




Preliminary Results 2005/06

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STYLING THE NATION

     

Chris Woodhouse

Finance Director

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Results Highlights

Gross Transaction Value (52 weeks compared to the 52 weeks ended 3 Sept 2005)	+ 6.6%
Like for Like Sales	+ 0.5%
Gross Margin %	+ 30 bps
Underlying Operating Profit	+ 21.2%
Net Debt [a]	£1,112m
Adjusted Basic Earnings Per Share	14.1p
Final Proposed Dividend per Share	2.4p

Note: (a) Net Debt excludes debt capitalisation fees

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Trading Results Full Year

£m	2006	2005	% Change
Gross Transaction Value	2,192.9	2,086.8	+ 5.1
Operating Profit	238.2	228.0	+ 4.5
Interest	(125.4)	(160.8)	
Profit before Tax and Exceptionals	112.8	67.2	+ 67.9
Exceptional Items:			
- Interest	(36.1)	(92.9)	
- Other	(14.6)	113.3	
Taxation	(18.4)	36.1	
Profit after tax	43.7	123.7	- 64.7

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Earnings per share: Pro forma Capital Structure

£m	2006	2005
Reported Operating Profit	**238.2**	**228.0**
Pro forma Interest	(67.1)	(72.8)
Pro forma Profit before Taxation	171.1	155.2
Pro forma Taxation	(49.6)	(48.0)
Adjusted Profit after Tax	**121.5**	**107.2**
Adjusted Earnings Per Share	14.1p [a]	12.5p [a]

Note: (a) Calculated on the basis of 859 million shares in issue for the full period.

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Interest Charge

£m	2006
Average net debt for 2006 (exc. IPO proceeds)	1,801.8
Lloyds lease average principal	(61.0)
IPO Proceeds net of Fees	(642.5)
Implied average Net Debt after Fees	1,098.4
Proforma Full Year Net Charge	(67.1)
Current WACD [(a)]	5.9%
Fixed versus floating percentage (Year End)	83.8%
Interest Cover [(b)]	3.5 x

Notes: (a) Including Hedging

(b) Based on £67.1m interest and £238.2m reported operating profit

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Underlying Operating Profit

£m		2006	2005	% Change
Reported Operating Profit		238.2	228.0	+ 4.5%
• British Land Property Transaction		–	(14.1)	
• IAS 17 Flat Lining of Lease Rentals		14.9	9.7	
• Share Option Costs	– Private	13.7	5.5	
	– Public	0.6	_	
• Week 53 Contribution		_	(8.4)	
Underlying Operating Profit		**267.4**	**220.7**	**+ 21.2%**

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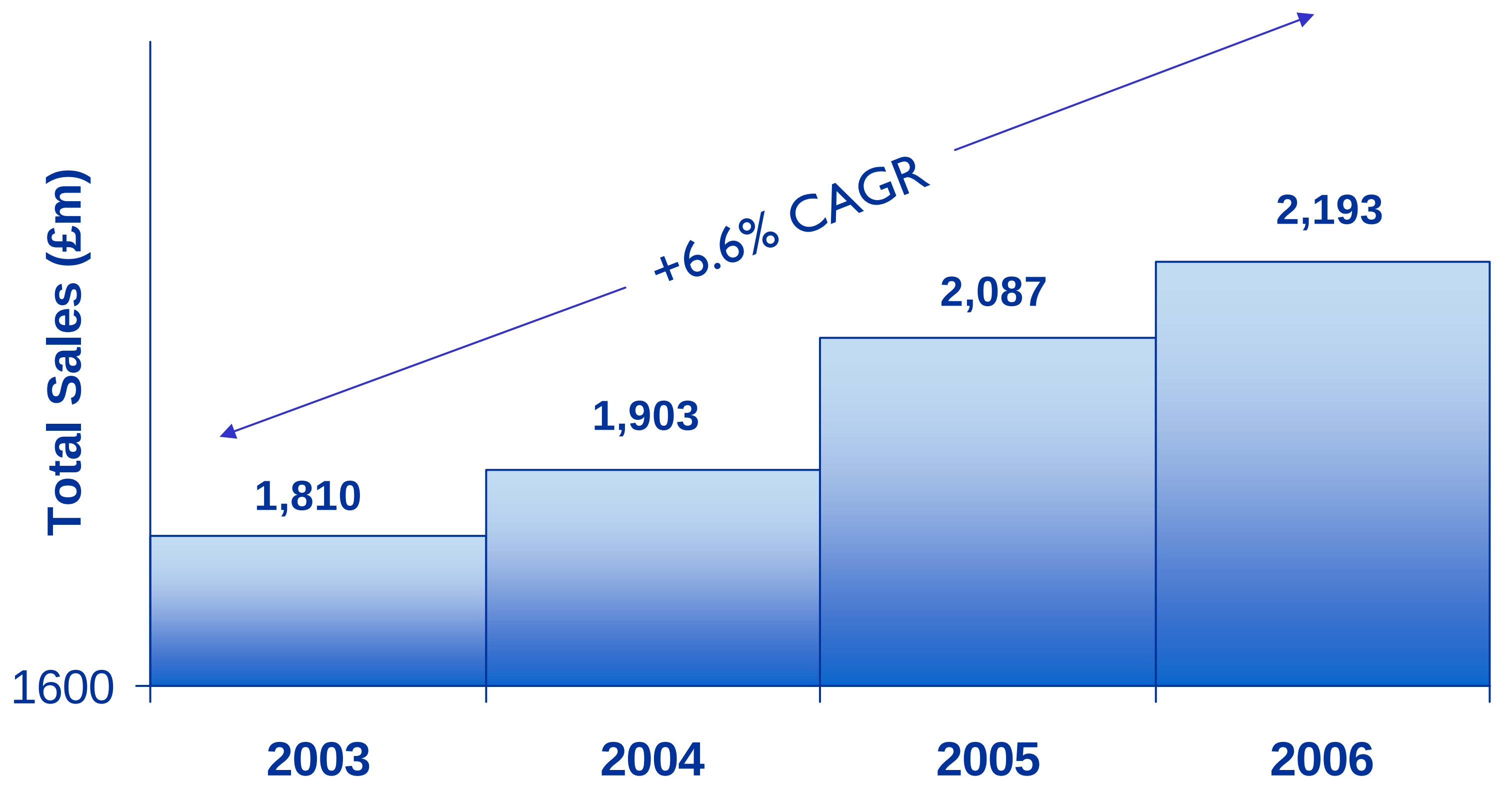
Sales Growth



LFL	3.7%	1.6%	2.8%	0.5%

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Sales Growth 2005/06

	% change
LFL Sales	0.5
New Stores	5.8
International Business	0.3
	6.6
Week 53	(1.5)
Total	5.1

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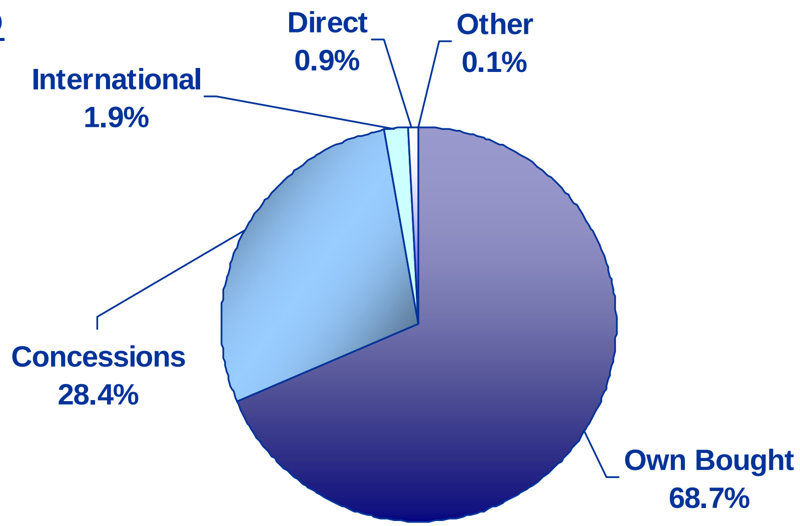
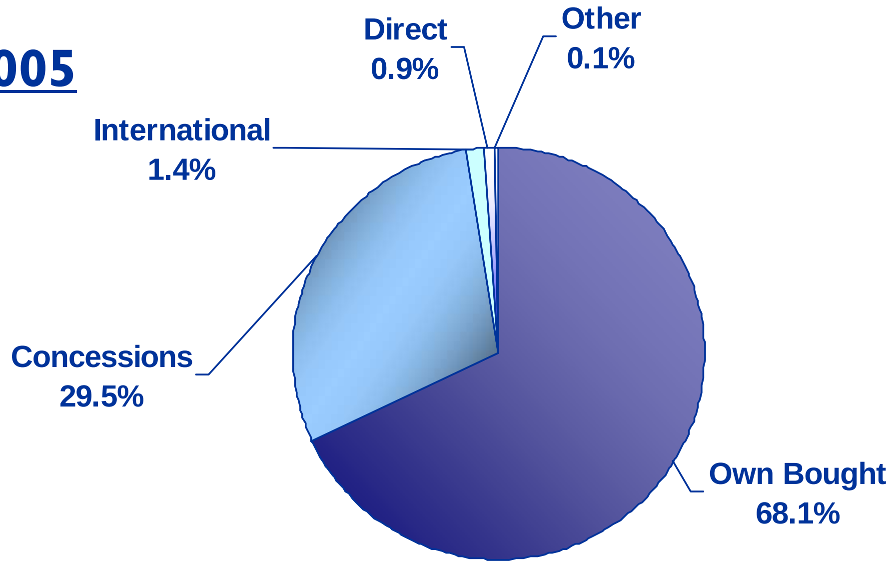
Margin Cause of Change

2006



2005



Gross Margin Benefit	bps
Mix Changes	+ 20
Other Supply Chain	+ 10
Total	**+ 30**

- Mix changes driven by the strategy to grow the OB share of sales.

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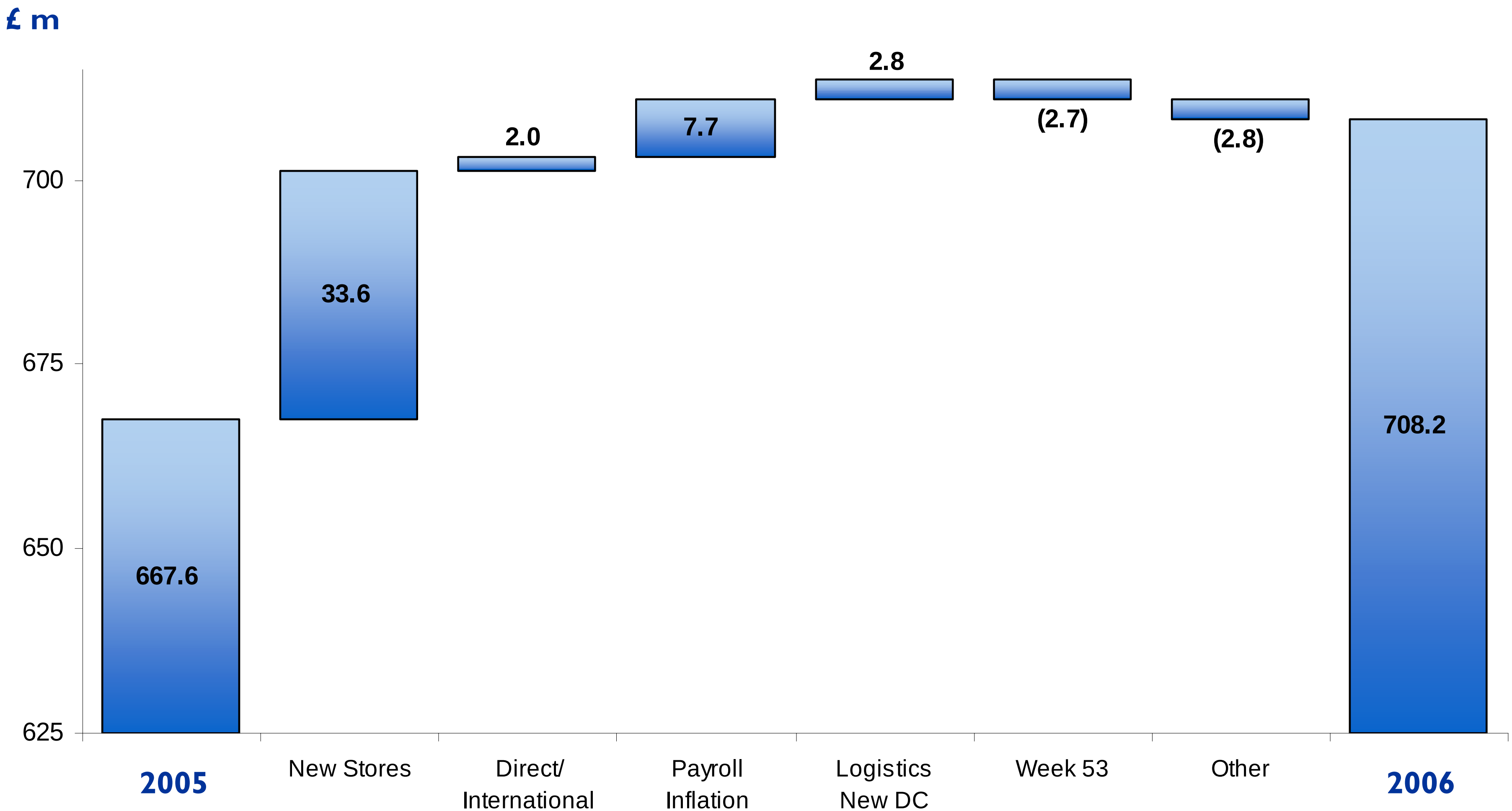
Cost Growth Drivers



Note: Payroll Inflation excludes New Stores.

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Store Costs

£m	2006	2005
Payroll	209.0	192.7
% to Sales	9.5%	9.4%
Store Rent UK GAAP	101.2	94.4
IFRS Adjustment	15.4	11.4
Total Store Rent	**116.6**	**105.8**
% to Sales (UK GAAP)	**4.6%**	**4.6%**

- 8 New Stores vs 2005
  - 5 Department Stores
  - 3 Desire by Debenhams stores
- IAS 17; Flat line Lease escalators and Rent Free periods.

Note: percent to sell calculated on gross transaction value. 2005: 52 weeks

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Warehouse and Distribution

£m	2006	2005
Labour	18.9	18.0
Property	11.7	10.2
Transport	13.4	11.8
Total Distribution	**44.0**	**40.0**
% to Sales	**2.0%**	**1.9%**

- Peterborough DC opened July 2005 replacing Daventry (closed Nov 2005) and Bedford (closed July 2006).

Note: percent to sell calculated on gross transaction value. 2005: 52 weeks

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Portfolio KPI's

		Sq Ft. (k)	Dept Stores	Desires	Total
2005 Close		**9,117**	**117**	**1**	**118**
Dept Stores Openings	• Hemel Hempstead	65.3			
	• Ayr	58.2			
	• Newbridge	55.6	**5**		
	• Doncaster	80.5			
	• Workington	53.5			
Desire Store Openings	• South Shields	14.9			
	• Orpington	15.1		**3**	
	• Falkirk	13.4			
2006 Close		**9,474**	**122**	**4**	**126**
Post Balance Sheet	• Roches Acquisition	**594.5**	**9**		
	• Birmingham Fort	12.8		**1**	
	• Llandudno	46.5	**1**		
Current Total		**10,128**	**132**	**5**	**137**

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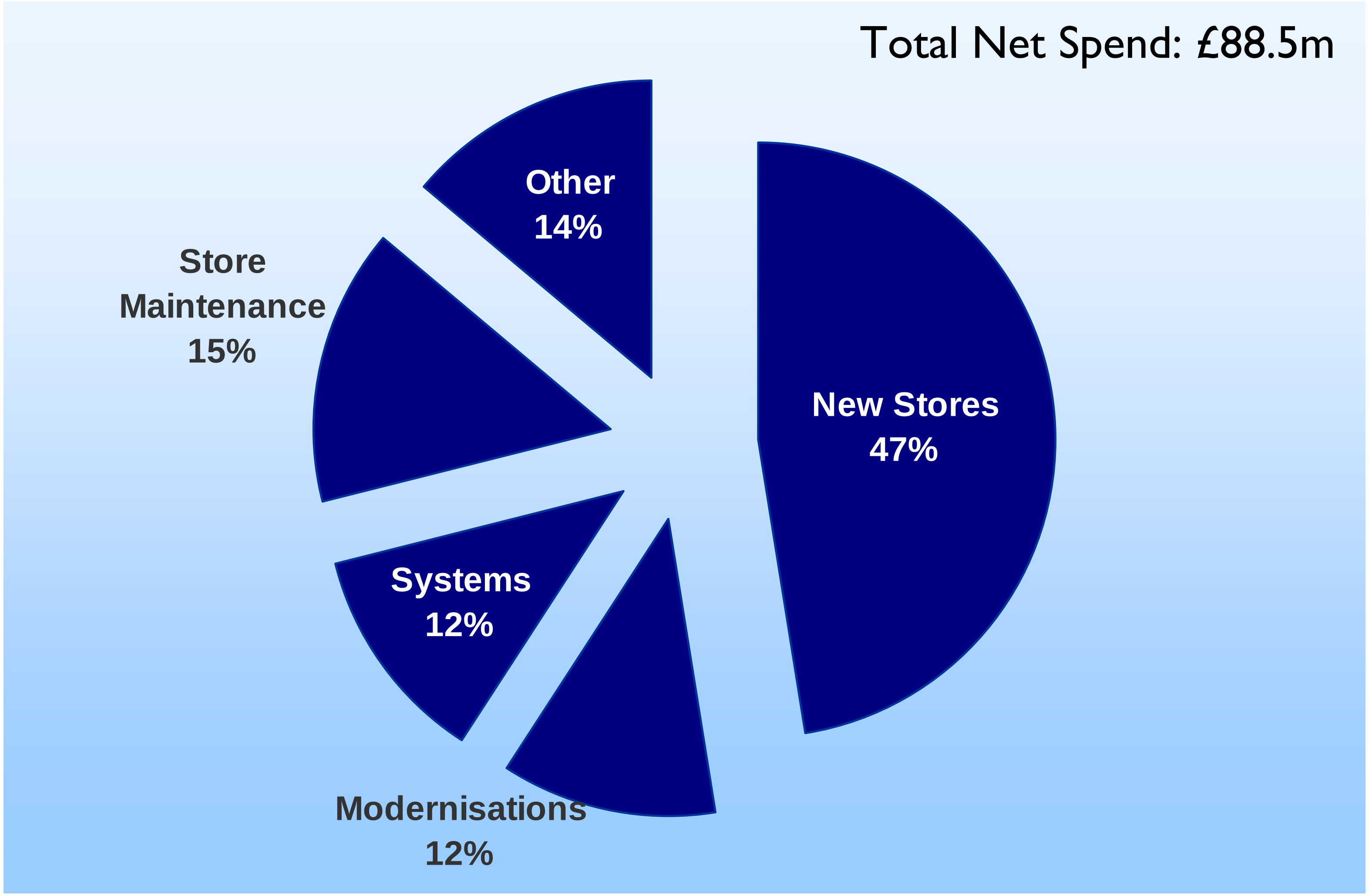
Capital Expenditure Mix



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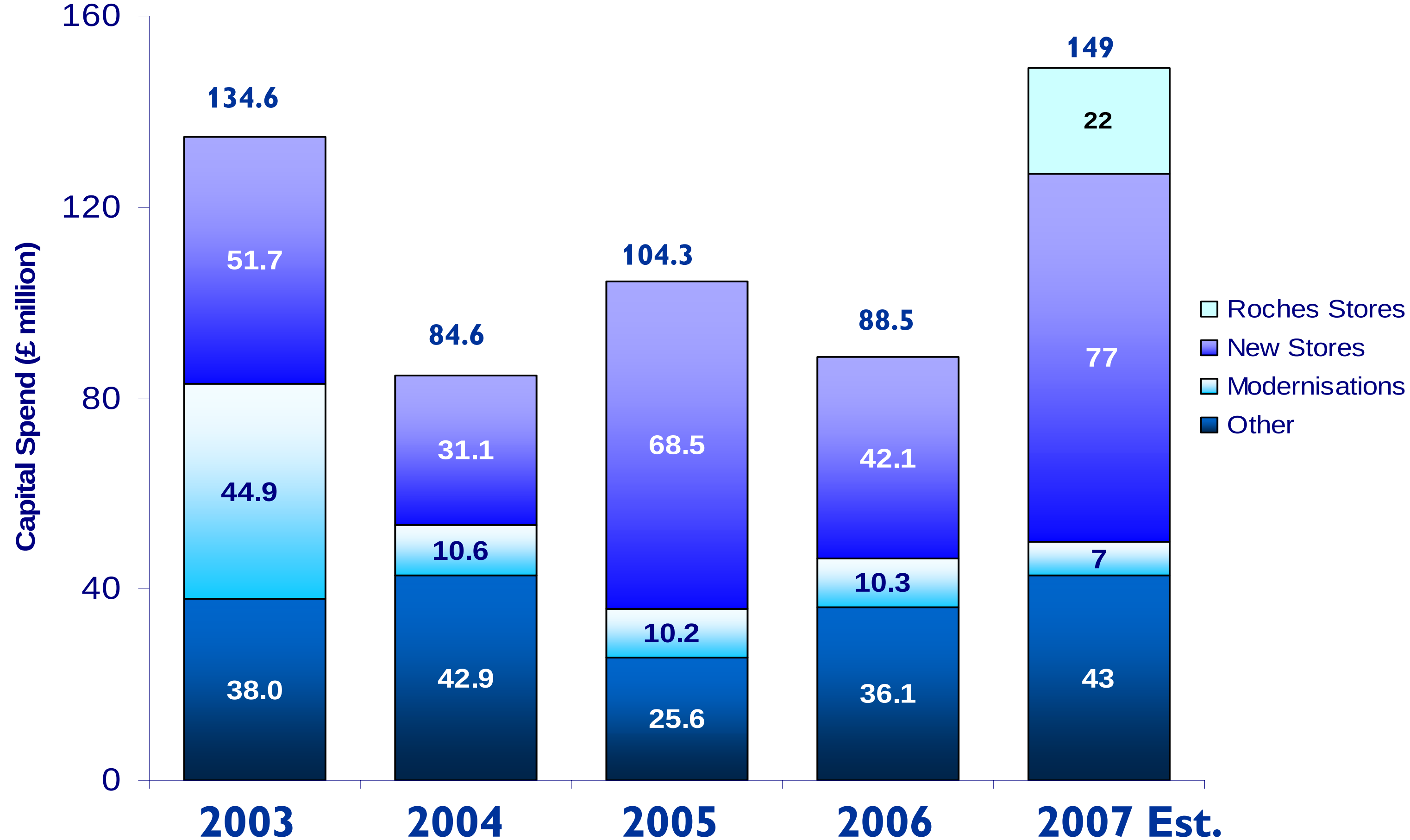
Capital Expenditure



Capex £/ Sq. Ft.					
New Stores	178.5	121.0	107.7	107.4	107

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Balance Sheet Highlights

£m	**2006**	**2005**	Movement
Fixed Assets	1,556.5	1,546.0	10.5
Stock	207.8	197.2	10.6
Other Working Capital	(336.5)	(334.1)	(2.4)
Net Debt	(1,096.1)	(1,838.0)	741.9
Liabilities and Charges	(278.4)	(251.8)	(26.6)
Shareholders Funds	**53.3**	**(680.7)**	**734.0**
Fixed Charge Cover [a]	2.5	2.4	
Net Debt / EBITDA [b]	3.1 x	5.9 x	
Pension Surplus/ (Deficit)	13.8	(9.4)	

Notes: (a) Based on pro forma interest £67.1m (2006) and £72.8m (2005)

(b) Net Debt including debt capitalisation fees of £16.2m (2006) and £37.6m (2005)

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Underlying Cash flow

£m	2006	2005
Reported Operating Profit	238.2	228.0
Depreciation & Amortisation	91.0	92.2
British Land Property Transaction	-	(14.1)
Flat Line Lease Costs	14.9	9.7
Share Option Costs	14.3	5.5
Week 53 Contribution	-	(8.4)
Underlying EBITDA	**358.4**	**312.9**
Working Capital – Trading	24.4	84.1
– Pension	(26.2)	(29.5)
Capital Expenditure	(88.5)	(104.3)
Underlying Operating Cash flow before Exceptionals, Financing & Taxation	**268.1**	**263.2**
Net Debt [(a)]	**1,112.3**	**1,875.6**

Note: (a) Net Debt excludes debt capitalisation fees

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Analysis of P&L Tax Charge

(£m)		2006	2005
Current Tax	– Current Year	9.1	8.5
	– Prior Year	(3.6)	(0.1)
Deferred Tax	– Current Year	8.9	(44.8)
	– Prior Year	4.0	0.3
P&L Tax Charge		**18.4**	**(36.1)**
Effective Tax Rate (Total)		29.6%	(41.2%)
Effective Tax Rate (pre Exceptionals)		29.0%	43.0%

2007 Guidance

Effective Rate of Tax	**30.3%**
Cash Tax Rate	**28.5%**

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Dividend Cover

£m	**2006**
Reported Operating Profit	238.2
IAS 17 Flat Line Lease Costs	14.9
Pro forma Interest Charge	(67.1)
Profit Before Tax and Exceptionals	186.0
Pro forma Tax charge	(54.7)
Profit after Taxation	**131.3**
Proportion Earned in 116 days *(9 May to 2 September)*	41.7
Dividend	20.9
Dividend Cover	2.0 x
Dividend per Share	2.4 p

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Preliminary Results 2005/06

Chief Executive's Presentation

Results Highlights

Gross Transaction Value (52 weeks compared to 52 weeks ended 3 Sept 2005)	+ 6.6%
Like for Like Sales	+ 0.5%
Gross Margin %	+ 30 bps
Intake Margin Improvements	On Target
Own-bought Participation	Increasing
Terminal Stock at year end	c.3%

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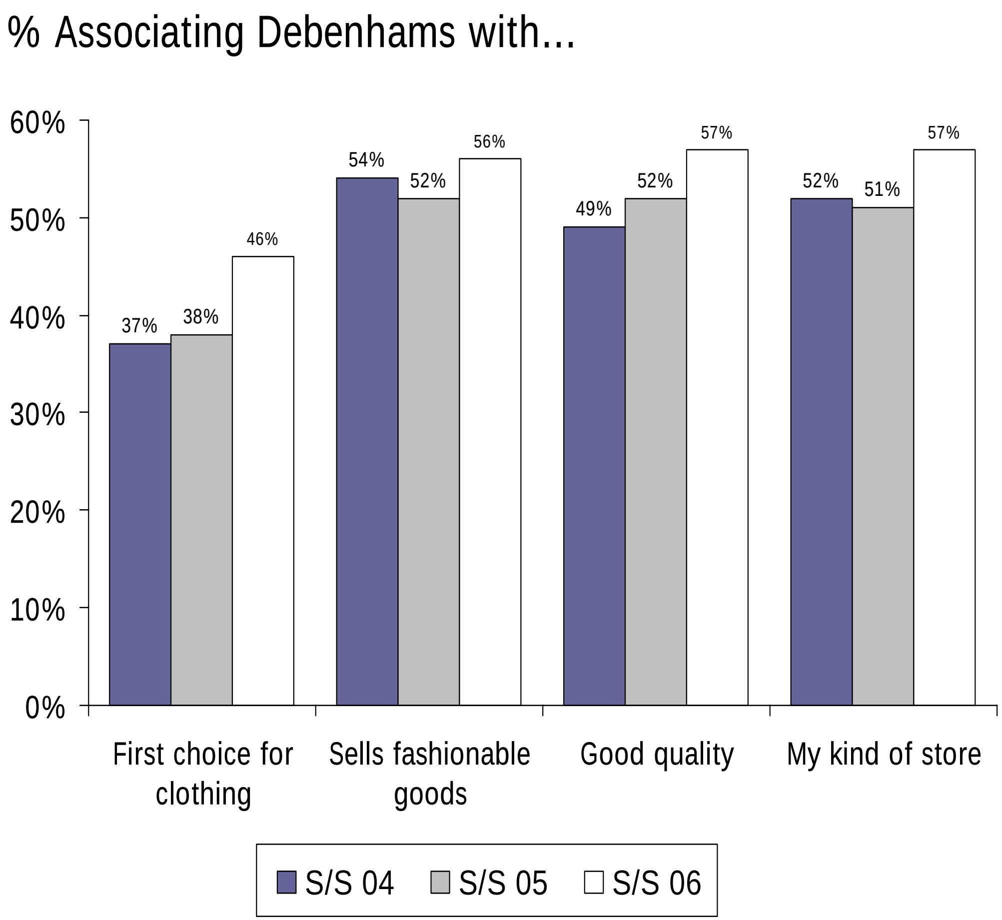
Customer Perceptions



- Our fashion positioning continues to strengthen
- Debenhams is considered a good place to head for distinctive clothing
- We have grown our share of young customers

Exit Tracking Survey's 800 respondents over 20 stores

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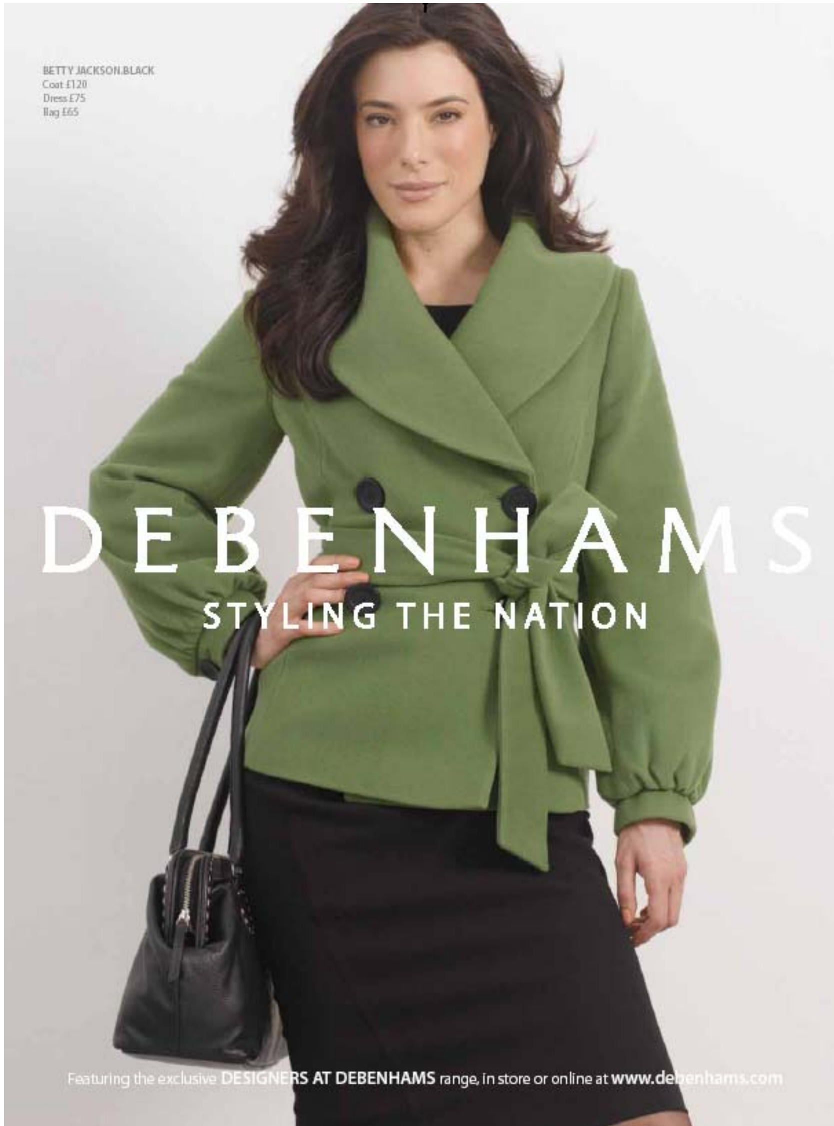
Evolving Marketing



- New campaign launched
- Continued focus on Designers at Debenhams
- Jaime Murray – Face of Debenhams
- Other campaigns focussed on our own brand fashion credentials, eg:
  - Adore Moi with Jade Jagger
  - Jasper 10 years with Jasmine Guinness
  - St George by Duffer with Preston
- Awards following the Prima High Street Awards:
  - Retailer of the Year
  - Best Evening Wear
  - John Rocha – Best Designer
- Department Store of the Year Award, voted by 6,000 readers of Company Magazine

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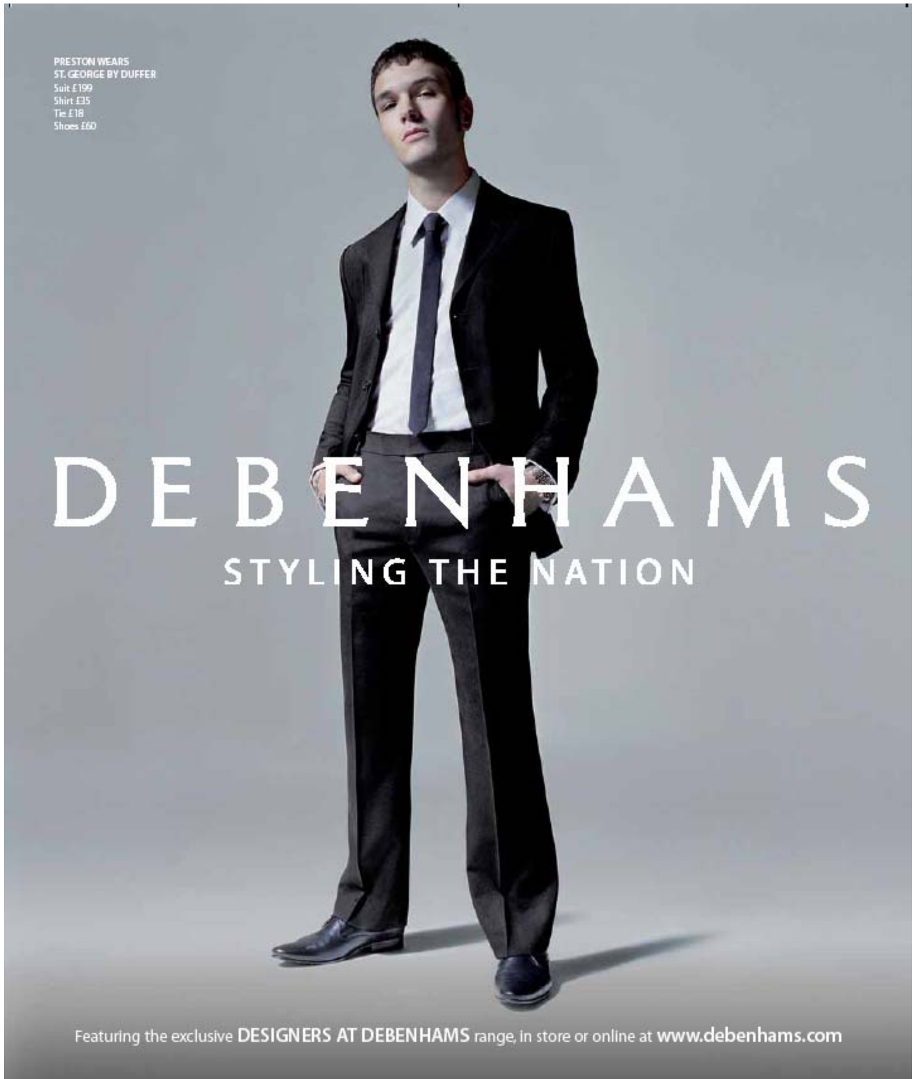
Marketing Our Own Brands



- Expanding successful brands into new product categories
- Leveraging our Designer portfolio
  - Betty Jackson with Jaime Murray
  - St George by Duffer with Preston
- Quality and Fashion key
- Reinforcing exclusivity
- Driving Average Transaction Values

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Product Development: Adore Moi - Jade Jagger

- Adore Moi launched September 2006
- Exclusive to Debenhams
- Quality and embellishment allowing higher ATV's
- Target market 30+
- Enhancing our exclusive own brand offer

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Product Development: Jasper Conran 10year - Jasmine Guinness

- Limited Edition Collection by Jasper Conran
- Launched to mark 10th anniversary of being a Designer at Debenhams
- Successfully breaking glass ceiling on quality and price with:
  - Coats up to £350
  - Dresses up to £200

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Debenhams' Strategy

- **Leading Multi-Category Retailer**
  - Long term market share winner
  - Strong profitable growth track record
  - Powerful brand

- **Unique and differentiated Customer Proposition**
  - Broad demographic & product mix
  - Exclusive Own Brands
  - Highly successful Designers at Debenhams offer

- **Flexible Business Model**
  - Inherent flexibility in optimising product / brand / space mix
  - Better response to customer trends
  - Lower execution risk

But a physically immature business with multiple sales growth drivers

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Multiple Growth Drivers

Space Growth

- Department Stores
- Roche Acquisition
- Desire Format

Driving the Store Portfolio

- Refurbishments
- Product Innovation
- Supply Chain

Other Routes to Market

- Multi-channel
- International

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Space Growth - Department Stores

- **We currently have 132 Department Stores including the 9 stores acquired from Roches and 3 new stores opened since IPO**
  - **Doncaster 80,000 sqft**
  - **Workington 55,000 sqft**
  - **Llandudno 46,000 sqft**
  - **9 Roches stores**
- **Strong new store pipeline with 24 stores contracted to open and others under negotiation**
- **Capital Expenditure and ROIC targets maintained**
- **9 Stores bought from Roches in Ireland for €29m**
- **Potential for up to c.240 department stores**

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Space Growth – Department Stores Pipeline

2006/07	Warrington 75,000 sq.ft.	Wigan* 70,000 sq.ft.								
2007/08	Derby* 90,000 sq.ft.	Bangor (Wales)* 40,000 sq.ft.	Exeter* 90,000 sq.ft.	Glasgow Pollok 80,000 sq.ft.	Carmarthen 60,000 sq.ft.	Ashford 60,000 sq.ft.	Blackpool 65,000 sq.ft.	Liverpool 125,000 sq.ft.	Wrexham 60,000 sq.ft.	White City 85,000 sq.ft.
2008/09	Bradford 80,000 sq.ft.	Bury St Edmunds 60,000 sq.ft.	Harlow 75,000 sq.ft.	Livingston 60,000 sq.ft.	Dunfermline 55,000 sq.ft.					
2009/10	Newport 75,000 sq.ft.	Crewe 55,000 sq.ft.	Wakefield 65,000 sq.ft.	Newcastle Upon Tyne 125,000 sq.ft.	Bury 80,000 sq.ft.					
2010/11	Lancaster 70,000 sq.ft.	Wolverhampton 70,000 sq.ft.								

In addition to those already opened in 06/7

- **Strong Pipeline of contracted stores**
- **More stores being negotiated**

**Re-sites*

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Space Growth - Roches Acquisition

- Acquired 9 leases/stores as an asset purchase totalling c.600k sqft
  - Dublin - Henry Street
  - Tallaght
  - Blackrock
  - Blanchardstown
  - Cork - Patrick Street
  - Limerick
  - Galway
  - Waterford
  - Tralee
- Paid €29m in 3 payments over 2 years
  - And a further payment for stock
- Integration/conversion to Debenhams will be completed by year end 2006/7
- Expect transaction to be earnings neutral in current year

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Space Growth - Desire Format

- Unique concept, leveraging off existing infrastructure
- c.15,000 sq ft – opening up new markets for our products
- Currently 5 Desire stores including 2 stores opened since IPO
- Initial results from Childrenswear trial successful
- 9 stores currently contracted and/or board approved
- Roll-out of 8-10 stores per annum

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Driving the Store Portfolio - Store Refurbishment

- **Refurbishment combined with step change in visual merchandising**
- **Strong sales growth and margin improvement at a small capital cost**
- **Second wave of refurbishments delivering LFL sales growth of 6.4% (post v pre)**
- **Cap-ex costs maintained.**
- **High ROIC**
- **10 store refurbishments planned in 2006/7**
- **c.10 stores per year thereafter**

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Driving the Store Portfolio – Designers Growth

- Long and successful track record – eg Jasper 10 years
- Extension of existing Designers into other Categories
  - Jeff Banks – Home
  - Limited Edition
  - Julien Macdonald – Menswear
  - Betty Jackson - Accessories
- New Concepts, eg:
  - Limited Edition
  - OK Boutique
- On track for mid-term target of £450m sales

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Driving the Store Portfolio - Product Innovation

sonneti®

- Market share gains in key divisions
- Own brand innovation, eg:
  - Adore Moi
  - Gorgeous extension into Womenswear
  - Maternity Red Herring
  - Mens Accessories
- New International brands, eg:
  - Sonneti
  - Boxfesh
  - Leonardo
- Exclusive products, eg:
  - Kenzo Amour
  - Lancôme Fatale Mascara
  - Jeff Banks Home

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Driving the Store Portfolio – Supply Chain

- Peterborough DC fully operational:
  - More than 700k sq ft with capacity for future business growth
  - Daventry and Bedford closed as planned
  - Store friendly deliveries
- Direct sourcing increasing with Turkish buying office opened
- Ongoing focus on reduction in number of suppliers and improvements in lead times

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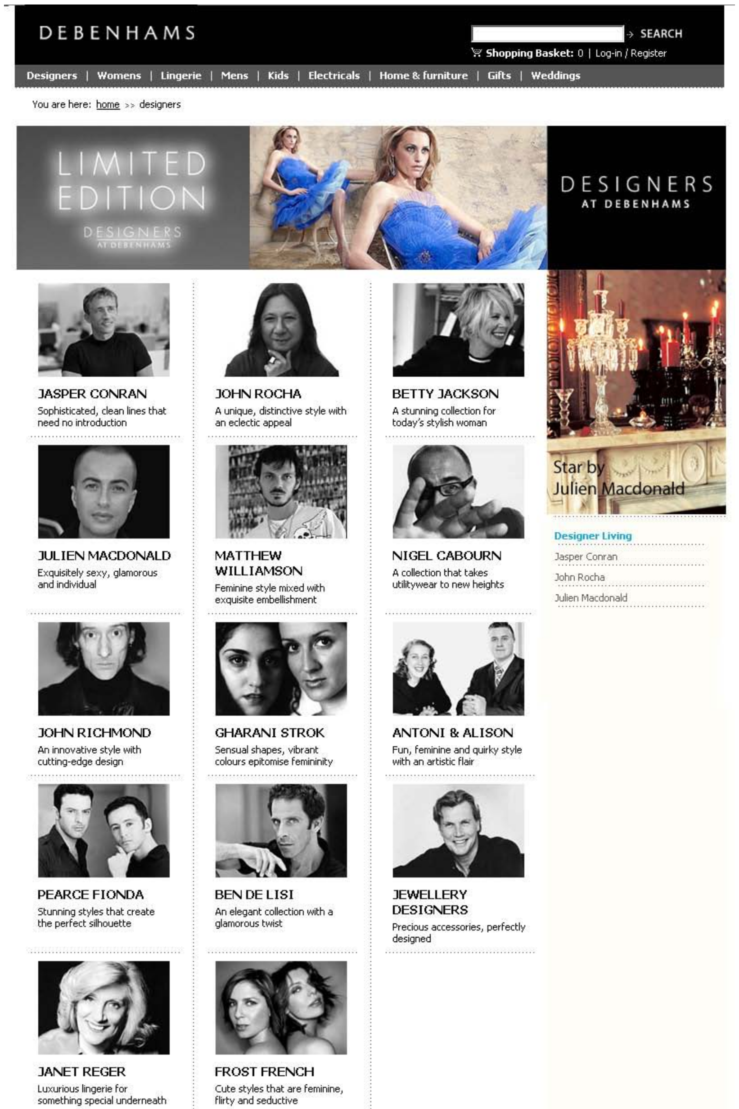
Other Routes to Market - Multi-Channel



- **Internet growth despite capacity constraints**
- **New site launching in November with £7m investment as platform for multi-channel opportunities**
- **Further opportunities being developed, eg:**
  - **Cosmetics micro-sites**
  - **Wedding Services**

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Other Routes to Market - International Franchises

- Strong cash generation from International franchise stores at low risk
- No capex and minimal working capital but maintain brand control
- Strong opportunity to roll out Desire internationally
- Now 30 stores in 14 countries
- Strong new store pipeline with 12 signed to open over the next year

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In Summary: On Track Delivery of Growth Drivers

Space Growth

- Department Stores
- Roche Acquisition
- Desire Format

Driving the Store Portfolio

- Refurbishments
- Product Innovation
- Supply Chain

Other Routes to Market

- Multi-channel
- International

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Current Trading

7 Weeks to 21st October

• Total sales	+ 7.0%
• LFL sales	- 4.2%

- Margin improvements on target

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Appendix

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Reconciliation of P&L Tax Charge

(£ million)	2006	2005
Profit on Activities before Tax	**62.1**	**87.6**
Tax on Profits at Corporation Tax rate of 30%	18.6	26.3
Effects of:		
Adjustments in respect of prior periods	0.4	0.2
Non Taxable Income	(1.0)	(0.2)
Expenses not deductible for Tax	1.5	9.5
Overseas Items	(1.1)	(0.7)
Deferred Tax releases in respect of British Land deal	-	(71.2)
P&L Tax Charge	**18.4**	**(36.1)**

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Key IFRS Impacts on P&L

£m		2006	2005
UK GAAP Operating Profit pre Goodwill		**253.6**	**251.0**
IAS 19	Pension Investment	7.3	2.8
IFRS 2	Options and Loans	-	(5.6)
IAS 17	Rent Free Periods	(1.6)	(1.7)
	Landlord Contributions	(6.1)	(9.2)
	Flat Line Lease Costs	(14.9)	(9.7)
IAS 32 & 39	Financial Instruments	(2.0)	-
IFRS 3	FV Provision Release	1.9	0.4
IFRS Operating Profit		**238.2**	**228.0**

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