity and/or likelihood of risk during course of 2011.

Operational risk

Risk and impact	Examples of mitigation	Change*
Failure to deliver a business critical project Divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems	A full investment appraisal is conducted as part of the decision making process and must be signed off by a board member before any 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 Significant alterations in rental terms could have a material adverse effect on the business, as would failure to secure desirable locations Disputes over store modernisations may lead to reinstatement costs and termination of leases may lead to dilapidation costs being incurred Failure to manage asbestos in specific properties may lead to fines or other liabilities affecting Debenhams reputation and the full or partial closure of properties	Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store modernisation 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. Debenhams consults with industry experts to ensure that its asbestos policy and asbestos register are fully up to date. All locations where asbestos has been identified are clearly marked with signage and the condition is checked on a regular basis with action taken in the event of any deterioration. Any works undertaken in these areas are approved by both the health and safety and building services teams, prior to any work permits being issued with specialist companies used as required. Review of the historical performance in this area suggests that the exposure to this risk has reduced.	↓

Hazard

Risk and impact	Examples of mitigation	Change*
Loss of business or additional expenditure caused by terrorism, strikes, riots, natural disaster or pandemics Adverse effect on inventory and gross transaction value and will divert financial and management resources from more beneficial uses. In the case of terrorism, customer confidence may be impacted	The business continuity committee 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 to 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. The store business continuity plan was invoked as a result of the riots in August 2011 and the actions taken worked in practice and therefore losses were minimised. Insurance policies have been placed as appropriate to minimise the impact of specific risks.	↑
Additional expenditure or reputational damage caused by changes in legislation or a breach of regulations Adverse effect on inventory and gross transaction value and will also divert financial and management resources from more beneficial uses	Debenhams has specialist taxation and legal and secretariat teams and is also a member of key industry bodies which provide awareness of changes to standards and legislation. A new business policy is in place for anti-bribery and corruption, and forums exist to focus on specific areas of legislation, for example: a data protection steering group; an information security forum (to focus on PCI); an anti-bribery and corruption committee (to focus on compliance).	↔

*Change in severity and/or likelihood of risk during course of 2011.

Hazard continued

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

*Change in severity and/or likelihood of risk during course of 2011.

Sustainability

Our history is only relevant if it has a future

"Our business strategy must reflect our broader responsibilities."

Martina King,
Chair, Sustainability Committee

"Sustainability" has taken on a number of different meanings in recent years. For some it is inextricably linked with climate change. For others it chiefly relates to biodiversity or to resource management. At Debenhams, we employ a much broader definition of sustainability and see it as the capacity to endure.

Martina King

I was delighted to be asked to chair the newly formed Sustainability Committee. The Debenhams' board is committed to living up to our responsibilities as a retailer, an employer, a business partner, a steward of the environment and a member of the community, in short to being a responsible business. We are also keenly aware of our role as the steward of Debenhams' shareholders' investments. We firmly believe that these aims are entirely complementary and we cannot achieve one without the other. In short, our business strategy must reflect our broader responsibilities – and vice versa.

Debenhams has been in business for over 230 years, during which time it has grown into the leading retailer it is today. We believe that by doing the right things for our stakeholders we can continue to grow and will be here for the duration. At the same time, sustainability has to be about driving overall business performance, now and in the future, by increasing sales and profits and by reducing current or potential costs.

The Sustainability Committee was formed in October 2010 and includes representatives from a range of disciplines across the business (in no particular order): buying and merchandising; store operations; supply chain; environmental, energy and building management; logistics and distribution; finance; human resources; communications; risk management; health and safety; and legal.

Amongst its members are some of the business's most senior executives. The Committee meets on a quarterly basis, under the chairmanship of Debenhams' non-executive director Martina King with the work groups meeting more frequently as required. PricewaterhouseCoopers LLP has provided guidance and facilitation and has helped to set the terms of reference for the Committee, as well as supporting individual work groups as required.

Who are our stakeholders?
It is clear that our business strategy needs to meet the aspirations of many different parties. In order to achieve this we needed to identify who these parties are and what their expectations of Debenhams are. We began with the strategy of the business and our aim to be a leading international, multi-channel retailer. We also looked at our business model to identify key inputs, outputs and risks.

Our customers
Our customers work hard to afford their Debenhams' purchases and our strategy puts them at the heart of our decision-making, whether it is to give them a better instore experience through store modernisation or making shopping more convenient through increasing the number of multi-channel options available to them. We aim to provide customers with a broad choice of products, great quality, outstanding value for money and catwalk design at high street prices. We need to meet their expectations that every one of our products is manufactured in a factory which is socially ethical and quality assurance compliant. We also need to support our customers in their own efforts to make their lives more sustainable, for example by helping them to reduce their energy usage (through lower temperature washing) or waste production (through less packaging). We actively seek the views of our customers as understanding their needs is paramount to our ability to achieve a sustainable future and use customer closeness groups and our customer experience programme, amongst others, to do this.

Our suppliers
One of Debenhams' key differentiators is our unique portfolio of own brands, including Designers at Debenhams. To fulfil this potential we require our suppliers to provide us with exceptional quality at exceptional prices. We want our suppliers to support us, their own people and the environment. Debenhams' customers, employees and shareholders must have confidence in our supply chain values and execution. Our suppliers must therefore adhere to our Code of Conduct and to ensure that their employees are treated with dignity and are not exploited or discriminated against in any way. We operate a comprehensive factory approval and audit process to verify ongoing compliance. Non-manufacturing suppliers are equally important to us: those who transport and warehouse goods for us; those who provide energy and other resources; those who provide financial services products. To achieve our multi-channel goals, we must also work very closely with our technology partners.

Our employees
Delivering our customer proposition instore by inspiring and helping our customers relies on the commitment of our 30,000 employees whose hard work ensures that we can all enjoy a successful future. Our employees are crucial to helping Debenhams grow and they should be rewarded for the success that they help to build. We are committed to ensuring that every individual receives fair and equitable treatment, regardless of their differences. We have a long-established reputation for developing our employees and are very proud that the majority of management appointments come from within the business. Skills, progression and opportunities for people to develop new capabilities are extremely important to us. Most of all, we need to give our employees throughout the business the skills and tools to inspire and help our customers every day.

Our shareholders
Shareholders have provided the capital required to fund our future growth. They should have confidence in their investment in Debenhams, driven by our strategy, longevity, commitment to product and service excellence and a robust control environment.

The environment
We are dependent upon the availability of scarce resources such as power and fuel, raw materials and water. We are also a producer of waste, whether carbon emissions, waste water, packaging or general waste streams. It is our responsibility to ensure that our consumption of resources and production of waste is proportionate and efficient. We must also ensure compliance with all relevant environmental legislation and regulation.

The community
We should be an active and responsible member of the communities in which we operate. As a business, we should support local and national charities and community groups, both through fundraising and volunteering, and we should encourage our employees to participate in local community activities.

The sustainability project
Over the past year, Debenhams has undertaken a major review of the issues which are relevant to ensuring the sustainability of the business. This includes current issues and those which, although not an immediate concern, are likely to become increasingly relevant in the future.

The initial methodology involved a synthesis of three key areas:

- We analysed mega trends to determine the business implications for Debenhams. These include climate change, energy and carbon management, water scarcity, resource scarcity, ethical consumerism, pollution control, demographics and population shifts, land use and biodiversity.
- We undertook a comprehensive review of current and future legislation and regulations in areas that affect our business such as the Carbon Reduction Commitment, REACH, WEEE Directive, Packaging and Packaging Waste Directive, BREEAM, Better Cotton Initiative, Restriction of Hazardous Substances Directive and UK Waste Strategy.
- We used the Debenhams' risk register (see the Risk Management section on pages 32 to 37) to identify the key risks to the successful execution of our business strategy.

Through this analysis, we identified the most material issues for the business in the short, medium and long-term. It was clear that they fell into four principal areas and so the next stage of the project saw the creation of four working groups: sustainable sourcing; environment; logistics and distribution; and people. Each work group is chaired by a senior executive and comprises experts in the most relevant disciplines from across the business. The groups have created a sustainability materiality analysis for their area of focus and developed appropriate action plans and strategies. They are working to determine the key performance indicators we should be measuring and reporting to ensure the success of their work. The next phase, which is still ongoing and will be reported to shareholders next year, is the development of a robust set of targets and verification processes. You can read more about the work of the four working groups overleaf.

Sustainability reporting
Going forward, Debenhams' principal method of communication for sustainability issues will be online. A new sustainability website will be available during 2012. This will enable us to update stakeholders on a regular basis with new initiatives around the business. The data reported in last year's Sustainability Review, including the carbon footprint analysis, health and safety statistics and employee statistics has been updated and is available in the Corporate Responsibility section of www.debenhamsplc.com.

Work groups

The four Sustainability Committee work groups report on their initial findings

Sustainable sourcing

A unique and differentiated product offer is a key part of Debenhams' business strategy. In order to achieve this we need a robust sustainable supply chain strategy that ensures our products are available to customers in a timely manner and at competitive prices. It is critical that we meet our customers' expectations of great quality through ethical sources.

The main focus of the sustainable sourcing group has been to identify the components of our merchandise sourcing strategy, to assess the significance of the risks associated with those components and to update the sourcing strategy in order to reduce or eliminate those risks as necessary. This has given us the following areas of initial focus:

- Assessing country based sourcing on geographical, social, political and economic factors
- Reducing component costs
- Fabric management
- Maintaining quality and value
- Continued focus on exit margin
- Systems investment to support our strategy

Environment

The remit of the environmental group is to minimise risks to the business of non-compliance with current and future environment regulation and legislation and to seek ways to reduce the impact Debenhams has on the environment in a cost effective way. Its members have focused on two areas in the first instance: energy and waste.

Energy: a thorough review of all relevant legislation and regulation has been undertaken, with particular emphasis on that relating to climate change, in order to determine our long-term energy strategy. Operationally, the group is focused on two types of initiatives. First, those which could reduce energy usage without requiring additional investment, for example reducing the amount of overnight activity in store. Secondly, initiatives which will require capital expenditure to achieve a reduction in energy use, such as the installation of energy efficient lighting.

Waste: Debenhams' operations produce two main types of waste: product waste and not-for-resale waste. Key deliverables are cutting the total amount of waste Debenhams produces, sending less waste to landfill and reducing hazardous waste streams and customer waste (including carrier bags and packaging).

Logistics and distribution

The logistics and distribution group has identified three key risks to sustainability. They are:

- Ensuring our supply chain is sufficiently robust so that goods always flow
- Minimising fuel and freight cost increases
- Managing carbon emissions and waste

The first step in ensuring the robustness of the supply chain has been to consolidate and prioritise the relevant risk register. The group is also working with our buying and merchandising teams to engage their support for this and to identify synergies.

Minimising fuel and freight costs has been a priority for many years and good progress has been made, for example by introducing a fuel and cost efficient fleet and by relamping the DCs. The group considers this to be very much part of our "day job".

The group is working to ensure we capture data from as much of the end-to-end process of moving goods from point of manufacture to point of sale (or in the case of multi-channel delivery to the customer) as possible. Since first reporting carbon emissions in 2008, the scope has increased every year. The 2011 analysis is available on www.debenhamsplc.com.

People

Customers, employees and communities are the priority for the people group.

The group has focused on a number of areas:

- Ensuring that Debenhams attracts, keeps and grows the best talent in the industry
- Undertaking an audit of our charitable work
- Developing a framework for community involvement

The focus of the group has led to a new induction programme for the 12,000 new starters who join Debenhams each year and the launch of the Debenhams Vocational Qualification for store employees.

Following the charity audit, the Debenhams Charitable Foundation is to be created through which all our charitable giving will be channelled.

A new community champion programme has been launched for our stores which gives store managers and their teams a framework for building and growing their contribution to the communities in which they operate.

Kids for Kids Day
Debenhams was pleased to support NSPCC Kids for Kids Day. We sold a range of exclusive T-shirts designed by some of our Designers at Debenhams, the proceeds of which went to the charity.

Chairman's introduction to governance

Managing the business responsibly

"The board is collectively responsible for the long-term success of Debenhams."

Nigel Northridge, Chairman

The board of Debenhams is responsible to all our stakeholders for providing strong leadership in the development of the Company's strategy and ensuring that the risks and rewards of doing business are properly balanced and managed.

Management structure

Chief Executive

- **Finance Director**: Financial reporting & management, tax, treasury, legal & secretariat, internal audit, systems, investor relations
- **Group Trading Director**: Design, buying, merchandising, distribution, external business
- **Retail Director**: Retail stores, retail operations, store development
- **Marketing Director**: Product marketing, advertising, PR, visual & creative, strategy & insight
- **HR Director**: Pay & reward, learning & development, pensions, facilities

Introduction

The role of the board of Debenhams is to provide entrepreneurial leadership and it is collectively responsible for the long-term success of the Company. The board attaches the highest priority to corporate governance, the system by which the Company is directed, managed and controlled in the interests of all its stakeholders. The board and executive team recognise that continued success has been achieved through the strength and depth of our stakeholder relationships. The corporate governance framework and processes we have in place enable us to manage the Company effectively and to demonstrate transparent, consistent and effective governance so that we remain accountable to our shareholders, employees, customers, suppliers and the local communities whom we support and interact with.

UK Corporate Governance Code

Throughout the year Debenhams was compliant with all the relevant provisions of the UK Corporate Governance Code (the "Code") issued by the Financial Services Authority.

The board

The board comprises two executive directors and six non-executive directors, all of whom are considered to be independent. The non-executive directors have all enjoyed successful business careers and are well qualified to serve on the board.

Debenhams has already achieved the 2015 aspirational target of the Davies Review on Women on Boards of 25% female representation on the board.

Board succession

In April 2011 Rob Templeman informed the board that he wished to retire from his role as Chief Executive of Debenhams at the end of the financial year. In accordance with the board's agreed succession plan, Michael Sharp, then Deputy Chief Executive, was appointed Chief Executive on Rob's retirement. The board has since acted to ensure a succession plan for the current executive team is in place.

Board effectiveness

The performance and effectiveness of the board is reviewed on an annual basis. This year's formal evaluation of the performance of the board, its committees, the individual directors and the Chairman was conducted, in accordance with the Code, by Lintstock Ltd, an external facilitator who has no other connection with Debenhams.

Stakeholder engagement

Debenhams actively seeks to engage with all its stakeholders including customers, employees, suppliers, shareholders, lenders and the local communities in which we operate.

Nigel Northridge
Chairman

Committees

Nomination Committee p48

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

Audit Committee p49

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

Remuneration Committee p53

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

Sustainability Committee p38

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

Board of directors

Nigel Northridge

Chairman (55)
Joined board
January 2010
Committees
Nomination (Chairman)
Remuneration
Experience
Nigel Northridge became Chairman of the Company and the Nomination Committee in April 2010. Mr Northridge is currently non-executive chairman of Paddy Power plc and a non-executive director of Inchcape plc and the PGA European Tour. Previously he was senior independent director of Aggreko plc, chief executive of Gallaher Group plc and a non-executive director of Thomas Cook Group plc.

Michael Sharp

Chief Executive (54)
Joined board
May 2006
Experience
Michael Sharp was appointed Chief Executive in September 2011 having previously held the post of Deputy Chief Executive from November 2008 and Chief Operating Officer from 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 of Debenhams Limited. He previously worked in various capacities within the Burton Group, including as managing director of Principles and Racing Green and buying and merchandising director of Topshop and Topman.

Chris Woodhouse

Finance Director (50)
Joined board
May 2006
Experience
Chris Woodhouse has been 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 and non-executive chairman of Agent Provocateur Limited. He was previously deputy chairman of Halfords Group and commercial director and deputy chief executive of Homebase Group. He is a former finance director of Birthdays Group and Superdrug Stores Plc. Mr Woodhouse is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the Association of Corporate Treasurers.

Dennis Millard

Senior independent director (62)

Joined board
April 2006

Committees
Remuneration
Audit (Chairman)
Nomination

Experience
Dennis Millard assumed the role of senior independent director in April 2010. He is also Chairman of the Audit Committee. Mr Millard is currently 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.

Martina King

Independent non-executive director (50)

Joined board
August 2009

Committees
Remuneration
Audit
Nomination

Experience
Martina King is a non-executive director of Capita Group plc, Cineword PLC and Trade Doubler AB and managing director of Aurasma, a division of Autonomy PLC. Her former appointments include non-executive director of Johnston Press Plc and Independent Media Distribution PLC, 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 a governor of Seckford Foundation and Woodbridge School.

Adam Crozier

Independent non-executive director (47)

Joined board
April 2006

Committees
Remuneration (Chairman)
Audit
Nomination

Experience
Adam Crozier was appointed Chairman of the Remuneration Committee in April 2009. Mr Crozier is currently chief executive of ITV plc. Previously he was 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.

Mark Rolfe

Independent non-executive director (52)

Joined board
October 2010

Committees
Remuneration
Audit
Nomination

Experience
Mark Rolfe is currently a non-executive director of Barratt Developments plc, Hornby plc and The Sage Group plc. He is also chairman of Lane, Clark and Peacock LLP. Mr Rolfe previously worked in various finance and executive roles within Gallaher Group plc including as finance director for seven years until the company was acquired in 2007.

Sophie Turner Laing

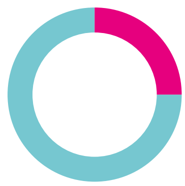
Independent non-executive director (51)

Joined board
August 2009

Committees
Remuneration
Audit
Nomination

Experience
Sophie Turner Laing is currently managing director, entertainment, news and broadcast operations at British Sky Broadcasting Group plc and on the board of AETN UK and NGC Network International LLC. In addition, she is a vice president of BAFTA, a trustee of The Media Trust and governor of the National Film and Television 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 PLC.

Composition of the board



Directors	No.
Executive	2
Non-executive	6

Corporate governance report

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the year ended 3 September 2011 and as at the date of this Annual Report, it was compliant with all the relevant provisions as set out in the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council.

The board

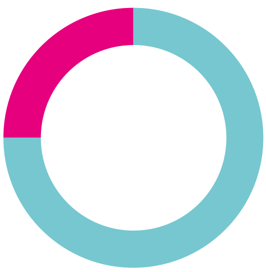
The role of the board of Debenhams is to provide entrepreneurial leadership of the Company within a framework of controls enabling risk to be assessed and managed. It is collectively responsible for the long-term success of the Company.

As at 3 September 2011, the board of Debenhams plc comprised three executive directors, five independent non-executive directors and the non-executive Chairman. Since the year end the number of executive directors has reduced to two following the retirement of Rob Templeman as Chief Executive on 4 September 2011. Michael Sharp, the Deputy Chief Executive, succeeded Rob Templeman as Chief Executive on 5 September 2011. Dennis Millard is the senior independent director.

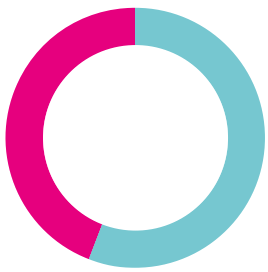
All the directors will comply with the new Code requirement to submit themselves for re-election at the Annual General Meeting in January 2012. Biographies for the members of the board can be found on pages 44 to 45 of this report.

Following the publication in February of the Davies Review on Women on Boards, the graph below illustrates that Debenhams has already achieved the 2015 aspirational target of 25% female representation on the board. Below board level, women account for 44% of senior management.

Gender ratios



Debenhams plc board	
Male	75%
Female	25%



Senior executives	
Male	56%
Female	44%

The board held six meetings during 2011 which were fully attended by all the board members apart from the meeting on 28 June 2011 which Adam Crozier was unable to attend due to a schedule clash with ITV. In addition to the directors, board meetings were attended by the Retail Operations Director, the Human Resources Director, the Group Trading Director, the Marketing Director and the Company Secretary. The board also held its annual off site meeting in February to consider the Company's strategy. No individual or small group of individuals dominate the board's decision-making process.

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

Reports from the executive directors are circulated in advance of each board meeting and focus on major operational matters. Reports are also produced by specialists on general and Company business areas and by other executives and external advisers on key business areas. Going forward, various sectors of the business will be presenting to the board on a rotating basis. In 2011 matters considered by the board included presentations on key divisional operations, marketing and PR, health and safety, approval of the annual budget, assessing the corporate risk map and reviewing governance issues affecting the Company.

The Chairman and the Chief Executive

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

The main responsibility of the Chairman is the effective running of the board ensuring that the board as a whole plays a full and constructive part in the development and determination of the Company's strategy and overall commercial objectives. He ensures that the board determines the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy. The Chairman is responsible for promoting the highest standards of integrity, probity and corporate governance throughout the Company. The Chairman is available to shareholders and has visited shareholders during the year. He takes the lead on issues of director development, through induction programmes and regular reviews. By chairing the Nomination Committee, he regularly considers succession planning and the composition of the board.

The Chairman (who sets the board agenda), together with the Company Secretary, ensures that the members of the board and its committees receive clear, comprehensive, up-to-date and timely information so that there can be thorough consideration of the issues prior to, and informed debate and challenge, at board and committee meetings. Where directors have not been able to attend meetings due to conflicts in their schedule, they receive and read the papers for consideration at that meeting, relaying any comments to the Chairman in advance of the meeting where possible. The Company Secretary reports to the Chairman on all board governance matters and reviews the Company's governance processes such as the induction, development and evaluation of the board members. The Company's induction process 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. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. The Company provides insurance cover and indemnities for its directors and officers.

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

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

Length of service
The table below details the length of service of the Chairman and of each non-executive director:

Name	Date of appointment	Date of last re-election by shareholders	Current length of service as at year end
Nigel Northridge	1 January 2010	11 January 2011	1 year 8 months
Dennis Millard	9 May 2006	12 January 2010	5 years 4 months
Adam Crozier	9 May 2006	11 January 2011	5 years 4 months
Martina King	1 August 2009	12 January 2010	2 years 1 month
Mark Rolfe	1 October 2010	11 January 2011	11 months
Sophie Turner Laing	1 August 2009	12 January 2010	2 years 1 month

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

The first stage of the review involved Lintstock engaging with the Chairman, the Chief Executive and the Company Secretary to set the context for the evaluation and to tailor the questionnaires used to the specific circumstances of Debenhams. In particular, based upon the input of the incoming Chief Executive, certain specific questions were framed around the opportunities and challenges for Debenhams, both domestically and internationally.

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

The questionnaires addressed the following issues:

- Board composition, expertise and dynamics
- Board support, time management and board committees
- Strategic, operational and risk oversight
- Succession planning and human resource management
- Priorities for change

A 360 review of individual performance was also conducted which was provided in confidence to the Chairman. The composition and performance of the committees of the board was considered in the review and was highly rated.

Lintstock's report was discussed at the board meeting held on 13 October 2011. The following areas were addressed in the report:

- The current composition of the board was reviewed and the attributes which ought to be sought in future non-executive director appointments were identified, as was their priority.
- The level of board support and the information the board receives were highly rated, although it was suggested that there could be further rationalisation of the material which the board receives from various constituencies.
- The relationship between individual directors and the relationship between the board and top-level management were highly rated, as was the board's oversight of succession.
- The performance of the board in overseeing strategy was rated highly and recent improvements in this area were noted. It was suggested that this will need to be re-evaluated under the new Chief Executive and that there may be the potential for greater board involvement. Input on certain core strategic issues was also considered by board members based upon feedback from the incoming Chief Executive.
- There was broad consensus as to the key risks which the Company faced. It was felt that the risks are well understood, regularly debated in detail and that well-considered contingency plans are in place.
- Supporting the new Chief Executive in "shaping" the focus of the board was identified as the number one priority over the coming year. To this end, the role of the board in assisting with the development of a new strategic plan and supporting the new Chief Executive in his communications with the market was considered.

The review content for each subsequent evaluation is designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the review are implemented and that year-on-year progress is measured.

Board committees
The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference (which are reviewed annually) of each committee can be found at www.debenhamsplc.com. During the year, the board approved the constitution of a Sustainability Committee, a committee of the board whose aim is to further integrate the corporate social responsibility of the business within its operations. The Sustainability Committee is chaired by Martina King and its members are employees whose roles within the business fall within four key work streams, namely sustainable sourcing, environment, logistics & distribution and people. Further information on the role and operation of that committee can be found on page 38.

The Remuneration Committee
The Committee's membership and responsibilities are detailed within the Remuneration Report on page 53.

Nomination Committee

Nigel Northridge
Chairman, Nomination Committee

Directors and meetings

Name of director	Position	Meetings attended
Nigel Northridge (Committee Chairman)	Chairman	1/1
Adam Crozier	Independent non-executive director	1/1
Martina King	Independent non-executive director	1/1
Dennis Millard	Senior independent non-executive director	1/1
Mark Rolfe	Independent non-executive director	0/0
Sophie Turner Laing	Independent non-executive director	1/1

The Nomination Committee is chaired by Nigel Northridge. The other members are Adam Crozier, Martina King, Dennis Millard, Mark Rolfe and Sophie Turner Laing.

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 meetings in his capacity as Secretary of the Committee. The Committee met once formally during the year.

The Committee is responsible for board recruitment. The Committee's aim is to ensure that the right skill sets are present in the boardroom to deal with the challenges and opportunities facing the Company thereby enabling it to compete effectively in the marketplace. The Committee regularly considers the time commitment required from the existing non-executive directors and is responsible for succession planning. Both in its recruitment and succession planning processes, the Committee takes into account the board size, structure and composition having regard to the balance of skills, knowledge, experience and diversity of psychological type, background and gender so as to ensure that the board is not composed of solely like-minded individuals. In line with the UK Corporate Governance Code, the Nomination Committee is this year recommending that all the directors of the Company stand for re-election at the next Annual General Meeting. The monitoring and approval of any director conflicts of interest, including other external directorships, also falls within the remit of this Committee.

The Committee has this year focused on implementing its agreed succession plan for the role of Chief Executive. Rob Templeman stepped down from his position as Chief Executive on 4 September 2011 and Michael Sharp assumed the leadership of the business thereafter. Michael Sharp had been Deputy Chief Executive since November 2008 and his appointment as Chief Executive will ensure continuity of management and strategy of the business. Rob Templeman remains available to both the board and Michael Sharp on a consultancy basis until September 2012 at the latest.

Audit Committee

Dennis Millard
Chairman, Audit Committee

Directors and meetings

Name of director	Position	Meetings attended
Dennis Millard (Committee Chairman)	Senior independent non-executive director	3/3
Adam Crozier	Independent non-executive director	3/3
Martina King	Independent non-executive director	3/3
Mark Rolfe	Independent non-executive director	3/3
Sophie Turner Laing	Independent non-executive director	3/3

The Audit Committee is chaired by Dennis Millard. The other members are Adam Crozier, Martina King, Mark Rolfe and Sophie Turner Laing. Dennis Millard brings significant recent and relevant financial expertise to the Committee which is enhanced by the other members of the Committee who have appropriate business expertise. 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 Company Secretary also attends any meeting in his capacity as Secretary of the Committee.

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

The Committee met three times during the year and also met with the Company's external auditor and the Head of Internal Audit and Risk Management privately without any management being present.

While fulfilling the above responsibilities during the year, the Committee also reviewed the stock management controls within the business, the business continuity plan, the going concern status, the whistleblowing policy and risk appetite. The Committee also approved the statements included in the annual report concerning internal controls and risk management, considered the external auditors' performance, resource, independence and objectivity and recommended to the board the re-election of the auditors for 2011 and 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 2011 were also agreed and approved and the Anti-Bribery and Corruption Policy was recommended to the board for approval. After each meeting the Chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

The Audit Committee reviewed its performance using an external facilitator and the overall conclusion was that the Committee was discharging its duties effectively. Arising from the review, it was agreed that certain areas for additional focus in the year ahead would be: IT systems risks, governance and controls, with particular reference to multi-channel systems; the internal controls framework at the centralised accounting facility; and data security.

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

Share capital and control
Information which the directors are required to provide pursuant to Section 992 of the Companies Act 2006 can be found on page 51 of the Directors' report.

Auditors' independence
In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is regularly reviewed. This covers matters such as that auditors and their staff 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 reappointment annually of the auditors and the board then ensures that this is included on the Notice for the Annual General Meeting. As regards the risk of the external auditors withdrawal from the market, the Company considers that there are sufficient other auditors in the marketplace should this situation ever arise.

The objective of the Audit Committee's policy in relation to the provision of non-audit services by the auditors is to ensure that the provision of such services does not impair the external auditors' independence or objectivity. 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 those where some mutuality of interest is created or where the external auditor is put in the role of advocate for the Company. The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include tax advisory services or services where the auditors are acting as the Company's reporting accountant.

£0.1 million was paid by the Company to PricewaterhouseCoopers LLP for non-audit services in respect of advisory services. The audit fees paid by the pension schemes were £28,000.

Relations with shareholders
The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and the senior independent director are always available to major shareholders. Formal trading updates are given to the market on six occasions during the year. Following each of these announcements, conference calls are held with shareholders and analysts and after the full year and interim results a presentation is made to the shareholders and analysts. Analysts or brokers' briefings are circulated to the board. A programme of meetings and conference calls is also organised at appropriate times during the year at which the Chief Executive and Finance Director comment on Company performance and respond to any issues raised by investors. In addition Debenhams arranges visits to its stores for analysts and shareholders.

Directors' report

Principal activities
Debenhams is a leading international department store group which was established over 200 years ago. The Company has a strong presence in key product categories including womenswear, menswear, childrenswear, home and health & beauty and offers its customers a unique and differentiated mix of exclusive own bought and international brands.

Debenhams has 169 stores in the UK, Republic of Ireland and Denmark, as well as 65 international franchise stores in 25 countries. Debenhams trades over approximately 12.4 million square feet of trading space and has around 30,000 employees. Debenhams extends its customer reach via its online stores at www.debenhams.com and www.debenhams.ie and through iPhone, Android and Nokia apps.

This Business 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 53 week year ended 3 September 2011, 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, the Chief Executive's review, the Finance Director's review, the Sustainability report, the board of directors, the Corporate governance report, the Remuneration report and the Directors' responsibility statement on page 61 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
It was announced on 20 October 2011 that Chris Woodhouse would be stepping down from the board at the Annual General Meeting on 10 January 2012. Simon Herrick will succeed Chris Woodhouse. He joins Debenhams on 1 November 2011 and takes up his appointment of Chief Financial Officer on 10 January 2012. In addition, since the year end Debenhams has opened an international franchise store in the Philippines.

Profit and dividends
The profit after tax for the 53 week year ending 3 September 2011 was £117.2 million (2010: £97.0 million). The directors recommend the payment of a final dividend of 2.0 pence per ordinary share, to be paid on 13 January 2012 to members of on the register at the close of business on 9 December 2011. This, together with the interim dividend of 1.0 pence per share paid in July, gives a full year dividend of 3.0 pence per share.

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

As at 3 September 2011:

Shareholder	Number of shares	% of issued share capital
Bestinver Gestion, S.A.	154,282,220	12.0
Schroders plc	154,214,402	12.0
Standard Life Investments Ltd	90,364,958	7.0
Milestone Resources Group Ltd	89,183,155	6.9
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
Morton Holdings, Inc	39,359,706	3.1

The following notifications have been received since 3 September 2011:

Date of notification	Shareholder	Number of shares	% of issued share capital
9 September	Schroders plc	165,907,315	12.9
9 September	Standard Life Investments Ltd	78,219,702	6.1
15 September	Standard Life Investments Ltd	76,825,465	6.0

Share capital and control
The issued share capital of the Company is shown in Note 28 to the Financial Statements on page 98 and consists 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 2011 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.

The Debenhams Retail Employee Trust 2004 (the "Trust") holds 1,195,042 ordinary shares in the Company (0.09%). Of those shares, 471,506 shares relate to Invested Shares held by the Trust on behalf of the participants of the Deferred Bonus Matching Plan who exercise voting rights in relation to those shares. Any voting or other similar decisions relating to the balance of shares held by the Trust would be taken by the trustees, who may take account of any recommendations of the Company.

There are no significant agreements to which the Company is a party which take effect, alter or terminate in the event of change of control of the Company except that the supplier agreements with certain major cosmetic suppliers contain termination provisions on change of control and the multicurrency credit facility dated 16 July 2010 (as amended by supplemental agreement dated 13 July 2011) contains mandatory prepayment. There are no agreements providing for compensation for directors or employees on change of control. Details concerning the impact on share options and share awards held by directors or employees in the event of a change of control are set out on page 58 of the Remuneration report.

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

Board of directors
The membership of the board and biographical details of the directors are given on pages 44 to 45. 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 59 of the Remuneration report. Their interests in options and awards over shares in the Company are shown on page 60 of the same report.

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

Employees

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

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

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

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 3 September 2011 was nil days (2010: 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 3 September 2011 was 60 days (2010: 61 days).

Financial instruments

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

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 £1.1 million (2010 £0.7 million). The Company supports various charities. Key donations made during the year were £260,334 to the NSPCC, £249,382 to the Breast Cancer Campaign, £64,541 to the Estée Lauder MAC Aids campaign and £25,298 to the Marine Conservation Society.

Going concern

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

Corporate governance statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 and DTR 7.2.10 are within the Corporate governance review on pages 46 to 50 and Risk review on pages 32 to 37 and are therefore incorporated into this report by reference.

Disclosure of information to auditors

Each of the directors of the Company at the time when the Directors' report was approved confirms that:

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

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

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 10 January 2012 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
20 October 2011

Remuneration report

Adam Crozier, Chairman of the Remuneration Committee

This Remuneration report for the year ended 3 September 2011 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 10 January 2012. 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 2010 UK Corporate Governance Code.

Directors and meetings

Name of director	Position	Meetings attended
Nigel Northridge	Chairman	2/2
Adam Crozier (Committee Chairman)	Independent non-executive director	2/2
Martina King	Independent non-executive director	2/2
Dennis Millard	Senior independent non-executive director	2/2
Mark Rolfe	Independent non-executive director	1/1
Sophie Turner Laing	Independent non-executive director	2/2

Part 1: Unaudited information

The Remuneration Committee

The Remuneration Committee is chaired by Adam Crozier. The other members are Dennis Millard, Martina King, Nigel Northridge, Mark Rolfe and Sophie Turner Laing. Details of non-executive directors' experience and their other roles are set out in the directors' biographies section on pages 44 and 45. The Company Secretary is secretary to the Committee. There were two meetings of the Committee during the year under review.

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

In performing its duties, the Committee has received external advice from Deloitte LLP ("Deloitte") who 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 Chief Executive, Finance Director and Human Resources Director have attended Committee meetings and 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 and employment taxes 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. A comprehensive benchmarking and market practice review of executive compensation was carried out in September 2010. As a result, detailed benchmarking has not been carried out again this year.

During the year the Committee:

- Reviewed the executive remuneration strategy
- Operated the Deferred Bonus Matching Plan for the first time following consultation with shareholders
- Approved the executive directors' bonuses
- Approved the executive directors' bonus plan for the next year; and
- Evaluated the effectiveness of the Committee

The Remuneration Committee reviewed its performance using an external facilitator and the overall conclusion was that the Committee was discharging its duties effectively. Arising from the review, it was agreed that an additional meeting would be included in the board calendar to enable early planning and to focus on strategic issues. In addition, the Committee agreed that its focus for the next year should be to support the new Chief Executive in ensuring that the top team remains motivated through difficult economic conditions and in considering greater use of long-term incentive plans.

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.

Remuneration policy for 2012

Following the year end the Committee undertook a review of executive remuneration arrangement and decided to re-commence a regular programme of annual long-term incentive awards for executive directors and other key senior managers. Going forward therefore, awards will be granted annually under the Debenhams Performance Share Plan ("PSP"). Awards will vest subject to the achievement of stretching earnings per share and return on capital employed targets. The Committee considers that the PSP is the most appropriate long-term incentive plan for the business as it provides an incentive to deliver superior corporate performance whilst creating alignment with shareholders interests through the delivery of shares. The Committee consulted with shareholders regarding the operation of the remuneration policy who were generally supportive.

Summary of remuneration

The following table summarises the various elements of executive remuneration:

Element	Purpose and link to remuneration policy	Key features	Policy for 2012
Base salary	• Reflects the competitive market salary level for the individual and their role • Takes account of personal performance and contribution to corporate performance	• In cash • Based on individual contribution • Reviewed annually	• Salary increase of 2% with effect from 1 September 2011 in line with increases received throughout the Group
Annual bonus	• Rewards the achievement of meeting stretching annual profit changes	• 100% of base salary • In cash following year end • Based on profit before tax performance	• In line with the Company scheme, the percentage of salary earned at plan reverts back to 40%. All other elements of the plan remain unchanged
Deferred Bonus Matching Plan ("DBMP")	• Encourages executives to further invest 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% of their post tax bonus into shares ("Invested Shares"). These invested shares are deferred for a period of three years • Executives are able to earn a matching award equal to the pre-tax level of bonus deferred subject to the delivery of stretching performance conditions • The Committee offered employees the opportunity to invest up to 50% of their 2010 bonus into the Company's shares with the opportunity to earn matching shares subject to the delivery of stretching EPS performance and maintaining a strong level of ROCE	• This plan will not be operated this year
Performance Share Plan ("PSP")	• Aligns with shareholder interests through the delivery of shares • Rewards growth in earnings and maintenance of an efficient and sustainable level of return on our capital	• Maximum award of 200% of base salary (250% of base salary in exceptional circumstances) • Awards vest after three years	• It is intended that the PSP will be the key incentive vehicle going forward with awards being granted on an annual basis • The normal level of awards will be 125% - 150% of base salary for the Chief Executive and 100% - 125% of base salary for the Finance Director • In 2012, the Chief Executive will be made an award of 150% of base salary • PSP awards will be subject to a combination of EPS and ROCE performance conditions
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 of 100% 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 to executive directors (other than in exceptional circumstances)
Benefits	• Reflects market practice	• Car allowance • Healthcare • Dental insurance • Life insurance	• No change
Pension	• Provides funds to allow executives to save for retirement	• 15% of base salary • Executive directors are provided with a salary supplement in lieu of a pension provision	• No change

Components of remuneration

Base salary

The Committee considers base salary and salary increases for executives in the context of remuneration levels at 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. The Committee's policy is to set base salaries at an appropriate level to attract and retain the quality of individuals required to successfully run a business of the size and complexity of Debenhams but without paying more than is necessary to do this.

In 2009 there was a pay freeze for all senior management. This pay freeze continued for executive directors in 2010.

In 2011 the executive directors received a 2% increase in basic salary which was in line with the employee population as a whole. This year's review of the executive director's salaries has resulted in a 2% increase with effect from 1 September 2011 which again is in line with salary increases throughout the Group. Michael Sharp's salary was set at £600,000 upon his promotion to Chief Executive on 5 September 2011.

Executive directors' bonus schemes

2011 bonus

As disclosed in last year's Remuneration report, the annual bonus scheme for executive directors for 2011 was based on one measure: profit before tax. The maximum bonus potential for 2011 was 100% of base salary. A target payout of 30% of salary would be triggered by the achievement of a profit before tax target of £155 million with the maximum only being paid out for performance significantly in excess of this level. The Committee considered this target to be both stretching and represent value creation for shareholders.

The Company achieved profit before tax of £160.3 million (representing growth of 10.3%) which resulted in bonus payouts of 33.3% of salary. The Committee believes that this bonus payment recognises the creditable performance of the executive directors in what was another challenging year.

2012 bonus

The Committee believes that the current performance measure, profit before tax, is strongly aligned with shareholder value creation and effectively incentivises executives to grow profit on an annual basis. The percentage of salary earned at plan was amended in the 2011 financial year from 40% to 30% to mirror the Company scheme. In line with the Company scheme this year, the threshold will revert back to 40% for the 2012 financial year. All other elements of the bonus structure will remain unchanged, including the maximum bonus opportunity which is 100% of salary. As in previous years a target level of bonus will only be delivered if plan is achieved, with the maximum bonus only being paid if performance significantly in excess of plan is achieved. While the exact targets cannot be disclosed for reasons of commercial sensitivity, the Committee believes that they are appropriately stretching and if delivered will represent value creation for shareholders.

The Company's share incentives

The Committee undertook a review of the Company's remuneration strategy following the year end, in the context of the appointment of Michael Sharp as Chief Executive, to ensure that the remuneration strategy effectively motivates executives and incentivises them to deliver the Company's long-term goals. It was concluded that it was appropriate to adopt more "normal" public company style remuneration arrangements and in particular to commence a regular programme of annual long-term incentive awards. The Committee therefore intends to made awards to executive directors and other key senior managers under the Debenhams Performance Share Plan ("PSP"). The Committee considers that the PSP is the most appropriate long-term incentive plan for the business as it provides an incentive to deliver superior corporate performance whilst creating alignment with shareholder interest through the delivery of shares.

The Debenhams Performance Share Plan (the "PSP")

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

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

Existing awards under the plan are based on earnings per share growth performance. The use of this sole measure increases focus on delivering strong earnings growth and generating shareholder value through the performance period. If the performance condition is not met at the end of the performance period the awards will lapse immediately without any opportunity to re-test the relevant performance condition.

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
24 November 2009	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%
23 May 2011	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%

No awards vested during the year.

2012 awards

It is intended that the normal award levels be between 125% and 150% of base salary for the Chief Executive and between 100% and 125% of base salary for the Finance Director. In 2012, the Chief Executive will be made an award of 150% of base salary. Given that the new Chief Executive has not traditionally received annual awards, this award will provide an additional lock-in and alignment with shareholders.

Components of remuneration continued

2012 awards continued

Awards will be based on stretching earnings per share and return on capital employed performance targets. The Committee considers that EPS and ROCE are the most appropriate performance metrics for our business, as growing our earnings while maintaining an efficient and sustainable level of return on our capital is a key strategic driver of business performance over the next three to five years. These metrics are therefore closely aligned with the creation of shareholder value. The use of these measures was discussed with shareholders who were generally supportive.

The targets proposed for awards to be made in November 2011 are:

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

The Committee reviewed the targets in the context of the long-term strategic plan, analysts' forecasts and market practice and it was considered that these targets are suitably stretching.

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

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

All bonus eligible employees were offered the opportunity to invest up to 50% of the 2010 bonus. Matching awards were therefore made below board level under this plan in November 2010. These awards have a primary performance metric of earnings per share. In addition, the awards are subject to the achievement of an underpin level of return on capital employed ("ROCE") performance.

It is not intended to operate this plan for executive directors in 2012.

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% 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).

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

Options under the Scheme are currently based on one performance measure: 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. 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
24 November 2009	ROCE growth against cost of capital	ROCE < cost of capital = zero vesting ROCE > cost of capital = 30% vesting ROCE > cost of capital + 5% = 100% vesting Between these points the options vests on a straight line basis between 30% and 100%

No options under the ESOP were exercised during the year.

It is not intended to operate this plan for executive directors in the future other than in exceptional circumstances.

Debenhams 2006 Sharesave Scheme (the Sharesave Scheme)

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

The Debenhams 2008 Share Incentive Plan

The Debenhams 2008 Share Incentive Plan is an unapproved plan operated by the Company. This plan is focused at key senior managers and executive directors do not participate in this plan. The purpose of the plan is to retain and incentivise key employees in the short to medium term. Awards under the plan typically have between an 18 month and three year vesting period and are subject to continuing employment and performance conditions specific to the individuals' role within the business. Awards were granted to key individuals in November 2009, November 2010 and May 2011 under this plan.

The first tranche of options granted under this plan on 24 November 2009 for nil consideration vested on 24 May 2011 at the expiry of an 18 month vesting period. The awards totalling 690,000 shares were satisfied using shares held in The Debenhams Retail Employee Trust 2004.

The Debenhams Retail Employee Trust 2004 (the "Trust")

The Debenhams Retail Employee Trust 2004 currently holds 1,195,042 shares in the Company. 690,000 were transferred from the Trust during the year as a result of the vesting of the share incentive awards described above. 650,000 shares are held in the trust to potentially satisfy the grants made during the year under that plan. The Trust also holds 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.

Components of remuneration continued

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 0.30% (2010: 0.23%) 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 60 of this report. However, under the terms of their contacts of employment, the executive directors are entitled to a salary supplement in lieu of pension provision of 15% of base salary. These amounts are disclosed in the directors' emoluments table on page 60.

Termination arrangements for Rob Templeman

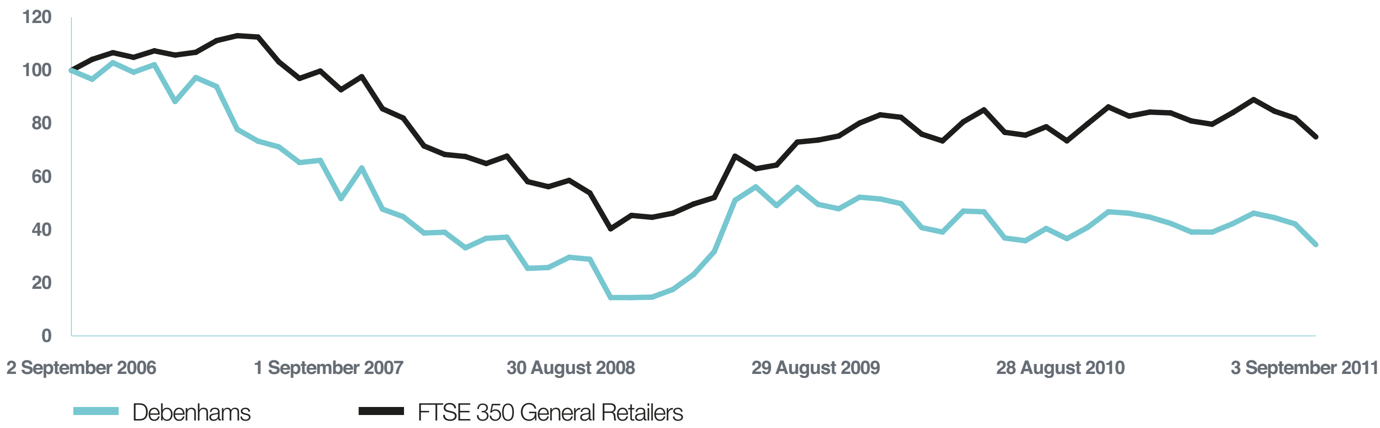
As announced on 14 April 2011, Rob Templeman retired as Chief Executive on 4 September 2011. No termination payments were made under his service agreement.

Mr Templeman has entered into a consultancy agreement with the Company which can continue, at the Company's discretion, for up to 12 months, subject to three months written notice on either side.

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 3 September 2011. 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



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 and the appointment is for a term of three years ending on 31 March 2013, subject to the Company's Articles of Association and shareholders' re-election. 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 Messrs Crozier and Millard may be terminated by either party giving one month's notice. Sophie Turner Laing, Martina King and Mark Rolfe are appointed for a term of three years, subject to the Company's Articles of Association and shareholders' re-election.

Fees for non-executive directors are determined by the board and are made up of an annual fee for acting as a non-executive director of the Company together with additional fees for membership of and chairing a board committee. There is a further fee for acting as senior independent non-executive director. The non-executive directors do not take part in discussions on their own remuneration which is reviewed annually by the board. The fees are set to reflect the time which they are required to commit to their duties, their experience and the amounts paid to non-executive directors in comparable companies. Fees for the non-executive directors remained frozen for 2011 and will continue to be frozen for 2012. With effect from 14 October 2010, Martina King assumed the role of Chairman of the Sustainability Committee and she receives a fee of £7,500 for this role.

Components of remuneration continued

Letters of appointment and service contracts continued

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 Annual General Meeting.

Name	Date of joining the Group	Basic salary	Committee member fee	Committee Chairman fee	SID Fee	Current annual fee
Nigel Northridge	1 January 2010	175,000	–	–	–	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	–	52,500
Martina King	1 August 2009	40,000	7,500	7,500	–	55,000
Mark Rolfe	1 October 2010	40,000	7,500	–	–	47,500
Sophie Turner Laing	1 August 2009	40,000	7,500	–	–	47,500

Michael Sharp, Chris Woodhouse and Rob Templeman 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. Further to Michael Sharp's succession as Chief Executive, the liquidated damages clause within his service agreement has been varied by removing the reference to bonus payments. Executive directors are entitled, in addition to salary, to other benefits or equivalent cash allowances, the value of which is set out in the table of directors' emoluments. Such benefits include company car and fuel, life, medical, dental and personal accident insurance together with product discount and personal financial advice.

The contracts for Rob Templeman and Chris Woodhouse 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. Rob Templeman, who was appointed a non-executive director of Gala Coral Limited on 8 November 2010, retained fees of £248,076.89 during the year. Chris Woodhouse, who was appointed non-executive chairman of Agent Provocateur Limited on 21 April 2011 retained fees of £18,493 during the year together with £150,000 (2010: £150,000) in respect of his role of group non-executive chairman of Gondola Group Limited.

Directors' shareholdings

The interests of the directors in the share capital of the Company as at 3 September 2011 are shown below. Awards granted under the PSP and ESOP are shown in Part 2 of this report.

Director	Ordinary shares held as at 28 August 2010 or date of appointment	Ordinary shares held as at 3 September 2011	Ordinary shares held as at 20 October 2011
Nigel Northridge	100,000	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	3,152,387	3,152,387	3,152,387
Adam Crozier	32,681	32,681	32,681
Martina King	10,000	10,000	10,000
Dennis Millard	69,455	69,455	69,455
Mark Rolfe	–	30,000	30,000
Sophie Turner-Laing	20,000	20,000	20,000

[1] As at 20 October 2011 Mr Sharp's holding includes 218,904 shares held by The Sharp Discretionary Settlement of which the director is a Trustee.

The Committee will be adopting formal shareholding guidelines. All executive directors will be expected to accumulate a holding equivalent to 100% of base salary over a five year period.

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 2011 £	Total 2010 £
Nigel Northridge	175,000				175,000	83,542
Rob Templeman	686,531	26,389	228,615	102,980	1,044,515	1,477,607
Chris Woodhouse	466,832	27,956	155,455	70,025	720,268	1,007,453
Michael Sharp[(1)]	550,800	42,659	183,416	82,620	859,495	1,195,212
Adam Crozier	52,500				52,500	50,833
Martina King	54,154				54,154	44,167
Dennis Millard	65,000				65,000	58,333
Mark Rolfe[(2)]	43,542				43,542	40,000
Sophie Turner-Laing	47,500				47,500	44,167
Total	**2,141,859**	**97,004**	**567,486**	**255,625**	**3,061,974**	**4,001,314**

[(1)] Michael Sharp's taxable benefits this year include £8,000 relating to financial advice received during the last two financial years.

[(2)] Mr Rolfe was appointed a non-executive director on 1 October 2010.

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 3 September 2011 £	Transfer value as at 28 August 2010 of accrued pension as at 28 August 2010 £	Transfer value as at 3 September 2011 of accrued pension as at 3 September 2011 £	Increase in transfer value during the period £
Michael Sharp	8,510	152	190,205	3,843,656	4,383,809	540,153

Directors' interests in the Performance Share Plan

Director	Date of award	Number of shares held at 28 August 2010	Shares awarded during the year	Shares lapsed during the year	Number of shares held at 3 September 2011	Market value on date of award	Earliest date of vesting	Expiry date of option
Michael Sharp	24 November 2009	485,902	0	0	485,902	83.35p	24/11/2012	24 /5/2013

Directors' interests in the Executive Share Option Plan

Director	Date of grant	Number of shares under option held at 28 August 2010	Shares granted during the year	Shares lapsed during the year	Option price	Number of shares held at 3 September 2011	Earliest date of exercise	Expiry date of options
Michael Sharp	Approved Scheme: 24 November 2009	35,108	0	0	85.45p	35,108	24/11/2012	24/11/2019
	Unapproved Scheme: 24 November 2009	438,853	0	0	85.45p	438,853	24/11/2012	24/11/2019

The closing mid-market price of the Company's shares on 3 September 2011 was 54.4 pence and ranged from 52.9 pence to 77.4 pence during the period from 28 August 2010 to 3 September 2011.

On behalf of the board

Adam Crozier
Chairman of the Remuneration Committee
20 October 2011

Statement of directors' responsibilities

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

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

- Select suitable accounting policies and then apply them consistently
- Make judgements and accounting estimates that are reasonable and prudent
- State whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company Financial Statements respectively; 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 maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement Pursuant to Disclosure and Transparency Rule 4.1.12
Each of the directors, whose names and functions are detailed on pages 44 and 45 , confirms that to the best of his/her knowledge:

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

By order of the board

Michael Sharp
Chief Executive

Chris Woodhouse
Finance Director

20 October 2011

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

We have audited the Group Financial Statements of Debenhams plc for the 53 week period ended 3 September 2011 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 61, the directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

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

- Give a true and fair view of the state of the Group's affairs as at 3 September 2011 and of its profit and cash flows for the 53 week period then ended
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation

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

- The information given in the Directors' report for the 53 week period 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' statement, set out on page 51 to 52, in relation to going concern
- The part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the board on directors' remuneration

Other matter
We have reported separately on the parent company financial statements of Debenhams plc for the 53 week period ended 3 September 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 October 2011

Consolidated Income Statement

For the 53 weeks ended 3 September 2011

	Note	**53 weeks ended 3 September 2011 £m**	52 weeks ended 28 August 2010 £m
Revenue	4	**2,209.8**	2,119.9
Cost of sales		**(1,913.1)**	(1,838.9)
Analysed as:			
Cost of sales before exceptional items		**(1,913.1)**	(1,829.5)
Exceptional cost of sales	7	**-**	(9.4)
Gross profit		**296.7**	281.0
Distribution costs		**(70.2)**	(55.1)
Administrative expenses		**(42.8)**	(43.0)
Analysed as:			
Administrative expenses before exceptional items		**(42.8)**	(40.2)
Exceptional administrative expenses	7	**-**	(2.8)
Other exceptional income	7	**-**	6.8
Operating profit	6	**183.7**	189.7
Analysed as:			
Operating profit before exceptional items		**183.7**	195.1
Exceptional items	7	**-**	(5.4)
Finance income	9	**3.9**	6.7
Finance costs	10	**(27.3)**	(56.5)
Profit before taxation		**160.3**	139.9
Taxation	11	**(43.1)**	(42.9)
Analysed as:			
Taxation before exceptional items		**(43.1)**	(44.6)
Taxation credit on exceptional items		**-**	1.7
Profit for the financial year attributable to equity shareholders		**117.2**	97.0

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

		Pence per share	Pence per share
Basic	13	**9.1**	7.5
Diluted	13	**9.1**	7.5

Consolidated Statement of Comprehensive Income

For the 53 weeks ended 3 September 2011

	Note	**53 weeks ended 3 September 2011 £m**	52 weeks ended 28 August 2010 £m
Profit for the financial year		**117.2**	97.0
Other comprehensive income/(expense)			
Actuarial gains/(losses) recognised in the pension schemes	24	**75.8**	(37.1)
Deferred tax movement on actuarial gains/(losses)	25	**(22.5)**	7.8
Current tax movement on the pension schemes		**2.1**	-
Currency translation differences		**4.3**	(6.8)
Sale of available-for-sale investment		**(2.0)**	-
Change in the valuation of the available-for-sale investments	16	**(0.2)**	(1.0)
Cash flow hedges			
- fair value (losses)/gains		**(15.7)**	24.0
- tax on fair value (losses)/gains		**3.9**	(6.5)
- reclassified and reported in net profit		**4.7**	6.8
- tax on items reclassified and reported in net profit		**(1.2)**	(1.9)
- recycled and adjusted against cost of sales		**1.8**	(4.3)
- tax on items recycled against cost of sales		**(0.5)**	1.2
Total other comprehensive income/(expense)		**50.5**	(17.8)
Total comprehensive income for the year		**167.7**	79.2

Consolidated Balance Sheet

As at 3 September 2011

	Note	3 September 2011 £m	28 August 2010 £m
Assets			
Non-current assets			
Intangible assets	14	**858.1**	846.2
Property, plant and equipment	15	**634.6**	676.1
Available-for-sale investments	16	**2.6**	7.8
Derivative financial instruments	23	**1.4**	0.9
Other receivables	18	**18.3**	17.2
Retirement benefit assets	24	**3.9**	-
Deferred tax assets	25	**75.7**	92.0
		1,594.6	1,640.2
Current assets			
Inventories	17	**321.3**	295.3
Trade and other receivables	18	**72.1**	73.4
Derivative financial instruments	23	**1.2**	8.9
Cash and cash equivalents	19	**29.0**	69.5
		423.6	447.1
Liabilities			
Current liabilities			
Bank overdraft and borrowings	21	**(168.1)**	(545.7)
Derivative financial instruments	23	**(8.5)**	(1.8)
Trade and other payables	20	**(489.1)**	(494.2)
Current tax liabilities		**(43.7)**	(37.5)
Provisions	27	**(6.2)**	(4.4)
		(715.6)	(1,083.6)
Net current liabilities		**(292.0)**	(636.5)
Non-current liabilities			
Bank overdraft and borrowings	21	**(244.6)**	(40.6)
Derivative financial instruments	23	**(4.2)**	(7.5)
Deferred tax liabilities	25	**(74.1)**	(83.8)
Other non-current liabilities	26	**(318.9)**	(285.7)
Provisions	27	**(1.2)**	(2.0)
Retirement benefit obligations	24	**-**	(80.7)
		(643.0)	(500.3)
Net assets		**659.6**	503.4
Shareholders' equity			
Share capital	28	**0.1**	0.1
Share premium account		**682.9**	682.9
Merger reserve		**1,200.9**	1,200.9
Reverse acquisition reserve		**(1,199.9)**	(1,199.9)
Hedging reserve		**(6.2)**	0.8
Other reserves		**(3.1)**	(5.2)
Retained earnings		**(15.1)**	(176.2)
Total equity		**659.6**	503.4

The Financial Statements on pages 63 to 103 were approved by the board on 20 October 2011 and were signed on its behalf by:

C K Woodhouse
Director

Consolidated Statement of Changes in Equity

As at 3 September 2011

	Note	Share capital and share premium £m	Merger reserve £m	Reverse acquisition reserve £m	Hedging reserve £m	Other reserve £m	Retained earnings £m	Total £m
Balance at 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	24	–	–	–	–	–	(37.1)	(37.1)
Deferred tax movement on pension schemes	25	–	–	–	–	–	7.8	7.8
Change in the value of available-for-sale investments	16	–	–	–	–	(1.0)	–	(1.0)
Currency translation differences		–	–	–	–	(6.8)	–	(6.8)
Cash flow hedges								
– 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	29	–	–	–	–	–	1.3	1.3
Redemption of preference shares	28	–	(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**
Profit for the financial year		–	–	–	–	–	117.2	117.2
Actuarial gain on pension schemes	24	–	–	–	–	–	75.8	75.8
Deferred tax movement on pension schemes	25	–	–	–	–	–	(22.5)	(22.5)
Current tax movement on pension schemes		–	–	–	–	–	2.1	2.1
Sale of available-for sale-investment	16	–	–	–	–	(2.0)	–	(2.0)
Change in the value of available-for-sale investments	16	–	–	–	–	(0.2)	–	(0.2)
Currency translation differences		–	–	–	–	4.3	–	4.3
Cash flow hedges								
– fair value gains (net of tax)		–	–	–	(11.8)	–	–	(11.8)
– reclassified and reported in net profit (net of tax)		–	–	–	3.5	–	–	3.5
– recycled and adjusted against the cost of inventory (net of tax)		–	–	–	1.3	–	–	1.3
Total comprehensive income and expense for the financial year		**–**	**–**	**–**	**(7.0)**	**2.1**	**172.6**	**167.7**
Share-based payment charge	29	–	–	–	–	–	1.4	1.4
Dividends paid	12	–	–	–	–	–	(12.9)	(12.9)
Total transactions with owners		**–**	**–**	**–**	**–**	**–**	**(11.5)**	**(11.5)**
Balance at 3 September 2011		**683.0**	**1,200.9**	**(1,199.9)**	**(6.2)**	**(3.1)**	**(15.1)**	**659.6**

For a description of the nature and purpose of each reserve see note 28.

Consolidated Cash Flow Statement

For the 53 weeks ended 3 September 2011

	Note	**53 weeks ended 3 September 2011 £m**	52 weeks ended 28 August 2010 £m
Cash flows from operating activities			
Cash generated from operations	31	**267.6**	299.2
Finance income		**6.7**	2.7
Finance costs		**(26.3)**	(49.6)
Tax paid		**(48.6)**	(44.1)
Transaction costs on acquisition of Magasin		**-**	(1.0)
Net cash generated from operating activities		**199.4**	207.2
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired		**-**	(9.1)
Purchase of property, plant and equipment		**(94.3)**	(78.5)
Purchase of intangible assets		**(19.7)**	(11.2)
Proceeds from sale of property, plant and equipment	31	**-**	0.2
Proceeds from sale of available-for-sale investment	16	**5.0**	-
Proceeds from sale of finance leases	31	**12.6**	-
Net cash used in investing activities		**(96.4)**	(98.6)
Cash flows from financing activities			
Repayment of term loan facility	21	**(548.6)**	(159.7)
Drawdown of new facility		**415.0**	-
Repurchase of term loan facility		**-**	(52.3)
Share issue costs		**-**	(4.7)
Dividends paid	12	**(12.9)**	-
Finance lease payments		**(0.1)**	(0.5)
Debt issue costs	21	**(4.1)**	(10.1)
Net cash used in financing activities		**(150.7)**	(227.3)
Net decrease in cash and cash equivalents		**(47.7)**	(118.7)
Net cash and cash equivalents at beginning of financial year	19	**69.5**	188.2
Foreign exchange gains on cash and cash equivalents		**1.0**	-
Net cash and cash equivalents at end of financial year	32	**22.8**	69.5

Notes to the Financial Statements

For the 53 weeks ended 3 September 2011

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 is that of a holding company. The principal activities of the Group and its subsidiaries (together the "Group" or the "Debenhams Group") is the sale of fashion clothing and accessories, cosmetics and products for use in the home. The Group trades from department stores 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. Consequently the year ended 3 September 2011 is a 53 week year, with the comparative year ended 28 August 2010 being a 52 week year.

The principal companies within the Group during the financial year ended 3 September 2011 are disclosed in note 34.

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 Standards Interpretations Committee ("IFRS IC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The Consolidated Financial Statements for the financial year ended 3 September 2011 and 28 August 2010 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, as described below, have been consistently applied to all years presented, unless otherwise stated.

Consolidation

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

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

Revenue Recognition

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

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

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. Finance charges are calculated using the effective interest rate method.

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.

2 Accounting Policies continued

Retirement Benefit Costs

The liability or asset recognised in respect of defined benefit schemes is the fair value of the plan assets less the present value of the defined obligation at the balance sheet date. Plan assets include various equities, bonds and alternative strategies and are managed separately by investment managers. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations 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.

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

Share-Based Payments

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

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

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

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)
- resulting exchange differences are recognised as a separate component of equity

c) Transactions and Balances

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

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

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

2 Accounting Policies continued

Taxation

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

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

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

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

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

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

Leased Assets

a) Finance Leases

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

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

b) Operating Leases

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

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

Business Combinations

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

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

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

Intangible Assets

a) Goodwill

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

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

b) Other Intangible Assets

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

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.

Included within intangible assets are assets in the course of construction. These assets comprise primarily web development projects including directly attributable costs to bring the assets into use. No amortisation is provided on assets in the course of construction.

2 Accounting Policies continued

Property, Plant and Equipment

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

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

Freehold land	Not depreciated
Freehold buildings	1 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	14–33⅓ 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.

Impairment Testing

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

Available-for-Sale Investments

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

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

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

Inventories

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

Trade 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 on the Balance Sheet.

Borrowings

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

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

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.

2 Accounting Policies continued

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

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

All of the trade payables are non-interest bearing.

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

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

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

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

Share Capital
Ordinary shares are classified as equity.

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

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

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

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

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

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

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

2 Accounting Policies continued

New Standards and Interpretations

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

- IFRS 2 amendment "Share-based Payments – Group cash-settled share-based payment transactions"
- IAS 32 amendment "Presentation on classification of rights issues"
- Improvements to IFRSs (2009)
- IFRS IC 15 "Agreements for the construction of real estate"
- IFRS IC 19 "Extinguishing financial liabilities with equity instruments"

The International Accounting Standards Board ("IASB") and International Financial Reporting Standards Interpretations Committee ("IFRS IC") has 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)		
IAS 19 (revised)	Employee benefits	1 January 2013
IAS 24 (revised)	Related party disclosures	1 January 2011
Annual improvements 2010		1 January 2011
IFRIC Interpretations		
IFRS IC 14 amendment	Prepayments of a minimum funding requirement	1 January 2011

The Group is currently considering the implications of the adoption of these standards and interpretations. The adoption of IAS 19 (revised) will have a potential impact on the treatment of past service costs and the calculation of expected returns on assets. The remaining standards are not expected to have a material impact on the Group's Financial Statements.

3 Segmental Reporting

IFRS 8 "Operating Segments" requires disclosure of the operating segments which are reported to the Chief Operating Decision Maker ("CODM"). The CODM has been identified as the executive 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 as it is regularly provided to the CODM. The segments are reported to the CODM to operating profit level, using the same accounting policies as applied to the Group accounts. No analysis has been provided of the assets and liabilities of each operating segment as this information is not regularly provided to the CODM within the monthly operating pack.

3 Segmental Reporting continued

Segmental analysis of results

	Retail £m	Magasin £m	Total £m
53 weeks ended 3 September 2011			
Gross transaction value	**2,432.6**	**246.7**	**2,679.3**
Concessions, consignments, staff discounts and loyalty schemes	**(359.7)**	**(109.8)**	**(469.5)**
External revenue	**2,072.9**	**136.9**	**2,209.8**
Operating profit	**175.2**	**8.5**	**183.7**
Other segment items			
– Depreciation	**79.5**	**4.0**	**83.5**
– Amortisation of intangible assets	**7.6**	**0.9**	**8.5**
52 weeks 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

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

	3 September 2011 £m	28 August 2010 £m
United Kingdom	**1,851.8**	1,799.8
Republic of Ireland	**144.1**	150.4
Denmark	**136.9**	103.6
Rest of the world	**77.0**	66.1
Total	**2,209.8**	2,119.9

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

	3 September 2011 £m	28 August 2010 £m
United Kingdom	**1,436.6**	1,469.6
Republic of Ireland	**39.2**	40.8
Denmark	**35.2**	29.1
Total	**1,511.0**	1,539.5

4 Gross Transaction Value

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

	3 September 2011 £m	28 August 2010 £m
Gross transaction value	**2,679.3**	2,564.3

5 Critical Accounting Estimates and Judgements

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

Estimated Impairment of Goodwill

The Group tests whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2. The recoverable amount of cash-generating units is determined based on a value-in-use calculation. The method requires an estimate of future cash flows and the selection of a suitable discount rate in order to calculate the net present value of the cash flows. Actual outcomes could vary. See note 14 for further details.

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 29.

Retirement Benefits

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

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

Inventories

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

6 Operating Profit

	3 September 2011 £m	28 August 2010 £m
The following items have been included in arriving at operating profit:		
The amounts of inventory written down during the financial year	**12.9**	11.3
Cost of inventories recognised as an expense	**1,117.5**	1,082.3
Employment costs (note 8)	**372.8**	378.1
Depreciation of property, plant and equipment (note 15)	**83.5**	84.9
Amortisation of intangible assets (note 14)	**8.5**	9.3
Loss on disposal of property, plant and equipment	**0.1**	0.4
Operating lease rentals	**207.3**	189.9
Foreign exchange gains	**(12.7)**	(6.3)
Repairs and maintenance expenditure on property, plant and equipment	**12.8**	11.6
Auditors' remuneration	**0.4**	0.5

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:

	3 September 2011 £m	28 August 2010 £m
Audit services		
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	**0.2**	0.2
Other services		
The audit of the Company's subsidiaries pursuant to legislation	**0.1**	0.1
Fees payable to the Company's auditor and its associates for other services		
– Other services	**0.1**	0.2

Other services comprise advisory work relating to indirect taxation (2010: advisory work relating to the acquisition of Magasin of £0.1 million) and £28,000 (2010: £27,000) relating to the defined benefit pension scheme audits. It is cost effective for the Group that such services are provided by its auditors in view of their knowledge of the Group's affairs.

7 Exceptional Items

There were no exceptional items in the 53 weeks to 3 September 2011.

Exceptional items charged during the 52 weeks ended 28 August 2010 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 – Acquisition of Magasin (Retail)		6.8
Net exceptional items		(5.4)

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.

8 Employees

	3 September 2011 £m	28 August 2010 £m
Wages and salaries	**337.6**	344.7
Social security costs	**22.6**	23.9
Pension cost	**11.2**	8.2
Share-based payments (note 29)	**1.4**	1.3
Total employment costs	**372.8**	378.1

	Number	Number
Average number of employees (including key management):		
– Full time	**8,735**	9,019
– Part time	**21,889**	21,398
Total	**30,624**	30,417

Included in pension cost above is £0.6 million (2010: £0.7 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 53 to 60, which forms part of these Financial Statements.

Key Management Compensation

	3 September 2011 £m	28 August 2010 £m
Salaries and short-term benefits	**4.0**	5.5
Post-employment benefits	**0.6**	0.7
Share-based payments	**0.4**	0.2
	5.0	6.4

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 (2010: 13 members).

9 Finance income

	3 September 2011 £m	28 August 2010 £m
Interest on bank deposits	**0.6**	2.9
Discount arising on debt repurchase	**–**	3.8
Other financing income	**3.3**	–
	3.9	6.7

10 Finance costs

	3 September 2011 £m	28 August 2010 £m
Bank loans and overdrafts	**16.2**	41.7
Cash flow hedges reclassified and reported in net profit	**4.7**	6.8
Amortisation of issue costs on loans (note 21)	**5.8**	5.7
Interest payable on finance leases	**–**	2.3
Other financing charges	**0.6**	–
	27.3	56.5

11 Taxation

Analysis of Tax Charge in the Financial Year

	3 September 2011 £m	28 August 2010 £m
Current tax:		
UK corporation tax charge on profit for the year	**58.4**	47.5
Adjustments in respect of prior periods	**(1.6)**	(0.2)
Current tax expense	**56.8**	47.3
Deferred taxation:		
Origination and reversal of timing differences	**(13.0)**	(6.3)
Pension cost relief in excess of pension charge	**0.2**	0.6
Adjustments in respect of prior periods	**(0.9)**	1.3
Deferred tax credit (note 25)	**(13.7)**	(4.4)
Tax charge for the financial year	**43.1**	42.9

The effective tax rate for the 53 week year is lower; 26.9 per cent (2010: higher; 30.7 per cent)than the rate of corporation tax in the UK of 27.2 per cent (2010: 28.0 per cent). The differences are explained below:

	3 September 2011 £m	28 August 2010 £m
Profit on ordinary activities before tax	**160.3**	139.9
Profit on ordinary activities at standard rate of corporation tax in the UK of 27.2 per cent (2010: 28.0 per cent)	**43.6**	39.2
Effects of:		
Expenses not deductible for tax purposes	**0.8**	0.1
Overseas tax rates	**0.8**	2.0
Utilisation of tax losses	**(2.3)**	–
Non-qualifying depreciation and lease transactions	**3.5**	3.2
Effect on deferred taxation of the change in corporation tax rate	**(0.8)**	(0.1)
Bargain purchase credit not taxable	**–**	(1.9)
Adjustments in relation to prior periods	**(2.5)**	1.1
Other	**–**	(0.7)
Tax charge for the financial year	**43.1**	42.9

The Finance Act 2011, which was enacted on 19 July 2011, included legislation reducing the main rate of corporation tax from 27 per cent to 26 per cent from 1 April 2011 and also reducing the main rate of corporation tax from 26 per cent to 25 per cent from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 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.

The effect of the reduction in the corporation tax rate enacted in the Finance Act 2011 has been to reduce the net deferred tax asset recognised at 28 August 2010 by approximately £0.6 million. This £0.6 million decrease has been recognised partly as an increase to profits in the Income Statement (£1 million) and partly as a loss in the Statement of Comprehensive Income of £1.6 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 23 per cent by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 25 per cent to 23 per cent, if applied to the deferred tax balances at 3 September 2011, would be to reduce the net deferred tax asset by approximately £0.1 million.

12 Dividends

	3 September 2011 £m	28 August 2010 £m
Interim paid 1.0 pence (2010: nil) per £0.0001 share		
– Settled in cash	**12.9**	–

An interim dividend of 1.0 pence per share (2010: nil) was paid during the year. The directors are proposing a final dividend in respect of the 53 weeks ended 3 September 2011 of 2.0 pence per share (2010: nil), which will absorb an estimated £25.7 million (2010: nil) of shareholders' funds. It will be paid on 13 January 2012 to shareholders who are on the register of members at close of business on 9 December 2011. No liability is recorded in the financial statements in respect of the final dividend as it was not approved as at the balance sheet date.

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

	3 September 2011		28 August 2010	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Profit for the financial year after taxation	**117.2**	**117.2**	97.0	97.0

	Number m	Number m	Number m	Number m
Weighted average number of shares	**1,286.8**	**1,286.8**	1,286.8	1,286.8
Shares held by ESOP (weighted)	**(0.3)**	**(0.3)**	(0.9)	(0.9)
Shares issuable (weighted)	**–**	**0.6**	–	0.2
Adjusted weighted average number of shares	**1,286.5**	**1,287.1**	1,285.9	1,286.1

	Pence per share	Pence per share	Pence per share	Pence per share
Earnings per share	**9.1**	**9.1**	7.5	7.5

14 Intangible Assets

	Goodwill £m	Licences and trademarks £m	Internally generated software £m	Purchased software £m	Total £m
Cost					
At 29 August 2009	819.2	2.7	46.1	6.6	874.6
Additions	–	4.5	4.8	4.8	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	49.9	11.4	887.2
Additions	–	–	10.9	8.5	19.4
Exchange rate movement	0.5	–	–	0.1	0.6
Disposals	–	–	(0.1)	–	(0.1)
At 3 September 2011	**819.2**	**7.2**	**60.7**	**20.0**	**907.1**
Accumulated amortisation					
At 29 August 2009	–	0.6	32.2	1.9	34.7
Charge for the year	–	0.3	7.9	1.1	9.3
Exchange rate movement	–	–	(0.1)	–	(0.1)
Disposals	–	–	(2.9)	–	(2.9)
At 28 August 2010	–	0.9	37.1	3.0	41.0
Charge for the year	–	0.7	5.9	1.9	8.5
Exchange rate movement	–	–	(0.4)	–	(0.4)
Disposals	–	–	(0.1)	–	(0.1)
At 3 September 2011	**–**	**1.6**	**42.5**	**4.9**	**49.0**
Net book amount					
At 3 September 2011	**819.2**	**5.6**	**18.2**	**15.1**	**858.1**
At 28 August 2010	818.7	6.3	12.8	8.4	846.2
At 29 August 2009	819.2	2.1	13.9	4.7	839.9

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

	3 September 2011 £m	28 August 2010 £m
Assets in the course of construction	**9.8**	–

Amortisation of Intangible Assets

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

	3 September 2011 £m	28 August 2010 £m
Included within:		
– cost of sales	**7.2**	7.1
– distribution costs	**0.2**	0.6
– administrative expenses	**1.1**	1.6
	8.5	9.3

Intangible assets includes the following assets held under finance leases:

	Purchased Software	
	3 September 2011 £m	28 August 2010 £m
Cost	**1.4**	–
Aggregate depreciation	**0.3**	–
Net book value	**1.1**	–

14 Intangible Assets continued

Impairment Test for Goodwill

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

	North £m	Midlands £m	South-East £m	South-West £m	South £m	Other £m	**Total £m**
Goodwill	159.3	184.3	180.1	185.3	102.8	7.4	**819.2**

For the purposes of this impairment review, the recoverable amounts of the CGUs are determined based on value-in-use calculations. These cash flow projections are based on financial budgets approved by management covering a five-year period. The key assumptions used in these projections are sales growth and discount rates. The five-year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Cash flows beyond the five-year period are extrapolated based on the assumption of 2% growth after year five. The growth rates do not exceed the long-term average growth rate for the retail sector in which the CGUs operate. The pre-tax discount rate used to calculate the value-in-use was 8.9 per cent (2010: 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 to goodwill.

As a result of the impairment review, as at 3 September 2011 no impairment of goodwill has been required (2010: 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 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
Additions	–	0.3	11.7	82.7	94.7
Exchange rate movements	–	–	0.6	4.4	5.0
Disposals and write-offs	(49.0)	(5.1)	–	(45.1)	(99.2)
At 3 September 2011	**1.6**	**6.7**	**351.4**	**818.3**	**1,178.0**
Accumulated depreciation					
At 29 August 2009	2.2	1.2	69.1	378.4	450.9
Charge for the year	0.3	0.3	14.0	70.3	84.9
Exchange rate movements	–	–	(0.1)	(2.0)	(2.1)
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
Charge for the year	–	0.1	14.7	68.7	83.5
Exchange rate movements	–	–	0.1	2.1	2.2
Disposals and write-offs	(1.9)	(1.0)	–	(40.8)	(43.7)
Reclassification	–	–	(0.2)	0.2	–
At 3 September 2011	**0.2**	**0.6**	**97.8**	**444.8**	**543.4**
Net book value					
At 3 September 2011	**1.4**	**6.1**	**253.6**	**373.5**	**634.6**
At 28 August 2010	48.5	10.0	255.9	361.7	676.1
At 29 August 2009	48.8	10.2	267.5	342.7	669.2

15 Property, Plant and Equipment continued

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

	3 September 2011 £m	28 August 2010 £m
Assets in the course of construction	**39.3**	38.0

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

	Vehicles, fixtures and equipment		Freehold and long leasehold land and buildings	
	3 September 2011 £m	28 August 2010 £m	3 September 2011 £m	28 August 2010 £m
Cost	5.0	4.2	-	53.5
Aggregate depreciation	3.4	2.3	-	3.2
Net book value	1.6	1.9	-	50.3

Contractual commitments at 3 September 2011 were £5.3 million (2010: £3.9 million).

16 Financial Assets – Available-for-Sale Investments

	£m
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
Disposals	(5.0)
Decrease in the market value charged to the Statement of Comprehensive Income	(0.2)
At 3 September 2011	**2.6**

The Group holds 10 per cent (2010: 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 3 September 2011 was £2.6 million (2010: £2.8 million). Ermes is a company that is registered and trades in Cyprus and their shares are quoted in euros.

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

17 Inventories

	3 September 2011 £m	28 August 2010 £m
Items held for resale	**321.3**	295.3

18 Trade and Other Receivables

	3 September 2011 £m	28 August 2010 £m
Non-current		
Other receivables	**18.3**	17.2

Other receivables include contractual lease deposits of £17.1 million (2010: £16.1 million).

	3 September 2011 £m	28 August 2010 £m
Current		
Trade receivables	**22.7**	20.1
Allowance for doubtful debts	**(0.2)**	(0.1)
	22.5	20.0
Other receivables	**1.3**	1.1
Prepayments and accrued income	**48.3**	52.3
	72.1	73.4

At the year-end, £20.0 million (2010: £17.6 million) of the trade receivables are denominated in sterling, £0.3 million (2010: £0.4 million) are denominated in euros and £2.4 million (2010: £2.1 million) in Danish kroner.

Trade receivables which are up to 90 days past their due date but not impaired amount to £4.5 million (2010: £3.4 million). Trade receivables between 60 days and 90 days are provided based on estimated irrecoverable amounts from the sale of goods. At 3 September 2011, £0.2 million (2010: £0.1 million) of trade receivables were past their due date and impaired.

19 Cash and Cash Equivalents

	3 September 2011 £m	28 August 2010 £m
Cash at bank and in hand	**23.7**	28.6
Short-term bank deposits	**5.3**	40.9
	29.0	69.5

20 Trade and Other Payables

	3 September 2011 £m	28 August 2010 £m
Trade payables	**286.9**	299.8
Other payables	**68.0**	60.3
Taxation and social security	**26.9**	31.6
Accruals	**106.1**	101.2
Deferred income	**1.2**	1.3
	489.1	494.2

21 Bank Overdraft and Borrowings

	3 September 2011 £m	28 August 2010 £m
Current		
Bank overdraft	**6.2**	–
Term loan facility	**0.1**	541.9
Revolving credit facility[1]	**160.5**	–
Lease obligations	**1.3**	3.8
	168.1	545.7
Non-current		
Term loan facility[2]	**243.2**	–
Lease obligations	**1.4**	40.6
	244.6	40.6

[1] Revolving credit facility includes unamortised issue costs of £4.5 million (2010: nil).
[2] Term loan facility includes unamortised issue costs of £6.8 million (2010: £10.8 million).

In November 2010 the Group cancelled its existing term loan and Revolving Credit Facility ("RCF") and drew down on its new £650.0 million credit facility comprising a term loan of £250.0 million and an RCF of £400.0 million. This new facility was due to expire in 2013.

In July 2011 the terms of the credit facility were renegotiated to extend the expiry date to October 2015, with an option to further extend to October 2016. At 3 September 2011 the Group's facilities outstanding comprised the term loan of £250.0 million (2010: £555.6 million) and an RCF of £165.0 million (2010: nil).

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

Issue costs, which mainly relate to facility costs, are being amortised over the term of the facilities to October 2015 at the effective interest rate based on the committed amount of the term loan. Additional refinancing costs of £3.3 million were incurred during the year ended 3 September 2011 in respect of the renegotiation of the new credit facilities, which will be amortised over the term of the facility. The total amortisation charge relating to the issue costs of the Group's credit facilities cancelled and current for the year ended 3 September 2011 was £5.8 million (2010: £5.7 million).

21 Bank Overdraft and Borrowings continued

Finance Lease Obligations

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

	3 September 2011		28 August 2010	
	Property leases £m	**Other leases £m**	Property leases £m	Other leases £m
Not later than one year	**–**	**1.3**	7.4	0.7
Later than one year but not later than five years	**–**	**1.4**	45.2	1.1
	–	**2.7**	52.6	1.8
Interest element of future instalments	**–**	**–**	(9.9)	(0.1)
	–	**2.7**	42.7	1.7

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. During the year ended 3 September 2011 the Group cancelled these leases and at the same time entered into new sale and operating leaseback contracts on these stores. The net book amount disposed of was £55.4 million, less the finance lease repaid of £42.8 million, giving cash proceeds of £12.6 million.

At the year-end the following amounts remained outstanding under the leases:

	3 September 2011 £m	28 August 2010 £m
Principal	**–**	37.7
Accrued interest	**–**	5.0
Outstanding liability	**–**	42.7

ii) Other Lease Obligations

Other lease obligations relate mainly to information technology 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:

	3 September 2011 £m	28 August 2010 £m
Amounts falling due:		
In one year or less or on demand	**168.1**	545.7
In more than one year but not more than two years	**0.9**	2.3
In more than two years but not more than five years	**243.7**	38.3
	412.7	586.3

Interest Rates

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

	3 September 2011 %	28 August 2010 %
Bank overdraft	**1.88**	N/A
Term loan facility	**2.64**	3.19
Revolving credit facility	**2.51**	N/A
Lease obligations	**2.80**	3.78

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
- interest rate risk
- other price risk

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

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

i) Funding and Liquidity Risk

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

The Group finances its operations by a combination of retained profits, debt finance and leases. The objective is to ensure that there is 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 3 September 2011				
Non-derivative financial liabilities:				
Borrowings	**(165.0)**	**-**	**(250.0)**	**-**
Interest payments due on borrowings	**(0.1)**	**-**	**-**	**-**
Finance lease liabilities	**(1.3)**	**(0.9)**	**(0.5)**	**-**
Trade and other payables	**(433.4)**	**-**	**-**	**-**
Derivative financial assets and liabilities:				
Interest rate swaps				
- Net settled derivative contracts - payments	**(2.3)**	**(2.0)**	**(2.5)**	**-**
Forward foreign exchange contracts				
- Gross settled derivative contracts - receipts	**332.8**	**121.8**	**-**	**-**
- Gross settled derivative contracts - payments	**(340.3)**	**(121.4)**	**-**	**-**
Total	**(609.6)**	**(2.5)**	**(253.0)**	**-**

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 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 assets and 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)	–

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

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

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

A loss of £1.8 million (2010: gain of £4.3 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 3 September 2011 was £461.1 million (2010: £425.0 million). The net fair value losses on open forward foreign exchange contracts at 3 September 2011 are £4.2 million (2010: gains of £6.4 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next two years.

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

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

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

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 £327.5 million (2010: £302.5 million), being 78.4 per cent (2010: 51 per cent) of the Group's total borrowings.

22 Financial Risk Management continued

a) Financial Risks and Treasury Management continued

Interest Rate Swaps

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

	Notional £m	Rate %	Maturity
Interest rate swaps	327.5	0.94-5.3725	November 2011 to October 2015

The notional principal amount of interest rate swaps at 28 August 2010 was £302.5 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 £4.7 million (2010: £6.8 million) was reclassified and reported in the Income Statement in respect of interest rate swaps.

Financial Liabilities and Assets

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

	3 September 2011			28 August 2010		
	Fixed £m	**Floating £m**	**Total £m**	Fixed £m	Floating £m	Total £m
Financial liabilities						
Sterling[1]	**(330.3)**	**(93.7)**	**(424.0)**	(306.5)	(290.6)	(597.1)

[1] Debt issue costs of £11.3 million (2010: £10.8 million) are excluded from the financial liabilities above.

Fixed sterling financial liabilities comprise the hedged portion of the term loan of £327.5 million, finance lease liabilities of £2.7 million and £0.1 million of accrued interest at 3 September 2011. The weighted average interest rate on the fixed rate borrowings as at 3 September 2011 was 3.6 per cent (2010: 5.2 per cent), with the weighted average time for which rates are fixed being 4.2 years (2010: 2.9 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:

	3 September 2011			28 August 2010		
	Floating £m	**Non-interest bearing £m**	**Total £m**	Floating £m	Non-interest bearing £m	Total £m
Financial assets						
Sterling	**0.5**	**20.7**	**21.2**	25.8	22.9	48.7
Euros	**0.8**	**1.2**	**2.0**	11.8	1.2	13.0
US dollars	**0.9**	**-**	**0.9**	3.3	-	3.3
Danish kroner	**3.1**	**1.8**	**4.9**	3.0	1.5	4.5
Total financial assets	**5.3**	**23.7**	**29.0**	43.9	25.6	69.5

v) Other Price Risk

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

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

- net profit would have been unaffected as the equity investments were classified as available-for-sale investments; and
- other reserves would decrease/increase by £0.3 million (2010: £0.3 million) for the Group as a result of the changes in the fair value of available-for-sale investments.

22 Financial Risk Management continued

b) Capital Management

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

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

The Group routinely monitors its capital and liquidity requirements through leverage ratios consistent with industry-wide borrowing standards, maintaining suitable headroom to bank facility 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 reasonably possible changes to these risk variables which existed at the year end.

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

	3 September 2011		28 August 2010	
	Income Statement loss £m	**Equity gain £m**	Income Statement loss £m	Equity gain £m
1 per cent increase in interest rate	**(0.9)**	**6.3**	(2.4)	5.4

	3 September 2011		28 August 2010	
	Income Statement gain/(loss) £m	**Equity gain/(loss) £m**	Income Statement gain £m	Equity gain/(loss) £m
5 per cent weakening in sterling compared to US dollar	**0.4**	**11.8**	–	11.5
5 per cent weakening in sterling compared to the euro	**(0.4)**	**(3.2)**	–	(2.0)
5 per cent weakening in sterling compared to Danish krone	**(0.2)**	**-**	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 krone 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	Loan receivables and financial liabilities at amortised cost £m	Total £m
At 3 September 2011					
Assets					
Current assets					
Cash and cash equivalents	**–**	**–**	**–**	**29.0**	**29.0**
Trade and other receivables	**–**	**–**	**–**	**23.8**	**23.8**
Forward foreign currency contracts	**–**	**0.2**	**1.0**	**–**	**1.2**
Non-current assets					
Available-for-sale financial assets	**2.6**	**–**	**–**	**–**	**2.6**
Interest rate swaps	**–**	**–**	**0.1**	**–**	**0.1**
Forward foreign currency contracts	**–**	**–**	**1.3**	**–**	**1.3**
Liabilities					
Current liabilities					
Trade and other payables	**–**	**–**	**–**	**(461.1)**	**(461.1)**
Current borrowings	**–**	**–**	**–**	**(168.1)**	**(168.1)**
Interest rate swaps	**–**	**–**	**(0.3)**	**–**	**(0.3)**
Forward foreign currency contracts	**–**	**(2.2)**	**(6.0)**	**–**	**(8.2)**
Non-current liabilities					
Non-current borrowings	**–**	**–**	**–**	**(244.6)**	**(244.6)**
Interest rate swaps	**–**	**–**	**(3.8)**	**–**	**(3.8)**
Forward foreign currency contracts	**–**	**–**	**(0.4)**	**–**	**(0.4)**
Total	**2.6**	**(2.0)**	**(8.1)**	**(821.0)**	**(828.5)**
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)

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)
- 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 3 September 2011:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	**2.6**	**–**	**–**	**2.6**
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**0.1**	**–**	**0.1**
– Forward foreign currency contracts held as cash flow hedges	**–**	**2.3**	**–**	**2.3**
– Other forward foreign currency contracts	**–**	**0.2**	**–**	**0.2**
Total assets	**2.6**	**2.6**	**–**	**5.2**
Liabilities				
Derivative financial instruments:				
– Interest rate swaps held as cash flow hedges	**–**	**(4.1)**	**–**	**(4.1)**
– Forward foreign currency contracts held as cash flow hedges	**–**	**(6.4)**	**–**	**(6.4)**
– Other forward foreign currency contracts	**–**	**(2.2)**	**–**	**(2.2)**
Total liabilities	**–**	**(12.7)**	**–**	**(12.7)**

The 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 financial assets £m
At 28 August 2010	5.0
Profit on sale of available-for-sale financial asset in the income statement (in cost of sales)	(2.0)
Cost of available-for-sale investment sold	(3.0)
At 3 September 2011	**–**

The Group disposed of its level 3 investment during the year. For further details see note 16 to the financial statements.

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 in the UK or a defined contribution scheme for the employees in the Republic of Ireland and Denmark.

In accordance with the recovery plan for the Group's pension schemes, the Group agreed to contribute £5.8 million per annum from 1 April 2009 to 31 March 2011 increasing by annual Retail Price Index (RPI) from the year to 31 December 2009 to fund past service benefits. The Group has also agreed to contribute a further £7.0 million per annum from 1 April 2011 until 31 August 2021, increasing by annual RPI from the year to 31 December 2009. If the Company had paid or declared a dividend during the period from 1 April 2009 to 31 March 2011, the Group would have made further contributions of 3.1 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. No dividends were declared by the Company during this period. The Group has also agreed to fund all non-investment expenses and levies incurred by the Group's pension schemes.

The investment strategy for the Group's pension schemes was changed during the year ended 3 September 2011. Investment of the schemes assets is now arranged by AON Hewitt Limited under a delegated consulting service agreement. As at 3 September 2011 most of the schemes assets are invested in a delegated liability fund or a delegated growth fund, with some legacy holdings from the former investment strategy due to be transferred to the delegated consulting service arrangement in the future.

Actuarial valuations of the Group's pension schemes using the projected unit basis were carried out at 31 March 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 3 September 2011. An actuarial valuation as at 31 March 2011 is being performed by Towers Watson Limited. The major assumptions used by the actuary were:

	3 September 2011 per annum %	28 August 2010 per annum %	29 August 2009 per annum %
Inflation assumption	**3.30**	3.20	3.30
General salary and wage increase	**3.30**	3.20	3.30
Rate of increase in pension payments and deferred payments	**3.30**	3.20	3.30
Pension increase rate	**3.20**	3.10	3.30
Discount rate	**5.75**	5.00	5.45

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

The inflation assumption is based on the RPI rate as pension increases both in payment and deferment within the schemes are set out with reference to this measure.

	3 September 2011		28 August 2010		29 August 2009	
	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						
Delegated liability fund	**–**	**90.7**	–	–	–	–
Delegated growth fund	**–**	**433.4**	–	–	–	–
Legacy holdings	**–**	**23.9**	–	–	–	–
Equities	**–**	**–**	8.2	247.0	9.0	230.6
Bonds	**–**	**–**	5.0	244.9	4.4	217.5
Property	**–**	**–**	7.3	20.3	8.0	20.1
Cash and other assets	**–**	**3.5**	3.8	11.6	4.3	20.2
Total market value of assets	**7.8-8.1**	**551.5**	6.6	523.8	6.7	488.4
Present value of scheme liabilities		**(547.6)**		(604.5)		(542.0)
Surplus/(deficit) in scheme		**3.9**		(80.7)		(53.6)

The expected rates of return on assets for the schemes as at 3 September 2011 have been derived from the target returns specified in the current Statement of Investment Principles for each scheme, and have been set at 7.8 per cent for the Debenhams Executive Pension Plan and 8.1 per cent for the Debenhams Retirement Scheme. At previous year ends, the expected rates of return on assets were derived as the weighted average of the expected rates of return from each of the main asset classes.

24 Retirement Benefit Obligation continued

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

	3 September 2011 Male and female	28 August 2010 Male and female
Debenhams Retirement Scheme	**PNMA00 +1**	PNMA00 +1
Debenhams Executive Pension Plan	**PNFA00 –2**	PNFA00 –2

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

	3 September 2011		28 August 2010	
	Years Male	Years Female	Years Male	Years Female
Debenhams Retirement Scheme				
Member currently aged 65	**21.4**	**23.2**	21.3	23.1
Member aged 65 in 15 years	**22.3**	**24.0**	22.2	23.9

	3 September 2011		28 August 2010	
	Years Male	Years Female	Years Male	Years Female
Debenhams Executive Pension Plan				
Member currently aged 65	**24.0**	**25.8**	23.9	25.7
Member aged 65 in 15 years	**24.8**	**26.5**	24.7	26.5

The actual return on scheme assets was as follows:

	3 September 2011 £m	28 August 2010 £m
Return on scheme assets	**38.6**	44.4

The amounts recognised in the Income Statement are as follows:

	3 September 2011 £m	28 August 2010 £m
Interest on pension scheme liabilities	**29.8**	29.0
Expected return on pension scheme assets	**(30.7)**	(31.1)
Total credit included within staff costs	**(0.9)**	(2.1)

The total credits included are as follows:

	3 September 2011 £m	28 August 2010 £m
Cost of sales	**(0.8)**	(1.8)
Administrative expenses	**(0.1)**	(0.3)
Total credit	**(0.9)**	(2.1)

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

	3 September 2011 £m	28 August 2010 £m
Present value of obligation at start of the financial year	**604.5**	542.0
Interest on pension scheme liabilities	**29.8**	29.0
Benefit payments by the fund	**(17.5)**	(15.6)
Actuarial (gains)/losses on change of assumptions	**(64.1)**	41.5
Actuarial (gains)/losses	**(5.1)**	7.6
Present value of obligation at end of the financial year	**547.6**	604.5

24 Retirement Benefit Obligation continued

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

	3 September 2011 £m	28 August 2010 £m
Fair value of pension scheme assets at start of the financial year	**523.8**	488.4
Benefits paid	**(17.5)**	(15.6)
Company contributions	**7.9**	7.9
Expected return on pension scheme assets	**30.7**	31.1
Actuarial gains	**6.6**	12.0
Fair value of pension scheme assets at end of the financial year	**551.5**	523.8

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

	3 September 2011 £m	28 August 2010 £m
Deficit in the schemes at start of the financial year	**(80.7)**	(53.6)
Movement in year:		
- Pension credit	**0.9**	2.1
- Company contributions	**7.9**	7.9
- Net actuarial gains/(losses)	**75.8**	(37.1)
Surplus/(deficit) in the schemes at end of financial year	**3.9**	(80.7)

Cumulative actuarial gains and losses recognised in the Statement of Comprehensive Income:

	3 September 2011 £m	28 August 2010 £m
At start of the financial year	**(126.2)**	(89.1)
Net actuarial gains/(losses) recognised in the financial year	**75.8**	(37.1)
Net actuarial losses recognised at end of the financial year	**(50.4)**	(126.2)

History of experience gains and losses:

	3 September 2011	28 August 2010	29 August 2009	30 August 2008	1 September 2007
Actuarial (gains)/losses arising on scheme assets:					
– Amounts	**£(6.6)m**	£(12.0)m	£62.7m	£55.7m	£2.4m
– Percentage of scheme assets	**(1.2)%**	(2.3)%	12.8%	10.6%	0.4%
Experience (gains)/losses arising on defined benefit obligation:					
– Amounts	**£(5.1)m**	£7.6m	£(18.2)m	£14.6m	£4.1m
– Percentage of the present value of scheme liabilities	**(0.9)%**	1.3%	(3.4)%	2.9%	0.9%
Present value of scheme liabilities	**£(547.6)m**	£(604.5)m	£(542.0)m	£(500.6)m	£(465.0)m
Fair value of scheme assets	**£551.5m**	£523.8m	£488.4m	£525.6m	£552.3m
Surplus/(deficit)	**£3.9m**	£(80.7)m	£(53.6)m	£25.0m	£87.3m

The contributions expected to be paid during the year ended 1 September 2012 amount to £9.0 million.

Other Debenhams Defined Contribution Schemes

The Group contributions to other defined contribution schemes during the year were £11.8 million (2010: £9.8 million).

25 Deferred Tax Assets and Liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25 per cent (2010: 27 per cent) for the UK differences and the local tax rates for overseas differences.

	3 September 2011 £m	28 August 2010 £m
Non-current		
Deferred tax assets	**75.7**	92.0
Deferred tax liabilities	**(74.1)**	(83.8)
	1.6	8.2

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

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

Assets	Developer's contribution received £m	Fair value losses £m	Other provisions £m	Retirement benefit asset £m	Total £m
At 29 August 2009	39.7	5.5	20.4	15.0	80.6
Credited/(charged) to the Income Statement	6.3	(0.6)	1.3	(0.6)	6.4
Result of the change in 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
Credited/(charged) to the Income Statement	2.8	–	7.9	(0.2)	10.5
Result of the change in the standard rate of corporation tax charged to the Income Statement	(3.2)	(0.4)	(1.6)	(0.1)	(5.3)
Charged to the Statement of Comprehensive Income	–	–	–	(21.5)	(21.5)
At 3 September 2011	**44.0**	**4.4**	**27.3**	**–**	**75.7**

Liabilities	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit liability £m	Total £m
At 29 August 2009	(78.3)	–	–	(78.3)
(Charged)/credited to the Income Statement	(3.4)	1.2	–	(2.2)
Result of the change in 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)
Credited/(charged) to the Income Statement	2.8	(0.6)	–	2.2
Result of the change in the standard rate of corporation tax charged to the Income Statement	5.9	0.4	–	6.3
Credited/(charged) to the Statement of Comprehensive Income	–	2.2	(1.0)	1.2
At 3 September 2011	**(70.0)**	**(3.1)**	**(1.0)**	**(74.1)**

Within other provisions is a deferred tax asset of £7.8 million (2010; £1.3 million) in relation to overseas operations which has been recognised. In addition to this there is an unrecognised deferred tax asset of £15.8 million (2010: £17.0 million) relating to operations in Denmark.

26 Other Non-Current Liabilities

	3 September 2011 £m	28 August 2010 £m
Other liabilities	**318.9**	285.7

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 spreading of the charges relating to leases with fixed annual increments in rent.

27 Provisions

	Closure provisions £m	Promotional activities £m	Restructuring provision £m	Other provisions £m	Total £m
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
Charged to the Income Statement	–	10.4	1.0	–	11.4
Unused amounts reversed in the period	–	(2.9)	–	(0.1)	(3.0)
Utilised during the financial year	–	(6.0)	(0.8)	(0.6)	(7.4)
At 3 September 2011	**0.1**	**4.8**	**0.7**	**1.8**	**7.4**

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

	3 September 2011 £m	28 August 2010 £m
Current	**6.2**	4.4
Non-current	**1.2**	2.0
	7.4	6.4

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

Promotional Activities Provision
Provisions for promotional activities represent the cost to the business of operating an internal cosmetics loyalty scheme and the Debenhams Reward Scheme in the Republic of Ireland and 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.

28 Share Capital and Reserves

	3 September 2011		28 August 2010	
	£	**Number**	£	Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start and end of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

Employee Share Trust – Interest in Share Capital

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

	3 September 2011 Ordinary shares Number	28 August 2010 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**723,536**	1,413,536

The market value of the shares on 3 September 2011 was £0.4 million for DRET (2010: £0.8 million). The cost of the shares held at the year end is £0.6 million (2010: £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. The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the Income Statement which will be affected by the underlying hedged item.

Other Reserves

The other reserve represents the change in fair value in respect of the Group's available-for-sale investments (see note 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.

29 Share-Based Payments

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

	3 September 2011 £m	28 August 2010 £m
Performance Share Plan ("PSP")	**0.7**	0.9
Executive Share Option Plan ("ESOP")	**0.2**	0.1
Share Incentive Plan ("SIP")	**0.4**	0.3
Deferred Bonus Matching Plan ("DBMP")	**0.1**	-
Charge for the year	**1.4**	1.3

The following table reconciles the movement in share options and the weighted average exercise price, ("WAEP") for the ESOP scheme. The PSP, SIP and DBMP share options all have a nil exercise price.

	DBMP Number	SIP Number	PSP Number	ESOP Number	ESOP WAEP Pence
Outstanding at 29 August 2009	-	-	8,123,487	3,180,587	146.4
Granted	-	715,000	2,028,207	962,692	85.5
Lapsed	-	-	(4,713,395)	(1,662,505)	186.1
Forfeited	-	-	(55,720)	(66,400)	103.0
Outstanding at 28 August 2010	-	715,000	5,382,579	2,414,374	95.1
Granted	849,130	650,000	191,250	-	-
Exercised	-	(690,000)	-	-	-
Lapsed	-	-	(3,410,092)	(1,451,682)	103.0
Forfeited	(12,927)	(25,000)	-	-	-
Outstanding at 3 September 2011	**836,203**	**650,000**	**2,163,737**	**962,692**	**85.5**

i) The Debenhams Performance Share Plan

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.

Options Granted on 24 November 2009 and 23 May 2011

The vesting of the shares granted under this plan is dependent on Earnings Per Share ("EPS") growth. Where growth is less than 6 per cent per annum over the three year period, no options will vest. Where growth is 6 per cent per annum 30 per cent will vest, where growth is 10 per cent per annum, 100 per cent of the options will vest. Between these two points the options will vest on a straight-line basis between 30 and 100 per cent. 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 with a discount to take into account the non entitlement to dividends in the vesting period where relevant. 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	23 May 2011	24 November 2009
Number of shares under option (number)	191,250	1,972,487
Expected term (years)	3.0	3.0
Share price at grant (pence)	72.0	83.3
Exercise price (pence)	-	-
Risk free rate	0%	2.3%
Expected volatility	N/A	70.0%
Expected dividend yield	5.0%	0%
Fair value of option (pence)	62.0	83.3

Where volatility has been used in the calculation of fair value it has been estimated by taking the historic volatility in the Company's share price.

In accordance with the plan rules, options issued in May 2008 have lapsed during the year as neither the EPS nor the TSR performance conditions were met.

29 Share-Based Payments continued

ii) Executive Share Option Plan

The ESOP allows the Company to grant options to acquire shares to eligible employees. These options will normally become exercisable following a three-year performance period, only if and to the extent that the performance conditions to which they are subject have been satisfied. Once the options have vested, the employees have a seven year period in which to exercise. Options are granted with an exercise price equal to the middle market value of the shares on the day immediately preceding the date of grant.

Options Granted on 24 November 2009

The vesting of options granted under this plan is dependent on the Company's Return on Capital Employed ("ROCE") exceeding the Cost of Capital. Where the ROCE is less than or equal to the Cost of Capital over a three year period, no options will vest. Where the ROCE is greater than the Cost of Capital, 30 per cent will vest, where the ROCE is greater than the Cost of Capital plus 5 per cent, 100 per cent will vest. Between these two points the options will vest on a straight-line basis between 30 and 100 per cent. The fair value of the share options has been calculated using a Black-Scholes model. The key assumptions are set out in the table below.

Grant date	24 November 2009
Number of shares under option (number)	962,692
Expected term (years)	3.0
Share price at grant (pence)	85.5
Exercise price (pence)	85.5
Risk free rate	2.3%
Expected volatility	70.0%
Expected dividend yield	0%
Fair value of option (pence)	40.7

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

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

The weighted average exercise price of the ESOP at 3 September 2011 was 85.5 pence (2010: 95.1 pence).

iii) Share Incentive Plan

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. Once the options have vested the employee has six months in which to exercise.

Options Granted on 16 November 2010 and 23 May 2011

The options granted on 16 November 2010 and on 23 May 2011 have a 24 month vesting period based on the employee's continued employment and other performance targets 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	23 May 2011	16 November 2010
Number of shares under option (number)	150,000	500,000
Expected term (years)	2.0	2.0
Share price at grant (pence)	72.0	70.0
Exercise price (pence)	–	–
Risk free rate	0%	0%
Expected dividend yield	5.0%	5.0%
Fair value of option (pence)	65.1	63.3

The 690,000 remaining options granted under the SIP on 24 November 2009 vested on 23 May 2011.

iv) Deferred Bonus Matching Plan

The DBMP was set up to allow executives and certain members of the management team below board level to invest up to 100 per cent of their net annual bonus earned in respect of 2010 into shares ("invested shares"). If the participant remains in service for three years and retains the beneficial ownership of all the invested shares s/he will be, subject to the satisfaction of certain performance conditions be entitled to a matching share award equal to the amount of the pre-tax bonus that has been invested. Once the options have vested they will be released to the employee within one month of the vesting date.

29 Share-Based Payments continued

Options Granted on 26 November 2010

All bonus eligible employees were offered the opportunity to invest up to 50 per cent of their 2010 bonus into invested shares. The entitlement to the matching award is subject to the participant retaining beneficial ownership of their invested shares during the performance period and to the achievement of the following performance conditions. The Group's ROCE must exceed the Cost of Capital by 2 per cent over this period otherwise the options will not vest. The Group's EPS growth must then exceed 6 per cent per annum over the three year period or the options will not vest. If the Group's EPS growth is 6 per cent or more per annum over the three year period 30 per cent of the options will vest; if the growth is 12 per cent or more per annum over the three year period, 100 per cent of the options will vest. Between these two points the options will vest on a straight-line basis between 30 and 100 per cent.

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

Grant date	26 November 2010
Number of shares under option (number)	836,203
Expected term (years)	3.0
Share price at grant (pence)	74.0
Exercise price (pence)	–
Risk free rate	0%
Expected dividend yield	5.0%
Fair value of option (pence)	63.7

30 Operating Lease Commitments

	3 September 2011		28 August 2010	
	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	**193.9**	**1.1**	181.7	0.8
Later than one year and less than five years	**779.9**	**2.0**	726.8	1.1
After five years	**4,193.5**	**–**	4,042.3	–
	5,167.3	**3.1**	4,950.8	1.9

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.

31 Cash Generated from Operations

	3 September 2011 £m	28 August 2010 £m
Profit for the financial year	**117.2**	97.0
Taxation (note 11)	**43.1**	42.9
Depreciation (note 15)	**83.5**	84.9
Amortisation (note 14)	**8.5**	9.3
Loss on disposal of property, plant and equipment	**0.1**	0.4
Profit on sale of available-for-sale investment	**(2.0)**	-
Employee options granted during the year (note 29)	**1.4**	1.3
Fair value losses on derivative instruments	**2.7**	3.1
Net movements in provisions (note 27)	**1.0**	1.8
Finance income	**(3.9)**	(6.7)
Finance costs	**27.3**	56.5
Bargain purchase on acquisition of Magasin (net of transaction costs incurred)	**-**	(5.8)
Difference between pension credit and contributions paid (note 24)	**(8.8)**	(10.0)
Net movement in other long-term debtors	**0.1**	(1.1)
Net movement in other non-current liabilities	**33.2**	12.6
Changes in working capital		
Increase in inventories	**(25.4)**	(11.0)
(Increase)/decrease in trade and other receivables	**(4.6)**	4.4
(Decrease)/increase in trade and other payables	**(5.8)**	19.6
Cash generated from operations	**267.6**	299.2

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

	3 September 2011 £m	28 August 2010 £m
Net book value (note 15)	**55.5**	0.6
Less non-cash movement in long-term finance leases	**(42.8)**	-
Loss on sale of property, plant and equipment	**(0.1)**	(0.4)
Cash proceeds from the sale of property, plant and equipment	**12.6**	0.2

Non-Cash Transactions

Other non-cash changes comprise:

	3 September 2011 £m	28 August 2010 £m
Amortisation of issue costs relating to debt issues	**5.8**	5.7
Non-cash movements associated with term loan facility	**(2.4)**	26.6
Revaluation of cash and cash equivalents	**(1.0)**	-
Less offset to long-term loan	**(42.8)**	-
Non-cash movements associated with finance lease obligations	**1.2**	(1.9)
Non-cash transactions	**(39.2)**	30.4

32 Analysis of Changes in Net Debt

	28 August 2010 £m	Cash flow £m	Non-cash movements £m	**3 September 2011 £m**
Analysis of net debt				
Cash and cash equivalents	69.5	(41.5)	1.0	**29.0**
Bank overdrafts	–	(6.2)	–	**(6.2)**
Net cash and cash equivalents	69.5	(47.7)	1.0	**22.8**
Debt due within one year	(541.9)	391.6	(10.3)	**(160.6)**
Debt due after one year	–	(250.0)	6.8	**(243.2)**
Finance lease obligations due within one year	(3.8)	–	2.5	**(1.3)**
Finance lease obligations due after one year	(40.6)	–	39.2	**(1.4)**
	(516.8)	93.9	39.2	**(383.7)**

33 Contingent Liabilities

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

34 Principal Subsidiary Undertakings

The principal subsidiary undertakings of Debenhams plc at 3 September 2011 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 through ordinary shares. All subsidiary companies are consolidated. A full list of subsidiaries is available from the registered office.

Five-Year Record Income Statements

	53 weeks 2011 £m	52 weeks 2010 £m	52 weeks 2009 £m	52 weeks 2008 £m	52 weeks 2007 £m
Gross transaction value	**2,679.3**	2,564.3	2,339.7	2,336.0	2,305.6
Revenue	**2,209.8**	2,119.9	1,915.6	1,839.2	1,774.4
Cost of sales	**(1,913.1)**	(1,829.5)	(1,650.7)	(1,571.6)	(1,494.9)
Gross profit	**296.7**	290.4	264.9	267.6	279.5
Distribution costs	**(70.2)**	(55.1)	(45.3)	(50.0)	(46.2)
Administrative expenses	**(42.8)**	(40.2)	(37.4)	(41.5)	(39.2)
Operating profit before exceptional items	**183.7**	195.1	182.2	176.1	194.1
Exceptional items	**–**	(5.4)	–	–	(14.3)
Operating profit	**183.7**	189.7	182.2	176.1	179.8
Net finance costs	**(23.4)**	(49.8)	(61.4)	(70.2)	(66.6)
Profit before taxation	**160.3**	139.9	120.8	105.9	113.2
Taxation	**(43.1)**	(42.9)	(25.7)	(28.8)	(34.2)
Profit for the financial year attributable to equity shareholders	**117.2**	97.0	95.1	77.1	79.0

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Assets					
Non-current assets					
Intangible assets	**858.1**	846.2	839.9	840.8	842.9
Tangible assets	**634.6**	676.1	669.2	693.3	667.7
Financial assets	**4.0**	8.7	9.0	19.2	40.0
Other receivables	**18.3**	17.2	–	–	–
Retirement benefit assets	**3.9**	–	–	25.0	87.3
Deferred tax assets	**75.7**	92.0	80.6	57.4	52.3
Total non-current assets	**1,594.6**	1,640.2	1,598.7	1,635.7	1,690.2
Net current liabilities	**(292.0)**	(636.5)	(74.4)	(296.7)	(215.8)
Non-current liabilities	**(643.0)**	(500.3)	(1,099.0)	(1,213.7)	(1,311.4)
Net assets	**659.6**	503.4	425.3	125.3	163.0
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	**(8.3)**	(3.4)	288.9	16.9	29.5
Retained earnings	**(15.1)**	(176.2)	(546.6)	(574.6)	(549.5)
Total equity	**659.6**	503.4	425.3	125.3	163.0

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

We have audited the Parent Company Financial Statements of Debenhams plc for the 53 week period ended 3 September 2011 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective Responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 61, the directors are responsible for the preparation of the Parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the Audit of the Financial Statements

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

Opinion on Financial Statements

In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 3 September 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the 53 week period for which the Parent Company Financial Statements are prepared is consistent with the Parent Company Financial Statements.

Matters on Which We Are Required to Report by Exception

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

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

Other Matter

We have reported separately on the Group Financial Statements of Debenhams plc for the 53 week period ended 3 September 2011.

Martin Hodgson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
20 October 2011

Company Balance Sheet

Company number 5448421
As at 3 September 2011

	Note	3 September 2011 £m	28 August 2010 £m
Fixed assets			
Investments	4	**2,745.9**	2,745.9
Current assets			
Debtors	6	**115.1**	194.9
Derivative financial instruments	5	**0.1**	-
		115.2	194.9
Creditors: amounts falling due within one year	7	**(1,212.7)**	(1,642.6)
Derivative financial instruments	5	**(0.3)**	-
Net current liabilities		**(1,097.8)**	(1,447.7)
Total assets less current liabilities		**1,648.1**	1,298.2
Creditors: amounts falling due after more than one year	8	**(243.2)**	-
Derivative financial instruments	5	**(3.8)**	(6.8)
Net assets		**1,401.1**	1,291.4
Capital and reserves			
Called-up share capital	11	**0.1**	0.1
Share premium account	12	**682.9**	682.9
Hedging reserve	12	**(2.9)**	(3.9)
Profit and loss account	12	**721.0**	612.3
Total shareholders' funds	13	**1,401.1**	1,291.4

The Financial Statements on pages 107 to 113 were approved by the board on 20 October 2011 and were signed on its behalf by:

C K Woodhouse
Director

Notes to the Company Financial Statements

For the 53 weeks ended 3 September 2011

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 wholly owned subsidiaries.

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's shareholders is recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid.

Share-Based Payments

Where the Company has granted options over the Company's shares to employees of its subsidiaries, a capital contribution has been deemed made by the Company. This is then recharged to the subsidiary and is based on the fair value of the options issued spread over the options vesting period. At each balance sheet date, the Company revises its estimate of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, with a corresponding adjustment to equity.

1 Accounting Policies continued

Derivatives

The derivative instruments used by the Company to manage its interest rate risk are interest rate swaps.

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

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

i) Cash Flow Hedges

The effective portion of the changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the relevant line of the profit and loss account which will be affected by the underlying hedged item.

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

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

ii) Derivatives That Do Not Qualify for Hedge Accounting

Certain derivatives do not qualify for hedge accounting. Changes in fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

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. A profit of £120.2 million is attributable to shareholders for the 53 weeks ended 3 September 2011 (2010: loss of £883.0 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 (2010: £0.1 million) is borne by another Group undertaking.

3 Dividends

	3 September 2011 £m	28 August 2010 £m
Interim paid 1.0 pence (2010: nil) per £0.0001 share		
– Settled in cash	**12.9**	–

An interim dividend of 1.0 pence per share was paid during the year (2010: nil). The directors are proposing a final dividend in respect of the 53 weeks ended 3 September 2011 of 2.0 pence per share (2010: nil), which will absorb an estimated £25.7 million (2010: nil) of shareholders' funds. It will be paid on 13 January 2012 to shareholders who are on the register of members at close of business on 9 December 2011. No liability is recorded in the Financial Statements in respect of the final dividend as it was not approved at the balance sheet date.

4 Investments

	Investments in subsidiary undertakings £m
Cost	
At 28 August 2010 and at 3 September 2011	**4,068.8**
Provision for impairment	
At 28 August 2010 and at 3 September 2011	**1,322.9**
Net book value	
At 28 August 2010 and at 3 September 2011	**2,745.9**

The directors consider that the carrying value of the investments is supported by their underlying net assets.

Investment in Subsidiary Undertakings

In accordance with FRS 11 "Impairment of fixed assets and goodwill" the carrying values of the Company's subsidiary undertakings have been compared to their recoverable amounts represented by the value-in-use to the Company. The review has resulted in an impairment of nil (2010: £970.8 million). The discount rate used in the calculation to arrive at the valuation was 8.9 per cent (2010: 8.0 per cent) on a pre-tax basis.

The principal subsidiary undertakings of the Company at 3 September 2011 are shown in note 34 of the Debenhams Group Financial Statements.

5 Derivative Financial Instruments

	3 September 2011 £m	28 August 2010 £m
Current assets		
Interest rate swaps - cash flow hedges	**0.1**	-
Current liabilities		
Interest rate swaps - cash flow hedges	**(0.3)**	-
Non-current liabilities		
Interest rate swaps - cash flow hedges	**(3.8)**	(6.8)
	(4.0)	(6.8)

Information relating to the derivatives held by the Company are shown in note 22 of the Debenhams Group Financial Statements.

6 Debtors

	3 September 2011 £m	28 August 2010 £m
Deferred tax asset (note 10)	**1.1**	1.5
Amounts owed by group undertakings	**114.0**	191.0
Prepayments	**-**	2.4
	115.1	194.9

Amounts owed by group undertakings are unsecured, repayable on demand and carry an average rate of interest of 2.8 per cent (2010: 2.7 per cent).

7 Creditors: Amounts Falling Due Within One Year

	3 September 2011 £m	28 August 2010 £m
Bank borrowings (note 9)	**160.6**	548.8
Amounts owed to group undertakings	**1,051.5**	1,092.3
Corporation tax	**–**	0.5
Accruals	**0.6**	1.0
	1,212.7	1,642.6

Amounts owed to group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 2.8 per cent (2010: 2.7 per cent) or are interest free.

8 Creditors: Amounts Falling Due After More Than One Year

	3 September 2011 £m	28 August 2010 £m
Bank borrowings (note 9)	**243.2**	–

9 Borrowings

	3 September 2011 £m	28 August 2010 £m
Creditors: amounts falling due within one year		
Revolving credit facility	**165.0**	–
Term loan facility	**0.1**	559.6
Less: issue costs	**(4.5)**	(10.8)
	160.6	548.8
Creditors: amounts falling due in more than one year		
Term loan facility	**250.0**	–
Less: issue costs	**(6.8)**	–
	243.2	–

Maturity of Debt

	3 September 2011 £m	28 August 2010 £m
Amounts falling due:		
In one year or less or on demand	**165.1**	559.6
In more than one year but not more than two years	**–**	–
In more than two years but not more than five years	**250.0**	–
	415.1	559.6

Information relating to the borrowings of the Company is shown in note 21 of the Debenhams Group Financial Statements.

In November 2010 the Group cancelled its existing term loan and Revolving Credit Facility ("RCF") and drew down on its new £650.0 million credit facility comprising a term loan of £250.0 million and an RCF of £400.0 million. This new facility was due to expire in 2013.

In July 2011 the terms of the credit facility were renegotiated to extend the expiry date to October 2015, with an option to further extend to October 2016. At 3 September 2011 the Group's facilities outstanding comprised the term loan of £250.0 million (2010: £555.6 million) and an RCF of £165.0 million (2010: nil).

During the current and prior 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 to October 2015 at the effective interest rate based on the committed amount of the term loan. Additional refinancing costs of £3.3 million were incurred during the year ended 3 September 2011 in respect of the renegotiation of the new credit facilities, which will be amortised over the term of the facility. The amortisation charge relating to the issue costs of the credit facilities cancelled and current for the year ended 3 September 2011 was £5.8 million (2010: £5.7 million).

10 Deferred Taxation

	Fair value gains £m
At 28 August 2010 – asset	1.5
Credited to reserves	(0.4)
At 3 September 2011 – asset	**1.1**

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 25.0 per cent (2010: 27.0 per cent).

The Finance Act 2011, which was enacted on 19 July 2011, included legislation reducing the main rate of corporation tax from 27 per cent to 26 per cent from 1 April 2011 and also reducing the main rate of corporation tax from 26 per cent to 25 per cent from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1 per cent per annum to 23 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. The effect of these changes would be to reduce the deferred tax asset by £0.1 million.

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

11 Called-up Share Capital

	3 September 2011		28 August 2010	
	£	**Number**	£	Number
Issued and fully paid – Ordinary shares of £0.0001 each				
At start and end of year	**128,680**	**1,286,806,299**	128,680	1,286,806,299

The 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:

	3 September 2011 Ordinary shares Number	28 August 2010 Ordinary shares Number
Debenhams Retail Employee Trust 2004	**723,536**	1,413,536

The market value of the shares at 3 September 2011 was £0.4 million for the DRET (2010: £0.8million). The cost of the shares held at the year end was £0.6 million (2010: £1.2 million).

Share option schemes
The Company has various share schemes which are designed to reward senior executives and management of the Group. At 3 September 2011 the Group had four schemes in operation: the Performance Share Plan ("PSP"), the Executive Share Option Plan ("ESOP"), the Share Incentive Plan ("SIP") and the Deferred Bonus Matching Plan ("DBMP"). The following table reconciles the movement in share options and the weighted average exercise price, ("WAEP") for the ESOP scheme. The PSP, SIP and DBMP share options all have a nil exercise price.

For further information on these schemes please see note 29 of the Debenhams Group Financial Statements.

				ESOP	
	DBMP Number	SIP Number	PSP Number	Number	WAEP Pence
Outstanding at 29 August 2009	–	–	8,123,487	3,180,587	146.4
Granted	–	715,000	2,028,207	962,692	85.5
Lapsed	–	–	(4,713,395)	(1,662,505)	186.1
Forfeited	–	–	(55,720)	(66,400)	103.0
Outstanding at 28 August 2010	–	715,000	5,382,579	2,414,374	95.1
Granted	849,130	650,000	191,250	–	–
Exercised	–	(690,000)	–	–	–
Lapsed	–	–	(3,410,092)	(1,451,682)	103.0
Forfeited	(12,927)	(25,000)	–	–	–
Outstanding at 3 September 2011	**836,203**	**650,000**	**2,163,737**	**962,692**	**85.5**

12 Reserves

	Share premium account £m	Hedging reserve £m	Profit and loss account £m
At 28 August 2010	682.9	(3.9)	612.3
Profit for the financial year	–	–	120.2
Cash flow hedges – net fair value gains (net of tax)	–	1.0	–
Employee share ownership plans (net of tax)	–	–	1.4
Dividends to shareholders (note 3)	–	–	(12.9)
At 3 September 2011	**682.9**	**(2.9)**	**721.0**

Hedging Reserve

The hedging reserve represents the change in fair value of the interest rate swaps which have been designated as cash flow hedges.

Profit and Loss Account

A dividend of £12.9 million (2010: nil) was paid by the Company during the year ended 3 September 2011.

13 Reconciliation of Movements in Shareholders' Funds

	3 September 2011 £m	28 August 2010 £m
Profit/(loss) for the financial year	**120.2**	(883.0)
Dividends paid (note 3)	**(12.9)**	–
Retained profit/(loss)	**107.3**	(883.0)
Cash flow hedges:		
– net fair value gains (net of tax)	**1.0**	12.8
Employee share ownership plans (net of tax)	**1.4**	1.3
Net increase/(decrease) to shareholders' funds	**109.7**	(868.9)
Opening shareholders' funds	**1,291.4**	2,160.3
Closing shareholders' funds	**1,401.1**	1,291.4

14 Contingent Liabilities

The Company guaranteed certain of its subsidiary property finance lease obligations which totalled nil at 3 September 2011 (2010: £42.7 million).

The Company is also liable for the pension schemes' contributions and deficits, where relevant, for both the Debenhams Executive Pension Plan and the Debenhams Retirement Scheme. The asset in the schemes at 3 September 2011 was £3.9 million (2010: deficit of £80.7 million).

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Company. The Company recognises provisions for liabilities when it is more likely than not a settlement will be required and the value of such a payment can be reliably estimated.

Store list

UK and Ireland
Aberdeen
Altrincham
Ashford
Ayr
Ballymena
Banbury
Bangor
Barrow
Basildon
Basingstoke
Bath
Bedford
Belfast
Birmingham
Birmingham Fort
Blackburn
Blackpool
Bolton
Bournemouth
Brighton
Bristol
Bromley
Bury (Gtr Manchester)
Bury St Edmunds
Cambridge
Canterbury
Cardiff
Carlisle
Carmarthen
Chatham
Chelmsford
Cheltenham
Chester
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
Falkirk
Fareham
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
Kidderminster
King's Lynn
Kirkcaldy
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
Merthyr Tydfil
Middlesbrough
Milton Keynes
Monks Cross
Newbridge
Newbury
Newcastle-upon-Tyne
Newry
Northampton
Norwich
Nottingham
Nuneaton
Oldham
Orpington
Oxford
Perth
Plymouth
Portsmouth
Preston
Reading
Redditch
Romford
Rushmere
Salisbury
Scarborough
Sheffield
Sheffield - Meadowhall
Slough
Southampton
Southend
Southport
Southsea
South Shields
Staines
Stirling
Stockport
Stockton
Stratford
Sunderland
Sutton
Swansea
Swindon
Taunton
Telford
Torquay
Tralee
Truro
Uxbridge
Wakefield
Walsall
Walton
Warrington
Waterford
Welwyn Garden City
Westwood Cross
Weymouth
Wigan
Wimbledon
Winchester
Witney
Woking
Worcester
Workington
Worthing
Wrexham
York

International
Armenia - SAS Home Store
Armenia - SAS Home Store (Komitas)
Armenia - Yerevan
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
Hungary - Budapest
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 - Davao Abreeza Mall*
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 Minh City

Magasin du Nord
Århus
Field's - Copenhagen
Kgs Nytorv - Copenhagen
Lyngby
Odense
Rødovre

* Opened after 3 September 2011.

Glossary

Concessions
Brands which are sold through our stores where the stock belongs to a third party concessionaire. They are found chiefly in womenswear (eg Wallis, Oasis, Warehouse) and accessories (eg Tripp luggage).

Core brands
Brands designed and produced exclusively for Debenhams. They include brands such as Collection, Mantaray, Maine New England and Red Herring. They are found in all product categories.

Designers at Debenhams
Exclusive diffusion ranges designed for Debenhams by leading international designers including Julien Macdonald, Jasper Conran and John Rocha.

Earnings per share (EPS)
The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue.

EBITDA
Earnings before interest, taxation, depreciation and amortisation.

Flagship store
A large store, typically over 100,000 sq ft, in a major city. They include Oxford Street and Westfield in London, Henry Street in Dublin, Birmingham, Liverpool and Newcastle-upon-Tyne.

Footfall
The number of people who visit our stores.

Free cash flow
Cash generated from operations before exceptional items less net cash used in investing activities.

Gross margin
Gross transaction value less the cost of goods sold, as a percentage of gross transaction value.

Gross transaction value
Revenue (excluding VAT) on a gross basis before adjusting for concessions, consignments and staff discounts.

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% market share.

Multi-channel
Multi-channel sales comprise those from online, mobile, instore ordering and click and collect. We use online sales as a measure of the growth of the multi-channel business as it is the largest of these sales channels.

Own bought brands
Brands for which Debenhams owns the stock. They include core brands, Designers at Debenhams and international brands.

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

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

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

*Calls to this number cost 8p per minute from a BT landline, other providers' costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday.

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Designed and produced by luminous.co.uk
Printed in-house by Debenhams