

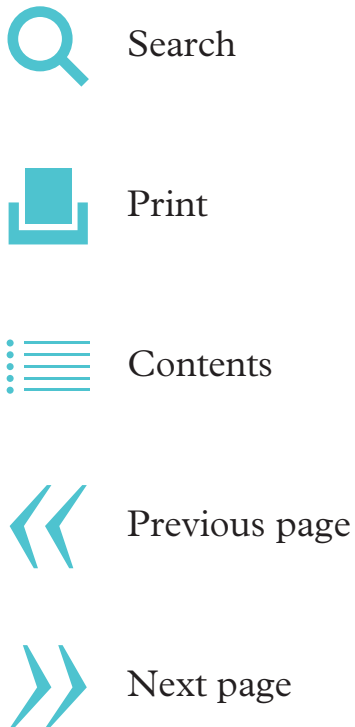
# DEBENHAMS

## *User Guide*

Welcome to the Debenhams Annual Report 09. This interactive pdf allows you to easily access the information that you want, whether printing, searching for a specific item or going directly to another page, section or website. The different features are detailed below.

### *Document controls*

Use the document controls located in the top margin to navigate through this report.



### *Section navigation*

Use the links on the Contents page to navigate to the start of a section.

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### *Links*

Throughout this report there are links to pages, other sections and web addresses for additional information.

**Examples:** This is an example of how the links appear within this document. They are recognisable by the blue underline, simply click to go to the relevant page or web URL ([www.debenhams.com](http://www.debenhams.com))

# DEBENHAMS

ANNUAL REPORT  
AND ACCOUNTS

2009

PG2/3

*Debenhams at a Glance*

Our strategy, vision and values, key events, international presence

PG6/18

*Chief Executive's Review*

Rob Templeman explains how our strategy is moving forward

PG11/14

*Design, Quality, Value*

See how our principles run through our organisation

## THE IMPORTANCE OF DETAIL IN RETAIL

— *Attention to detail in all aspects of our business is critical for us to succeed: from the design, quality and value of our products to our focus on customer experience in our stores to our responsibilities to our stakeholders.*



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THIS PAGE:  
*One-shouldered ruffle dress  
by Pearce Fionda II at  
Designers at Debenhams.*

FRONT COVER:  
*Cocoon coat  
by Betty Jackson.Black,  
bracelet by EB by  
Erickson Beamon, all at  
Designers at Debenhams.*

## DEBENHAMS

### —Who We Are

*Debenhams is a leading department store group with a strong presence in womenswear, menswear, childrenswear, health and beauty, accessories, lingerie and home.*

*Our unique mix of product ranges, including the exclusive Designers at Debenhams portfolio, differentiates us from our competitors.*

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#### OPERATIONAL HIGHLIGHTS

##### —What Have We Been Up To?

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- Total fashion market share up
- Strategic focus on own bought ranges, resulting in strong performance, especially Designers at Debenhams
- Largest space moves in Debenhams' history completed, c530,000 sq ft converted from concessions to own bought
- New range introductions across the store
- Five new department stores opened, creating 800 new jobs
- 11 new international franchise stores opened in eight countries
- Further developments in multi-channel business
- Balance sheet restructured following capital raising

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#### FINANCIAL HIGHLIGHTS

##### —How Have We Performed?

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**0.2%** increase in gross transaction value

**70bps** increase in gross margin

**13.7%** increase in headline profit before tax

**11.1%** increase in earnings per share

**£403.7m** reduction in net debt

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## DEBENHAMS AT A GLANCE

### —A Brief Overview of our Business

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#### OUR STRATEGY

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##### —A Brief Summary

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Our strategy is based around our desire to meet our customers' needs by offering them good quality products in an appealing shopping environment, whether instore or online.

The strategic priorities over the next year will be:

- core stores and organic growth;
- space expansion;
- multi-channel expansion and integration; and
- balance sheet optimisation.

Our focus is on the drivers of cash profit to deliver shareholder value.

More about our strategy on [pgs 6–18](#)

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#### OUR VISION AND VALUES

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##### —Our Priorities and Culture

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We endeavour to meet the needs of all our stakeholders in everything we do: our customers, our employees, those involved in our supply chain, the local communities in which we operate and the environment. We believe that looking after these interests will ultimately lead to increased shareholder value.

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#### DEBENHAMS STORES WORLDWIDE

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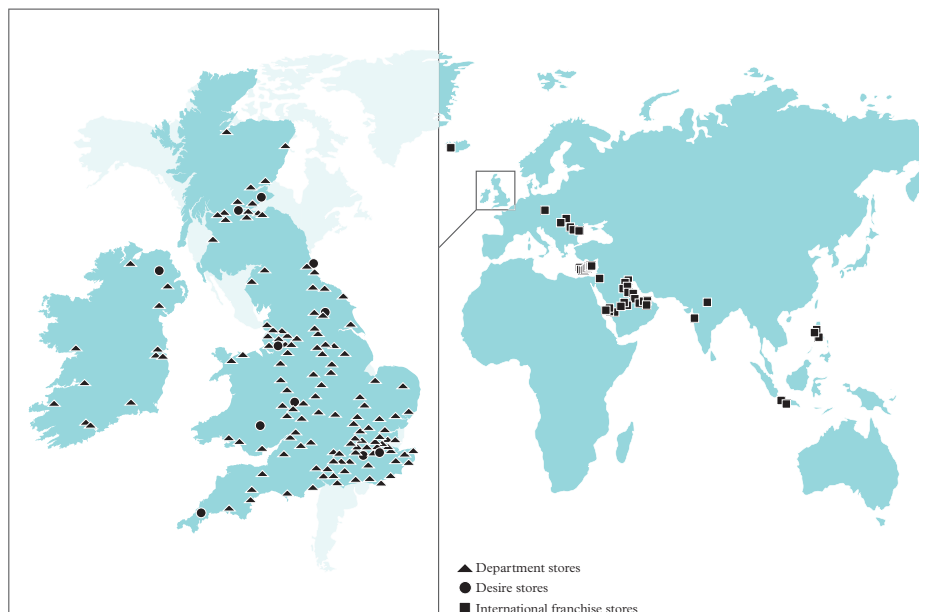
##### —Department, Desire and International Franchise Stores

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At the end of 2009, we had a total of 154 stores in the UK and Republic of Ireland. Of these, 144 are department stores which offer a full selection of products including womenswear, menswear, childrenswear, health and beauty, accessories, lingerie, home and food services. The other ten are Desire by Debenhams stores, our smaller format store which offers an edited collection of womenswear, accessories, lingerie, childrenswear and health and beauty.

At the year end we also had 52 international franchise stores in 17 countries.

Full store list on [pg 102](#)





## YEAR IN BRIEF

### —What's Been in the News?

**01** International superstar Dame Shirley Bassey visited us for a personal shopping consultation at Westfield London in December. Our complimentary personal shopping is available to all customers in every Debenhams store.

**02** Henry Holland will be joining the Designers at Debenhams portfolio next year with his exclusive new young fashion brand H!

**03** Mantaray for women was launched in August adding to the already successful brand in menswear, women's accessories and childrenswear.



01



02



03

**04** "Boris Johnson" looks a little confused at the opening of the new flagship store at Westfield London in October 2008.

adventurer Bear Grylls made a personal appearance.

**06** Peaches Geldof joined us in store in her role as face and body of new lingerie range Miss Ultimo.

**05** Long queues formed in store when



04



05



06

## DESIGNERS AT DEBENHAMS

### —From Catwalk to High Street

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

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

## OWN BOUGHT PRODUCTS

### —What We Do Best

Own bought products fall into three main categories.

The first is Debenhams' own label which includes Collection, Mantaray, Maine New England, Bluezoo and Le Vrai Gourmet. These brands represent our core customer offer.

The second is Designers at Debenhams, the portfolio of exclusive brands listed above, which is an important point of difference in an increasingly crowded high street.

The third is international brands such as Levi Strauss, Nike, Ben Sherman, Chanel and Estée Lauder. International brands extend our product range and give customers the well-known brands that they love.

## CONCESSIONS

### —Increasing Choice

Concession brands offer customers a further level of choice. They have historically been strong in areas where Debenhams' own bought brands have been under-represented, such as young fashion and footwear in womenswear and suiting in menswear.

Key concessions include Wallis, Warehouse, Miss Selfridge, Jacques Vert, Kurt Geiger and Tripp.

# CHAIRMAN'S STATEMENT

## —Detailing our Progress and Results



JOHN LOVERING  
Chairman  
22 October 2009

Without doubt, the 12 months to September 2009 will be remembered as one of the most difficult years for the UK retail sector in generations. The collapse of confidence in the banking sector last autumn sent shockwaves through the high street which continue to reverberate today. Our financial year coincided with the worst of this period following the collapse of Lehman Brothers which occurred just three weeks into the year.

Despite this, we emerged stronger. Our balance sheet has been restructured thanks to our successful capital raising. Our market share has increased and our business model has strengthened. Our goals of increasing own brand penetration, growing internet sales and building our international footprint have all been progressed.

We had foreseen a very tough year. We planned our business on lower sales and a reduced level of stock purchases. We focused on cash margin rather than sales growth. We put even more emphasis on delivering outstanding value. Our own bought ranges, especially Designers, performed much better than concessions, reflecting the significant improvements our design and buying teams have delivered in these ranges, giving us the confidence to undertake the biggest expansion of own bought space Debenhams has ever seen. We introduced new brands and departments across the store, targeted at areas where we believe there are further market share opportunities for us. We opened five new stores in the UK, creating a very welcome 800 new jobs. A further 11 new international franchise stores were also opened in eight countries.

Ultimately the success of our strategy can be seen in that in this difficult year we generated more profit than last year. Only a handful of other retailers will be able to say this. The board believes this is a significant achievement for which the entire Debenhams team should be commended.

As a board, we had said for some time that one of our key goals was to remove leverage as an issue for Debenhams so that our focus—and indeed the wider world's—could return to operational and strategic issues rather than the balance sheet. To this end, we launched a capital raising in June. We chose to do this through a placing and open offer route due to the unusual nature of the shareholder register.

Our choice of structure was vindicated as the firm placing element was several times oversubscribed and the discount was one of the lowest seen amongst the raft of capital raisings undertaken across the market during the first half of the calendar year 2009.

The board did not declare an interim dividend for 2009, nor has it proposed a final dividend for the year. However, we are committed to returning to paying a dividend as soon as it is financially prudent to do so.

We were delighted to welcome two new non-executive directors to the board at the beginning of August. Martina King was formerly Managing Director, Europe of Yahoo Limited and we therefore particularly look forward to her input as we seek to move our multi-channel business forward. Sophie Turner Laing, currently Managing Director, Entertainment and News at British Sky Broadcasting plc, will provide valuable insight in the areas of media and marketing. As we have announced today, we also look forward to welcoming Nigel Northridge to the board as a non-executive director in January 2010. Nigel spent 32 years with Gallaher Group plc, becoming the group chief executive in 2000, a position in which he oversaw significant growth in shareholder value.

I would like to thank Richard Gillingwater, Peter Long, Jonathan Feuer and Philippe Costeletos who left the board during the year for their important contributions to the business.

I have today announced that I intend to stand down from my role as Chairman and will retire from the board on 31 March 2010, thereby providing ample time to appoint my successor. I am proud of what has been achieved over the past six years and we have set the direction for a sound future. Debenhams is a well managed, properly financed company with a clear and successful strategy and a number of exciting development opportunities. Senior management has a deservedly high reputation and there is a great depth of talent throughout the Company. Our board functions well, its members have wide experience, high intellect and diverse backgrounds. I believe our operational and financial controls are best in class. I hope my successor enjoys the role as much as I have.

Looking forward, whilst the board remains cautious about the wider macro economic environment, our Company has performed well in what has been an unprecedented tumult throughout 2009. We continue to have a self help plan which is being rigorously executed and will maintain our drive to focus on cash margin.

The board would like to thank every member of the Debenhams team for rising to the challenge we have faced and helping us to emerge from very testing times as a stronger business. We, as shareholders, are very fortunate to have such loyal and hard-working employees whose contribution in the past couple of years has been immense.

*“...in this difficult year we generated more **PROFIT** than last year...”*





THE IMPORTANCE  
OF DETAIL  
*Detail is about helping  
customers to create  
the perfect ensemble  
effortlessly. Jacket,  
trousers, waistcoat, shirt,  
tie, shoes and handkerchief  
all by Jeff Banks at  
Designers at Debenhams.*



# CHIEF EXECUTIVE'S REVIEW

## —Detailing the Performance of our Business



ROB TEMPLEMAN  
Chief Executive  
22 October 2009

There is no denying that 2009 was a challenging year but I believe that at Debenhams we met those challenges head on and we are a stronger business as a result. Our good performance stems from our attention to detail in all aspects of our business: improving the design, quality and value of our products; enhancing the customer experience through both brand rationalisation and instore upgrades; introducing exciting new own bought brands to target specific customer segments; and keeping tight control of resources in a difficult market environment.

### Review of the Year

#### Market Conditions

2009 was characterised by a high degree of volatility arising out of wider economic factors and the financial year coincided with the worst of the “credit crunch” period almost in its entirety. Trading in the first half in particular was influenced by high profile collapses in the financial services sector which negatively impacted an already fragile consumer confidence. However, the important Christmas trading period held up reasonably well. There were a number of competing influences on consumer confidence in the second half. On the negative side, concerns over unemployment depressed confidence. On the positive side, lower mortgage payments due to record low interest rates and lower household energy and fuel bills gave rise to higher disposable income for some consumers. In the Republic of Ireland, trading conditions were difficult throughout the year in light of the sharp economic decline.

*“Our GOOD performance stems from the WORK we have undertaken throughout our business over the past couple of years.”*

#### Financial Performance

Debenhams delivered a strong financial performance in 2009, despite the difficult trading environment with increases in gross transaction value (GTV), market share, gross margin and profit. Gross transaction value was 0.2 per cent higher than the previous year at £2,339.7 million. Market share gains were achieved throughout the year (source: TNS Worldpanel Fashion 24 weeks market share data to 13 September 2009 vs. 2008).

During the last quarter of the year, the largest space moves in Debenhams’ history commenced, which resulted in c530,000 sq ft of trading space being converted from concession to own bought ranges. As expected, this programme caused disruption to sales in the latter part of the year and like-for-like sales for the year were 3.6 per cent lower than last year. The shortfall in like-for-like sales was more than offset by a strong gross margin performance which improved significantly as the year progressed.

Gross margin increased by 70 basis points over last year. This was driven by higher own bought sales and an ongoing focus on the drivers of cash profit, including the tight management of costs and stocks and historically low terminal stock levels which resulted in lower markdown in sale periods. The adverse impact of sterling’s deflation against the US dollar was reduced to a considerable degree by the Company’s hedging policy.

Headline profit before tax and amortisation from capitalised bank fees was £125.2 million, an increase of 13.7 per cent over the £110.1 million achieved last year. Profit before tax of £120.8 million grew by 14.1 per cent (2008: £105.9 million). EBITDA increased by 3.6 per cent from £268.8 million in 2008 to £278.5 million in 2009.

Basic earnings per share (949 million weighted average shares in issue following the capital raising) of 10.0 pence compared with 9.0 pence last year (860 million weighted average shares in issue).

Cash flow from operating activities before financing, tax and interest during the year was £156.5 million compared with £160.2 million a year ago.

The scheduled £100.0 million amortisation payment of the term loan was made in May 2009 from cash flow. In June 2009, Debenhams raised £303.8 million net through a placing and open offer capital raising. Subsequently, a £50.0 million pre-payment against the £150.0 million amortisation payment due in May 2010 was made. A further £61.4 million of debt was bought back in the market at an average discount of 5.6 per cent. As a result, net debt at the year end on 29 August 2009 was £590.3 million. This was an improvement of £403.7 million over the position at the start of the financial year.



THE IMPORTANCE  
OF DETAIL  
*Detail is about finishing  
touches that make customers  
large and small feel good.*

*T-shirt and jeans by Bluezoo,  
Debenhams' brand new  
childrenswear range.*



CHIEF EXECUTIVE'S REVIEW

—continued

KEY PERFORMANCE INDICATORS

KPI	STRATEGY	2009 PERFORMANCE
GROSS TRANSACTION VALUE (£m)		
08	GTV is a measure of overall sales growth for the business, including concession sales. The board believes it represents a good guide to the overall activity of the Company.	GTV grew by 0.2 per cent during 2009, with increases from new department stores and international stores more than offsetting the like-for-like sales decline.
09		
LIKE-FOR-LIKE (LFL) SALES (%)		
08	LFL sales provide 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.	LFL sales declined by 3.6 per cent in 2009. As expected, the extensive space moves which took place in the fourth quarter caused disruption to LFL sales in that period which has influenced the result for the year.
09		
HEADLINE PROFIT BEFORE TAX (PBT) (£m)		
08	PBT is the board's principal measure of profitability. We use the headline number (which adds back amortisation on capitalised bank fees) as this is the metric favoured by the financial markets.	Headline PBT increased by 13.7 per cent in 2009. The board believes this is a creditable performance given the extremely difficult retail and economic environment which prevailed throughout the period.
09		
TRADING SPACE (m sq ft)		
08	The biggest driver of trading space is new store openings. Our disciplined approach to capital expenditure for new stores ensures we generate strong returns from new space.	Trading space increased by 342,000 sq ft (3.1 per cent) in 2009 with the addition of five new stores and a sizeable extension to the Cardiff store.
09		
PERCENTAGE OF OWN BOUGHT SALES (%)		
08	Own bought sales produce higher margins than concession sales. Increasing the percentage of own bought sales to take advantage of these higher margins is an important part of Debenhams' strategy.	The percentage of own bought sales increased from 71.8 per cent in 2008 to 76.0 per cent in 2009 largely driven by the introduction of new own bought ranges and departments, expansion of existing brands and higher own bought mix in new stores.
09		
LABOUR TURNOVER (%) CHANGE		
08	Attracting and retaining talented, motivated employees is an important part of Debenhams' ability to succeed. Change in labour turnover is a measure of our ability to retain staff, although it is always likely to be impacted by macroeconomic factors.	Labour turnover fell significantly in 2009. Although the difficult economic climate and high unemployment levels have depressed the overall labour market, we have taken positive action to increase employee retention.
09		



THE IMPORTANCE  
OF DETAIL  
*Detail is as important in  
the home as it is for fashion.*

*Cushions, lighting  
and accessories by  
Betty Jackson.Black at  
Designers at Debenhams.*



## CHIEF EXECUTIVE'S REVIEW

*—continued*

AMONGST THE FIVE NEW STORES OPENED IN 2009 WAS THIS FUTURISTIC NEW STORE IN BURY ST EDMUNDS WHICH OPENED IN MARCH.

*New store openings continue to generate good returns.*



### Operating Review

#### Brand and Product Strategy

Debenhams gained market share throughout the year. In the most recently available data for the UK, Debenhams' total market share in clothing, footwear and accessories increased by 10 basis points (source for all market share data: *TNS Worldpanel Fashion 24 weeks market share data to 13 September 2009 vs. 2008*). The strongest market share performances were delivered by menswear (up 20 basis points) and childrenswear (up 40 basis points). Womenswear market share for the period was flat and was impacted by weak concession performance and the disruption to sales in the fourth quarter from space moves. Debenhams has continued to gain a greater share of the market over the past two years and customers have responded positively to the significant improvements made to the design, quality and value of Debenhams' own bought products, as well as an enhanced shopping experience on the back of improved instore presentation.

Own bought products accounted for 76.0 per cent of sales in 2009, up from 71.8 per cent last year and in line with the strategic aim to increase the own bought product mix. The increase in own bought mix was largely driven by the introduction of a number of new own bought ranges and departments, the expansion of some existing brands both in terms of trading space and product breadth and higher own bought mix in new stores.

Designers at Debenhams made a strong contribution to sales during 2009 of some £432 million, an increase of 11.4 per cent over the prior year. Overall, own bought sales increased by 3.4 per cent. The weakest category was concessions which overall saw sales decline by 16.5 per cent.

Towards the end of financial year 2009, a major programme of space moves commenced which was completed by the end of September 2009. In total, c530,000 sq ft of trading space was converted from concessions to own bought. This included the loss of

c215,000 sq ft from womenswear concessions (including Principles), c200,000 sq ft from home concessions and c120,000 sq ft from women's accessories concessions. The largest increases in own bought space were womenswear (c165,000 sq ft), sports and leisure (c140,000 sq ft), women's accessories (c120,000 sq ft) and childrenswear (c60,000 sq ft).

New ranges introduced during 2009 include Butterfly by Matthew Williamson and Mantaray in womenswear, Bluezoo in childrenswear, sports and leisure for women, men and children and Ben de Lisi in home. Although it is early days as many of these brands were launched during the fourth quarter of the year, initial reactions from customers have been very positive.

In March, a quantity of stock and fixtures and fittings was acquired from the administrators of Principles, as well as a licence to trade the brand through that stock. This was done to ensure continuity of supply to Debenhams through the spring/summer season.

#### Stock Management

Stock levels were managed tightly during the year. Terminal stock was at a historically low level at year end of 2.7 per cent, arising mainly from very aggressive discounting in the post-Christmas sale. At year end, total stock was 14.1 per cent higher than the previous year, of which 10.0% related to the increase in own bought space allocation. Like-for-like stock density decreased by 5.1%.

*“Market share GAINS have been ACHIEVED on a regular basis for some two years.”*

#### Store Portfolio

At the end of 2009, the store portfolio consisted of 144 department stores and ten Desire stores. The total trading space of the portfolio was 11,046,000 sq ft, an increase of 3.1 per cent since the start of the year.

Five new stores were opened during the year. These were: Livingston (60,000 sq ft) in August 2008; Westfield London (109,000 sq ft), Wrexham (60,000 sq ft) and Great Yarmouth (20,000 sq ft) all in October 2008; and Bury St Edmunds (59,000 sq ft) in March 2009. Overall, new stores have performed in line with or ahead of expectations.

The new store pipeline for 2010 is secure with six new stores adding a total of 300,000 sq ft of trading space. Two of these stores have now opened: Kidderminster Desire in September 2009 and Monks Cross Desire in October 2009.

# 2009

SPECIAL FEATURE



Over the past two years we have made significant improvements to our own bought product ranges. Our mantra has been to enhance the design, quality and value of everything that we sell. Let me tell you how we think about these three inter-dependent factors and how they run through our company.

MICHAEL SHARP  
*Deputy Chief Executive*

NO.01

## DESIGN

*At the heart of everything we do*

NO.02

## QUALITY

*It's all about detail, cut and craft*

NO.03

## VALUE

*Design and quality at an affordable price*



# NO. 01

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## DESIGN

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### *—At The Heart Of Everything We Do*

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Design is a synthesis of many things. It's about style and fashionability. It's about theme and trend and seasonality. But it is also about meeting the needs of the target customer.

To ensure our design process works effectively, we put the customer at the heart of it. From the first sketch to the last detail, our designers think about the brand's profile customer and how she or he is going to use the product. So whilst our designers for occasionwear brand Debut will be thinking about glamour and sophistication, the team working on Maine New England will focus on practicality and comfort.

We are of course fortunate at Debenhams to work with some of the world's greatest fashion designers through the Designers at Debenhams portfolio whose combined knowledge and skill is unparalleled.

JASPER CONRAN  
*Grey ruffle trenchcoat  
from 'J' by Jasper  
Conran at Designers  
at Debenhams.*



# NO. 02

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## QUALITY

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*—It's All About Detail,  
Cut And Craft*

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For Debenhams, quality is just as important as design in ensuring our customers are pleased with the products they buy from us.

Quality is about both looking great and being fit for purpose. So it's about fabrics and linings and embellishment and trimmings, all of which are obvious quality clues. And it's about garments that look as good after repeated wearing and washing as they did when new, and home products that can withstand the rigours of everyday life.

We check that we are meeting our quality standards on an ongoing basis from both a formal quality assurance process and through customer feedback and testing.

JASPER CONRAN  
*Jacket, shirt and tie  
from J by Jasper  
Conran at Designers  
at Debenhams.*



# NO. 03

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## VALUE

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### *—Design And Quality At An Affordable Price*

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We think of value as being about so much more than price. It is interesting that despite the difficult economic environment, the best performing part of our business in 2009 was Designers at Debenhams, our highest price product ranges. Why has this been the case? We believe it is because customers are looking for the quality, longevity and versatility these products offer and not just the lowest cost option which may be cheaper but overall offer them less value for money.

Debenhams is committed to supporting its customers through the difficult economic environment and we constantly look for ways to enhance our value proposition.

RED HERRING  
*Shirt and jeans from  
Red Herring.*





## CHIEF EXECUTIVE'S REVIEW

*—continued*

AN EXTENSION TO THE CARDIFF STORE WAS OPENED IN 2009 AS PART OF THE STORE'S REFURBISHMENT.

*The store refurbishment programme will recommence in the second half of 2010 having largely been on hold for the past year.*

The programme to refurbish core stores remained largely on hold in 2009, although the Cardiff store was refurbished, including a sizeable extension which provides an entrance into the new St David's shopping centre. Improvements are being made in all stores with the introduction of new shop fits for many ranges across the store chain, especially in womenswear. Over the past year these have included J by Jasper Conran, Star by Julien Macdonald and Collection.

**International Franchise Stores**

Debenhams' business outside the UK and Republic of Ireland takes the form of franchise stores operated by a number of regional franchise partners.

During 2009, a further 11 international franchise stores were opened in eight countries. These included market entry in Iran and Moldova. There were 52 franchise stores in 17 countries by the end of the year, representing 1.7 million sq ft of trading space.

Whilst some of the international markets have experienced a slowdown in consumer activity, overall we are pleased with the performance of the international business. Sales attributable to the international business increased by 13.6 per cent to £63.3 million (2008: £55.7 million). Its contribution to total gross transaction value increased from 2.4 per cent in 2008 to 2.7 per cent in 2009.

**Multi-Channel**

Debenhams Direct, the online business, continued to grow in 2009. Sales were up 31.0 per cent to £55.1 million (2008: £42.1 million), resulting in a contribution to total gross transaction value of 2.4 per cent (2008: 1.8 per cent). EBITDA increased by 133 per cent. The number of visitors to Debenhams Direct increased by 36.8 per cent during the year.

During 2009 a change was made to our online fulfilment provider which has improved service levels for customers and reduced delivery times.

New features added in 2009 include: zoom, video and catwalk/outfit projection; the launch of the online outlet from which customers can access all current offers and promotions; shop by size; product reviews and surveys; and social networking capability. Priorities going forward will be to develop a full multi-channel offering alongside the existing online operation and these are described in more detail in the 2010 Preview on page 18.

**Marketing**

Customers today are looking for unique design, great quality and exceptional value for money. We believe that Debenhams with its differentiating mix of Designers at Debenhams ranges, contemporary

own brands for all ages and occasions and international brands is in the best position to deliver this. Launched in Autumn 2009, Debenhams has recently unveiled its new brand manifesto, "design in every department", symbolising the importance of design across all aspects of the business. New branding has been rolled out throughout all communications, stores and our website. It is embedded in the way we talk to our customers, present our products instore and online, our tone of voice and product visuals.

A key pillar of this campaign is a TV/digital campaign running in October and November 2009, with a subsequent product campaign continuing into 2010.

In order to complement this focus of great product design and quality, Debenhams will continue to offer its customers exceptional value for money via product offers, promotions and spectaculars. We are committed to ensuring we support our customers when the economic outlook remains challenging.

Targeted communication programmes also continue to develop further this year with increased focus on retention and growth for our Debenhams Cardholder base, acceleration of our email customer base, driving both online and store sales, and finally the introduction of our Beauty Club Reward Scheme. The Debenhams Beauty Club not only allows customers to earn points on their purchases at Debenhams for money-off rewards but it also gives them access to cosmetics samples/free

gifts, makeovers/skincare consultations, instore events, exclusive products and offers.

**Deleveraging Initiatives**

The board had said for some time that reducing leverage for Debenhams was an important aim. To this end, a capital raising was launched on 4 June 2009 and subsequently approved by shareholders at a General Meeting on 23 June 2009 with new shares issued on 26 June 2009. The capital raising took the form of a placing and open offer which was chosen due to the unusually concentrated nature of Debenhams' shareholder register which contained several large shareholders who were unlikely to participate. The choice of this structure was vindicated as the firm placing element was several times

*"We are committed to ensuring we SUPPORT our CUSTOMERS when the economic outlook remains challenging."*

## CHIEF EXECUTIVE'S REVIEW

—continued

oversubscribed and the discount was one of the lowest seen amongst the raft of capital raisings undertaken across the market during the first half of the calendar year 2009.

The purpose of the capital raising was four-fold. First, to reduce net debt and enhance the ability to refinance in the future. Secondly, to provide an opportunity to amend existing covenants resulting in greater headroom and operational and financial flexibility. Thirdly, to provide funds in order to buy back debt at below par in the market should it become available. Finally, to improve the ability to pursue opportunistic acquisitions.

In line with these aims, the covenants on the term loan and revolving credit facility were reset as follows: net debt/EBITDA of 3.75 times; fixed charge cover of 1.60 times (NB: the metrics used in these covenants are based on UK GAAP as adjusted for covenant purposes).

Following the receipt of the proceeds, a £50.0 million pre-payment was made against the £150.0 million amortisation payment due in May 2010. A further £61.4 million of debt has been acquired in the market at an average discount of 5.6 per cent. Since the end of the year, a further £100.0 million payment has been made against the May 2010 amortisation payment.

As a result of the capital raising and organic cash generation, net debt stood at £590.3 million at year end, £403.7 million lower than at the start of the year.

### Strategy Update and 2010 Preview

Following the successful deleveraging of Debenhams' balance sheet, we are now looking forward to the next era in the Company's development as we move into the new financial year.

Our strategic priorities for 2010 and the medium term are:

- core stores and organic growth;
- space expansion;
- multi-channel expansion and integration; and
- balance sheet optimisation.

#### Core stores and organic growth

Own bought products generate significantly higher margins than concession products even after the additional costs of stockholding, logistics and staffing are taken into account. For this reason, one of our key strategic aims is to increase the percentage of own bought merchandise sold in our stores and thereby take advantage of the higher margins available.

Our target own bought sales participation is 80-85 per cent. New stores opened in the past 12-18 months already carry some 90 per cent of own bought merchandise and are trading well.

The outperformance of own bought over the past year suggests that customers are favourable towards these ranges and acknowledge the superior design, quality and value they offer. This position is reinforced by the relative underperformance of concessions across the business.

The full year impact of the 530,000 sq ft space moves undertaken in late 2009/early 2010 will move us a good way towards this target through the introduction of new ranges such as Mantaray in womenswear, Bluezoo in childrenswear and the new sports and leisure department.

A significant part of own bought growth is expected to come from Designers at Debenhams, our portfolio of aspirational brands created exclusively for Debenhams by internationally renowned fashion designers. They are catwalk designers, not celebrities, whose mainline collections are shown at the world's greatest fashion events such as London Fashion Week. Designers at Debenhams is a unique and important differentiator for Debenhams in an increasingly crowded high street.

Expansion of Designers at Debenhams falls into four main categories.

- Expansion of existing designer brands: through extending designer presence to all stores and increasing the space allocated to designers in stores where they are already present to give them more authority.
- Introduction of existing designers into new categories such as the expansion of Butterfly by Matthew Williamson from accessories and childrenswear into womenswear.
- Increasing the designer mix in under-represented categories such as home and women's footwear.
- Introduction of new designer brands to target market share opportunities: in 2010 these will include the launch of a new young fashion designer brand, H! by Henry Holland, in 65 stores from spring/summer.

Organic growth will also be achieved through the recommencement of the modernisation programme for core stores. Some 40 core stores remain to be modernised. Our priority in the first instance will be to modernise high turnover stores in large towns and this will commence in the second half of 2010. We have historically generated strong returns of 25-35 per cent on modernised stores with an uplift in sales of some 5 per cent. As well as whole store modernisations, we will continue to refit individual brands across all stores and in 2010 these will include Red Herring in womenswear and Jeff Banks in menswear.

#### Space Expansion

Debenhams generates strong returns from new stores. We continue to believe that there are up to 240 possible locations for department stores and 100 for Desire stores in the UK and Republic of Ireland.

THE IMPORTANCE  
OF DETAIL  
*Detail is just as important  
where only you can see it.  
Ruched bra and shorts  
by Red Herring.*





## CHIEF EXECUTIVE'S REVIEW

—continued

However, as the difficult economic environment has been impacting new property developments for some time there may be some delay to anticipated store openings in the medium term.

Six new stores are scheduled to open during 2010, comprising three department stores and three Desire stores, two of which have opened since the year end. These include a flagship store in Newcastle upon Tyne which is due to open in February. In total, these openings will add some further 300,000 sq ft of trading space.

Space growth is also anticipated outside the UK and Ireland through the international franchise stores. A further five stores are scheduled to open in five countries during 2010.

**Multi-Channel Expansion and Integration**

The Debenhams online store, [www.debenhams.com](http://www.debenhams.com), has been growing steadily. New features and services are added on a regular basis and over the past year these have included: zoom, video and catwalk/outfit project; the launch of the online outlet from which customers can access all current offers and promotions; shop by size; product reviews and surveys; and social network capability. We are now looking to accelerate sales growth from our online business by developing a full multi-channel business which integrates online and instore shopping and drives additional traffic to the online store.

The key components of this, all of which are expected to be fully operational by the end of 2010, are as follows:

- Website refresh and ease of shopping improvements: [debenhams.com](http://debenhams.com) will benefit from a new look and improvements to its ease of shopping meaning that customers can get to their desired products more quickly.
- Using affiliates to drive additional traffic to [debenhams.com](http://debenhams.com): stores will be launched on affiliate sites such as Amazon on a trial basis during the autumn. Looking further out, we will look to develop websites for individual brands which would be available through affiliates, including some of the Designers at Debenhams brands.
- Instore ordering: enabling customers to order instore for delivery at home will improve ranging in small stores and availability in all stores. Assisted facilities are available in all stores and self-service kiosks are being rolled out over the next year.
- Collect from store: this will enable customers to collect goods they have ordered online from their local store.
- International delivery: we know from the success of our international franchise stores that Debenhams products are attractive to overseas customers. International deliveries will be available to a range of countries from late autumn.

**Balance Sheet Optimisation**

The Group's balance sheet was substantially delevered following the capital raising in June which substantially reduced net debt. The balance sheet must be structured effectively to maintain an appropriate balance between flexibility on the one hand and minimising interest costs on the other.

In July, a pre-payment of £50.0 million was made against the £150.0 million term loan amortisation payment that is due in May 2010. A further £61.4 million of debt was acquired in the market before the end of the year at an average discount of 5.6 per cent. Since the end of the year, a further pre-payment of £100.0 million has been made against the amortisation payment due in May 2010.

We will continue to look for accretive acquisitions which may involve adding further operating units to leverage our existing infrastructure or acquiring brands to reverse into our existing units whilst reducing costs and expanding margins.

**Current Trading**

For the seven weeks to 17 October 2009, gross transaction value increased by 2.8 per cent over the previous year. Like-for-like sales grew by 0.6 per cent. Gross margin and cash margin were both ahead of last year.

**Outlook**

The outlook for consumer behaviour remains hard to predict. However, we are encouraged by the response of customers to the changes we have made to our offer. Our focus will continue to be on the drivers of cash profit. We will also be investing for the future through the opening of new stores, development of our multi-channel business and recommencement of the store modernisation programme.

## FINANCE DIRECTOR'S REVIEW

### —Detailing our Financial Performance



CHRIS  
WOODHOUSE  
*Finance Director*  
22 October 2009

#### Sales, Margin and Costs

The Group's gross transaction value grew by 0.2 per cent during the 52 weeks ended 29 August 2009 to £2,339.7 million (2008: £2,336.0 million) and revenue was up by 4.2 per cent to £1,915.6 million (2008: £1,839.2 million). These increases were primarily from our own bought ranges, including our exclusive Designers at Debenhams offer, and were supported by good sales performances in new stores. During the year we have seen trading space being converted from concession to own bought ranges and the introduction of a number of new brands and departments. However, like-for-like sales declined by 3.6 per cent in the financial year, reflecting the difficult trading environment and disruption to sales in the fourth quarter arising out of the space move programme.

Continued growth was achieved from our internet business, with sales increasing 31 per cent to £55.1 million (2008: £42.1 million) during the year. At the same time we have changed our fulfilment partner and we expect to be able to deliver new functionality and cost savings from this transfer.

The international business has continued to grow and over the past 12 months we opened 11 new stores. At the year end we were represented in 17 countries with a total of 52 franchise stores with sales of £63.3 million, up 13.6 per cent on the previous financial year (2008: £55.7 million).

Gross margin increased by 70 basis points over the previous financial year. This was driven by the higher mix of own bought sales, the tight management of costs and stocks and historically low levels of terminal stock, which resulted in lower markdown during sale periods. The effect of our 18-month hedging policy has also reduced the impact of US dollar movement during the year.

Control of costs is critical, particularly in the current economic environment, and further significant cost savings have been made during the financial year in addition to those achieved during the second half of last year. Overall store operational costs increased, primarily due to new store openings, but like-for-like stores saw a decrease in costs of 0.4 per cent.

This combined to generate gross profit during the financial year of £264.9 million (2008: £267.6 million).

Distribution costs decreased by £4.7 million, due to tighter control of stocks and transport schedules alongside warehouse labour efficiencies. Administration costs were also down £4.1 million reflecting the full year impact of changes implemented last year and the ongoing challenges to the cost base.

Operating profit in the financial year ending 29 August 2009 increased to £182.2 million (2008: £176.1 million) and profit before taxation grew to £120.8 million (2008: £105.9 million).

#### Interest

For the financial year ended 29 August 2009 the net interest charge was £61.4 million (2008: £70.2 million). The decrease of £8.8 million is principally due to three factors: first a £100.0 million scheduled repayment of the senior term loan in May 2009; secondly the £303.8 million (net of issue costs) capital raising in June 2009; and thirdly the £50.0 million partial pre-payment in July 2009 of the £150.0 million term loan amortisation payment due in May 2010. This was offset by lower interest receivable on money market deposits.

#### Taxation

The Group's tax charge of £25.7 million on profit of £120.8 million gives an effective rate of tax of 21.3 per cent. The charge is lower than the rate of UK corporation tax primarily due to the successful resolution of items previously under negotiation with HM Revenue and Customs.

#### Earnings

The basic earnings per share of 10.0 pence (2008: 9.0 pence) and diluted earnings per share of 10.0 pence (2008: 9.0 pence) reflect the weighted average number of shares in issue during the course

of the financial year and similarly for the comparative period. The weighted average impact of the issue of 404 million new ordinary shares on 26 June 2009 is reflected in these figures.

#### Dividends

Although no interim dividend has been paid or final dividend proposed for 2009, the board's intention is to return to paying a dividend when it is financially prudent to do so.

*“Control of costs is **CRITICAL**, particularly in the current economic **ENVIRONMENT**.”*

## FINANCE DIRECTOR'S REVIEW

—continued

**Capital Expenditure**

During the financial year we opened five new department stores and continued to invest in our online business. Expenditure on capital items in the financial year was £84.5 million, which is lower than in previous years partly due to the deferral of the store modernisation programme during 2009.

**Cash Flow**

Net cash generated from operating activities in the year ended 29 August 2009 was £158.4 million. This was a decrease of £33.0 million on the previous year (2008: £191.4 million). The decrease was first due to payment of capital accruals outstanding from the previous year linked to an unusually high number of store openings over that period, secondly the reduction in VAT rate reducing the year end VAT creditor and finally a reduction in concession creditors from reduced sales.

During the year the Company raised £303.8 million (net of issue costs of £19.4 million of which £4.7 million remains in accruals at the year end) through a firm placing and placing and open offer with clawback of ordinary shares.

**Borrowings**

The Group's net debt position was £590.3 million at 29 August 2009, a reduction of £403.7 million during the course of the year (£994.0 million as at 30 August 2008). This included a scheduled repayment of £100.0 million in May 2009, from operating cash flow. In July 2009, following the capital raising, the Company made a partial pre-payment of £50.0 million of the £150.0 million term loan amortisation payment due in May 2010. Additionally, during the year, the Group purchased debt with a par value of £61.4 million in the market at an average discount of 5.6 per cent.

**Equity**

Following approval by shareholders at a General Meeting held on 23 June 2009, the Company issued 73.4 million new shares to existing shareholders and 330.6 million new shares were placed. All issued shares had a nominal value of £0.0001 and were issued at 80 pence per share on 26 June 2009. The share issue was effected through a structure which resulted in a merger reserve arising under section 612 of the Companies Act 2006.

**Financial Risk and Treasury Management**

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

The policies and strategies for managing financial risk are summarised in note 3 of the Group Financial Statements.

**Pensions**

The Group provides a number of pension arrangements for its employees, which include the Debenhams Retirement Scheme and Debenhams Executive Pension Plan (together the "pension schemes") which closed for future service accrual from 31 October 2006. The pension schemes' deficit as at 29 August 2009 was £53.6 million (2008: surplus of £25.0 million). During the year the pension schemes' actuary completed the triennial actuarial valuation, as at 31 March 2008, and funding was agreed between the Group and the trustees of the pension schemes. As a result, the rate of employer contributions payable under the agreed schedule of contributions will remain at the same level as agreed for the past three years until the effective date of the next valuation, 31 March 2011.

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

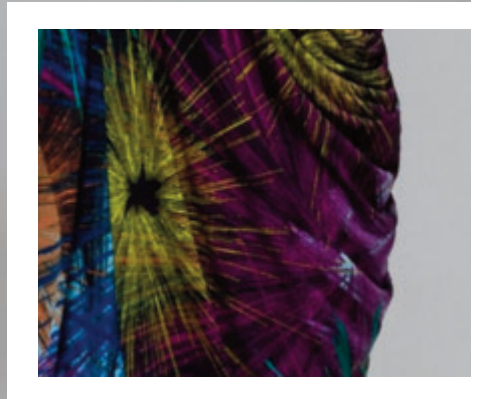
**Summary**

It is pleasing to report that Debenhams has delivered a strong performance during the financial year, despite the difficult trading environment, with increases in gross transaction value, gross margin and profit. In addition, the balance sheet has been substantially deleveraged following the capital raising.



THE IMPORTANCE  
OF DETAIL  
*Detail is about stunning  
shapes and beautiful fabrics.*

*Dress from Butterfly by  
Matthew Williamson at  
Designers at Debenhams.*





# CORPORATE RESPONSIBILITY REVIEW

—Detailing our accountability for our actions



WE REGULARLY MAKE DONATIONS OF TOYS TO CRÈCHE FACILITIES AT OUR SUPPLIERS' FACTORIES AROUND THE WORLD.

*In 2009 we sent toys to factories in India, China and Bangladesh.*

## Introduction

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

We believe that the management of and accountability for how we live up to this responsibility should be embedded into our business activities rather than a centralised corporate responsibility function. A cross-functional corporate responsibility steering committee meets regularly, chaired by Nikki Zamblera, who is Debenhams' HR Director and has executive responsibility for corporate responsibility issues.

Our corporate responsibility work falls into three main areas. First, Environmental which covers waste management and recycling and energy usage, including our carbon footprint reporting. Secondly, Ethical Trading which includes information on our factory approval and audit programme, our purchasing practices and our involvement with the Ethical Trading Initiative. The third category is Workplace and Community which covers employment practices, learning and development, disability awareness, health and safety and community and charity engagement.

## Environmental

### Waste Recycling

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

### Stores

In 2009 the number of stores that "backhaul" cardboard and plastic waste to our distribution centre (DC) in Peterborough for recycling increased from 78 to 140. A new cardboard baler was installed in Peterborough in October 2008 which has allowed more stores to return their waste for baling rather than relying on compactors or skips at a local level. Waste studies have revealed that the amount of waste passed to landfill as a result of implementing backhauling drops by as much as 80 per cent as the bulk of store waste is card and plastic.

In addition to backhauling waste to the DC, all stores also action some form of recycling using multi-stream recovery units. In 2009, the amount of total waste recycled in this way increased by 3.2 per cent whilst the amount of general waste sent to landfill decreased by 15.6 per cent.

We are increasing the percentage of hangers which are either re-used or returned to the DC for recycling. As part of our hanger initiative, we are now working with our supplier to reduce the amount of hangers that we grind for recycling by introducing a new programme of re-use.

*"Debenhams' activities can impact the lives of millions of people... we have a **RESPONSIBILITY** to them and to our planet."*

### Distribution Centres

In 2008 a target to move to 98 per cent of DC waste recycled was set. This target was met in 2009 and we look to improve this further where possible.

Recycling points have been installed at all three DCs and individual waste bins removed from all offices.

### Head Office

A recycling initiative was introduced in head office locations in 2008 which encourages the recycling of many waste streams including paper, glass and cans.

### Carrier Bags

Following the introduction of 100 per cent recycled carrier bags in 2007, we are continuing to find ways to reduce the number of carrier bags used by our business that meet the needs of both our customers and the environment. Overall, this has resulted in a 3.1 per cent reduction on last year's volumes. More focus has been placed in staff training on the use of the right size bag, resulting in a 9 per cent

TV PRESENTER  
TRISHA GODDARD  
WEARING A T-SHIRT  
DESIGNED BY JULIEN  
MACDONALD AND  
SOLD IN SUPPORT  
OF BREAST  
CANCER CARE  
*Many Designers at  
Debenhams also designed  
exclusive T-shirts to  
support this worthwhile  
cause for which Debenhams  
has raised nearly £2 million  
in recent years.*



## CORPORATE RESPONSIBILITY REVIEW

—continued

reduction in the use of the largest bag, and on asking customers if they require a bag with their purchases. These reductions fall in line with the latest government voluntary initiative to reinforce the message to our customers about only using bags where necessary.

To supplement the plastic bag reduction, we have continued our range of reusable shopping bags featuring the “Bags Don’t Grow on Trees” logo and have sold over 184,000 units.

#### Transport and Logistics

Debenhams’ logistics fleet within the UK and Ireland is operated by DHL. In September 2008, new vehicles and trailers were introduced to improve the efficiency of the logistics fleet further. High cube trailers are also being employed to reduce the amount of traffic required to move stock within the DC network.

We are committed to avoiding the use of air transportation whenever possible. The majority of own bought product is brought into the UK by sea. Having already reduced air freighting to a significant degree in the previous year, in 2009 the amount of product air freighted almost halved and is now less than 5 per cent.

#### Print Operations

The Debenhams print department is registered to use FSC and PEFC paper to produce certified printed material. These standards provide assurance that the timber content of the paper is sourced from a legal and sustainable source.

Last year the print department became the first part of the Company to achieve ISO14001: 2004 Environmental Management System certification. This demanding, internationally recognised standard ensures that we can be confident that all the work undertaken by the department is produced in such a way that the environmental impact of production is minimised.

#### Carbon Footprint and Energy Usage

Debenhams recognises the ever-growing threat that climate change presents. We strive to acknowledge and mitigate our greenhouse gas (GHG) impacts and risks, continually escalating the importance of sustainability within the business and ensuring that we continue to succeed in a competitive marketplace.

The environmental consultancy AEA was commissioned to provide a breakdown of carbon emitting activities throughout the business and to understand how each activity contributes to the overall carbon footprint.

AEA are leaders and trusted advisors in the field of environmental consultancy, operating in the UK, Europe, the USA and China. They are the leading provider of advisory services to the UK government and work extensively with the EU and major private sector organisations. They are internationally renowned with expertise in air quality and climate change, carbon management, resource efficiency and the environmental impacts of transport. Since April 2008, AEA has been Defra’s principal technical consultant for the CRC scheme and will be advising Defra as the Government develops the regulations for the scheme.

#### Debenhams Carbon Footprint 2009

2008 saw Debenhams publicly report its environmental impacts in terms of GHG emissions for the first time. Emissions were reported for a base year spanning the 2007 calendar period. Since then, we have continued to implement procedures in order to monitor and report our carbon footprint. The Greenhouse Gas Protocol Corporate Standard has been adhered to for our footprint calculation.

Three notable changes have been implemented since the carbon footprint was reported last year.

1. The reporting year has been changed from a calendar year to Debenhams’ financial year ended 29 August 2009. Reporting has been altered in such a way in order for emissions performance to be aligned and better understood against the background financial performance.
2. The footprint boundary has been widened to include emissions sources from store and distribution centre waste, refrigeration gas from food services and waste water.
3. GHG emissions sources other than CO<sub>2</sub> have been included where applicable. These are multiplied by the relevant “global warming potential” they possess in relation to CO<sub>2</sub> and are included in the total footprint as CO<sub>2</sub> equivalent (CO<sub>2</sub>e).

The results of the footprint calculation are conveyed in the table overleaf using the definition of emissions scope supplied by the Greenhouse Gas Protocol. The previously reported 2007 footprint data has been recalculated to account for improved accuracy with carbon conversion factors and also the inclusion of methane and nitrous oxide that occur in trace amounts during fuel combustion. The footprint calculation is also given for the 2008 calendar period in order for emissions reporting to span a coherent passage of time.

Emissions source	GHG protocol scope	Activity data units	January 2007-December 2007		January 2008-December 2008		September 2008-August 2009	
			Activity data	CO <sub>2</sub> e emissions (tonnes/year)	Activity data	CO <sub>2</sub> e emissions (tonnes/year)	Activity data	CO <sub>2</sub> e emissions (tonnes/year)
Premises—gas	1	kWh	39,803,690	7,323	48,181,860	8,864	45,963,151	8,456
Premises—oil	1	kWh	4,270,709	1,138	3,773,301	1,006	4,281,031	1,141
Premises—food services refrigerant	1	Kg	n/a	n/a	n/a	n/a	219	625
Company car	1	Km	2,393,283	487	2,393,283	477	2,393,283	477
Logistical transport	1	litres	3,134,896	8,368	3,085,449	8,236	3,038,852	8,112
Sub-total	1			17,316		18,583		18,811
Premises—electricity	2	kWh	316,337,008	172,144	319,843,280	174,052	304,990,225	165,970
Sub-total	2			172,144		174,052		165,970
Business travel—flights	3	pKm	7,183,564	903	12,585,881	1,639	9,237,366	1,195
Business travel—rail	3	pKm	2,376,585	137	2,322,856	136	1,272,780	73
Business travel—ferry	3	pKm	13,592	2	18,240	2	4,008	1
Water consumption	3	m <sup>3</sup>	638,433	176	651,197	180	743,061	205
Wastewater	3	m <sup>3</sup>	n/a	n/a	618,637	429	705,908	489
DC Waste	3	tonnes	n/a	n/a	n/a	n/a	104	63
Store Waste	3	tonnes	n/a	n/a	n/a	n/a	8,038	2,066
Sub-total	3			1,218		2,386		4,092
Total gross	All	All		190,678		195,021		188,873
Total net*	All	All		183,270		147,800		69,843

\*Once green electricity has been subtracted.

	2007	2008	2008/2009
CO <sub>2</sub> e tonnes deductible for green electricity	(7,408)	(47,221)	(119,030)

*Scope 1—Direct Emissions From Own Sources.* Scope 1 emissions encompass a company's direct GHG emissions that arise from sources that it owns or controls (e.g. boilers, furnaces, fleet vehicles).

*Scope 2—Purchased Electricity (Indirect Emissions).* Scope 2 GHG emissions account for energy that is purchased and consumed by the company. Scope 2 emissions physically occur at the facility where the energy is generated, most commonly at power stations.

*Scope 3—Other Indirect Emissions.* Scope 3 GHG emissions account for all other indirect emissions that are a consequence of the activities of the company but that occur from sources that are not owned or controlled by the company.

When reporting emissions, it is essential to disclose total Scope 1 and 2 emissions where possible. At Debenhams, we also report our Scope 3 emissions in order to demonstrate our commitment to environmental reporting and to gain further clarity of our business impacts on the environment. From the above table, it is clear that Scope 3 emissions are relatively minor in comparison to Scope 1 and 2 emissions, which combined total 98 per cent of the footprint. Nevertheless, Scope 3 emissions reductions are targeted where it is feasible to do so.

The total carbon footprint for financial year 2009 has been calculated as 188,873 tonnes of carbon dioxide equivalent. It is clear electricity emissions dominate Debenhams' carbon footprint, comprising nearly 90 per cent of the total emissions. Fossil fuel (gas and oil) and fleet fuel are the second and third most abundant sources of carbon emissions as a result of Debenhams' activities, contributing 5.1 per cent and 4.3 per cent of the emissions respectively. All remaining sources within the footprint scope contribute less than 3 per cent of the total footprint.

Although a number of assumptions were required to complete certain datasets, statistical analysis indicates certainty within the overall footprint calculation is high, with an error margin of just 2 per cent.

At Debenhams, our primary focus will always be to reduce our direct carbon footprint. However, we realise we can only go so far in reducing our environmental impact before we will need the assistance of indirect measures. Therefore, our strategy involves the purchase of emissions-free renewable electricity as a means to offset the environmental impact of our consumption. As a result, this year we have indirectly reduced our emissions by 119,030 tonnes CO<sub>2</sub>e, representing a reduction on our gross carbon footprint of 63 per cent.



CORPORATE RESPONSIBILITY REVIEW

—continued

**Historical Emissions Comparison**

There is a positive outlook with regards to ongoing carbon performance within Debenhams. Emissions did increase slightly over the 2008 calendar year but activity in the 2009 financial year remedied this and emissions were a full 3 per cent lower on a scope-for-scope basis than when calculated for the 2007 calendar year. This reduction is largely due to improvements within store electricity usage and transportation of goods by the DHL fleet.

Additionally, through the purchase of electricity on green tariffs, the total net emissions reduced by 53 per cent in financial year 2009 from 2008 levels and by 62 per cent from the 2007 baseline.

In future emissions reporting, the carbon emissions can be compared against the newly established benchmark figure for the 2009 financial year. This will provide consistency in emissions reporting and will also allow for a better analysis of the variation between all emissions scopes now included.

**Emissions Intensity**

Understanding the context behind fluctuations in emissions can be assisted by use of emissions intensity ratios. An intensity ratio defines the magnitude of emissions in relation to a key variable. By using intensity ratios, the relative carbon performance can be better understood in line with fluctuations in core business activities.

The most useful ratios to assist in understanding the basis of emissions variation are those in relation to turnover, the number of stores in operation and the total floor area of buildings. These metrics are displayed in the table beneath for all reported years.

	2007 <sup>1</sup>	2008 <sup>1</sup>	2009 <sup>2</sup>
Emissions per £m turnover	82.7	83.5	<b>79.0</b>
Scope 1 and 2 emissions per operational store	1,199	1,182	<b>1,184</b>
Stationary emissions/m <sup>2</sup>	0.100	0.103	<b>0.098</b>

<sup>1</sup> Calendar year.  
<sup>2</sup> Financial year.

When comparing emissions with financial performance, it is clear carbon efficiency in 2009 saw a marked improvement on previous years. This is against a background of turnover growth. It should be noted that turnover reported for the 2007 and 2008 financial years has been aligned to the calendar year and, therefore, results are indicative. Nevertheless, this analysis provides a good means of making a comparative assessment and can be improved upon in subsequent financial reporting years.

Although emissions rose on an absolute basis in 2008, this can be partly attributed to an increase in store numbers. In actual fact, emissions per operational store were the lowest in 2008 calendar year than the other reported periods. However, efficiency of energy use over all Debenhams' premises was the greatest over the current

reporting period. This is determined by the smaller ratio for stationary emissions against the total premises floor area.

**Conclusions**

There is a positive outcome with regards to ongoing carbon performance within Debenhams. Emissions did increase slightly over the 2008 calendar year but activity in the current financial year has remedied this and emissions are now a full 3 per cent lower on a scope-for-scope basis than when calculated for the 2007 calendar year. This reduction is largely down to efficiency improvements, particularly within store electricity use and goods transportation by the DHL fleet.

To complement this encouraging conclusion, the ratio of emissions per turnover is now less than previous years, indicating tighter control of carbon emissions in line with Company growth. Similarly, energy efficiency for all premises is now greater on the whole than in historic reporting periods.

**Energy Usage**

Reducing the amount of electricity used in our business is clearly a key part of our energy strategy given its significant contribution to our carbon footprint.

**Stores**

A number of stores were identified last year as having energy usage above the Good Practice benchmark. Work has been undertaken in 2009 to address this. Three of these stores supply electricity to other third-party stores in the shopping centres in which they are located. We are taking steps to separate the electricity usage of our own store from the third-party stores to ensure we can monitor our own consumption effectively. Action plans have been introduced in all other stores and their energy usage has reduced as a result.

A real success story is the substantial energy efficiency improvements observed when looking at electricity use in stores that had remained open for an entire year. This provides a much clearer picture of the real efficiency within stores over the various reporting periods, without skewed figures resulting from ongoing store openings and closings. The calculated efficiency benchmarks across the three reporting years are displayed in the table below and these are compared to established benchmarks.

It is apparent that specific energy consumption has been steadily improving and measures well against published benchmarks. In particular, electricity use in mixed fuel stores better the existing best practice benchmark.

KWh electricity/m <sup>2</sup>	2007	2008	2008/09	Best practice*
Open stores (only electric)	248	239	216	209
Open stores (mixed fuel)	197	193	178	194

\*taken from CIBSE Guide F: Energy Efficiency in Buildings.

Finding energy efficient lighting solutions for our stores is an important part of our energy strategy and a number of initiatives are ongoing. During the past year switching circuits have been rectified to allow much more control over lighting, particularly overnight, thereby contributing to lower electricity usage.

Trials are underway of lower wattage tungsten halogen and LED lamps and are progressing well. The jewellery cabinet lighting trial—designed to reduce the energy consumed and heat generated by these displays—has been completed and a cost-effective solution will be rolled out in due course.

#### *New Stores*

Our target is to reduce the energy usage of new stores by 30 per cent compared to the total store portfolio. The five stores opened in 2009 achieved this target with the average energy usage of these stores being 34 per cent lower than that of all stores. New stores are built with energy efficiency in mind, using construction materials wherever possible which aid energy efficiency and installing energy efficient heating and air conditioning systems. In addition, low energy LED lighting is used wherever possible.

#### *Green Energy*

In October 2008, Debenhams signed a landmark two-year deal with Scottish Power to supply all its UK stores and properties with electricity provided by wind power. Scottish Power supplies us with 35 MW of green energy a month which is enough to light and heat 50,000 homes. The power source is the Black Laws wind farm near Shotts in Scotland.

#### *Raising Awareness of Energy Efficiency for Employees*

Encouraging our employees to take responsibility for their energy usage both at work and at home is an important way that we can reduce our impact on the environment.

The storewide energy efficiency programme which uses the magazine style “E!” publication as its principal communication tool continued to good effect in 2009. The programme rewards both individual employees and stores for success in energy efficiency initiatives. In the two programmes run during 2009, 80 stores were rewarded in the winter period and 105 in the summer period.

In 2009, an energy savings newsletter has been distributed in employee payslips containing, amongst other things, news about the Company’s energy programmes, tips for energy saving measures at home and special offers and incentives.

The head office energy awareness initiative “Do The Right Thing” is now in its second year. A competition was held between head office locations to see which could reduce its energy consumption the most, the winner achieving a 12 per cent reduction.

#### *2010 Energy Usage Projects*

Based upon our planned projects, the findings and recommendations from AEA, our focus for 2010 will be:

- replacement lights and lighting controls;
- more efficient refrigerators and dishwashers;
- completing the installation of AMR metering; and
- upgrading and networking heating and cooling controls.

#### *References*

2009 Guidelines to Defra/DECC’s GHG Conversion Factors for Company Reporting.

CIBSE (2004), CIBSE Guide F: Energy Efficiency in Buildings.

WBCSD and WRI (2004), Greenhouse Gas Protocol. A Corporate Accounting and Reporting Standard.

### *Ethical Trading*

#### *Ethical Sourcing*

Our sourcing strategy is part based on the concept of “right product, right country”. Through this, we endeavour to source products in the appropriate countries. Our commitment remains to ensure our products are made in ethically compliant factories. Our suppliers and manufacturers are required to adhere to our Code of Conduct and their compliance is regularly monitored to ensure that everyone involved in manufacturing products for Debenhams can work in a well-maintained, safe and caring working environment. We believe our customers have a right to expect every product we sell to be produced in safe and free environments, compliant with our Code of Conduct, and that all workers are treated with dignity and not exploited or discriminated against in any way.

#### *Ethical Trading Initiative*

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

## CORPORATE RESPONSIBILITY REVIEW

—continued

**Factory Approval and Audit**

Debenhams has continued to develop and strengthen its robust factory approval process. The level of data collection and analysis for each factory is now more comprehensive than last year. As part of this approval process, the submission of an Ethical Social Compliance audit, conducted by an internationally recognised third-party monitoring company, remains. However, the introduction of our nominated monitoring partner, Société Générale de Surveillance (SGS), has increased the communication and support for our suppliers and factories. The specific audit tool we require SGS to use for all our audits is called “Smeta”. This is recognised by the ETI and NGOs and the additional advantages to us are that this tool requires a standardised approach with set rules, therefore giving us maximum continuity within our programme.

We do not pass or fail existing factories. Instead our approach is to monitor and maintain standards by working together with our suppliers and their factories.

The process of identifying non-compliance throughout our supply chain has again significantly improved, allowing us to filter and reject as necessary at an earlier stage. No purchase orders can be placed with a new factory until it has been approved by Debenhams’ Compliance team and a code reference has to be “live” in order to activate an order.

In 2009, we rejected 75 factories from coming into the business for not meeting our Code of Conduct.

During the year we also had to disengage two suppliers permanently from the business for continually failing to meet our Code of Conduct.

In addition to introducing new factories, which are fully audited, as part of Supply Chain factory management we continue to review and deactivate factories that are no longer manufacturing our own buy product. This has resulted in 446 new factories being brought into the business and 1,438 factories being deactivated.

Our core hub areas account for over three quarters of our business. The largest two areas are China and India where 77 per cent and 89 per cent of our factories respectively are audited with the remainder in work-in-progress as part of our ongoing programme. 100 per cent of our factories in Bangladesh, the UK and Turkey have been audited.

All third-party audits are now unannounced, within a given two week window, and the number of unannounced visits by Debenhams’ senior management has increased.

As a result of reviewing the audit findings, corrective action plans are tracked and monitored within the agreed time scales for remediation. We work closely with our suppliers to deliver the required actions and this is supported globally by SGS. An example of this was a seminar conducted with SGS for our China suppliers in Hong Kong, which outlined our audit requirements and provided information on the most common issues found in China and ways to address them.

Following management’s visits to overseas factories to review compliance, we continue to send several cartons of new toys as a donation to several crèche facilities. In 2009 we sent toys to children in India, China and Bangladesh.

**Decent Work Project**

During the course of 2009 we have engaged with one of our major suppliers in China in a project with the ETI called Decent Working Practices. This is the first time any tri-partite group has successfully rolled out this pilot project. The ETI, Wintop of China (our partner manufacturer), China Women’s Working Network (a Hong Kong based NGO), are working together along with union collaboration from Hong Kong and academics from the Hong Kong University.

The main aims of the project are to establish a mechanism for sustainable labour management dialogue within the factory according to the practical circumstances of the factory and the expectations of different parties and to seek ways to improve the work environment through the mechanism of sustained labour/management dialogue.

The following is a summary of the experience and shared views of the project so far from the owner of Wintop: *“The ETI Decent Work project intends to support employers and employees at the factories to design and build a sustainable mechanism for dialogue within the factories and to provide continued support after the initial training. The objectives are to seek ways to improve the work environment through the mechanism of sustained labour management dialogue and to raise workers’ participation and awareness for the labour law, occupational health and safety and build their confidence and ability to solve labour management issues. The progress of the project up to date is that we have 24 workers who have registered to become worker representatives and we will soon start to provide appropriate training for them. I believe the ETI Decent Work project will benefit both the workers and the factory, given a better communication between the workers and the management. It helps to solve problems through employer-employee discussions and helps the factory to improve the productivity and management in order to give room for the improvement of working conditions. At the same time, it helps to strengthen employees’ approval and commitment to the factory, reducing turnover.”*

This project will continue into 2010 and as a pilot project for the group learnings will be shared amongst ETI members, NGOs and unions with further development for continuing projects rolled out, which we hope to encourage further into our Chinese supply chain.

**Purchasing Practices**

We believe that one of the best ways to ensure our ethical sourcing goals are met is to embed them into the purchasing process. Otherwise, as noted in reports by Oxfam, Cafod and Acona, purchasing practices can undermine the effectiveness and impact of ethical trading programmes by inadvertently restricting suppliers’ abilities to uphold labour standards. By analysing our end-to-end processes in depth, we were able to make changes to our purchasing practices, such as critical path management system improvements and staff training. We have also introduced “Expert” training sessions specifically on the elements of ethical auditing and pre-factory set up processes,

which all employees can attend. In addition to this, the standard Company HR induction for all new staff includes a more in-depth overview of our procedures and requirements. We are also continuing to run our London College of Fashion buying school programme.

In May 2009, further briefing sessions with our buying teams took place to reiterate our requirements, standards and overall ethical trading position. Part of these training sessions specifically covered the importance of purchasing practices and the impact they have on the workers.

As part of the ETI Purchasing Practice project we are meeting with an NGO in October 2009 with the ETI to engage and discuss our next steps for further development of our purchasing practices work.

#### Ethical Products

Debenhams operates within a framework of policies relating to the composition of its products, ranging from animal testing to conflict diamonds. These policies can be found in full on our website [www.debenhamsplc.com](http://www.debenhamsplc.com).

Customers are increasingly looking for products made from organic and Fairtrade materials and we are meeting this demand by increasing the number of organic and Fairtrade options available in both our designer and core product collections.

Designers at Debenhams brand Rocha. John Rocha is our flagship brand for the use of organic cotton and includes organic ranges across all departments in the store including womenswear, menswear, childrenswear and home. Additional organic cotton products were introduced into these ranges during 2009.

In other brands, organic cotton products include Red Herring T-shirts and sleepwear in womenswear, underwear and loungewear in menswear, babywear in childrenswear and bedding in home. These ranges have been expanded during 2009.

Fairtrade cotton remains strong within menswear with sales increasing year-on-year under the Maine New England FiveG brand. This perfect combination of Sir Steve Redgrave and Fairtrade has offered customers an exclusive, contemporary casual collection. It is available in 116 stores across jersey, shirts, denim, knitwear and outerwear. Based on the success of the existing Fairtrade ranges, there will be further expansion into new areas for spring/summer 2010.

In our food services business, all coffee served in Debenhams' restaurants and cafes used Douwe Egberts Good Origin coffee which is certified by global NGO Utz Kapeh as being derived from 100 per cent sustainable sources which protect both the interests of the workers who produce the beans and the environment in which they are grown. In addition, all tea used is endorsed by the Ethical Tea Partnership. We use free range eggs, which resulted in Debenhams being awarded the Good Egg Award by Compassion in World Farming. We also recycle used cooking oil into bio-diesel and use sandwich wrappers and napkins made from 100 per cent recycled

card/paper. Information sheets are available for customers on all our products providing details of ingredients for allergy or other customer preference purposes.

## Workplace and Community

### Our People

Debenhams had an average of 26,800 employees during 2009 (2008 average: 24,200). Most of this increase is accounted for by the large number of new store openings in the second half of 2008 and the first half of 2009. In light of growing unemployment in 2009, we were pleased to be able to create new jobs around the UK through the opening of new stores, including some 325 jobs at our new flagship store at Westfield London which opened in October 2008.

Labour turnover decreased from 41.7 per cent in 2008 to 29.7 per cent in 2009, an improvement only to be expected in light of the difficult economic environment and increasing levels of unemployment although we have taken some positive steps to increase employee retention.

76 per cent of our employees are female. 28 per cent of our people have more than five years' service, 16 per cent have more than ten years' service and 4 per cent have more than 20 years' service.

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

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

The policy helps us create a culture of respect and tolerance, a wider and more diverse talent pool from which we can recruit the best possible people for our business and supports our corporate reputation by ensuring we give excellent customer and employee experience. We recognise that few people would deliberately breach the policy, however, it is possible to do so unintentionally. We therefore require everyone to familiarise themselves with its contents.



## CORPORATE RESPONSIBILITY REVIEW

—continued

We are committed to ensuring equality of opportunities for all our employees. Through our equal opportunities policy we aim to create an environment that offers all employees the chance to use their skills and talent.

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

*Learning and Development*

We have a great reputation for developing our people and providing opportunities for employees to learn and develop is a crucial factor in our future success. In the fast moving retail environment employees need to have a flexible suite of skills. We offer a wide range of training courses and programmes which encourage individuals to expand their skills and reach their full potential. Comprehensive competency-based training programmes are offered to provide clear paths for progression for those wishing to pursue a career in all our areas of operations. A dedicated learning and development team works closely with stores and head office to ensure that both the potential and aspirations of our employees is maximised.

We are closely involved in skills development for the retail sector as a whole and Nikki Zamblera, Debenhams' HR Director, is on the board of Skillsmart Retail, the government Skills Sector Council for the industry, having served two years as Vice Chairman.

Highlights of the learning and development programme in 2009 include:

*Senior Management*

A new programme for senior head office buyers and merchandisers to prepare them for promotion to divisional head and senior executive level was introduced in 2009.

A similar programme was run for our most talented and experienced store managers to help them develop the skills they will need to become senior store managers. This is a vitally important programme as we continue to grow our store portfolio.

*Buying and Merchandising*

A number of junior and assistant buyers embarked upon "The Buying School" which comprises technical and behavioural modules including range planning, garment technology, margin and profit, negotiation skills, making an impact, managing upwards and presentation and management skills. The Buying School also links back to our corporate responsibility policy by ensuring that our up and coming buyers are fully versed in our purchasing policies.

*Store Managers*

Our highly successful Finishing School was launched during 2009 to help deputy store managers make the final step to their first appointment as store manager.

*NVQs*

During 2009, the Romford store undertook a pilot programme in conjunction with Havering College to offer a National Vocational Qualification (NVQ) Level 2 qualification to employees on the sales floor and in food services. The Debenhams Sales Advisor competencies formed the basis for the qualification and all 22 candidates achieved their qualification within a six-month period.

A Level 2 qualification is the equivalent of 5 GCSEs and as the majority of those taking place in the trial did not have educational qualifications the process has been hugely motivating for the individuals concerned. A further 28 people are now going through the training and assessment with one person taking a Level 3 (A level equivalent) NVQ. In terms of results, the absence level for the NVQ group is running at 2.3 per cent compared to the stores rolling annual absence of 4.1 per cent.

The programme has been very well received by the participants. Tracy Faïres of the Romford store said: "*Achieving NVQ Level 2 has been nothing but a positive experience for me. It has given me more confidence and enhanced my current level of training. The NVQ experience has given me the hunger to learn and develop more from life and work. I am excited about where my learning will end.*"

As a result of this pilot we have joined forces with Skillsmart Retail to run a trial in ten stores across England where the labour market is challenging. The trial, which commenced in September 2009, will involve at least 25 people in each store working towards a Level 2 qualification.

During the trial we will measure the labour turnover and absence rates for the trainees versus the store. We believe trial stores will see increased commitment from staff and higher motivation levels, particularly from those who may have missed out on other academic opportunities.

Longer term we believe that this qualification will support the development of the potential supervisor population.

*Disability Awareness*

We are continuing to improve the accessibility of our premises for employees, customers and visitors.

Disability awareness is an important component of the induction programme for all new store staff and training is given on customer care for disabled people.

We provide information on accessibility matters relating to our stores via [www.directenquiries.com](http://www.directenquiries.com). This includes information such as:

designated parking spaces; location of accessible entrances; passenger lift facilities; location of accessible toilet facilities; availability of personal shopper services; collect-by-car arrangements; and details of accessible customer collection points.

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

Debenhams welcomes applications for employment from disabled people. As part of our policy on Equality of Opportunity, decisions on recruitment, training, promotion, pay, terms and conditions and leavers are based solely on objective, job-related criteria and personal competence and performance.

During the past two years we have reviewed and, where appropriate, amended all HR policies with support and guidance from the Disability Rights Commission. A “Disability Champion” has been appointed in the HR team to ensure our policies and procedures are in line with both our legal obligations and business needs.

We seek wherever possible to make reasonable adjustments to ensure that an employee who becomes disabled during the course of his or her employment is able to continue working effectively. This includes: providing equipment or altering working arrangements; providing additional training; reallocating on a temporary or permanent basis some of the employee’s duties to other members of staff; transferring the employee to a suitable alternative role; and adjusting working times. Any such adjustment will be monitored and reviewed on a regular basis to ensure it is continues to be effective.

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

#### *Employee Consultation Forum (ECF)*

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

#### *Debenhams Retirement Association (DRA)*

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

The main source of funding is a donation from the Company but many stores and head office departments hold fundraising events for the DRA. During 2009, the second annual fundraising day was held with stores and head office departments running numerous events including cake sales, book and DVD sales, raffles and dressing up days.

#### *Celebrating Success*

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

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

#### *Health and Safety*

Nigel Palmer, Retail Operations Director, chairs the Company health and safety committee, which meets quarterly and is made up of representatives from all areas of the business. The findings of these meetings are communicated throughout the business. In addition, there are interim meetings of a smaller group (also every quarter) on operational issues.

Debenhams employs an Environmental Health and Safety Manager, a Food Quality Assurance Manager and Product Technologists to manage the application of policies and procedures in general health and safety, food safety and product safety. In relevant circumstances the Company also appoints consultants, with appropriate expertise, to advise on specific safety related matters.

Debenhams has specific partnership arrangements with two local authorities; Luton Borough Council on matters of general health and safety and Westminster Council on matters of food safety and trading standards.

In addition to the Company committee, every store also has a health and safety committee. The minutes from these meetings are published to the store and reviewed by the Environmental Health and Safety Manager. Each store also has an elected store safety representative, who is a member of the committee.

The maintenance of safety standards and the performance of key health and safety tasks form a major part of the risk management review. The outcome and remedial actions required after risk management inspections are followed up by the store manager, sales director and the risk management team.

Debenhams believes that the key to maintaining a safe environment for both employees and customers is through training on general safety for all employees when they are initially employed and through a programme of training on new developments, policies and trends.

CORPORATE RESPONSIBILITY REVIEW

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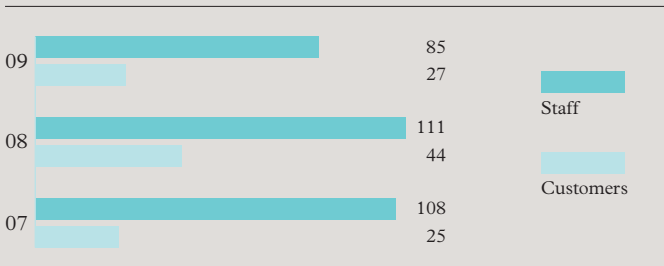
In addition, Debenhams recognises the training needs of specific roles and accordingly provides bespoke training; training is provided for:

- Technical Service Advisors and Selling Support Managers on the management and supervision of health and safety through attendance on approved Chartered Institute of Environmental Health courses;
- food services Sales Managers through intermediate food hygiene courses and in-house training on the principles of HACCP and its implementation in Debenhams food operations;
- all food handlers on basic food safety—a computer based programme accredited by the RIPH;
- Technical Services Advisors on basic electrical competence delivered by the Institute of Electrical Engineers;
- basic electrical safety for employees working in the lighting department;
- those working in the loading bay on safety considerations associated with their work environment; and
- the loss prevention teams on conflict resolution, restraint and personal safety.

As part of the major own bought space expansion that took place in the second half of the year, significant emphasis was placed on providing the correct information, instruction and training for stores to enable them to properly prepare for the project.

Debenhams records and reviews its performance in relation to the number and nature of the accidents reportable to enforcement authorities. Despite the expanding size of the business, and therefore the increasing customer footfall in the Company’s premises each year (in excess of 15 million), the results set out below continue to demonstrate an encouragingly low level of reportable accidents.

Accidents Statistics for Customers and Staff



Customers

Keeping in touch with our customers and understanding what they think about Debenhams is paramount to achieving our goals. Two new initiatives were launched in 2009 to help us do this.

Customer Feedback

A new Customer Experience feedback programme was launched in all stores at the end of June 2009. A message on every till receipt invites customers to visit a website where they fill in a survey to tell us about their instore experience. In the first two months of the programme 28,000 customers gave us their feedback on every aspect of the Debenhams customer experience.

As well as providing the store manager with a score for how their store is performing, we capture additional feedback on Company issues such as store environment, brand reputation and product range. There is immediate recognition for members of staff providing exceptional service, and an opportunity for store managers to engage with dissatisfied customers. Customers are also given the opportunity to opt-in for future marketing promotions and to join the Debenhams Design Team.

Whilst 65 per cent of customers were extremely satisfied with their visit to Debenhams, and 73 per cent of customers say that we’re better than other retailers, the programme has identified some areas for improvement—in particular store presentation and layout, availability and food services.

The Design Team

The Design Team is a group of Debenhams shoppers who take part in online research, also called a customer research community or an online customer panel.

Launched in October 2008, there are now 10,000 members who take part in regular online surveys, discussion boards and polls, giving feedback on all aspects of Debenhams including products, stores, service, website and marketing. To date, the Design Team has been involved in over 30 projects including the development of Beauty Club, instore ordering, new brand reviews such as women’s Mantaray, Bluezoo and Rocha, John Rocha Sonas and new department developments such as sports and leisure.

The Design Team is fully managed in-house by the Customer and Strategy Development team which allows customer feedback to be generated quickly and cost effectively and therefore gives the customer a voice in more decisions within Debenhams.

Design Team members are encouraged to participate with gift card prize draws and they enjoy hearing how their feedback is changing Debenhams in regular email newsletters. As one member says: *“By taking part in the Design Team surveys and helping Debenhams to meet customer expectations hopefully everyone will be a winner!”*



### Community Community Projects

Through its stores, Debenhams is involved in a wide range of local projects which help to provide direct support for the communities we are part of.

For several years we have been involved with local projects through Business in the Community (BitC) and Scottish Business in the Community (SBitC). As a result of this initiative, the opening programme for a new store now includes a team building event for the store management team which benefits local people and helps the team to recognise and start to understand the specific needs and issues of their own local community.

For example, a project took place ahead of the opening of the Great Yarmouth store in October where over 60 members of the new team took part in a beach clean on Yarmouth beach in conjunction with the Marine Conservation Society. After a day's hard cleaning, the team then enjoyed the Yarmouth Beach Olympics. The event was so successful that the store will be repeating it to celebrate its first anniversary.

In 2009, we have been working with Home-Start Trafford, a charity based in Trafford, Manchester which helps local families going through difficult times. Home-Start recruits and trains volunteers who provide support, friendship and practical help in the families' own home. The charity needed help in establishing a clear strategy and its scheme manager has requested outside mentoring support. Nicola Debney, Debenhams' Learning and Development Manager, Debbie Curran, Senior Store Manager for our Trafford Park store, and Janine Allen, Regional Training Manager, have supported the organisation in a number of ways. Nicola facilitated a strategy day for Home-Start's board and helped it to develop its future plan. Debbie is acting as mentor to scheme manager Kathryn Eckersley and Janine is helping Kathryn to prepare development plans for both herself and her team.

### Getting People Back to Work

As a large employer, we are keen to ensure employment opportunities are made available to all sections of the community, including those who have been out of employment for some time. One of the ways we do this is through our involvement with Local Employment Partnerships (LEP) which were set up by the government in 2007 with the aim of raising the employment rate and reducing the number of working people dependent on benefits. A key part of the LEP scheme is the "Jobs Pledge" through which employers work to offer opportunities to people who are at a disadvantage in the labour market—such as lone parents or those on incapacity benefit—so long as they engage with the support available and are ready, willing and able to work. Support is provided by agencies including Jobcentre Plus and the Learning and Skills Council.

To date Debenhams has employed over 150 people through LEP schemes. The schemes are particularly important at the time of new store openings. One region where LEP has been particularly successful is North Wales with the stores in Bangor, Llandudno and Wrexham leading the way. Having already been recognised for their work in this area in 2008, Debenhams North Wales won the Recruitment Innovation Award at the 2009 LEP Awards. The award citation detailed how we have developed novel ways to find new talent in the community and retain employees. Store manager Peter Rodgers said: *"The LEP has helped us reach the job market in a way that wouldn't be possible with traditional recruitment methods. We've found so many great employees. We don't favour these candidates, we just take away the unfair disadvantages."*

Debenhams was runner-up in the Getting Back To Work Award which focused on James McGrechan, one of the employees who has joined us as a result of the LEP in North Wales.

### Charities

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

One of our key national charities is the Breast Cancer Campaign which we have supported for a number of years, raising nearly £2 million to date through the sale of special products and instore events.

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

Other charities we have supported in 2009 include the NSPCC and its Irish equivalent ISPCC, Devon and Warwickshire Wildlife Trusts, Children's Hospice Association, Children First, Running The Deep and Muscular Dystrophy Eire.

Stores nominate local charities to receive the proceeds of events linked to the arrival of Santa instore for Christmas.

Our head office in Taunton supports a wide range of local charities and in 2009 these included local schools, sports clubs, animal charities, children's homes, old people's homes, hospitals, hospices and medical charities as well as supporting the charitable undertakings of individual members of staff.

# THE BOARD



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### 1 John Lovering\* *Chairman (60)*

John Lovering has been the Chairman of the Company since May 2006. Prior to the IPO in May 2006 he was Chairman of Debenhams Limited having been appointed in December 2003. Mr Lovering is a former Chairman of Fitness First Limited, the Laurel Pub Company Limited, Odeon Limited, Homebase Group Limited, Fired Earth Limited, the Peacock Group, Somerfield Limited and Birthdays Group Limited. He was also previously Chief Operating Officer of Tarmac Limited, Finance Director of Sears Limited and Vice Chairman of Barclays Capital.

### 2 Rob Templeman *Chief Executive (52)*

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

### 3 Michael Sharp *Deputy Chief Executive (52)*

Michael Sharp was appointed Deputy Chief Executive in November 2008 having previously held the post of Chief Operating Officer since May 2006. From 1997 to 2004, Mr Sharp was Trading Director of Debenhams Limited and from January 2004 to May 2006 was Chief Operating Officer 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.

### 4 Chris Woodhouse *Finance Director (48)*

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

### 5 Paul Pindar\*† *Independent Non-Executive Director (50)*

Paul Pindar became a director of the Company in April 2006 and was appointed Senior Independent non-executive Director in April 2009. He is also Chairman of the Nomination Committee. He has been Chief Executive of The Capita Group plc since 1999 having joined Capita in 1987. He is currently Chairman of the Corporate Development Board for the Great Ormond Street Hospital.

### 6 Adam Crozier\*† *Independent Non-Executive Director (45)*

Adam Crozier became a director of the Company in April 2006 and was appointed Chairman of the Remuneration Committee in April 2009. Mr Crozier is currently Chief Executive of Royal Mail Holdings plc and a non-executive director of Camelot Group plc. Previously he was Chief Executive of the Football Association Limited and has held a number of senior positions at Saatchi & Saatchi UK including Joint Chief Executive.

### 7 Martina King\* *Independent Non-Executive Director (48)*

Martina King joined the Company on 1 August 2009. Ms King is currently a non-executive director of Capita Group Plc, Independent Media Distribution Plc and Johnston Press Plc. Her former appointments include Managing Director, Europe of Yahoo Limited and Sales Director and then Managing Director of Capital Radio. Ms King is also a trustee of Coram and Governor of Woodbridge School.

### 8 Dennis Millard\*\* *Independent Non-Executive Director (60)*

Dennis Millard became a director of the Company in April 2006 and is Chairman of the Audit Committee. Mr Millard is also Chairman of Halfords Group plc and Smiths News plc and a non-executive director of Xchanging UK Limited 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.

### 9 Sophie Turner Laing† *Independent Non-Executive Director (49)*

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

- Member of the Audit Committee
- \* Member of the Nomination Committee
- † Member of the Remuneration Committee

# PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

## Introduction

The board has overall responsibility for risk management and internal control in terms of achieving Debenhams’ objectives. This is carried out through a regular and systematic assessment of the risks facing the business in order to provide assurance that strategic targets can be met. The board is responsible for the Company’s system of internal control and for reviewing its effectiveness. Such a system 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. The details of this process can be found within the section titled “Internal Control” in the Corporate Governance section of this annual report on page 44.

Statements made in the annual report that look forward in time or express management’s beliefs, expectations or estimates regarding future occurrences or prospects are “forward-looking statements”. These forward-looking statements reflect Debenhams’ current expectations concerning future results and actual results may differ materially from current expectations or historical results. Any such forward-looking statements are subject to various risks and uncertainties. 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. Whilst it is not possible to list them all, the key risks in no particular order, as determined by the board, their impact and relevant mitigation are detailed in the table below.

RISK	IMPACT	EXAMPLES OF MITIGATION
<b>STRATEGIC RISK</b>		
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	<ul style="list-style-type: none"> <li>Strategic business reviews conducted</li> <li>Business focused on key priorities and costs</li> <li>Brand awareness programme strengthened</li> <li>Growth through new stores, developing strong targeted power brands, accelerating development of our multi-channel offer and developing international opportunities with franchise partners</li> </ul>
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	<ul style="list-style-type: none"> <li>Range of discrete media used to target specific segments of the market</li> <li>Brand awareness programme strengthened</li> <li>Effectiveness measured regularly by management through key performance indicators</li> </ul>
Failure to develop and implement new store roll out 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	<ul style="list-style-type: none"> <li>Research of key markets and demographics</li> <li>Cost benefit analysis conducted pre-investment</li> <li>Market and trend awareness</li> <li>Thorough end-to-end management of project</li> <li>Drive growth through new space and improved visual merchandising</li> </ul>
<b>REPUTATIONAL RISK</b>		
Failure of ethical trading policy or poor perception in the market on Corporate Social Responsibility (CSR) matters	Negative effect on reputation leading to loss of stakeholder trust and confidence, with subsequent impact on performance and results	<ul style="list-style-type: none"> <li>Active member of Ethical Trading Initiative (ETI) and expect all suppliers to follow the ETI base code</li> <li>Excellent supplier relationships maintained to ensure ethical sourcing</li> <li>Executive body, who form the CSR committee, works on the key objectives for the organisation in this area (i.e. Waste Electrical and Electronic Equipment (WEEE), reducing energy usage and transportation costs)</li> <li>Membership of key industry bodies to provide awareness of changes to standards and legislation</li> <li>Code of Business Conduct Policy in place and compliance noted</li> <li>Whistleblowing policy in place</li> </ul>
Negative impact to brand due to product quality, supply chain practices, Health and Safety, etc	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	<ul style="list-style-type: none"> <li>Quality Assurance process in place to ensure the integrity of own bought products</li> <li>Active member of Ethical Trading Initiative (ETI) and expect all suppliers to follow the ETI base code</li> <li>Excellent supplier relationships maintained to ensure ethical sourcing and compliance</li> <li>Executive body, who form the CSR committee, works on the key objectives for the organisation in this area (i.e. WEEE, reducing energy usage and transportation costs)</li> <li>Membership of key industry bodies to provide awareness of changes to standards and legislation</li> <li>Executive Health and Safety committee who works to review compliance for organisation in this area</li> <li>Code of Business Conduct Policy in place and compliance noted</li> </ul>



RISK	IMPACT	EXAMPLES OF MITIGATION
<b>PRODUCT RISK</b>		
Inability to predict or fulfil customer demands or preferences	GTV 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	<ul style="list-style-type: none"> <li>• Market, trend and customer awareness</li> <li>• Excellent supplier relationships maintained to work towards optimising fulfilment</li> <li>• Close management of slow moving/terminal stocks</li> <li>• Focus on and improve stock file accuracy</li> <li>• High operational standards in stores</li> <li>• Effectiveness measured regularly by management through key performance indicators</li> </ul>
Competitive pressures in existing markets influencing customer behaviour	Place pressure on our pricing strategy, margins and profitability	<ul style="list-style-type: none"> <li>• Promotional activity and implementation reviews</li> <li>• Product differentiation through “Design in Every Department”</li> <li>• Listening to customers and market intelligence</li> <li>• Effectiveness measured regularly by management through key performance indicators</li> </ul>
<b>FINANCIAL RISK</b>		
The risks associated with currency, hedging, interest rates, credit, counterparties and financial covenant under the credit facilities	<p>Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow</p> <p>Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates</p> <p>May affect available cash and liquidity and could have material effect on the business, results of operations and financial condition</p>	<ul style="list-style-type: none"> <li>• Treasury function in place which is mandated by the board and audited annually</li> <li>• Treasury policy in place which includes counterparty limits and hedging for both foreign exchange, interest rates and energy</li> <li>• Deleverage balance sheet</li> <li>• Excellent supplier relationships maintained to work towards optimising costs</li> <li>• Close management of costs, capital investment, cash flow, stocks, banks, debtors and creditors</li> <li>• Effectiveness measured regularly by management through key performance indicators</li> </ul>
Shortfall in the pension fund	Increases in pension related liabilities could impact profit and cash flow	<ul style="list-style-type: none"> <li>• Trustees carefully monitor the pension fund and adjust the investment strategy appropriately with any shortfall being brought to the board’s attention</li> </ul>
<b>OPERATIONAL RISK</b>		
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	<ul style="list-style-type: none"> <li>• Cost benefit analysis conducted pre-investment</li> <li>• Project assurance framework in place for all key projects undertaken</li> <li>• Steering committees monitor all key areas involved in project</li> </ul>
Risks associated with leasehold properties, or former properties for which Debenhams may have potential liabilities in the event of default by the current tenant	<p>Significant alterations in rental terms could have a material adverse effect on the business, as would failure to resecure desirable locations</p> <p>Disputes over modernisation of stores may lead to reinstatement costs being incurred and termination of leases may lead to dilapidation costs being incurred</p> <p>Failure to manage asbestos in specific properties may lead to fines or other liabilities affecting Debenhams’ reputation and the full or partial closure of such properties</p>	<ul style="list-style-type: none"> <li>• Property team liaises closely with landlords</li> <li>• Close management of renegotiation and modernisation processes</li> <li>• Cost benefit analysis conducted for modernisations pre-investment</li> <li>• Awareness of market rates and trends</li> <li>• Membership of key industry bodies to provide awareness of changes to standards and legislation</li> </ul>

PRINCIPAL BUSINESS RISKS AND UNCERTAINTIES

—continued

RISK	IMPACT	EXAMPLES OF MITIGATION
<b>HAZARD</b>		
Loss of business or additional expenditure caused by terrorism, increased energy costs, natural disaster, pandemics or tax/regulatory changes	<p>Adverse effect on inventory and gross transaction value and will also divert financial and management resources from more beneficial uses</p> <p>In the case of terrorism, customer confidence may also be impacted</p>	<ul style="list-style-type: none"> <li>Executive body, forming the business continuity committee, works on key objectives for the organisation in this area</li> <li>Business continuity plan in place for the organisation</li> <li>Executive Health and Safety committee works to review compliance for organisation in this area</li> <li>Internal audits conducted to assess the degree of Health and Safety compliance</li> <li>Regulatory/legal changes are monitored through specialists i.e. Tax, HR, Legal, and International</li> <li>Insurance placed where appropriate for key risks</li> </ul>
Disruptions or other adverse events affecting relationships with or the performance of major suppliers, store card providers, designers or concessionaires	<p>Costs associated with the transfer of the operations, potential of additional operational cost from a new provider</p> <p>Changes in exclusivity arrangements with designers could affect business financial condition and results of operations, any decline in popularity of one or more of the designers could have a material adverse impact on the business</p> <p>Loss of a number of important concession partners may have an adverse effect on gross transaction value</p> <p>Adverse events within the supply chain could restrict the availability or significantly increase the cost of merchandise</p> <p>Credit insurance difficulties for a significant number of suppliers could lead to a detrimental variation of terms or alternative suppliers used to source some goods</p>	<ul style="list-style-type: none"> <li>Maintain excellent supplier relationships to work towards optimising fulfilment and costs</li> <li>Maintain excellent designer relationships</li> <li>Market, trend and customer awareness</li> <li>Appropriate contracts in place</li> <li>Financial status monitored and contingency plan in place</li> <li>Grow own bought merchandise</li> <li>Maintain excellent supplier relationships to work towards optimising fulfilment and costs</li> <li>Development of multiple sourcing routes</li> <li>Promote business strategy to suppliers and their providers of financial backing</li> </ul>
Abnormal, severe or unseasonal weather conditions	Materially adversely affect gross transaction value and may be required to write down the value of any stock acquired for sale during this period	<ul style="list-style-type: none"> <li>Maintain excellent supplier relationships to work towards optimising fulfilment, lead times and costs</li> </ul>
Personal injury or property damage relating to a major Debenhams or supplier location	<p>Injury or loss of life to staff or customers</p> <p>Negative effect on reputation and will divert financial and management resources from more beneficial use</p>	<ul style="list-style-type: none"> <li>Executive Health and Safety committee works to review compliance for organisation in this area</li> <li>High operating standards in stores and head office</li> <li>Quality Assurance process in place to ensure the integrity of own bought products</li> </ul>
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 use	<ul style="list-style-type: none"> <li>Information Security committee reviews projects and key activities for compliance in this area</li> <li>Compliance levels monitored by management and reported to Audit Committee</li> <li>Strategy for full compliance in place</li> <li>Security tools (i.e. encryption) used to protect data</li> </ul>
Fraud	Negative effect on reputation and will divert financial and management resources from more beneficial uses	<ul style="list-style-type: none"> <li>Accounting policies and other procedures/controls in place which are subject to audit activity</li> <li>Code of Business Conduct Policy in place and compliance for management noted</li> <li>Whistleblowing policy in place</li> <li>Prevention, control and monitoring activities undertaken</li> <li>Risk Management investigates issues and report findings to the Audit Committee</li> </ul>
<b>PERSONNEL RISK</b>		
Departure of key personnel	Significantly delay or prevent achievement of business plan	<ul style="list-style-type: none"> <li>Succession planning throughout the organisation</li> <li>Personal development plans in place</li> <li>Targeted performance related bonus schemes</li> <li>PSP and ESOP schemes in place</li> </ul>

# DIRECTORS' REPORT

## Principal Activities

Debenhams is a leading department store group with a strong presence in womenswear, menswear, home, health and beauty, accessories, lingerie and childrenswear. A unique mix of exclusive own brands, including Designers at Debenhams, and third-party brands helps differentiate Debenhams from its competitors.

Debenhams had 154 stores including ten Desire by Debenhams stores, across the UK and Ireland with approximately 11.0 million sq ft of trading space and some 28,000 employees as at 29 August 2009.

In addition, Debenhams has 52 international franchise stores in 17 countries outside the UK and Ireland. Debenhams also extends its customer reach by making direct sales through its internet website [www.debenhams.com](http://www.debenhams.com).

## Business Review

This review has been prepared in accordance with the Companies Act 2006 which requires the Company to set out in this report a fair review of the business of the Group during the financial year ended 29 August 2009, 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 Corporate Responsibility Review which can be found on pages 4 to 33, Principal Business Risks and Uncertainties on pages 36 to 38, the Remuneration Report on pages 47 to 53 and the Directors' Responsibility Statement on page 54 constitute the Business Review and are therefore incorporated into this report by reference. Any liability is restricted to the extent prescribed by the Companies Act 2006.

## Events Since the Year End

Since the year end Debenhams has opened two Desire by Debenhams stores, one in Kidderminster and one in Monks Cross.

## Profit and Dividends

The profit after tax for the financial year ending 29 August 2009 was £95.1 million (2008: £77.1 million). The board did not declare an interim dividend (2008: 2.5 pence per share) and has not proposed a final dividend for 2009 (2008: 0.5 pence per share).

## Share Capital

The authorised and issued share capital of the Company are shown in note 27 to the Financial Statements on pages 86 and 87. On 23 June 2009, the authorised share capital of the Company was increased from £128,846.15 to £167,284.82 in connection with the placing and open offer, the details of which were set out in the prospectus published on 5 June 2009. As a result of the approval of the placing and open offer on 23 June 2009, 403,981,283 ordinary shares of 0.01 pence per share were issued on 26 June 2009.

## Major Shareholders

As at 22 October 2009, Debenhams plc has received notification of the following significant holdings of voting rights pursuant to the Disclosure and Transparency Rules:

Shareholder	Number of shares	Issued share capital %
Artemis Investment Management Ltd	128,099,725	9.95
TPG Group	120,220,261	9.34
Bestinver Gestion S.A. SGIC	108,762,946	8.45
Milestone Resources Group Ltd	89,183,155	6.93
Standard Life Investments Ltd	77,493,993	6.02
AXA S.A.	63,829,985	4.96
Legal & General Group plc	42,075,474	3.27

## DIRECTORS' REPORT

—continued

**Share Capital and Control**

The authorised and issued share capital of the Company are shown in note 27 to the Financial Statements on pages 86 and 87 and consist of ordinary shares of 0.01 pence each. All the shares rank *pari passu*. The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary. The Company was authorised by shareholders at the January 2009 Annual General Meeting (AGM) to purchase in the market up to 87,477,032 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 AGM to renew this standard authority for a further year. It is the Company's present intention, should shares be bought back, for them to be cancelled or retained in treasury pending a subsequent sale, cancellation or transfer. The Company does not currently hold any shares in treasury. The Company will only buy back shares if the directors believe that it is in shareholders' best interests and will increase earnings per share.

Changes to the Articles of Association must be approved by special resolution of the Company. New Articles are being proposed at this year's AGM to reflect principally the changes imposed by the Companies (Shareholders' Rights) Regulations 2009 and the Companies Act 2006. Explanatory notes relating to these changes are included in the appendix to the Notice of Meeting that accompanies this report.

The Debenhams Retail Employee Trust 2004 holds 1,413,536 ordinary shares in the Company (0.11 per cent); any voting or other similar decisions relating to those shares 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 major cosmetic suppliers contain termination provisions on change of control and the Credit Agreement dated 19 April 2006 (as amended by supplemental agreements dated 28 November 2007 and 3 June 2009) in respect of the £1,350 million credit facility contains mandatory pre-payment. 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 50 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 our business with the exception of our warehouse operators.

**Board of Directors**

The membership of the board and biographical details of the directors are given on pages 34 and 35 and are incorporated into this report by reference. The rules governing the appointment and replacement of the board members are set out in the Company's Articles of Association.

**Directors' Indemnities**

In addition to the indemnity provisions in their Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the directors and certain other officers or senior employees of the Group. The Company also maintains directors' and officers' liability insurance which gives appropriate cover for any legal action that may be 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 52 of the Remuneration Report. Their interests in options and awards over shares in the Company are shown on page 53 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.

**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 29 August 2009 was nil days (2008: 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 29 August 2009 was 57 days (2008: 58 days).

**Financial Instruments**

Debenhams does not enter into financial instruments for speculative trade. Details of financial instruments entered into for underlying risks are set out in note 22 on pages 78 to 81.

**Political Donations**

It is the Group's policy not to make donations to political parties. 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.



### Charitable Giving

Details of the Company's charitable activities are given in the Corporate Responsibility Review on page 33. The Group made direct donations for charitable purposes in the financial year of £124,906 to the Breast Cancer Campaign (2008: £122,628), £210,581 to the NSPCC (2008: £nil), £63,444 to the Debenhams Retirement Association (2008: £60,000) and £10,000 to the Marine Conservation Society (2008: £10,000).

### Going Concern

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

### Corporate Governance Statement

In accordance with the Financial Services Authority's Disclosure and Transparency Rule ("DTR") 7.2.1, the disclosures required by DTR 7.2.2R to DTR 7.2.7 are within the Corporate Governance Review on pages 42 to 46 of this report which is incorporated into this report by reference.

### Disclosure of Information to Auditors

Each of the directors of the Company at the time when this 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 him/herself 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 AGM.

### Annual General Meeting (AGM)

The AGM of Debenhams plc will be held at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on Tuesday 12 January 2010 at 2pm. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

By order of the board

**PAUL EARDLEY**

*Company Secretary*

22 October 2009

# CORPORATE GOVERNANCE

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that at 29 August 2009 and as at the date of this annual report, it was compliant with the provisions of and has applied the principles as set out in the 2008 Combined Code on Corporate Governance (“the Code”) issued by the Financial Reporting Council. The Company also confirms that it was compliant throughout the year except for Code Provision A.3.2 which requires that at least half the board, excluding the Chairman, should comprise independent non-executive directors. At the start of the year the board comprised the Chairman, four executive directors, five independent non-executives and two non-independent non-executives. Following the departure of Angela Spindler as Managing Director on 30 November 2008 there remained three executive directors. Richard Gillingwater resigned from the board on 16 April 2009 reducing the number of independent non-executives to four. On 3 June 2009, Jonathan Feuer and Philippe Costeletos, the two non-independent non-executive directors resigned from the board. Since 1 August this year, following the resignation of Peter Long and the appointment of Martina King and Sophie Turner Laing, the board comprises the Chairman, five independent non-executive directors and three executive directors. The board is confident that it has the right balance of skills and experience appropriate for the requirements of the business, that no individual dominates the decision making and that the board operated effectively throughout the year and continues to do so.

The following section sets out how the Company has applied the principles of Section 1 of the 2008 Combined Code on Corporate Governance.

## The Board

The board of directors, chaired by John Lovering, provides leadership of the Group directly and through the operation of committees and delegated authority. In accordance with good practice there is a formal schedule of matters reserved for the board’s decision and this can be found on the Company’s website [www.debenhamsplc.com](http://www.debenhamsplc.com). There are clear divisions of responsibilities between the Chairman and the Chief Executive and these are set out in writing and agreed by the board. The description of the roles and responsibilities of the Chairman and Chief Executive is also available on [www.debenhamsplc.com](http://www.debenhamsplc.com). The Chairman’s main responsibilities are to lead the board, ensuring its effectiveness on all aspects, to facilitate the contribution of the non-executive directors and the relationship between them and the executive directors and to set the board’s agenda. The day-to-day management of the Group is the responsibility of the Chief Executive.

The executive directors are Rob Templeman (Chief Executive), Michael Sharp (Deputy Chief Executive—having been appointed to the position in November 2008) and Chris Woodhouse (Finance Director). Rob Templeman will stand for re-election, in accordance with the provisions of the Code, at the 2010 Annual General Meeting (AGM).

The five independent non-executive directors are Paul Pindar (Senior Independent Director), Adam Crozier, Dennis Millard, Martina King and Sophie Turner Laing. In accordance with the Code, Martina King and Sophie Turner Laing who were appointed non-executives during the year will be subject to election by shareholders at their first AGM in 2010 along with Dennis Millard who will offer himself for re-election. All the non-executive directors are considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement.

The following details the changes to the board composition since 30 August 2008:

Michael Sharp	Executive Director	Promoted to Deputy Chief Executive on 3 November 2008
Angela Spindler	Executive Director	Resigned 30 November 2008
Richard Gillingwater	Senior Independent Director	Resigned 16 April 2009
Jonathan Feuer	Non-Executive Director	Resigned 3 June 2009
Philippe Costeletos	Non-Executive Director	Resigned 3 June 2009
Peter Long	Non-Executive Director	Resigned 1 August 2009
Martina King	Non-Executive Director	Appointed 1 August 2009
Sophie Turner Laing	Non-Executive Director	Appointed 1 August 2009

In addition to the directors, board meetings are attended by Nigel Palmer (Retail Operations Director), Nikki Zamblera (Human Resources Director), Suzanne Harlow (Group Trading Director) and Paul Eardley (Company Secretary and General Counsel). Suzanne Harlow was appointed to the position of Group Trading Director in November 2008 and is responsible for all of the buying and merchandising functions of the Group.

## Meetings and Attendance

Full attendance is expected at all meetings of the board and its committees. Agendas are set by the chairman of the meeting and papers are usually circulated to the members one week in advance. The board held six meetings during 2008/09 as well as a number of ad hoc meetings and committee meetings held in connection with the placing and open offer.

The attendance by individual directors at scheduled meetings of the board and its committees in 2008/09 was as follows:

	Board meeting	Nomination Committee	Remuneration Committee	Audit Committee
<b>Number of meetings</b>	<b>6</b>	<b>1</b>	<b>3</b>	<b>3</b>
John Lovering	6	1		
Rob Templeman	6			
Michael Sharp	6			
Chris Woodhouse	6			
Adam Crozier	5		2	2
Martina King <sup>(1)</sup>				
Sophie Turner Laing <sup>(1)</sup>				
Dennis Millard	6	1	3	3
Paul Pindar	5	1	2	

Note: (1) Martina King and Sophie Turner Laing were both appointed to the board on 1 August 2009. There were no board or Committee meetings held during the period from their date of appointment to 29 August 2009.

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 and if necessary follow up with the relevant chairman of the meeting.

#### Board Committees

The board committees are the Audit, Remuneration and Nomination Committees. The terms of reference of each committee can be found at [www.debenhamsplc.com](http://www.debenhamsplc.com).

#### Nomination Committee

The Nomination Committee is chaired by Paul Pindar. The other members are John Lovering and Dennis Millard. The committee is responsible for making appropriate recommendations to the board for the appointment of replacement or additional directors. It is also responsible for succession planning, for reviewing board size, structure and composition, the re-election of any director by shareholders, directors' time commitment and for monitoring and approving the directors' conflicts of interest.

On 7 July 2009, the appointment of two new non-executive directors was announced. The Nomination Committee identified possible candidates for these non-executive positions with the aid of external search consultants. The Chairman met a number of potential candidates before recommending a shortlist to the Chairman of the Nomination Committee. Following further discussion Martina King and Sophie Turner Laing were appointed, effective from 1 August 2009. Before the appointment Martina King and Sophie Turner Laing had met several other members of the board. There is a full induction process in place for the new directors that aims to enable them to make a full contribution to board discussions and refresh their knowledge on corporate governance and compliance.

#### The Remuneration Committee

The Committee's membership and responsibilities are detailed within the Remuneration Report on pages 47 to 53.

#### The Audit Committee

The board has overall responsibility for the system of internal controls, including risk management, and has delegated certain of these responsibilities to the Audit Committee, which is chaired by Dennis Millard who has significant, recent and relevant financial experience. The other members are Adam Crozier and Martina King. All the members of the Committee are independent non-executive directors. Audit Committee meetings are also attended by the Finance Director, the Company Secretary, the Head of Risk Management, the external auditors and the Treasurer. In addition to the meetings set out in the attendance table above, the Committee met with the Company's auditors and the Head of Risk Management separately without any executives being present.

During the year the Committee has monitored and reviewed the efficiency of risk management and internal control, considered the external auditors' performance, resource, independence and objectivity to enable them to recommend to the board their re-election as auditors for 2009, reviewed the financial statements, key accounting policies, the auditors' report on the year-end audit and management's responses to the issues. The internal audit programme and the external audit strategy and scope for 2009 were also agreed and approved. Treasury, legal and health and safety reports are presented to each meeting. The Chairman of the Committee reports any significant findings or identified weaknesses to the board.

## CORPORATE GOVERNANCE

*—continued***Information and Professional Development**

The Chairman, together with the Company Secretary, ensures that the directors receive accurate, timely and clear information. At each board meeting the Chief Executive and Deputy Chief Executive each provide a review of the business and how it is performing and the Finance Director provides a detailed review of the Group's financial performance. In addition, the board receives presentations from other senior management on key areas of the business. The Company makes available the necessary resources to develop and update its directors' knowledge and skills in order that they may perform the functions required of a director of a listed company. All directors have access to the advice and services of the Company Secretary, who is appointed by, and can only be removed by, the board. The Company Secretary ensures compliance with board processes and gives advice on corporate governance. Independent professional advice is also available to the non-executive directors and the board committees at the Company's expense in order to fulfil their duties. None of the directors sought such advice during the year. Debenhams provides insurance cover and indemnities for its directors and officers.

**Performance Evaluation**

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

Use of an external body to manage the performance evaluation process was considered. However the board concluded that the approach followed last year remained appropriate and cost efficient for the Company. Consequently, as in previous years, a confidential questionnaire was completed by all directors in relation to the board and any committee of which they were a member. In addition, the Chairman completed questionnaires on each individual director. The questionnaires seek to establish whether the group or individual was contributing effectively to their role and to also determine their commitment to the role. The senior independent director appraised the Chairman's performance.

The results of the evaluations were collated by the Company Secretary and analysed in detail by the Chairman, the chairman of the relevant committee, the senior independent non-executive director and the Company Secretary. The Chairman led the full board in a discussion about the results of the evaluation and a similar session took place in respect of each committee led by the committee chairman.

The evaluation concluded that the board operates well and that the board committees operate effectively. In particular, the structure of the board is now more suitable for that of a public company. The discussions have led to further adjustments to the method of agenda setting, allocation of more time on the board agenda for non-operational matters and for a more structured follow up of action items arising from board meetings.

**Directors' Conflicts of Interest**

At the AGM in January 2009, shareholders approved the adoption of new Articles of Association, which amongst other things, permitted the board to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company. The Nominations Committee reviewed and considered the interests and other appointments of the board members in August this year and all conflicts were approved. Directors have a continuing duty to update any changes to the registered conflicts.

**Share Capital and Control**

Information which the directors are required to provide pursuant to Section 992 of the Companies Act 2006 can be found on page 40 of the Directors' Report.

**Internal Control**

The board considers it important that there should be a regular and systematic assessment of the risks facing the business in order to provide assurance that strategic targets can be met. The board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system 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.

The following sections detail how the Company maintains a framework of internal controls based on a combination of the five components of the internationally recognised COSO Framework for Internal Control together with other enterprise risk management guidelines and any related guidance provided by the Financial Reporting Council. Also described below are details of how the Audit Committee reviewed during the year the effectiveness of that framework and its supporting policies and procedures.

**Control Environment Including Objective Setting**

The strategic objectives of the organisation are underpinned by the control environment which is exemplified by the board to their various stakeholders through their compliance with the Combined Code of Corporate Governance, internally published risk management strategy, related policies and procedures and in particular the Code of Business Conduct.

**Risk Assessment and Risk Response**

Risks to the achievement of the strategic objectives have been identified through various organisation-wide control environment reviews, the most recent of which was completed in September 2009. The board, including the senior management team, participated in this exercise which considered the business strategy and related objectives, internal and external risks to their achievement, together with current and any new controls required to mitigate those risks. Risks were ranked according to a matrix of severity and likelihood of occurrence and the risk register was updated accordingly.



The key risks identified, together with strategies to mitigate them, are reviewed by the Audit Committee and ratified by the board annually. During this process the Audit Committee satisfy themselves that the key risks are being effectively managed and monitored by senior management and that the internal audit plan is focused on high priorities. Information on principal business risks and uncertainties can be found on pages 36 to 38.

#### Control Activities

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

In addition, suitably qualified staff are responsible for each of the functions within the organisation and there are training, performance reviews and support mechanisms in place to ensure standards of performance are maintained.

#### Monitoring and Communicating

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

In addition to the above, there are a number of processes to test the Company's financial information and controls. An operating plan is prepared in August of each year and a revised forecast is then prepared each month, 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 also prepared, all of which report on performance against plan, last year and forecast. A treasury report is made to each meeting of the board, covering matters such as senior operating restrictions and covenant reporting and forecasting (under the 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.

#### Internal Audit and Risk Management

Internal audit forms part of the risk management function, which also comprises the 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 internal audit to benefit from the insights that the other elements of the team can provide. The internal audit plan focuses on critical and serious risk testing of high priority areas.

The Company Secretary conducted an evaluation of the effectiveness of both internal and external audit teams in August 2009. The respondents included all Audit Committee members, the Finance Director, function heads, senior retail managers and a self-assessment by the Head of Internal Audit and Risk Management.

For the internal audit function the evaluation considered effectiveness in a number of categories; understanding, charter and structure, skills and experience, communication, planning, performance and work programme. The categories for external audit were reputation and coverage, communication, understanding, governance and independence, quality processes, audit team, audit scope, performance, audit fees. The overall feedback was very positive for both internal and external audit with effectiveness scores of 90 per cent and 95 per cent respectively.

#### Whistle Blowing

All employees are required to adhere to the Code of Business Conduct (senior employees confirm compliance in writing). This sets out the ethical standards expected by the Company and includes details of how matters can be raised in strict confidence. There are two main routes available to encourage employees at all levels within the organisation to raise concerns over malpractices. The first, employee guidelines 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 central human resources team) directly. The alternative route is a confidential reporting line, where employees can speak to the Debenhams anti-fraud team. If an employee feels that the matter is so serious that it cannot be discussed in any of these ways, he/she should contact the Company Secretary or the Head of Risk Management directly. Contact details are given for all these routes. The Company's policy on whistle blowing and these methods of raising issues of concern are published on the intranet and emphasised on posters. All serious matters are raised with the Audit Committee Chairman.

#### Auditor Independence

In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is regularly reviewed. This covers matters such as 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 re-appointment annually of the auditors and the board then ensures that this is included on the Notice for the Annual General Meeting. PricewaterhouseCoopers LLP ("PwC") has a policy that requires the audit partner to rotate off an audit client's account every five years and this rotation has recently taken place in respect of the Debenhams audit. As regards the risk of PwC's withdrawal from the market, the Company considers that there are sufficient other auditors in the market place should this situation ever arise.

## CORPORATE GOVERNANCE

*—continued*

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 auditors auditing their own work or making management decisions for the Company and those where some mutuality of interest is created or where the external auditors are put in the role of advocate for the Company. The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include tax advisory services or services where the auditors are acting as the Company's reporting accountant.

£0.7 million was paid by the Company to PricewaterhouseCoopers LLP for non-audit services in respect of advisory services, £0.6 million of which related to the capital raising in June 2009. The audit fees paid by the pension schemes were £46,000.

**Relations with Shareholders**

The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and senior independent director are always available to meet with major shareholders at their request on relevant issues. During 2009 shareholders were consulted on remuneration issues. Formal trading updates were issued on six occasions during the year: September 2008 (full-year trading update), October 2008 (full-year results), January 2009 (interim management statement), March 2009 (half-year trading update), April 2009 (interim results) and June 2009 (interim management statement). Formal presentations were held following the announcement of the full-year and interim results. Conference calls were held for all other trading updates and interim management statements. A programme of meetings and conference calls is organised throughout the year at which the Chief Executive, Finance Director and Head of Investor Relations discuss the Company's performance with investors. In 2009 meetings were held in London, Edinburgh, Boston, Stamford and New York. Analysts and investors were invited to attend tours of the new flagship store in Westfield London in October 2008 and March 2009. The Chairman made a presentation on the Company's financial performance and major business initiatives at the AGM in January 2009.

# REMUNERATION REPORT

This Remuneration Report for the year ended 29 August 2009 has been prepared by the Remuneration Committee on behalf of the board for approval by shareholders at the Annual General Meeting (AGM) to be held on 12 January 2010. The report complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the 2008 Combined Code on Corporate Governance.

## *Part 1: Unaudited Information*

### **The Remuneration Committee**

The Remuneration Committee comprises the following non-executive directors: Adam Crozier (Committee Chairman), Dennis Millard, Paul Pindar and Sophie Turner Laing (appointed on 1 August 2009). The Company Secretary is secretary to the Committee. There were three meetings of the Committee during the year under review. The individual attendance of the directors is detailed in the table within the Corporate Governance Report on page 43.

The Committee has responsibility for setting the remuneration of the executive directors and the Company Secretary, reviewing the appropriateness and relevance of the remuneration policy and administering all aspects of any share schemes in operation for senior management. The Committee is governed by formal terms of reference which are reviewed annually and can be downloaded from the Company's website at [www.debenhamsplc.com](http://www.debenhamsplc.com).

During the year, the Committee appointed Deloitte LLP ("Deloitte") to provide it with independent advice on directors' remuneration and share plans. Deloitte also provides industry and comparative employee remuneration data to Debenhams' management. The Committee has also consulted with the Company's Chairman, Chief Executive, Finance Director and Human Resources Director but not on matters relating to their own compensation or contracts. Deloitte also provided advisory services in respect of corporate tax planning during the year.

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

### **Remuneration Policy**

When determining remuneration policy and arrangements for executive directors, the Remuneration Committee considers pay and employment conditions elsewhere in the Group. 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 2008/09, as part of the announcement of a pay freeze for the senior management population, the executive directors also elected to take a pay freeze. This pay freeze will continue for the executive directors group in 2009/10 although it has been lifted for the rest of the management population. In addition to basic salary and pension provision, the Company seeks to incentivise its managers through an annual bonus scheme and through its share schemes. The Committee's policy is to weight executive directors' remuneration towards performance-linked pay and thus to strike a balance between short and long-term incentives. For the financial year 2009/10 the Committee intends to implement changes to the performance conditions underpinning the Performance Share Plan and the Executive Share Option Plan. This follows further consultation with shareholders in July and August 2009. No awards have been granted this year under these plans to executive directors. It has been determined that the Chief Executive and Finance Director will not be made awards under the Performance Share Plan or the Executive Share Option Plan in 2009/10. The Deputy Chief Executive will be granted awards under the PSP and ESOP with a face value of 75 per cent of base salary under each plan. The awards will vest subject to stretching EPS growth targets (PSP) and sustained ROCE outperformance (ESOP). Full details of targets will be disclosed in the 2009/10 Remuneration Report. The Committee believes that in totality the combined use of performance share awards with an EPS performance measure and share options with a ROCE performance measure effectively incentivises management to achieve both share price and efficient earnings returns which are goals aligned with the Company's long-term strategy and shareholder value creation.

### **Components of Remuneration**

#### **Base Salary**

The Committee considers base salary and salary increases for executives based on the median level paid within a group of comparable companies in the FTSE 350 Retail sector and in the context of salary increases across the Group's wider employee population. To ensure the attraction and retention of the quality of individuals required to successfully run the business, the Committee's policy is for base pay to be at or close to the market median of companies of a comparative enterprise value. The Committee believes the benchmarking on the basis of enterprise value captures the capital structure of the Company and better reflects the scope, complexity and responsibility of the roles at Debenhams.

Base salaries were not increased in respect of 2008/09 and in addition, the executive directors have elected to take a pay freeze for 2009/10 in light of the uncertain market conditions faced by the industry. Michael Sharp's salary increased to £540,000 due to his promotion to Deputy Chief Executive on 3 November 2008.

#### **Executive Directors' Bonus Schemes**

The annual bonus scheme for executive directors focuses on the achievement of specific numerical business targets. The maximum bonus potential for 2008/09 was 100 per cent salary and the targets composed of two independent elements: profit before tax and net debt.

REMUNERATION REPORT

—continued

Profit before tax of £120.8 million (post executive bonus) has triggered a bonus achievement of 43.6 per cent on this target, with the net debt target triggering at 20 per cent of salary. This, therefore, triggered a bonus award of 63.6 per cent of base salary. An additional award of £166,594 has been made to Chris Woodhouse, Finance Director, in recognition of the exceptional effort on his part in the successful capital raising in June 2009 and the restructuring of the Company's debt.

During the year the Committee reviewed the performance measures for the annual bonus and determined that for 2009/10 bonus would be based on one measure: Earnings Before Interest and Tax ("EBIT") performance. The Committee considered that this approach would better focus executive directors on achieving exceptional earnings performance.

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

The Committee has discretion to grant awards under the PSP up to a maximum of 200 per cent of base salary to executive directors and other senior executives. Up to 250 per cent of base salary may be awarded in exceptional circumstances (e.g. for recruitment). On vesting, executives may receive shares, the number of which is determined by the extent to which a performance condition is achieved, provided that they remain employed in the Group. Awards under the PSP comprise an option 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 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 if the Remuneration Committee is satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the award.

Awards made up to date under the PSP are subject to two performance targets. 50 per cent of the award is based on the Adjusted Earnings Per Share ("EPS") growth of the Company above the percentage increase in the Retail Prices Index ("RPI") over a three-year performance period and the other 50 per cent is based on the Company's Total Shareholder Return ("TSR") against the weighted TSR of the FTSE 350 General Retailers Index over a three-year performance period. The Committee considers TSR to be an appropriate measure of shareholder value with the FTSE 350 General Retailers Index as the comparator. The Committee determined that a weighted index was a fairer and more reasonable method of determining relative performance (as opposed to a conventional TSR ranking) as it factors in the size of each comparator company and therefore the absolute levels of value that each company generates relative to its size. When determining the TSR requirement for maximum vesting, the Committee took into consideration the historical TSR performance of the comparator companies over the past ten years. A three-month average TSR at the start and end of the performance period will be used to mitigate the effect of any short-term share price volatility. If one or both of the performance conditions are not met at the end of the performance period, 50 per cent or 100 per cent (as appropriate) of the awards will lapse immediately without any opportunity to re-test the relevant performance condition.

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 2006	50 per cent on EPS growth against RPI growth	Below RPI +7 per cent pa = zero vesting RPI +7 per cent pa = 30 per cent vesting RPI +14 per cent pa = 100 per cent Between 7 per cent and 14 per cent pa = straight-line basis between 30 per cent and 100 per cent
	50 per cent on TSR against FTSE 350	Debenhams TSR is less than the weighted TSR = zero vesting Debenhams TSR is equal to the weighted TSR = 30 per cent Debenhams TSR is ≥ 12 per cent above the weighted TSR = 100 per cent Between the latter two points = straight-line basis between 30 per cent and 100 per cent
29 May 2007	50 per cent on EPS growth against RPI growth	Below RPI +3 per cent pa = zero vesting RPI +3 per cent pa = 30 per cent vesting RPI +7 per cent pa = 100 per cent Between 3 per cent and 7 per cent pa = straight-line basis between 30 per cent and 100 per cent
	50 per cent on TSR against FTSE 350	Debenhams TSR is less than the weighted TSR = zero vesting Debenhams TSR is equal to the weighted TSR = 30 per cent Debenhams TSR is ≥ 12 per cent above the weighted TSR = 100 per cent Between the latter two points = straight-line basis between 30 per cent and 100 per cent



Performance conditions of PSP awards existing during the year (continued).

4 February 2008	50 per cent on EPS growth against RPI growth	Below RPI +3 per cent pa = zero vesting RPI +3 per cent pa = 30 per cent vesting RPI +8 per cent pa = 100 per cent Between 3 per cent and 8 per cent pa = straight-line basis between 30 per cent and 100 per cent
	50 per cent on TSR against FTSE 350	Debenhams TSR is less than the weighted TSR = zero vesting Debenhams TSR is equal to the weighted TSR = 30 per cent Debenhams TSR is $\geq$ 12 per cent above the weighted TSR = 100 per cent Between the latter two points = straight-line basis between 30 per cent and 100 per cent
7 May 2008	50 per cent on EPS growth against RPI growth	Below RPI +3 per cent pa = zero vesting RPI +3 per cent pa = 30 per cent vesting RPI +8 per cent pa = 100 per cent Between 3 per cent and 8 per cent pa = straight-line basis between 30 per cent and 100 per cent
	50 per cent on TSR against FTSE 350	Debenhams TSR is less than the weighted TSR = zero vesting Debenhams TSR is equal to the weighted TSR = 30 per cent Debenhams TSR is $\geq$ 12 per cent above the weighted TSR = 100 per cent Between the latter two points = straight-line basis between 30 per cent and 100 per cent

No PSP awards vested during the year. The awards granted in November 2006 and May 2007 have lapsed since the performance conditions attaching to those awards were not satisfied as at 29 August 2009. The award granted in February 2008 lapsed upon the departure of Angela Spindler on 30 November 2008.

No awards were granted to the executive directors during the year.

*The Debenhams 2006 Executive Share Option Plan (the “ESOP”)*

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

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. Options exercised under the ESOP are subject to the Adjusted Earnings Per Share (“EPS”) growth of the Company increasing above the percentage increase in the Retail Prices Index (“RPI”) over a three-year performance period. There is no re-testing of the 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 2006	EPS growth against RPI growth	RPI $\geq$ 7 per cent pa = 100 per cent vesting
29 May 2007 and 12 November 2007	EPS growth against RPI growth	RPI $\geq$ 3 per cent pa = 100 per cent vesting
4 February 2008	EPS growth against RPI growth	Below RPI +3 per cent pa = zero vesting RPI +3 per cent pa = 30 per cent vesting RPI +8 per cent pa = 100 per cent Between 3 per cent and 8 per cent pa = straight-line basis between 30 per cent and 100 per cent

## REMUNERATION REPORT

*—continued*

No options under the ESOP were exercised during the year. The options granted in November 2006 and May 2007 lapsed since the performance conditions attaching to those options were not satisfied as at 29 August 2009. The options granted in February 2008 lapsed upon the departure of Angela Spindler on 30 November 2008.

No options were granted to the executive directors during the year.

*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 Deferred Bonus Matching Plan (the “DBMP”)*

Under the DBMP participants will be able to invest up to the full amount of their annual bonus (on an after-tax basis) in shares. If the participant remains in service for three years, he/she will, subject to the satisfaction of a performance target, be eligible to receive a matching share award (based on the pre-tax amount of the bonus that has been invested). The Remuneration Committee has not determined what performance conditions will apply to awards under the DBMP although it is intended that they be appropriately demanding and linked to the Company's performance. If the performance target is not met at the end of the performance period, the awards will lapse immediately and there will be no opportunity to re-test the performance condition. No awards have yet been made under the DBMP but the Committee continues to review the use of the Plan and may grant awards if appropriate.

*Capital Raising*

During the year the Company undertook a placing and open offer. Awards granted to employees under the various plans have been adjusted, in accordance with general market practice, to reflect the open offer. No adjustment was made to reflect the placing. Performance for awards will be measured to ensure that they are not less stretching to achieve following the capital raising.

*The Debenhams Retail Employee Trust 2004 (The “Trust”)*

The Debenhams Retail Employee Trust 2004 was originally set up to satisfy share options under the Debenhams Employee Option Plan. The trust currently holds 1,413,536 shares in the Company. Dividends receivable on the shares held in the Trust are waived on the recommendation of the Company.

In 2008, the Company adopted the Debenhams 2008 Share Incentive Plan. However, despite consultation with key shareholders in 2008 who were supportive of proposals to grant awards under the Plan during 2008/09, it was decided that due to the then prevailing economic climate the Company should not grant awards under the Plan. It is the Company's intention to make awards under the Debenhams 2008 Share Incentive Plan in 2009 in using the shares held in the Trust. The Rules of the Plan, allow the Remuneration Committee at the date of grant, to determine the vesting period of the option granted. In 2009, options with an 18-month vesting period, will be granted 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.

*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 0.38 per cent of share capital.

*Change of Control*

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 are satisfied at the date of such an event. Any such early vesting would be on a time pro-rata basis.

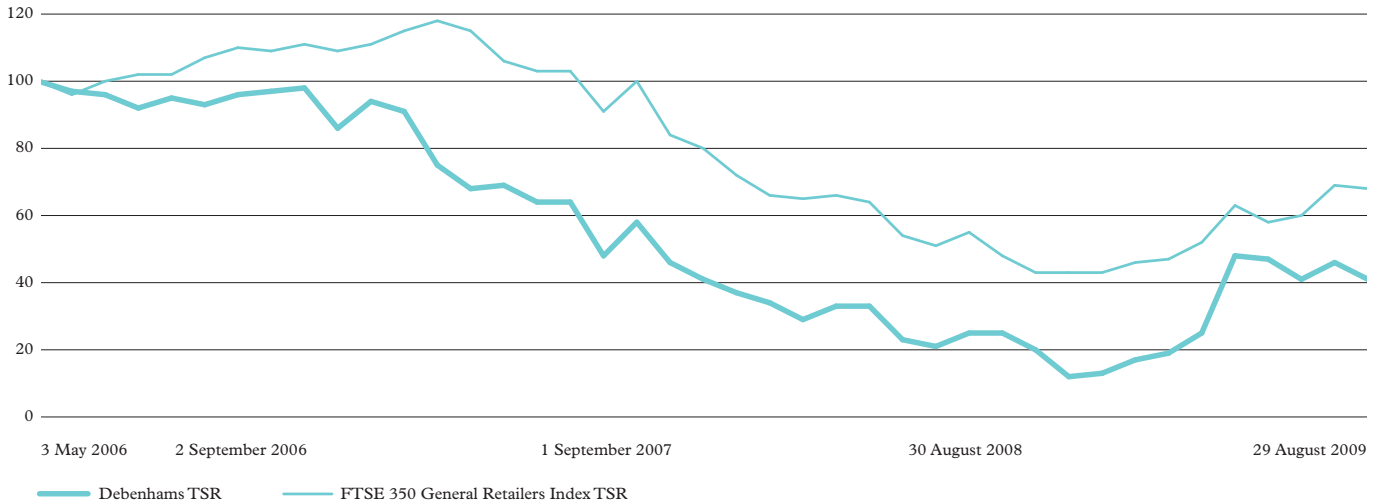
*Pension*

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 53 of this report.

*Performance Graph*

The performance graph overleaf shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from flotation on 8 May 2006 to 29 August 2009. The FTSE 350 has been chosen as Debenhams has been a member throughout the period and it is made up of a broad spectrum of retail competitors (including major general retail listed competitors) in the principal product areas in which the Company trades.

**Total Shareholder Return Since IPO (May 2006)**



**Letters of Appointment and Service Contracts**

John Lovering’s appointment as Chairman is subject to the terms of a letter of appointment dated 13 January 2009 in which the Company has engaged him, in his capacity as a partner of Lovering and Lovering, as an independent contractor. The appointment is terminable by either party, giving not less than one month’s written notice. 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. He is also permitted to remain a passive investor in any non-competing business so long as no conflict of interest arises.

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, Millard and Pindar may be terminated by either party giving one month’s notice. Both Sophie Turner Laing and Martina King are appointed for a term of three years ending on 31 July 2012, subject to the Company’s Articles of Association and shareholders’ re-election provisions.

Fees for non-executive directors are determined by the board and are made up of an annual fee for acting as a non-executive director of the Company (£40,000) together with additional fees for chairing (£5,000) and membership of a board committee (£2,500). There is a further fee (£10,000) 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. 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 remain frozen for 2009/10 since the non-executive directors declined a review.

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

Name	Position	Annual fee	Date of joining the Group	Date of letter of appointment
John Lovering	Chairman	£250,000	8 September 2003	1 January 2009
Adam Crozier	Non-executive director	£50,000	9 May 2006	18 April 2006
Martina King	Non-executive director	£42,500	1 August 2009	30 June 2009
Dennis Millard	Non-executive director	£55,000	9 May 2006	10 April 2006
Paul Pindar	Senior independent non-executive director	£60,000	9 May 2006	19 April 2006
Sophie Turner Laing	Non-executive director	£42,500	1 August 2009	30 June 2009

Rob Templeman, Chris Woodhouse and Michael Sharp entered into service agreements with the Company on 3 May 2006. Each agreement is terminable by either party giving not less than 12 months’ written notice. Prior to Michael Sharp’s appointment as Deputy Chief Executive on 3 November 2008, he was only required to give the Company six months’ 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.

REMUNERATION REPORT

—continued

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.

Rob Templeman and Chris Woodhouse's contracts permit each of them to hold up to two non-executive directorships in non-competing companies and to retain payments received in respect of those other directorships. Chris Woodhouse, who is Group non-executive Chairman of Gondola Group Limited, retained fees of £170,000 (2008: £150,000).

Directors' Shareholdings

The interests of the directors in the share capital of the Company as at 29 August 2009 are shown below. Awards granted under the PSP are shown in Part 2 of this report.

Director	Ordinary shares held as at 31 August 2008 or date of appointment	Ordinary shares held as at 29 August 2009	Ordinary shares held as at 22 October 2009
John Lovering	6,638,187	1,573,671	1,573,671
Rob Templeman	13,466,214	14,558,769	14,558,769
Michael Sharp <sup>(1)</sup>	5,640,934	5,854,579	5,854,579
Chris Woodhouse	11,598,795	11,828,664	11,828,664
Adam Crozier	25,641	32,681	32,681
Martina King	—	—	—
Dennis Millard	53,376	69,455	69,455
Paul Pindar	235,130	303,958	303,958
Sophie Turner Laing	—	—	—

1) As at 22 October 2009 Michael Sharp's holding includes 218,904 shares held by The Sharp Discretionary Settlement of which the director is a Trustee.

Part 2: Audited Information

Directors' Emoluments

The remuneration of each director who served during the year is set out in the following table. Emoluments remain principally the same due to the pay freeze, albeit there has been a change to the senior independent non-executive director and changes to committee membership. The table also reflects Michael Sharp's appointment to the position of Deputy Chief Executive on 3 November 2008.

Director	Salary/fees £	Benefits £	Bonus £	Annual allowance in lieu of pension £	Compensation for loss of office £	Total 2009 £	Total 2008 £
John Lovering	250,000					250,000	250,000
Rob Templeman <sup>(1)</sup>	673,070	43,538	428,073	100,961		1,245,642	939,437
Michael Sharp	520,014	35,590	331,290	81,750		968,644	633,462
Chris Woodhouse	457,678	23,341	457,678	68,652		1,007,349	640,592
Angela Spindler <sup>(2)</sup>	135,000	28,479		101,250	540,000	804,729	431,323
Philippe Costeletos <sup>(3)</sup>	30,462					30,462	40,000
Adam Crozier	46,872					46,872	45,000
Jonathan Feuer <sup>(3)</sup>	30,462					30,462	40,000
Richard Gillingwater <sup>(4)</sup>	39,343					39,343	62,500
Martina King <sup>(5)</sup>	3,542					3,542	n/a
Peter Long <sup>(6)</sup>	41,250					41,250	45,000
Dennis Millard	55,000					55,000	55,000
Paul Pindar	53,744					53,744	50,000
Sophie Turner Laing <sup>(5)</sup>	3,542					3,542	n/a
<b>TOTAL</b>	<b>2,339,979</b>	<b>130,948</b>	<b>1,217,041</b>	<b>352,613</b>	<b>540,000</b>	<b>4,580,581</b>	<b>3,232,314</b>

1) Rob Templeman's taxable benefits this year include £8,000 relating to financial advice received during the last two financial years and a cash allowance adjustment further to his election to exchange the car benefit for the equivalent cash value (effective June 2009).

2) Angela Spindler left the Company on 30 November 2008 and received liquidated damages in accordance with her service contract.

3) Philippe Costeletos and Jonathan Feuer left the Company on 3 June 2009.

4) Richard Gillingwater left the Company on 16 April 2009.

5) Martina King and Sophie Turner Laing were appointed as directors on 1 August 2009.

6) Peter Long left the Company on 1 August 2009.



### Pay in Lieu of Pension Provision

Under the terms of their contracts of employment, the executive directors are entitled to a salary supplement in lieu of pension provision of 15 per cent of base salary (Michael Sharp's entitlement decreased from 20 per cent to 15 per cent on 3 November 2008 following his appointment as Deputy Chief Executive). These amounts are disclosed in the directors' emoluments table on page 52.

### Pension

The Debenhams Executive Pension Plan was closed in 2002. 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 29 August 2009 £	Transfer value as at 30 August 2008 of accrued pension as at 30 August 2008 £	Transfer value as at 29 August 2009 of accrued pension as at 29 August 2009 £	Increase in transfer value during the period £
Michael Sharp	8,661	22	181,446	3,136,829	3,306,194	169,365

### Directors' Interests in the Performance Share Plan

	Date of award	Number of shares held at 31 August 2008	Shares awarded during the year(ii)	Shares lapsed during the year	29 August 2009	Market value on date of award	Earliest date of vesting
Rob Templeman	24 November 2006	165,611	4,246	–	169,857	196p	24/11/2009
Chris Woodhouse	24 November 2006	112,614	2,887	–	115,501	196p	24/11/2009
Michael Sharp	24 November 2006	104,665	2,683	–	107,348	196p	24/11/2009
Angela Spindler <sup>(i)</sup>	4 February 2008	1,824,324	–	1,824,324	–	74p	04/02/2011

i) The awards granted to Angela Spindler lapsed on her leaving the Company on 30 November 2008.

ii) The number of shares granted under the above awards to Rob Templeman, Chris Woodhouse and Michael Sharp were adjusted with effect from 26 June 2009 as a result of the open offer. These awards have however lapsed since the applicable performance conditions were not achieved as at 29 August 2009.

### Directors' Interests in the Executive Share Option Scheme

	Date of grant	Number of shares under option held at 31 August 2008	Shares granted during the year	Shares lapsed during the year	Option price	Number of shares held at 29 August 2009	Earliest date of exercise
Angela Spindler	Approved Scheme: 5 February 2008	40,540	–	40,540	74p	–	05/02/2011
	Unapproved Scheme: 5 February 2008	689,189	–	689,189	74p	–	05/02/2011

Note: The options granted to Angela Spindler lapsed on her leaving the Company on 30 November 2008.

The closing mid-market price of the Company's shares on 29 August 2009 was 79.5 pence and ranged from 22.5 pence to 98.5 pence during the period from 31 August 2008 to 29 August 2009.

On behalf of the board

**ADAM CROZIER**

Chairman of the Remuneration Committee  
22 October 2009

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Directors' Responsibility Statement Pursuant To Disclosure And Transparency Rule 4.1.12

Each of the directors whose names and functions are detailed on page 34 to 35 confirm that, to the best of his/her knowledge:

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

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

We have audited the Group Financial Statements of Debenhams plc for the year ended 29 August 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expenses, the Consolidated Balance Sheet, 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 54, the directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 and 496 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the Audit of the Financial Statements

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

## Opinion on Financial Statements

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 29 August 2009 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

## Opinion on Other Matter Prescribed by the Companies Act 2006

In our opinion:

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

## Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' Report set out on page 41 in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

## Other Matters

We have reported separately on the Parent Company Financial Statements of Debenhams plc for the year ended 29 August 2009 and on the information in the Directors' Remuneration Report that is described as having been audited.

## M R HODGSON (SENIOR STATUTORY AUDITOR)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

22 October 2009

# CONSOLIDATED INCOME STATEMENT

For the financial year ended 29 August 2009

	Note	For the financial year ended:	
		29 August 2009 £m	30 August 2008 £m
<b>Revenue</b>	5	<b>1,915.6</b>	1,839.2
Cost of sales		<b>(1,650.7)</b>	(1,571.6)
<b>Gross profit</b>		<b>264.9</b>	267.6
Distribution costs		<b>(45.3)</b>	(50.0)
Administrative expenses		<b>(37.4)</b>	(41.5)
<b>Operating profit</b>	7	<b>182.2</b>	176.1
Interest receivable and similar income	9	<b>1.3</b>	4.8
Interest payable and similar charges	10	<b>(62.7)</b>	(75.0)
<b>Profit before taxation</b>		<b>120.8</b>	105.9
Taxation	11	<b>(25.7)</b>	(28.8)
<b>Profit for the financial year attributable to equity shareholders</b>	28	<b>95.1</b>	77.1
<b>Earnings per share attributable to the equity shareholders (expressed in pence per share)</b>			
		<b>Pence per share</b>	Pence per share
Basic	13	<b>10.0</b>	9.0
Diluted	13	<b>10.0</b>	9.0
<b>Dividends per share (expressed in pence per share)</b>			
		<b>Pence per share</b>	Pence per share
Proposed final dividend per share	12	<b>–</b>	0.5



# CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSES

For the financial year ended 29 August 2009

	Note	For the financial year ended:	
		29 August 2009 £m	30 August 2008 £m
<b>Profit for the financial year</b>		<b>95.1</b>	77.1
Actuarial loss recognised in the pension schemes	23	(93.6)	(79.8)
Movement on deferred tax relating to the pension schemes	24	26.2	22.3
Currency translation	28	(0.3)	1.3
Change in the valuation of the available-for-sale investments	16	(2.2)	(9.3)
Cash flow hedges			
—net fair value losses (net of tax)	28	(9.2)	(5.0)
—recycled and adjusted against the initial measurement of the acquisition cost of inventory	28	(20.1)	0.9
—reclassified and reported in net profit	28	—	(0.5)
<b>Net expense recognised directly in equity</b>		<b>(99.2)</b>	(70.1)
<b>Total recognised (expense)/income attributable to the equity shareholders of the Group</b>		<b>(4.1)</b>	7.0

# CONSOLIDATED BALANCE SHEET

As at 29 August 2009

	Note	29 August 2009 £m	30 August 2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	14	<b>839.9</b>	840.8
Property, plant and equipment	15	<b>669.2</b>	693.3
Financial assets			
—available-for-sale investments	16	<b>8.8</b>	11.0
—derivative financial instruments	22	<b>0.2</b>	8.2
Retirement benefit assets	23	<b>–</b>	25.0
Deferred tax assets	24	<b>80.6</b>	57.4
		<b>1,598.7</b>	1,635.7
<b>Current assets</b>			
Inventories	17	<b>270.9</b>	237.5
Trade and other receivables	18	<b>68.5</b>	58.5
Derivative financial instruments	22	<b>9.5</b>	10.5
Cash and cash equivalents	19	<b>188.2</b>	42.1
		<b>537.1</b>	348.6
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities			
—bank overdraft and borrowings	21	<b>(92.6)</b>	(144.5)
—derivative financial instruments	22	<b>(24.2)</b>	–
Trade and other payables	20	<b>(458.6)</b>	(470.2)
Current tax liabilities		<b>(34.0)</b>	(29.9)
Provisions for liabilities and charges	26	<b>(2.1)</b>	(0.7)
		<b>(611.5)</b>	(645.3)
<b>Net current liabilities</b>			
		<b>(74.4)</b>	(296.7)
<b>Non-current liabilities</b>			
Financial liabilities			
—bank overdraft and borrowings	21	<b>(685.9)</b>	(891.6)
—derivative financial instruments	22	<b>(8.0)</b>	(0.7)
Deferred tax liabilities	24	<b>(78.3)</b>	(95.3)
Other non-current liabilities	25	<b>(273.0)</b>	(225.8)
Provisions for liabilities and charges	26	<b>(0.2)</b>	(0.3)
Retirement benefit obligations	23	<b>(53.6)</b>	–
		<b>(1,099.0)</b>	(1,213.7)
<b>Net assets</b>			
		<b>425.3</b>	125.3
<b>Shareholders' equity</b>			
Share capital	27	<b>0.1</b>	0.1
Share premium	28	<b>682.9</b>	682.9
Merger reserve	28	<b>1,504.7</b>	1,200.9
Reverse acquisition reserve	28	<b>(1,199.9)</b>	(1,199.9)
Hedging reserve	28	<b>(18.5)</b>	10.8
Other reserves	28	<b>2.6</b>	5.1
Retained earnings	28	<b>(546.6)</b>	(574.6)
<b>Total equity</b>			
		<b>425.3</b>	125.3

The Financial Statements on pages 56 to 91 were approved by the board on 22 October 2009 and were signed on its behalf by:

**C K WOODHOUSE**

Director

# CONSOLIDATED CASH FLOW STATEMENT

For the financial year ended 29 August 2009

	Note	For the financial year ended:	
		29 August 2009 £m	30 August 2008 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	30	241.0	285.8
Interest received		1.1	4.8
Interest paid		(58.4)	(71.6)
Tax paid		(25.3)	(27.6)
Net cash generated from operating activities		158.4	191.4
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(77.0)	(124.9)
Purchase of intangible assets		(7.5)	(4.2)
Proceeds from sale of property, plant and equipment	30	–	3.5
Net cash used in investing activities		(84.5)	(125.6)
<b>Cash flows from financing activities</b>			
Repayment of term loan facility	21	(150.0)	(100.0)
Repurchase of term loan facility		(35.5)	–
Proceeds from issue of ordinary shares	27	323.2	–
Share issue costs		(14.7)	–
Dividends paid	12	(2.4)	(44.4)
Purchase of shares by Debenhams Retail Employee Trust 2004 (“DRET”)	27	–	(1.1)
Finance lease payments		(0.1)	(0.7)
Capitalised debt issue costs	21	(3.3)	(1.8)
Net cash generated/(used) in financing activities		117.2	(148.0)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>191.1</b>	<b>(82.2)</b>
Net cash and cash equivalents at beginning of financial year	19	(2.9)	79.3
<b>Net cash and cash equivalents at end of financial year</b>	19	<b>188.2</b>	<b>(2.9)</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 29 August 2009

## 1 Basis of Preparation and General Information

### Introduction

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

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

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

The principal companies within the Group during the financial year ended 29 August 2009 are disclosed in note 33.

### Basis of Preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) (including International Accounting Standards (“IAS”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under accounting standards as adopted for use in the EU. The Consolidated Financial Statements for the financial year ended 29 August 2009 and 30 August 2008 have been prepared under the historical cost convention.

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 6).

## 2 Accounting Policies

The Group’s principal accounting policies are described below.

### Consolidation

The Financial Statements comprise a consolidation of the accounts of Debenhams plc and all its subsidiaries. Subsidiaries include all entities (including special purpose 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 necessary 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 sales are recognised when goods are sold to the customer. Retail sales are usually in cash or by credit or debit card. Department store customer special orders and internet sales are recognised when the goods are despatched to the customer. Revenue from gift cards and gift vouchers sold by the Group are recognised on the redemption of the gift card or gift voucher.

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

### Interest Recognition

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



## 2 Accounting Policies *continued*

### Dividend Distribution

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

### Retirement Benefit Costs

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

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

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 Ireland 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.

### Share-Based Payments

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

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

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

### Exceptional Items

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

### Foreign Exchange

#### *a) Functional and Presentational Currency*

Items included in the Financial Statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in sterling, which is the Group's functional and presentational currency.

#### *b) Group Companies*

The results and financial position of all Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses are translated at the average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transaction); and
- resulting exchange differences are recognised as a separate component of equity.

#### *c) Transactions and Balances*

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

## NOTES TO THE FINANCIAL STATEMENTS

—continued

For the financial year ended 29 August 2009

*2 Accounting Policies continued***Taxation**

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

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

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

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

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

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

**Leased Assets***a) Finance Leases*

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

**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 which are split on a regional basis for the purpose of impairment testing.

*b) Other Intangible Assets*

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

Internally generated software costs, where it is clear that the software developed is technically feasible and will be completed and that the software generated will generate economic benefit, are capitalised as an intangible asset. The software is amortised on a straight-line basis over its useful economic life, being three to eight years.

## 2 Accounting Policies *continued*

### Property, Plant and Equipment

It is the Group's policy to hold properties at cost less accumulated depreciation, subject to the requirement to test assets for impairment.

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	4–20 per cent
Office equipment	10–12.5 per cent
Computer equipment	14–33½ 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 and 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).

### 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 assets carrying value exceeds its recoverable amount.

### Inventories

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

### Trade Receivables

Trade receivables, defined as loans and receivables in accordance with IAS 39, are recorded initially at fair value and subsequently measured at amortised cost using the effective interest method for any doubtful amounts. 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.

## NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

*2 Accounting Policies continued***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 at a constant rate on the committed amount of each facility.

**Debt Repurchase**

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

**Trade Payables**

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

All of the trade payables are non-interest bearing.

**Provisions**

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

**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**

The derivative instruments used by the Group to manage its interest rate and currency risk are interest rate swaps and forward currency 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).

Derivatives are recognised using trade date accounting.

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 are 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.

Amounts accumulated in equity are recycled 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, any cumulative gain or loss existing in equity at that time is immediately recognised in the relevant line of the Income Statement which will be affected by the original underlying hedged item. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the relevant line of the Income Statement, which would have been affected by the forecasted transaction.



## 2 Accounting Policies continued

### 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.

### iii) Embedded Derivatives

Where the risks and characteristics of derivatives embedded in other contracts are not closely related to those of the contracts, and the whole contract is not carried at fair value with gains or losses reported in the Income Statement, the derivative is separated from that host contract and measured at fair value, with fair value movements reflected in the account in the Income Statement which will be affected by the underlying host contract.

### New Standards and Interpretations

During the year the Group adopted IFRIC 13 “Customer loyalty programmes”. The adoption of this IFRIC has not had any impact on the prior year Balance Sheet or Income Statement.

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

		Effective date
<b>International Accounting Standards (IFRS/IAS)</b>		
IFRS 8	Operating segments	January 2009
IAS 1 revised	Presentation of financial statements	January 2009
IAS 23 (2007)	Borrowing costs	January 2009
IAS 27 revised	Consolidated and separate financial statements	July 2009
Amendment to IAS 32	Financial instruments: Presentation	January 2009
Amendment to IAS 39	Eligible hedged items	July 2009
IFRS 2	Share-based payments – Amendment to vesting conditions and cancellations	January 2009
IFRS 2	Share-based payments – Group cash-settled share-based payment transactions	January 2010
IFRS 3 revised	Business combinations	July 2009
Amendment to IFRS 7	Financial instruments: Disclosures	January 2009
Annual improvements to IFRS (2007)		January 2009
<b>IFRIC Interpretations</b>		
IFRIC 12	Service concession arrangements	March 2009
IFRIC 14/IAS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction	January 2009
IFRIC 15	Agreements for the construction of real estate	January 2009
IFRIC 16	Hedges in a net investment in a foreign operation	July 2009
IFRIC 17	Distributions of non-cash assets to owners	July 2009
IFRIC 18	Transfers of assets from customers	July 2009

IFRIC 17, IFRIC 18 and the amendment to IFRS 7 have not yet been adopted by the European Union.

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

## NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

### 3 Financial Risk Management

#### a) Financial Risks and Treasury Management

The board has established an overall treasury policy and has approved policies, procedures and authority levels within which the treasury function (“Group Treasury”) must operate. The Finance Director conducts treasury reviews at least monthly and the board receive regular monthly reports covering treasury activity. The treasury committee meets and reviews the report on a quarterly basis.

Group Treasury manage 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, trade receivables and trade payables. The main purpose of these financial instruments is to manage liquidity or raise finance for the Group.

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

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

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

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

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

#### i) Funding and Liquidity Risk

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

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

Short-term requirements can be financed by the £250.0 million Revolving Credit Facility (“RCF”), which expires in April 2011, of which £nil (2008: £45 million) was utilised at the balance sheet date.

#### ii) Credit Risk

Credit risk is the risk where the Group can suffer financial loss through default by customers or financial institutions.

The Group has no significant concentrations of credit risk. Sales to retail customers are made in cash or by credit and debit cards, wholesale sales of products to franchisees are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution. Cash surpluses are placed on deposit for no longer than three months and only with financial counterparties with a short-term credit rating of A1, P1 or better as assigned by either Standard and Poor’s or Moody’s respectively. The carrying amount of financial assets recorded in the financial statements net of any allowances for losses, represents the Group’s maximum exposure to credit risk.

#### iii) Foreign Exchange Risk

The Group’s functional currency is sterling. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and also to the euro. Foreign exchange risk arises from future commercial transactions relating to imports and trading in the Republic of Ireland.

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 18 months or less. Up to 100 per cent of the first three months’ forecast purchases, up to 80 per cent of the next three months and up to 70 per cent for the following 12 months’ forecast purchases are hedged. The Group does not hedge economic exposure and reviews the need to hedge translation exposure arising from the profits, assets and liabilities of its non-sterling business. Due to the volatility of the sterling and the euro exchange rate during the year, the Group hedged the indebtedness between the UK and its Irish subsidiary.

### 3 *Financial Risk Management continued*

#### *iv) Cash Flow 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 the effect of 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, following the capital raising on 23 June 2009, the Group's hedged fixed rate borrowings amounted to £727.5 million, being 93 per cent of the Group's total borrowings. The Group is currently reviewing its interest rate swap portfolio.

#### *v) Other Price Risk*

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

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date. At the year end, if the valuations had been 10 per cent higher/lower when all other variables were held constant:

- net profit would have been unaffected as the equity investments were classified as available-for-sale investments;
- other reserves would decrease/increase by £0.4 million (2008: £0.6 million) for the Group as a result of the changes in the fair value of available-for-sale investments.

#### **b) Capital Management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders and to maintain a structure to optimise the cost of capital. In order to maintain or adjust the capital structure the Group may consider; the amount of dividend paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

#### **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 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.

### 4 *Segmental Reporting*

Based on an analysis of risks and returns, the directors consider that the Group has only one identifiable business segment, retailing.

All material operations of the Group are carried out in the British Isles and therefore no geographical segmentation is disclosed. The Group operates both an internet and an international division, both of which remain immaterial for the purposes of segmental reporting.

Consequently, the Group has considered business segmentation as the primary segmentation, with a single separately reportable segment, retailing.

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

5 *Gross Transaction Value*

Revenue from concessions 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, staff discounts and the cost of loyalty scheme points, represents a good guide to the value of the overall activity of the Group.

	29 August 2009 £m	30 August 2008 £m
Gross transaction value	2,339.7	2,336.0

6 *Critical Accounting Estimates and Judgements*

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

**Estimated Impairment of Goodwill**

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

**Taxation and Deferred Taxation**

The Group is subject to income taxes in the UK and the Republic of Ireland. 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 developers' 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 estimates 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 and 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 27.

**Pension Liabilities**

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

Other key assumptions for pension obligations are based in part on current market conditions; additional information relating to this is disclosed in note 23.

**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.

## 7 Operating Profit

	29 August 2009 £m	30 August 2008 £m
<b>The following items have been included in arriving at operating profit:</b>		
The amounts of inventory written down during the financial year	10.2	16.5
Cost of inventories recognised as an expense	983.6	914.5
Employment costs (note 8)	321.2	307.5
Depreciation of property, plant and equipment (note 15):		
—Owned assets	87.2	86.2
—Assets held under finance leases	0.7	1.3
Accelerated depreciation of property, plant and equipment (note 15):		
—Owned assets	0.1	0.8
Amortisation of intangible assets (note 14)	8.1	7.5
Loss/(profit) on disposal of:		
—Property, plant and equipment	0.2	(3.1)
Operating lease rentals:		
—Property	167.1	157.3
—Other	0.9	1.4
Foreign exchange gains	(3.4)	(8.0)
Repairs and maintenance expenditure on property, plant and equipment	10.5	13.2
Auditors' remuneration	1.0	0.4

### Operating Lease Costs and Incentives

The amount charged to the Income Statement in respect of operating lease costs and incentives for the Group has changed significantly under IFRS. The adverse impact on reported profit relating to the treatment of leases with annual fixed increments in rent and the accounting for both rent free periods and developers' contributions is as follows:

	29 August 2009 £m	30 August 2008 £m
Leases with fixed annual increments in rent	13.1	13.5
Rent free periods	1.6	1.4
Developers' contributions	9.5	7.7
<b>Reduction in operating profit resulting from accounting in accordance with IAS 17 "Leases" and SIC 15 "Operating leases—incentives"</b>	<b>24.2</b>	<b>22.6</b>

### 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:

	29 August 2009 £m	30 August 2008 £m
<b>Audit services</b>		
Fees payable to the Company's auditor for the audit of the parent company and consolidated accounts	0.2	0.2
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
<b>Other services</b>		
Fees payable to the Company's auditor and its associates for other services		
—Tax advisory services	0.1	0.1
—Other assurance services	0.6	—

Included with other assurance services is £46,000 (2008: £24,000) relating to the defined benefit pension scheme audits.

Other assurance services comprise advisory work relating to the capital raising through the firm placing and placing and open offer of shares in June 2009, totalling £0.6 million. It is cost effective for the Group that such services are provided by its auditor in view of their knowledge of the Group's affairs.



NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

8 Employees

	29 August 2009 £m	30 August 2008 £m
Wages and salaries	294.6	282.1
Social security costs	23.3	22.5
Pension credit	(0.3)	(1.7)
Share-based payments (note 27)	0.3	0.8
Short-term employee benefits	3.3	3.8
<b>Total employment costs</b>	<b>321.2</b>	<b>307.5</b>
	<b>Number</b>	<b>Number</b>
<b>Average number of employees:</b>		
Full time	8,601	8,958
Part time	19,165	18,442
<b>Total</b>	<b>27,766</b>	<b>27,400</b>

Included in pension credit above is £0.6 million (2008: £0.5 million) of contributions payable to key management's personal pension plans.

Information concerning directors' remuneration, interest in shares and share options, are included in the Remuneration Report on pages 47 to 53 which forms part of these Financial Statements.

Key Management Compensation:

	29 August 2009 £m	30 August 2008 £m
Salaries and short-term benefits	4.4	2.7
Compensation for loss of office	0.5	—
Post-employment benefits	0.6	0.5
Share-based payments	—	0.5
	<b>5.5</b>	<b>3.7</b>

Members of the executive management board, which includes the executive directors, are deemed to be key management. It is the executive board who have responsibility for planning and controlling the activities of the Group. During the year the executive board consisted of seven members (2008: seven members).

9 Interest Receivable and Similar Income

	29 August 2009 £m	30 August 2008 £m
Interest on bank deposits	1.3	4.8

10 Interest Payable and Similar Charges

	29 August 2009 £m	30 August 2008 £m
Bank loans and overdrafts	55.0	67.1
Amortisation of issue costs on loans (note 21)	4.4	4.2
Interest payable on finance leases	3.3	3.0
Charges arising from ineffective cash flow hedges	—	0.7
	<b>62.7</b>	<b>75.0</b>

## 11 Taxation

### Analysis of Tax Charge in the Financial Year

	29 August 2009 £m	30 August 2008 £m
<b>Current tax:</b>		
UK corporation tax charge on profit for the year	39.8	26.0
Adjustments in respect of prior periods	(10.5)	(0.2)
<b>Current tax expense</b>	<b>29.3</b>	<b>25.8</b>
<b>Deferred taxation:</b>		
Origination and reversal of timing differences	(8.5)	(3.6)
Pension cost relief in excess of pension charge	4.2	7.0
Adjustments in respect of prior periods	0.7	(0.4)
<b>Deferred tax (credit)/expense (note 24)</b>	<b>(3.6)</b>	<b>3.0</b>
<b>Tax charge for the financial year</b>	<b>25.7</b>	<b>28.8</b>

The tax for the year is lower (2008: lower) than the rate of corporation tax in the UK of 28.0 per cent (2008: weighted average rate of 29.2 per cent). The differences are explained below.

The change in the standard rate of corporation tax to 28.0 per cent with effect from April 2008 was reflected in the weighted average rate for the year ended 30 August 2008.

	29 August 2009 £m	30 August 2008 £m
<b>Profit on ordinary activities before tax</b>	<b>120.8</b>	<b>105.9</b>
Profit on ordinary activities at standard rate of corporation tax in the UK of 28.0 per cent (2008: 29.2 per cent)	33.8	30.9
<b>Effects of:</b>		
Expenses not deductible for tax purposes	0.5	0.2
Overseas items	(1.2)	(2.2)
Adjustments in relation to prior periods	(9.8)	(0.6)
Non-qualifying depreciation	2.4	1.3
Contribution to employee share options	-	0.1
Fixed asset disposals	-	(0.9)
<b>Tax charge for the financial year</b>	<b>25.7</b>	<b>28.8</b>

## 12 Dividends

	29 August 2009 £m	30 August 2008 £m
Final paid 0.5 pence (2008: 3.8 pence) per £0.0001 share		
Settled in cash	2.4	32.6
Settled in scrip issue	1.9	-
Interim paid nil pence (2008: 2.5 pence) per £0.0001 share		
Settled in cash	-	11.8
Settled in scrip issue	-	9.7
	<b>4.3</b>	<b>54.1</b>

The directors are not proposing a final dividend in respect of the financial year ended 29 August 2009 (2008: 0.5 pence per share). The final dividend in respect of the year ended 30 August 2008 absorbed £4.3 million of shareholders' funds.

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

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

	29 August 2009		30 August 2008	
	Basic £m	Diluted £m	Basic £m	Diluted £m
<b>Profit for the financial year after taxation</b>	<b>95.1</b>	<b>95.1</b>	77.1	77.1
	<b>Number m</b>	<b>Number m</b>	Number m	Number m
<b>Weighted average number of shares</b>	<b>950.8</b>	<b>950.8</b>	861.5	861.5
Shares held by ESOP (weighted)	(1.4)	(1.4)	(1.1)	(1.1)
Shares issuable (weighted)	—	—	—	—
Adjusted weighted average number of shares	<b>949.4</b>	<b>949.4</b>	860.4	860.4
	<b>Pence per share</b>	<b>Pence per share</b>	Pence per share	Pence per share
Earnings per share	<b>10.0</b>	<b>10.0</b>	9.0	9.0

14 Intangible Assets

	Goodwill £m	Licences and trademarks £m	Software £m	Total £m
<b>Cost</b>				
At 1 September 2007	817.4	2.9	43.6	863.9
Additions	—	(0.2)	4.5	4.3
Exchange rate movement	1.1	—	—	1.1
Disposals	—	—	(0.6)	(0.6)
At 30 August 2008	818.5	2.7	47.5	868.7
Additions	—	—	6.3	6.3
Exchange rate movement	0.7	—	0.2	0.9
Disposals	—	—	(1.3)	(1.3)
<b>At 29 August 2009</b>	<b>819.2</b>	<b>2.7</b>	<b>52.7</b>	<b>874.6</b>
<b>Accumulated amortisation</b>				
At 1 September 2007	—	0.1	20.9	21.0
Charge for the year	—	0.3	7.2	7.5
Disposals	—	—	(0.6)	(0.6)
At 30 August 2008	—	0.4	27.5	27.9
Charge for the year	—	0.2	7.9	8.1
Disposals	—	—	(1.3)	(1.3)
<b>At 29 August 2009</b>	<b>—</b>	<b>0.6</b>	<b>34.1</b>	<b>34.7</b>
<b>Net book amount</b>				
<b>At 29 August 2009</b>	<b>819.2</b>	<b>2.1</b>	<b>18.6</b>	<b>839.9</b>
At 30 August 2008	818.5	2.3	20.0	840.8
At 1 September 2007	817.4	2.8	22.7	842.9

## 14 Intangible Assets continued

### Software Development Costs

The computer software capitalised of £6.3 million (2008: £4.5 million) principally relates to internally developed application software. Externally developed application software capitalised during the year amounted to £2.9 million (2008: £0.8 million).

### Amortisation of Intangible Assets

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

	29 August 2009 £m	30 August 2008 £m
Included within:		
—cost of sales	6.7	4.5
—distribution costs	0.5	0.3
—administrative expenses	0.9	2.7
	<b>8.1</b>	<b>7.5</b>

### Impairment Test for Goodwill

Goodwill arising 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 projections also assume that the change in sales mix from concessions to own bought stock will result in improved gross margins. The five-year plan is built up using management's previous experience and incorporates management's view of current economic conditions and trading expectations. Cash flows beyond the five-year period are extrapolated based on the assumption of no growth after year five. The growth rates do not exceed the long-term average growth rate for the retail sector in which the CGUs operate. The pre-tax discount rate used to calculate the value in use was 8.0 per cent (2008: 7.3 per cent) and reflects the specific risks in the retail business.

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

As a result of the impairment review, as at 29 August 2009, no impairment of goodwill has been required (2008: £nil).

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

15 Property, Plant and Equipment

	Land and buildings				Total £m
	Freehold £m	Long- leasehold £m	Short- leasehold fixtures and fittings £m	Vehicles, fixtures and equipment £m	
<b>Cost</b>					
At 1 September 2007*	59.1	11.4	315.0	608.8	994.3
Additions	–	–	16.0	97.8	113.8
Exchange rate movements	–	–	1.1	7.5	8.6
Disposals and write-offs	(8.1)	–	(7.8)	(33.3)	(49.2)
At 30 August 2008*	51.0	11.4	324.3	680.8	1,067.5
Additions	–	–	11.8	49.0	60.8
Exchange rate movements	–	–	0.6	3.8	4.4
Disposals and write-offs	–	–	(0.1)	(12.5)	(12.6)
<b>At 29 August 2009</b>	<b>51.0</b>	<b>11.4</b>	<b>336.6</b>	<b>721.1</b>	<b>1,120.1</b>
<b>Accumulated depreciation</b>					
At 1 September 2007*	3.9	0.7	49.8	272.2	326.6
Charge for the year	0.9	0.3	12.8	73.5	87.5
Exchange rate movements	–	–	0.1	3.0	3.1
Accelerated depreciation	–	–	0.5	0.3	0.8
Disposals and write-offs	(3.0)	–	(7.7)	(33.1)	(43.8)
At 30 August 2008*	1.8	1.0	55.5	315.9	374.4
Charge for the year	0.4	0.2	13.6	73.7	87.9
Exchange rate movements	–	–	–	1.1	1.1
Accelerated depreciation	–	–	–	0.1	0.1
Disposals and write-offs	–	–	–	(12.4)	(12.4)
<b>At 29 August 2009</b>	<b>2.2</b>	<b>1.2</b>	<b>69.1</b>	<b>378.4</b>	<b>450.9</b>
<b>Net book value</b>					
<b>At 29 August 2009</b>	<b>48.8</b>	<b>10.2</b>	<b>267.5</b>	<b>342.7</b>	<b>669.2</b>
At 30 August 2008	45.5	8.7	268.8	370.3	693.3
At 1 September 2007	51.5	9.0	265.2	342.0	667.7

\* Opening balances are now stated gross of fair value adjustments in respect of previous acquisitions. These adjustments have increased the cost and accumulated depreciation of fixed assets at 1 September 2007 by £199.5 million.

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

	29 August 2009 £m	30 August 2008 £m
<b>Assets in the course of construction</b>	<b>40.3</b>	<b>46.5</b>

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

	Vehicles, fixtures and equipment		Freehold and long-leasehold land and buildings	
	29 August 2009 £m	30 August 2008 £m	29 August 2009 £m	30 August 2008 £m
Cost	3.4	4.3	53.5	53.5
Aggregate depreciation	2.4	3.1	2.9	2.6
<b>Net book value</b>	<b>1.0</b>	<b>1.2</b>	<b>50.6</b>	<b>50.9</b>



## 16 Financial Assets—Available-for-Sale Investments

	£m
At 1 September 2007	20.3
Decrease in the market value charged to the Statement of Recognised Income and Expenses (“SORIE”)	(9.3)
At 30 August 2008	11.0
Decrease in the market value charged to the SORIE	(2.2)
<b>At 29 August 2009</b>	<b>8.8</b>

The Group holds 10 per cent (2008: 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 29 August 2009 was £3.9 million (2008: £6.6 million). Ermes is a company that is registered and trades in Cyprus and their shares are quoted in euros.

The Group holds 100 per cent (2008: 100 per cent) of the “A” ordinary shares in BF Properties (No.4) Limited, which cost £3.0 million and have a fair value of £4.9 million (2008: £4.4 million). These shares carry no voting rights. The directors consider that the ultimate parent undertaking and controlling party of BF Properties (No.4) Limited is The British Land Company plc.

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

BF Properties (No.4) Limited year end is 31 March and it continues to report in accordance with UK GAAP. The aggregate amount of the capital and reserves of BF Properties (No.4) Limited at 31 March 2008 was £141,023,968. The profit of BF Properties (No.4) Limited for the year ended 31 March 2008 was £22,915. This is the most recent set of published results for the company.

The investment in BF Properties (No.4) Limited has been calculated by discounting the future expected proceeds from the investment at the prevailing interest rate of 1.36 per cent (2008: 5.18 per cent).

There were no disposals or impairment provisions on available-for-sale financial assets during the years shown.

## 17 Inventories

	29 August 2009 £m	30 August 2008 £m
Items held for resale	<b>270.9</b>	237.5

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

Write downs of inventories are disclosed in note 7.

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For the financial year ended 29 August 2009

18 Trade and Other Receivables

	29 August 2009 £m	30 August 2008 £m
Trade receivables	22.4	13.8
Allowance for doubtful debts	(0.6)	(0.2)
	<b>21.8</b>	13.6
Other receivables	0.9	0.5
Prepayments and accrued income	45.8	44.4
	<b>68.5</b>	58.5

At the year end £21.9 million (2008: £13.4 million) of the trade receivables are denominated in sterling, with the balance being in euros.

The average terms of trade receivables as at the year end is 67 days (2008: 55 days). The Group has provided for all receivables over 90 days past the relevant due date. Trade receivables between 60 days and 90 days are provided based on estimated irrecoverable amounts from the sale of goods.

At 29 August 2009, £0.6 million (2008: £0.2 million) of trade receivables were past their due date and impaired.

Trade receivables which are up to 90 days past their due date but not impaired amount to £4.1 million (2008: £2.0 million).

19 Cash and Cash Equivalents

	29 August 2009 £m	30 August 2008 £m
Cash at bank and in hand	30.6	38.7
Short-term bank deposits	157.6	3.4
	<b>188.2</b>	42.1
	<b>29 August 2009</b>	<b>30 August 2008</b>
Effective interest rate on short-term bank deposits (per cent)	0.5	4.8
Average maturity date (days)	11.6	2.5

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

	29 August 2009 £m	30 August 2008 £m
Cash and cash equivalents	188.2	42.1
Bank overdrafts and revolving credit facility ("RCF") (note 21)	-	(45.0)
	<b>188.2</b>	(2.9)

20 Trade and Other Payables

	29 August 2009 £m	30 August 2008 £m
Trade payables	274.8	251.3
Other payables	73.9	81.8
Other taxation and social security	23.9	27.2
Accruals	85.4	108.5
Deferred income	0.6	1.4
	<b>458.6</b>	470.2

## 21 Bank Overdraft and Borrowings

	29 August 2009 £m	30 August 2008 £m
<b>Current</b>		
Term loan facility <sup>(1)</sup>	88.9	96.2
Revolving credit facility (note 19)	–	45.0
Lease obligations	3.7	3.3
	<b>92.6</b>	<b>144.5</b>
<b>Non-current</b>		
Term loan facility <sup>(1)</sup>	642.8	844.3
Lease obligations	43.1	47.3
	<b>685.9</b>	<b>891.6</b>

<sup>1)</sup> Term loan facility includes unamortised issue costs of £8.6 million (2008: £9.7 million).

The Group's credit facilities include a term loan of £800.0 million (2008: £950.0 million) and an RCF of £250.0 million (2008: £250.0 million). In May 2009 a scheduled term loan repayment of £100.0 million was made. In addition, £50.0 million of the proceeds from the capital raising in June 2009 was used to fund a partial pre-payment of the £150.0 million term loan amortisation payment which was due in May 2010. The Group has also taken advantage of current credit market conditions to buy back its debt in the market. During the year the Group purchased debt with a par value of £61.4 million. During the year £35.5 million of this amount was paid, the remaining £25.9 million is included within other payables at 29 August 2009. The term loan facility is repayable in instalments with the loan being repaid in full by April 2011. Interest rates are based on LIBOR and denominated in sterling. The RCF is multicurrency with interest rates based on the relevant inter-bank market rate. During the year the Group has complied with its covenants relating to its credit facilities.

Issue costs, which mainly relate to facility costs are being amortised over the term of the facilities at a constant rate based on the committed amount of the term loan. An additional fee of £3.3 million was capitalised during the year. The amortisation charge relating to the issue costs of the credit facilities for the year ended 29 August 2009 was £4.4 million (2008: £4.2 million).

### Finance Lease Obligations

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

	29 August 2009		30 August 2008	
	Property leases £m	Other leases £m	Property leases £m	Other leases £m
Not later than one year	7.2	0.6	8.3	1.0
Later than one year but not more than five years	54.1	0.6	65.3	1.0
	<b>61.3</b>	<b>1.2</b>	73.6	2.0
Interest element of future instalments	<b>(15.5)</b>	<b>(0.2)</b>	(24.7)	(0.3)
	<b>45.8</b>	<b>1.0</b>	48.9	1.7

### i) Property Lease Obligations

In 1988 a number of properties with a market value of £42.7 million 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 30 August 2008 one of the properties within this arrangement was sold. This sale reduced the outstanding principal by £5.0 million.

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

	29 August 2009 £m	30 August 2008 £m
Principal	37.7	37.7
Accrued interest	8.1	11.2
<b>Outstanding liability</b>	<b>45.8</b>	<b>48.9</b>

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

21 Bank Overdraft and Borrowings continued

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

ii) Other Lease Obligations

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

Maturity of Borrowings

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

	29 August 2009 £m	30 August 2008 £m
Amounts falling due:		
In one year or less or on demand	92.6	144.5
In more than one year but not more than two years	646.2	149.7
In more than two years but not more than five years	39.7	741.9
	<b>778.5</b>	<b>1,036.1</b>

Interest Rates

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

	29 August 2009 %	30 August 2008 %
Bank overdrafts	N/A	6.30
Term loan facility	3.58	6.47
RCF	N/A	6.32
Lease obligations	4.08	6.23

22 Financial Instruments

Derivative Financial Instruments

	29 August 2009		30 August 2008	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
<b>Current</b>				
Forward foreign currency contracts—cash flow hedges	4.5	(5.2)	6.9	—
Forward foreign currency contracts—held for trading	5.0	(1.5)	2.9	—
Interest rate swaps—cash flow hedges	—	(17.5)	—	—
Interest rate swaps—held for trading	—	—	0.7	—
	<b>9.5</b>	<b>(24.2)</b>	<b>10.5</b>	<b>—</b>
<b>Non-current</b>				
Forward foreign currency contracts—cash flow hedges	0.2	(1.1)	2.9	—
Interest rate swaps—cash flow hedges	—	(6.9)	5.3	(0.7)
	<b>0.2</b>	<b>(8.0)</b>	<b>8.2</b>	<b>(0.7)</b>

The financial risks and treasury management information has been disclosed in note 3.

## 22 Financial Instruments *continued*

### Fair Value of Financial Instruments

The notional principal amounts and fair values of financial instruments used in interest risk management were as follows:

	29 August 2009			30 August 2008		
	Notional principal amount £m	Book value £m	Fair value £m	Notional principal amount £m	Book value £m	Fair value £m
<b>Primary financial instruments</b>						
Borrowings:						
—due within one year	(96.0)	(97.7)	(97.7)	(148.3)	(148.5)	(148.5)
—due after one year but no more than two years	(649.7)	(649.7)	(649.7)	(153.2)	(153.2)	(153.2)
—due after more than two years but no more than five years	(39.7)	(39.7)	(39.7)	(744.1)	(744.1)	(744.1)
Cash and cash equivalents		188.2	188.2		42.1	42.1
<b>Derivative financial instruments held to manage interest rate and currency risk</b>						
Interest rate swaps	727.5	(24.4)	(24.4)	752.5	5.3	5.3
Forward foreign currency contracts	258.5	1.9	1.9	158.7	12.7	12.7
<b>Net financial liabilities</b>		<b>(621.4)</b>	<b>(621.4)</b>		<b>(985.7)</b>	<b>(985.7)</b>

The financial instruments table above excludes trade receivables of £21.8 million (2008: £13.6 million) and trade payables of £274.8 million (2008: £251.3 million), which have fair values equal to their carrying values.

Derivatives are used to hedge the exposure to market risks. Derivatives that are held for hedging are designated as cash flow hedged instruments in accordance with IAS 39. The derivatives held for hedging are described below.

There is no material impact in the Income Statement resulting from ineffective hedges.

#### *i) Forward Foreign Currency Contracts*

The net fair value losses at 29 August 2009 on open forward foreign exchange contracts that hedge the foreign currency risk of anticipated future inventory purchases are £1.6 million (2008: gains of £9.8 million). This will be recycled and adjusted against the initial measurement of the acquisition cost of inventory over the next 18 months.

Forward exchange contracts designated as cash flow hedges are reclassified to “assets held for trading” when the underlying forecast transaction is crystallised on the Balance Sheet as inventory. During the year there were no contracts reclassified to “assets held for trading” due to cash flow hedges being ineffective.

#### *ii) Interest Rate Swaps*

The Group’s interest rate swaps switch interest from floating rates to fixed rates. The Group’s interest rate swap portfolio matures as follows:

	Notional £m	Rate %	Maturity
Interest rate swaps	727.5	4.718–6.040	May 2010 to November 2011

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.

Interest rate swaps that do not qualify for hedge accounting are classified as held for trading. Changes in the fair value of any instrument that does not qualify for hedge accounting are recognised immediately in the Income Statement within interest payable and other costs.



## NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

**22 Financial Instruments continued****Financial Liabilities and Assets**

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

	29 August 2009			Total £m
	Fixed £m	Floating £m	Non-interest bearing £m	
<b>Financial liabilities</b>				
Sterling <sup>(1)</sup>	(730.2)	(56.9)	–	(787.1)
<b>Financial assets</b>				
Sterling	157.6	–	22.7	180.3
Euro	–	6.6	1.3	7.9
<b>Total financial assets</b>	<b>157.6</b>	<b>6.6</b>	<b>24.0</b>	<b>188.2</b>

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

The weighted average interest rate on the fixed rate borrowings as at 29 August 2009 was 7.4 per cent (2008: 6.1 per cent), with the weighted average time for which rates are fixed being 1.0 years (2008: 2.0 years). Floating rate borrowings are interest bearing at interest rates based on LIBOR. Cash deposits are interest bearing at rates based on LIBID or relevant base rates. Non-interest bearing cash refers to cash in stores or in transit.

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

	30 August 2008			Total £m
	Fixed £m	Floating £m	Non-interest bearing £m	
<b>Financial liabilities</b>				
Sterling <sup>(2)</sup>	(754.3)	(291.5)	–	(1,045.8)
<b>Financial assets</b>				
Sterling	2.6	0.9	21.5	25.0
Euro	0.8	14.9	1.2	16.9
US dollar	–	0.2	–	0.2
<b>Total financial assets</b>	<b>3.4</b>	<b>16.0</b>	<b>22.7</b>	<b>42.1</b>

2) Debt issue costs of £9.7 million are excluded from the financial liabilities above.

**Borrowing Facilities as at 29 August 2009**

As at 29 August 2009 the Term Loan Facility was fully drawn together with £nil (2008: £45.0 million) of the RCF. The undrawn element of the RCF at the year end is £250.0 million (2008: £205.0 million). These facilities expire on 19 April 2011.

Both of these facilities incur commitment fees at market rate.

## 22 Financial Instruments *continued*

### 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 changes chosen, being 1 per cent movement in the interest rate or 5 per cent movement in sterling when compared to US dollar, reflects the Group's view of potential changes to these risk variables which existed at the year end.

The table below illustrates the estimated impact on the Group as a result of market movements in foreign exchange and interest rates in relation to all the Group's financial instruments. The analysis has been produced assuming no changes in the borrowings and existing interest rate swaps portfolio when considering the interest rate movement. Similarly, when considering the movement in foreign exchange rates, the analysis assumes no changes in the volumes of imports.

	29 August 2009		30 August 2008	
	Income Statement loss £m	Equity gain £m	Income Statement loss £m	Equity gain £m
1 per cent increase in interest rate	(1.6)	3.6	(2.6)	0.8

	29 August 2009		30 August 2008	
	Income Statement gain £m	Equity gain £m	Income Statement loss £m	Equity gain £m
5 per cent weakening in sterling compared to US dollars	0.8	6.4	(3.6)	6.5

## 23 Retirement Benefit Obligation

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

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

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

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 Watson Wyatt Limited, a qualified independent actuary. The 31 March 2008 actuarial valuation has been used when calculating the IAS 19 "Employee benefits" valuation at 29 August 2009. The major assumptions used by the actuary were:

	29 August 2009 per annum %	30 August 2008 per annum %	1 September 2007 per annum %
Inflation assumption	3.30	3.80	3.10
General salary and wage increase	3.30	3.80	3.90
Rate of increase in pension payments and deferred payments	3.30	3.80	3.10
Pension increase rate	3.30	3.80	3.10
Discount rate	5.45	6.35	5.95

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For the financial year ended 29 August 2009

23 Retirement Benefit Obligation continued

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.

	29 August 2009		30 August 2008		1 September 2007	
	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
<b>Assets</b>						
Equities	9.00	230.6	10.00	277.7	8.30	315.0
Bonds	4.40	217.5	5.10	204.5	5.95	197.3
Property	8.00	20.1	7.90	19.9	7.10	8.2
Cash and other assets	4.30	20.2	5.10	23.5	5.00	31.8
<b>Total market value of assets</b>	<b>6.70</b>	<b>488.4</b>	<b>7.80</b>	<b>525.6</b>	<b>7.25</b>	<b>552.3</b>
Present value of scheme liabilities		(542.0)		(500.6)		(465.0)
<b>(Deficit)/surplus in scheme</b>		<b>(53.6)</b>		<b>25.0</b>		<b>87.3</b>

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

	29 August 2009 Male & female	30 August 2008 Male & female
Debenhams Retirement Scheme	PNMA00 + 1	PNMA00 + 1
Debenhams Executive Pension Plan	PNFA00 - 2	PNMA00 - 1

The current life expectancies underlying the mortality tables above are as follows:

	29 August 2009		30 August 2008	
	Years Male	Years Female	Years Male	Years Female
Member currently aged 65	22.6	24.3	22.1	23.0
Member aged 65 in 15 years	23.5	25.1	23.9	24.7

The actual loss on scheme assets was as follows:

	29 August 2009 £m	30 August 2008 £m
<b>Loss on scheme assets</b>	<b>(22.3)</b>	<b>(17.7)</b>

The amounts recognised in the Income Statement are as follows:

	29 August 2009 £m	30 August 2008 £m
Interest on pension scheme liabilities	31.2	27.2
Expected return on pension scheme assets	(39.1)	(36.6)
<b>Total credit included within staff costs</b>	<b>(7.9)</b>	<b>(9.4)</b>

The total credits included are as follows:

	29 August 2009 £m	30 August 2008 £m
Cost of sales	(6.6)	(7.8)
Distribution costs	—	(0.1)
Administrative expenses	(1.3)	(1.5)
<b>Total credit</b>	<b>(7.9)</b>	<b>(9.4)</b>

### 23 Retirement Benefit Obligation *continued*

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

	29 August 2009 £m	30 August 2008 £m
Present value of obligation at start of the financial year	500.6	465.0
Interest on pension scheme liabilities	31.2	27.2
Benefit payments by the fund	(20.7)	(15.7)
Loss on change of assumptions	49.1	9.5
Experience (gain)/loss	(18.2)	14.6
<b>Present value of obligation at end of the financial year</b>	<b>542.0</b>	<b>500.6</b>

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

	29 August 2009 £m	30 August 2008 £m
Fair value of pension scheme assets at start of the financial year	525.6	552.3
Benefits paid	(20.7)	(15.7)
Company contributions	7.1	8.1
Expected return on pension scheme assets	39.1	36.6
Actuarial losses	(62.7)	(55.7)
<b>Fair value of pension scheme assets at end of the financial year</b>	<b>488.4</b>	<b>525.6</b>

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

	29 August 2009 £m	30 August 2008 £m
Surplus in the schemes at start of the financial year	25.0	87.3
Movement in year:		
Pension credit	7.9	9.4
Company contributions	7.1	8.1
Net actuarial losses	(93.6)	(79.8)
<b>(Deficit)/surplus in the schemes at end of financial year</b>	<b>(53.6)</b>	<b>25.0</b>

Cumulative actuarial gains and losses recognised in equity:

	29 August 2009 £m	30 August 2008 £m
At start of the financial year	4.5	84.3
Net actuarial losses recognised in the financial year	(93.6)	(79.8)
<b>Net actuarial (losses)/gains recognised at end of the financial year</b>	<b>(89.1)</b>	<b>4.5</b>

History of experience gains and losses:

	29 August 2009	30 August 2008	1 September 2007	2 September 2006	3 September 2005
Actuarial loss/(gain) arising on scheme assets:					
—Amounts	£62.7m	£55.7m	£2.4m	£(23.6)m	£(46.0)m
—Percentage of scheme assets	12.8%	10.6%	0.4%	(4.5)%	(10.1)%
Experience (gain)/loss arising on defined benefit obligation:					
—Amounts	£(18.2)m	£14.6m	£4.1m	£3.7m	£2.8m
—Percentage of the present value of scheme liabilities	(3.4)%	2.9%	0.9%	0.7%	0.6%
Present value of scheme liabilities	£(542.0)m	£(500.6)m	£(465.0)m	£(513.3)m	£(463.0)m
Fair value of scheme assets	£488.4m	£525.6m	£552.3m	£527.1m	£453.6m
(Deficit)/surplus	£(53.6)m	£25.0m	£87.3m	£13.8m	£(9.4)m

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

23 Retirement Benefit Obligation continued

The contributions expected to be paid during the year ended 28 August 2010 amount to £7.2 million.

Debenhams Defined Contribution Scheme and Debenhams Stakeholder Pension Schemes

The Group contributions to the schemes during the year were £7.2 million (2008: £7.2 million).

24 Deferred Tax Assets and Liabilities

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28 per cent (2008: 28 per cent).

	29 August 2009 £m	30 August 2008 £m
<b>Non-current</b>		
Deferred tax assets	<b>80.6</b>	57.4
Deferred tax liabilities	<b>(78.3)</b>	(95.3)
	<b>2.3</b>	(37.9)

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:

	Developers contribution received £m	Fair value losses £m	Other provisions £m	Retirement benefit asset £m	Total £m
<b>Assets</b>					
At 1 September 2007	34.4	–	17.9	–	52.3
Credited to the Income Statement	2.2	–	2.8	–	5.0
Exchange rate movements	–	–	0.1	–	0.1
At 30 August 2008	36.6	–	20.8	–	57.4
Credited/(charged) to the Income Statement	3.1	(4.9)	(0.4)	(4.2)	(6.4)
Credited to the SORIE	–	10.4	–	19.2	29.6
<b>At 29 August 2009</b>	<b>39.7</b>	<b>5.5</b>	<b>20.4</b>	<b>15.0</b>	<b>80.6</b>

	Accelerated tax depreciation £m	Fair value gains £m	Retirement benefit asset £m	Total £m
<b>Liabilities</b>				
At 1 September 2007	(82.9)	(6.3)	(22.4)	(111.6)
(Charged)/credited to the Income Statement	(1.5)	0.4	(6.9)	(8.0)
Credited to the SORIE	–	–	22.3	22.3
Credited to equity	–	2.0	–	2.0
At 30 August 2008	(84.4)	(3.9)	(7.0)	(95.3)
Credited to the Income Statement	6.1	3.9	–	10.0
Credited to the SORIE	–	–	7.0	7.0
<b>At 29 August 2009</b>	<b>(78.3)</b>	<b>–</b>	<b>–</b>	<b>(78.3)</b>



## 25 Other Non-Current Liabilities

	29 August 2009 £m	30 August 2008 £m
Other liabilities	<b>273.0</b>	225.8

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

## 26 Provisions for Liabilities and Charges

	Vacant properties £m	Closure provisions £m	Promotional activities £m	Other provisions £m	Total £m
At 1 September 2007	0.5	1.7	–	0.6	2.8
Credited to the Income Statement	(0.1)	–	–	–	(0.1)
Utilised during the financial year	(0.2)	(1.5)	–	–	(1.7)
At 30 August 2008	0.2	0.2	–	0.6	1.0
Charged to the Income Statement	–	–	1.7	–	1.7
Utilised during the financial year	(0.2)	–	(0.1)	(0.1)	(0.4)
<b>At 29 August 2009</b>	<b>–</b>	<b>0.2</b>	<b>1.6</b>	<b>0.5</b>	<b>2.3</b>

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

	29 August 2009 £m	30 August 2008 £m
Current	<b>2.1</b>	0.7
Non-current	<b>0.2</b>	0.3
	<b>2.3</b>	1.0

### Vacant Properties

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

### Closure Provision

The termination of a number of operations resulted in closure costs predominantly related to the closure of a store in the Republic of Ireland and vacated buildings. The provision in respect of the closure of a store in the Republic of Ireland was utilised during the year ending 30 August 2008. The remaining provision will be utilised over the term of the relevant lease, being the next five years.

### Promotional Activities Provision

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

### 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 are individually significant, represent the best estimate of the expenditure required to settle present obligations in respect of other liabilities. These provisions are mainly short term in nature and are expected to be utilised within the next 12 months.

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

27 Share Capital

	29 August 2009		30 August 2008	
	£	Number	£	Number
<b>Authorised</b>				
Ordinary shares of £0.0001 each	167,285	1,672,848,189	128,846	1,288,461,539

On 23 June 2009 the Company increased its authorised share capital to 1,672,848,189 ordinary shares of £0.0001 each.

	29 August 2009		30 August 2008	
	£	Number	£	Number
<b>Issued and fully paid—Ordinary shares of £0.0001 each</b>				
At start of year	87,477	874,770,325	85,897	858,974,359
Shares issued in lieu of dividends	805	8,054,691	1,580	15,795,966
Firm placing and placing	33,059	330,592,432	–	–
Open offer	7,339	73,388,851	–	–
<b>At end of year</b>	<b>128,680</b>	<b>1,286,806,299</b>	87,477	874,770,325

On 4 June 2009 the Company announced a share issue to raise additional funds through a firm placing and placing and open offer. New ordinary shares issued in respect of the open offer amounted to 73.4 million and 330.6 million new ordinary shares were issued through a placing, both at an issue price of 80 pence per share, which raised net proceeds of £303.8 million after issue costs of £19.4 million. This share issue was approved by shareholders on 23 June 2009 and all issued shares had a nominal value of £0.0001 each. The shares were issued and commenced trading on the London Stock Exchange on 26 June 2009. The share issue was effected through a structure which resulted in a merger reserve arising under section 612 of the Companies Act 2006.

Employee Share Trust—Interest in Share Capital

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

	29 August 2009 Ordinary shares Number	30 August 2008 Ordinary shares Number
Debenhams Retail Employee Trust 2004	1,413,536	1,413,536

The market value of the shares on 29 August 2009 were £1.1 million for DRET (2008: £0.7 million). The cost of the shares held at the year end is £1.2 million (2008: £1.2 million).

Share-Based Payments

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

	29 August 2009 £m	30 August 2008 £m
Performance Share Plan 2006—Equity-settled element	0.4	0.8
Executive Share Option Plan—Equity-settled element	(0.1)	–
<b>Charge for the year</b>	<b>0.3</b>	<b>0.8</b>

	PSP Number	ESOP Number
Outstanding at 1 September 2007	8,639,036	4,625,817
Granted	5,405,023	2,332,733
Forfeited	(612,746)	(516,474)
Outstanding at 30 August 2008	13,431,313	6,442,076
Granted following the rights issue	210,723	80,265
Lapsed	(2,951,121)	(2,275,984)
Forfeited	(2,567,428)	(1,065,770)
<b>Outstanding at 29 August 2009</b>	<b>8,123,487</b>	<b>3,180,587</b>

## 27 Share Capital *continued*

### i) The Debenhams Performance Share Plan (the “PSP”)

The PSP is intended to facilitate the retention of senior executives of the Company by enabling executives to receive shares provided that they remain in the Group. An award under the PSP will normally vest on the third anniversary of date of grant and must be exercised within six months of vesting. No payment is required for the grant of an award. An award under the PSP will comprise an option to receive free shares or nil cost options with performance conditions attached. Awards under the scheme have been made since May 2006.

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

Grant date	7 May 08	29 May 07	24 Nov 06
Number of shares under option (number)	3,410,092	2,816,895	1,896,500
Expected term (years)	3.0	3.0	3.0
Share price at grant (pence)	65.0	137.5	198.3
Exercise price (pence)	–	–	–
Risk free rate	5.7%	6.0%	5.5%
Expected volatility	34.0%	21.0%	21.0%
Expected dividend yield	3.5%	3.5%	3.5%
Fair value of option (pence):			
TSR	29.0	64.3	95.2
EPS	59.0	121.0	178.0

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

During the year 210,723 (2008: 5,405,023) options were granted under the plan following the firm placing and placing and open offer in order to maintain an equivalent number of options. Consequently this grant does not change the fair value of each option. In accordance with the plan rules, options issued in May 2006 and June 2006 have lapsed during the year as neither the EPS nor the TSR performance conditions were met. In addition, the February 2008 options were forfeited.

### ii) Executive Share Option Plan (the “ESOP”)

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

The vesting of options granted under this plan is dependent on EPS growth and the fair value of the share options has been calculated using a binomial model. The key assumptions are as follows:

Grant date	12 Nov 07	29 May 07	24 Nov 06
Number of shares under option (number)	1,518,082	334,447	1,328,058
Expected term (years)	6.0	6.0	6.0
Share price at grant (pence)	103.0	137.5	198.3
Exercise price (pence)	103.0	137.5	198.3
Risk free rate	5.8%	6.0%	5.5%
Expected volatility	32.0%	24.0%	24.0%
Expected dividend yield	3.5%	3.5%	3.5%
Fair value of option (pence)	30.0	31.7	44.8

During the year 80,265 (2008: 2,332,733) options were granted under the plan following the firm placing and placing and open offer in order to maintain an equivalent number of options. Consequently this grant does not change the fair value of each option. In accordance with the plan rules, options issued in May 2006 and June 2006 have lapsed as the performance conditions associated with these options were not met. In addition, the February 2008 options were forfeited.

The weighted average exercise price of the ESOP at 29 August 2009 was 146.4 pence (2008: 159.1 pence).

NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

28 Consolidated Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium £m	Merger reserve £m	Reverse acquisition reserve £m	Retained earnings £m	Hedging reserve £m	Translation reserve £m	Other reserve £m	Total £m
<b>Balance at 1 September 2007</b>	0.1	682.9	1,200.9	(1,199.9)	(549.5)	15.4	–	13.1	163.0
Profit for the financial year	–	–	–	–	77.1	–	–	–	77.1
Currency translation differences	–	–	–	–	–	–	1.3	–	1.3
Actuarial loss in pension schemes (note 23)	–	–	–	–	(79.8)	–	–	–	(79.8)
Movement in deferred tax relating to pension schemes (note 24)	–	–	–	–	22.3	–	–	–	22.3
Change in valuation of available-for-sale investments (note 16)	–	–	–	–	–	–	–	(9.3)	(9.3)
Cash flow hedges:									
—Net fair value gains (net of tax)	–	–	–	–	–	(5.0)	–	–	(5.0)
—Recycled and adjusted against the initial measurement of the acquisition cost of inventory	–	–	–	–	–	0.9	–	–	0.9
—Reclassified and reported in net profit	–	–	–	–	–	(0.5)	–	–	(0.5)
<b>Total recognised income and expense for the financial year</b>	–	–	–	–	19.6	(4.6)	1.3	(9.3)	7.0
Share options									
—Value of employee services (note 27)	–	–	–	–	0.8	–	–	–	0.8
Purchase of treasury shares for DRET (note 27)	–	–	–	–	(1.1)	–	–	–	(1.1)
Dividends paid (note 12)	–	–	–	–	(54.1)	–	–	–	(54.1)
Shares issued in lieu of dividends (note 12)	–	–	–	–	9.7	–	–	–	9.7
<b>Balance at 30 August 2008</b>	0.1	682.9	1,200.9	(1,199.9)	(574.6)	10.8	1.3	3.8	125.3
Profit for the financial year	–	–	–	–	95.1	–	–	–	95.1
Currency translation differences	–	–	–	–	–	–	(0.3)	–	(0.3)
Actuarial loss in pension schemes (note 23)	–	–	–	–	(93.6)	–	–	–	(93.6)
Movement in deferred tax relating to pension schemes (note 24)	–	–	–	–	26.2	–	–	–	26.2
Change in valuation of available-for-sale investments (note 16)	–	–	–	–	–	–	–	(2.2)	(2.2)
Cash flow hedges:									
—Net fair value gains (net of tax)	–	–	–	–	–	(9.2)	–	–	(9.2)
—Recycled and adjusted against the initial measurement of the acquisition cost of inventory	–	–	–	–	–	(20.1)	–	–	(20.1)
<b>Total recognised income and expense for the financial year</b>	–	–	–	–	27.7	(29.3)	(0.3)	(2.2)	(4.1)
Share options									
—Value of employee services (note 27)	–	–	–	–	0.3	–	–	–	0.3
Share issue (note 27)	–	–	303.8	–	–	–	–	–	303.8
Discount arising on repurchase of term loan facility (net of tax)	–	–	–	–	2.4	–	–	–	2.4
Dividends paid (note 12)	–	–	–	–	(4.3)	–	–	–	(4.3)
Shares issued in lieu of dividends (note 12)	–	–	–	–	1.9	–	–	–	1.9
<b>Balance at 29 August 2009</b>	0.1	682.9	1,504.7	(1,199.9)	(546.6)	(18.5)	1.0	1.6	425.3

## 28 Consolidated Statement of Changes in Shareholders' Equity *continued*

### 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. The merger reserve represents the difference between both the nominal value of the share capital and loan notes issued by the Company and the fair value of Baroness Group Holdings Limited Group at 24 May 2005, the date of the 2005 Group reconstruction.

On 26 June 2009, the share issue was completed and 404.0 million ordinary shares with a total nominal value of £0.04 million were issued for consideration of £303.8 million, net of issue costs of £19.4 million. The issue was effected through a structure which resulted in a merger reserve arising under Section 612 of the Companies Act 2006.

### 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.

Gains and losses transferred from equity into profit or loss during the year are included in the following line items of the Income Statement:

	29 August 2009 £m	30 August 2008 £m
Credited to cost of sales	(27.9)	(1.3)
Charged to interest payable and similar charges	-	0.7
	<b>(27.9)</b>	<b>(0.6)</b>

### Other Reserves

Other reserves represent the change in fair value in respect of the Group's available-for-sale investments (see note 16).

### Translation Reserve

The translation reserve arises from exchange differences arising as part of a reporting entity's net investment in a foreign operation.

### Retained Earnings

The dividends not taken up in cash of £1.9 million (2008: £9.7 million) have been written back to retained earnings.

## 29 Operating Lease Commitments

	29 August 2009		30 August 2008	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
<b>The future aggregate minimum lease payments under non-cancellable operating leases are as follows:</b>				
Within one year	156.1	0.4	146.4	1.3
Later than one year and less than five years	644.7	0.6	612.0	1.0
After five years	3,846.8	-	3,837.1	-
	<b>4,647.6</b>	<b>1.0</b>	4,595.5	2.3

The Group leases departmental 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.



## NOTES TO THE FINANCIAL STATEMENTS

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For the financial year ended 29 August 2009

**30 Cash Generated From Operations**

	29 August 2009 £m	30 August 2008 £m
<b>Profit for the financial year</b>	<b>95.1</b>	77.1
Taxation (note 11)	25.7	28.8
Depreciation (note 15)	87.9	87.5
Accelerated depreciation (note 15)	0.1	0.8
Amortisation (note 14)	8.1	7.5
Loss/(profit) on disposal of property, plant and equipment	0.2	(3.1)
Employee options granted during the year (note 27)	0.3	0.8
Fair value gains on derivative instruments	(0.6)	(3.7)
Net movements in provisions for liabilities and charges (note 26)	1.3	(1.8)
Interest income	(1.3)	(4.8)
Interest expense	62.7	75.0
Difference between pension charge and contributions paid (note 23)	(15.0)	(17.5)
Net movement in other non-current liabilities	47.2	18.8
<b>Changes in working capital</b>		
(Increase)/decrease in inventories	(33.4)	7.1
(Increase)/decrease in trade and other receivables	(7.3)	8.0
(Decrease)/increase in trade and other payables	(30.0)	5.3
<b>Cash generated from operations</b>	<b>241.0</b>	<b>285.8</b>

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

	29 August 2009 £m	30 August 2008 £m
Net book amount (note 15)	0.2	5.4
(Loss)/profit on sale of property, plant and equipment	(0.2)	3.1
Total proceeds on sale	–	8.5
Less off set to long-term loan	–	(5.0)
Cash proceeds from the sale of property, plant and equipment	–	3.5

**Non-Cash Transactions**

Other non-cash changes comprise:

	29 August 2009 £m	30 August 2008 £m
Amortisation of issue costs relating to debt issues	4.4	4.2
Non-cash movements associated with term loan facility	(24.4)	–
Non-cash movements associated with finance lease obligations	(3.7)	(6.4)
<b>Non-cash transactions</b>	<b>(23.7)</b>	<b>(2.2)</b>

### 31 Analysis of Changes in Net Debt

	At 30 August 2008 £m	Cash flow £m	Non-cash movements £m	At 29 August 2009 £m
<b>Analysis of net debt</b>				
Cash and cash equivalents	42.1	146.1	–	<b>188.2</b>
Bank overdrafts	(45.0)	45.0	–	<b>–</b>
<b>Cash, cash equivalents and bank overdrafts</b>				
Debt due within one year	(96.2)	100.0	(92.7)	<b>(88.9)</b>
Debt due after one year	(844.3)	88.8	112.7	<b>(642.8)</b>
Finance lease obligations due within one year	(3.3)	0.1	(0.5)	<b>(3.7)</b>
Finance lease obligations due after one year	(47.3)	–	4.2	<b>(43.1)</b>
	<b>(994.0)</b>	<b>380.0</b>	<b>23.7</b>	<b>(590.3)</b>

### 32 Contingent Liabilities

At the year end the Group gave guarantees in the normal course of business which related to an insurance letter of credit for £5.0 million (2008: £5.0 million) and a duty deferment guarantee of £6.4 million (2008: £5.0 million).

### 33 Principal Subsidiary Undertakings

The principal subsidiary undertakings of Debenhams plc at 29 August 2009 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
Debenhams Properties Limited	UK	England	Property Investment

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

All companies are wholly owned.

All subsidiary companies are consolidated.

## FIVE-YEAR RECORD INCOME STATEMENT

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Gross transaction value	<b>2,339.7</b>	2,336.0	2,305.6	2,192.9	2,086.8
Revenue	<b>1,915.6</b>	1,839.2	1,774.4	1,707.7	1,608.7
Cost of sales	<b>(1,650.7)</b>	(1,571.6)	(1,494.9)	(1,376.3)	(1,293.4)
<b>Gross profit</b>	<b>264.9</b>	267.6	279.5	331.4	315.3
Distribution costs	<b>(45.3)</b>	(50.0)	(46.2)	(53.0)	(43.5)
Administrative expenses	<b>(37.4)</b>	(41.5)	(39.2)	(40.2)	(43.8)
<b>Operating profit before exceptional items</b>	<b>182.2</b>	176.1	194.1	238.2	228.0
Exceptional items	-	-	(14.3)	(14.6)	(4.4)
Profit on deemed disposal of subsidiary	-	-	-	-	117.7
<b>Operating profit</b>	<b>182.2</b>	176.1	179.8	223.6	341.3
Net interest	<b>(61.4)</b>	(70.2)	(66.6)	(125.4)	(160.8)
Exceptional interest payable and similar charges	-	-	-	(36.1)	(92.9)
<b>Profit before taxation</b>	<b>120.8</b>	105.9	113.2	62.1	87.6
Taxation	<b>(25.7)</b>	(28.8)	(34.2)	(18.4)	36.1
<b>Profit for the financial year attributable to equity shareholders</b>	<b>95.1</b>	77.1	79.0	43.7	123.7

**Gross Transaction Value**

Revenue from concessions 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 believe that gross transaction value, which presents revenue on a gross basis before adjusting for concessions, staff discounts and the cost of loyalty scheme points, represents a good guide to the value of the overall activity of the Group.

## FIVE-YEAR RECORD BALANCE SHEETS

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	839.9	840.8	842.9	836.1	829.9
Tangible assets	669.2	693.3	667.7	639.5	650.0
Financial assets	9.0	19.2	40.0	16.0	7.2
Retirement benefit assets	–	25.0	87.3	13.8	–
Deferred tax assets	80.6	57.4	52.3	51.1	58.9
<b>Total non-current assets</b>	<b>1,598.7</b>	<b>1,635.7</b>	<b>1,690.2</b>	<b>1,556.5</b>	<b>1,546.0</b>
<b>Net current liabilities</b>	<b>(74.4)</b>	<b>(296.7)</b>	<b>(215.8)</b>	<b>(156.6)</b>	<b>(143.2)</b>
<b>Non-current liabilities</b>	<b>(1,099.0)</b>	<b>(1,213.7)</b>	<b>(1,311.4)</b>	<b>(1,346.6)</b>	<b>(2,083.5)</b>
<b>Net assets/(liabilities)</b>	<b>425.3</b>	<b>125.3</b>	<b>163.0</b>	<b>53.3</b>	<b>(680.7)</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital	0.1	0.1	0.1	0.1	–
Share premium account	682.9	682.9	682.9	682.9	–
Other reserves	288.9	16.9	29.5	3.5	1.0
Retained earnings	(546.6)	(574.6)	(549.5)	(633.2)	(681.7)
<b>Total equity</b>	<b>425.3</b>	<b>125.3</b>	<b>163.0</b>	<b>53.3</b>	<b>(680.7)</b>

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

We have audited the Parent Company Financial Statements of Debenhams plc for the year ended 29 August 2009 which comprise the Parent Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective Responsibilities of Directors and Auditors

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

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Sections 495 to 497 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the Audit of the Financial Statements

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

## Opinion on Financial Statements

In our opinion the Parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 29 August 2009;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on Other Matters Prescribed by the Companies Act 2006

In our opinion:

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

## Matters on Which We Are Required to Report by Exception

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

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

## M R HODGSON (SENIOR STATUTORY AUDITOR)

*for and on behalf of PricewaterhouseCoopers LLP*

*Chartered Accountants and Statutory Auditors*

London

22 October 2009

# COMPANY BALANCE SHEET

As at 29 August 2009

	Note	29 August 2009 £m	30 August 2008 £m
<b>Fixed assets</b>			
Investments	4	<b>4,030.3</b>	3,716.6
Financial assets – derivative financial instruments	5	–	5.3
		<b>4,030.3</b>	3,721.9
<b>Current assets</b>			
Debtors	6	<b>352.0</b>	138.5
Financial assets – derivative financial instruments	5	–	0.7
Cash at bank and in hand		–	0.2
		<b>352.0</b>	139.4
<b>Creditors: amounts falling due within one year</b>			
Financial liabilities – derivative financial instruments	5	<b>(17.5)</b>	–
	7	<b>(1,502.2)</b>	(1,206.6)
		<b>(1,167.7)</b>	(1,067.2)
<b>Net current liabilities</b>			
		<b>(1,167.7)</b>	(1,067.2)
<b>Total assets less current liabilities</b>			
		<b>2,862.6</b>	2,654.7
<b>Creditors: amounts falling due after more than one year</b>			
Financial liabilities – derivative financial instruments	5	<b>(5.8)</b>	(0.6)
Provisions for liabilities	10	–	(1.5)
		<b>2,160.3</b>	1,808.3
<b>Net assets</b>			
		<b>2,160.3</b>	1,808.3
<b>Capital and reserves</b>			
Called-up share capital	12	<b>0.1</b>	0.1
Share premium account	13	<b>682.9</b>	682.9
Merger reserve	13	<b>1,274.6</b>	970.8
Hedging reserve	13	<b>(16.7)</b>	3.9
Profit and loss account	13	<b>219.4</b>	150.6
		<b>2,160.3</b>	1,808.3
<b>Total shareholders' funds</b>			
	14	<b>2,160.3</b>	1,808.3

The Financial Statements on pages 95 to 101 were approved by the board of directors on 22 October 2009 and were signed on its behalf by:

**C K WOODHOUSE**

*Director*



# NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the financial year ended 29 August 2009

## 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. 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 cash flows of the Company are included in the Debenhams Group Financial Statements.

The Company is also exempt under the terms of FRS 8 "Related Party Disclosures" from disclosing related party transactions with entities that are part of the Debenhams Group.

The principal accounting policies, which have been applied consistently during the year, are set out below.

### Investments

Investments are held at cost less any provision for impairment.

### Impairment Testing

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's net realisable value and value in use.

### Borrowings

All borrowings are stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs, are charged to the profit and loss account over the term of the borrowings. Finance costs represent a constant proportion of the balance of capital repayments outstanding.

### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates that are in force during the period.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Dividend Distribution

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

### Share-Based Payments

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

### 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).

Derivatives are recognised using trade date accounting.

## 1 Accounting Policies *continued*

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items as well as its risk management objective 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 are 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 recycled 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, any cumulative gain or loss existing in equity at that time is immediately recognised in the relevant line of the profit and loss account which will be affected by the original underlying hedged item. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred 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.

The Company has taken advantage of the exemption in FRS 25 “Financial Instruments: Disclosure and Presentation” not to present information on financial risk management and hedging where that information is presented in the same Group Financial Statements. Accordingly, information on risk management and hedging may be found in notes 3 and 22 of the Group Financial Statements.

## 2 Profit and Loss Account

The directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone. A profit of £70.9 million is attributable to shareholders for the financial year ended 29 August 2009 (2008: loss of £70.9 million).

The contracts of employment for all the executive directors are held by Debenhams plc. The total cost of employing the directors is disclosed in the Remuneration Report. The Company has no other employees (2008: none).

Auditors’ remuneration of £0.1 million (2008: £0.1 million) is borne by another Group undertaking.

## 3 Dividends

	29 August 2009 £m	30 August 2008 £m
Final paid 0.5 pence (2008: 3.8 pence) per £0.0001 share		
Settled in cash	2.4	32.6
Settled in scrip issue	1.9	–
Interim paid nil pence (2008: 2.5 pence) per £0.0001 share		
Settled in cash	–	11.8
Settled in scrip issue	–	9.7
	<b>4.3</b>	<b>54.1</b>

The directors are not proposing a final dividend in respect of the financial year ended 29 August 2009 (2008: 0.5 pence per share). The final dividend in respect of the year ended 30 August 2008 absorbed £4.3 million of shareholders’ funds.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

—continued

For the financial year ended 29 August 2009

4 Investments

	Investments in subsidiary undertakings £m
<b>Cost</b>	
At 30 August 2008	4,068.7
Additions	313.7
<b>At 29 August 2009</b>	<b>4,382.4</b>
<b>Provision for impairment</b>	
At 30 August 2008 and at 29 August 2009	352.1
<b>Net book value</b>	
At 29 August 2009	<b>4,030.3</b>
At 30 August 2008	3,716.6

Investment in Subsidiary Undertakings

As part of the firm placing and placing and open offer which was announced on 4 June 2009, the Company acquired 89 ordinary shares at a price of £1 per share and 250,000,000 preference shares at a price of £1.255 per share, amounting to £313.7 million, in Kylie (Jersey) Limited, a Jersey incorporated company.

During the year the Company also subscribed for 1 share in Jerimain Investments Limited, a UK incorporated company.

In accordance with FRS 11 “Impairment of fixed assets and goodwill” the carrying value of the Company’s subsidiary undertakings has been compared to their recoverable amounts represented by the value in use to the Company. The review results in an impairment of £nil (2008: £135.3 million). In previous years the impairment has been charged to the profit and loss account, which is set off in full by a reserves transfer from the merger reserve. The discount rate used in the calculation to arrive at the valuation was 8.0 per cent (2008: 7.3 per cent) on a pre-tax basis.

The principal subsidiary undertakings of the Company at 29 August 2009 are shown in note 33 of the Debenhams Group Financial Statements.

5 Derivative Financial Instruments

	29 August 2009 £m	30 August 2008 £m
<b>Current assets</b>		
Interest rate swaps—held for trading	–	0.7
<b>Non-current assets</b>		
Interest rate swaps—cash flow hedges	–	5.3
<b>Current liabilities</b>		
Interest rate swaps—cash flow hedges	(17.5)	–
<b>Non-current liabilities</b>		
Interest rate swaps—cash flow hedges	(5.8)	(0.6)

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

6 Debtors

	29 August 2009 £m	30 August 2008 £m
Deferred tax asset (note 11)	6.5	–
Amount owed by Group undertakings	345.5	138.5
	<b>352.0</b>	<b>138.5</b>

Amounts owed by Group undertakings are unsecured, repayable on demand and carrying an average rate of interest of 4.6 per cent (2008: 7.8 per cent).

*7 Creditors: Amounts Falling Due Within One Year*

	29 August 2009 £m	30 August 2008 £m
Bank loans and overdraft (note 9)	96.6	141.7
Amounts owed to Group undertakings	1,399.7	1,064.0
Corporation tax	0.9	0.5
Other creditors	4.4	–
Accruals and deferred income	0.6	0.4
	<b>1,502.2</b>	<b>1,206.6</b>

Amounts owed to Group undertakings are unsecured, have no fixed date of redemption and either carry an average interest rate of 4.6 per cent (2008: 7.8 per cent) or are interest free.

*8 Creditors: Amounts Falling Due After More Than One Year*

	29 August 2009 £m	30 August 2008 £m
Term loan facility (note 9)	696.5	844.3

*9 Borrowings*

	29 August 2009 £m	30 August 2008 £m
Term loan facility	801.7	950.2
Revolving credit facility	–	45.0
Bank loans and overdraft	–	0.5
Total borrowings	801.7	995.7
Less: issue costs	(8.6)	(9.7)
	<b>793.1</b>	<b>986.0</b>

*Maturity of Debt*

	29 August 2009 £m	30 August 2008 £m
Amounts falling due:		
In one year or less or on demand	96.6	141.7
In more than one year but not more than two years	696.5	146.5
In more than two years but not more than five years	–	697.8
	<b>793.1</b>	<b>986.0</b>

Information relating to the borrowings of the Company are shown in note 21 of the Debenhams Group financial statements.

*10 Provisions for Liabilities and Charges*

	29 August 2009 £m	30 August 2008 £m
Deferred tax (note 11)	–	1.5

NOTES TO THE COMPANY FINANCIAL STATEMENTS

—continued

For the financial year ended 30 August 2009

11 *Deferred Taxation*

	Fair value gains £m
At 30 August 2008 – Liability	(1.5)
Credited to the Statement of Total Recognised Gains and Losses	8.0
<b>At 29 August 2009 – Asset</b>	<b>6.5</b>

Deferred tax is calculated in full on all temporary differences under the liability method using a tax rate of 28.0 per cent (2008: 28.0 per cent).

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

12 *Called-up Share Capital*

	29 August 2009		30 August 2008	
	£	Number	£	Number
<b>Authorised</b>				
Ordinary shares of £0.0001 each	<b>167,285</b>	<b>1,672,848,189</b>	128,846	1,288,461,539

On 23 June 2009, the Company increased its authorised share capital to 1,672,848,189 ordinary shares of £0.0001 each.

	29 August 2009		30 August 2008	
	£	Number	£	Number
<b>Issued and fully paid—Ordinary shares of £0.0001 each</b>				
At start of year	<b>87,477</b>	<b>874,770,325</b>	85,897	858,974,359
Shares issued in lieu of dividends	<b>805</b>	<b>8,054,691</b>	1,580	15,795,966
Firm placing and placing	<b>33,059</b>	<b>330,592,432</b>	–	–
Open offer	<b>7,339</b>	<b>73,388,851</b>	–	–
<b>At end of year</b>	<b>128,680</b>	<b>1,286,806,299</b>	87,477	874,770,325

On 4 June 2009, the Company announced a share issue to raise additional funds through a firm placing and placing and open offer. New ordinary shares issued in respect of the open offer amounted to 73.4 million and 330.6 million new ordinary shares were issued through a placing, both at an issue price of 80 pence per share, which raised net proceeds of £303.8 million after issue costs of £19.4 million. This share issue was approved by shareholders on 23 June 2009 and all issued shares had a nominal value of £0.0001 each. The shares were issued and commenced trading on the London Stock Exchange on 26 June 2009. The share issue was effected through a structure which resulted in a merger reserve arising under section 612 of the Companies Act 2006.

The number of ordinary shares in the Company held by the Debenhams Retail Employee Trust 2004 (“DRET”) in connection with the Group’s employee ownership plan described is as follows:

	29 August 2009	30 August 2008
	Ordinary shares Number	Ordinary shares Number
Debenhams Retail Employee Trust 2004	<b>1,413,536</b>	1,413,536

The market value of the shares at 29 August 2009 was £1.1 million for DRET (2008: £0.7 million). The cost of the shares held at the year end was £1.2 million (2008: £1.2 million).

### 13 Reserves

	Share premium account £m	Hedging reserve £m	Merger reserve £m	Profit and loss account £m
At 30 August 2008	682.9	3.9	970.8	150.6
Profit for the financial year	–	–	–	70.9
Cash flow hedges—net fair value gains (net of tax)	–	(20.6)	–	–
Merger reserve arising on issue of shares	–	–	303.8	–
Employee share ownership plans (net of tax)	–	–	–	0.3
Dividends to shareholders (note 3)	–	–	–	(4.3)
Shares issued in lieu of dividends (note 3)	–	–	–	1.9
<b>At 29 August 2009</b>	<b>682.9</b>	<b>(16.7)</b>	<b>1,274.6</b>	<b>219.4</b>

#### Hedging Reserve

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

#### Merger Reserve

The merger reserve was created as a result of the Company acquiring the Baroness Group Holdings Limited Group on 24 May 2005. The merger reserve represents the difference between both the nominal value of the share capital and loan notes issued by the Company and the fair value of Baroness Group Holdings Limited Group at the date of acquisition less any subsequent adjustments as a result of an impairment.

On 26 June 2009, the share issue was completed and 404.0 million ordinary shares with a total nominal value of £0.04 million were issued for consideration of £303.8 million, net of issue costs of £19.4 million. The issue was effected through a structure which resulted in a merger reserve arising under Section 612 of the Companies Act 2006.

#### Profit and Loss Account

The dividends paid by the Company during the year ended 29 August 2009 are shown in note 3.

The dividends not taken up in cash of £1.9 million (2008: £9.7 million) have been written back to the profit and loss account reserve.

### 14 Reconciliation of Movements in Shareholders' Funds

	29 August 2009 £m	30 August 2008 £m
Profit/(loss) for the financial year	70.9	(70.9)
Dividends paid (note 3)	(4.3)	(54.1)
<b>Retained profit/(loss)</b>	<b>66.6</b>	<b>(125.0)</b>
Merger reserve arising on issue of shares	303.8	–
Issue of ordinary share capital in lieu of dividend	1.9	9.7
Cash flow hedges:		
– net fair value losses (net of tax)	(20.6)	(12.4)
Employee share ownership plans (net of tax)	0.3	0.8
<b>Net increase/(decrease) to shareholders' funds</b>	<b>352.0</b>	<b>(126.9)</b>
Opening shareholders' funds	1,808.3	1,935.2
<b>Closing shareholders' funds</b>	<b>2,160.3</b>	<b>1,808.3</b>

### 15 Contingent Liabilities

The Company has guaranteed certain of its subsidiary property finance lease obligations totalling £45.8 million at 29 August 2009 (2008: £48.9 million).

The Company is also liable for the pension schemes' contributions and deficits for both the Debenhams Executive Pension Plan and the Debenhams Retirement Scheme.



## STORE LIST

## UK and Ireland

Aberdeen  
 Ashford  
 Ayr  
 Banbury  
 Bangor  
 Barrow  
 Basildon  
 Basingstoke  
 Bedford  
 Belfast  
 Birmingham  
 Blackburn  
 Blackpool  
 Bolton  
 Bournemouth  
 Brighton  
 Bristol  
 Bromley  
 Bury St Edmunds  
 Cambridge  
 Canterbury  
 Cardiff  
 Carlisle  
 Chatham  
 Chelmsford  
 Cheltenham  
 Chester  
 Clapham  
 Colchester  
 Cork—Mahon Point  
 Cork—Patrick Street  
 Coventry  
 Crawley  
 Croydon  
 Derby  
 Doncaster  
 Dublin—Blackrock  
 Dublin—Blanchardstown  
 Dublin—Henry Street  
 Dublin—Tallaght  
 Dundee  
 Dunfermline  
 East Kilbride  
 Eastbourne  
 Edinburgh  
 Eltham  
 Exeter  
 Farnborough  
 Folkestone  
 Foyleside  
 Galway  
 Gateshead—Metro Centre  
 Glasgow  
 Glasgow Silverburn  
 Gloucester  
 Gravesend  
 Guildford  
 Great Yarmouth  
 Hanley  
 Harrogate  
 Harrow  
 Hastings  
 Hemel Hempstead  
 Hounslow  
 Hull  
 Ilford  
 Inverness  
 Ipswich  
 Kings Lynn  
 Lakeside  
 Leeds—City Centre  
 Leeds—White Rose  
 Leicester  
 Leith  
 Limerick  
 Lincoln  
 Liverpool  
 Livingston  
 Llandudno  
 Llanelli  
 London—Oxford Street  
 London—Westfield  
 Luton  
 Manchester  
 Manchester—Trafford Park  
 Mansfield  
 Merryhill  
 Middlesbrough  
 Milton Keynes  
 Newbridge  
 Newbury  
 Newry  
 Northampton  
 Norwich  
 Nottingham  
 Nuneaton  
 Oldham  
 Oxford  
 Perth  
 Plymouth  
 Portsmouth  
 Preston  
 Reading  
 Redditch  
 Romford  
 Rushmere  
 Salisbury  
 Scarborough  
 Sheffield  
 Sheffield—Meadowhall  
 Slough  
 Southampton  
 Southend  
 Southport  
 Southsea  
 Staines  
 Stirling

Stockport  
 Stockton  
 Stratford  
 Sunderland  
 Sutton  
 Swansea  
 Swindon  
 Taunton  
 Telford  
 Torquay  
 Tralee  
 Uxbridge  
 Walsall  
 Warrington  
 Waterford  
 Welwyn Garden City  
 Westwood Cross  
 Weymouth  
 Wigan  
 Wimbledon  
 Winchester  
 Woking  
 Worcester  
 Workington  
 Worthing  
 Wrexham  
 York

## Desire by Debenhams

Altrincham  
 Ballymena  
 Birmingham Fort  
 Falkirk  
 Kidderminster\*  
 Kirkcaldy  
 Merthyr Tydfil  
 Monks Cross\*  
 Orpington  
 South Shields  
 Truro  
 Walton

## International

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  
 Iceland—Reykjavik  
 India—Courtyard  
 India—Delhi  
 India—Mumbai  
 Indonesia—Jakarta Senayan  
 City  
 Indonesia—Karawaci  
 Iran—Tehran  
 Jordan—Amman  
 Kuwait—Airport  
 Kuwait—Avenues  
 Kuwait—Home  
 Kuwait—Souq Sharq  
 Malaysia—Kuala Lumpur  
 Moldova—Chisinau  
 Philippines—Manila Glorieta  
 Philippines—Manila Shangri La  
 Philippines—Manila Trinoma  
 Qatar—Doha  
 Romania—Banessa  
 Romania—Bucharest  
 Romania—Cluj Polis  
 Romania—Constanta  
 Romania—Oradea  
 Romania—Plaza  
 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  
 Turkey—Istanbul  
 UAE—Abu Dhabi  
 UAE—Dubai—Deira  
 UAE—Dubai—Ibn Battuta  
 UAE—Dubai—Mall  
 UAE—Dubai—Mall of  
 Emirates  
 UAE—Sharjah

\* Opened after 29 August 2009

# GLOSSARY

## Celebrating Success

Our annual employee recognition programme for store and head office employees.

## Concessions

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

## Core Stores

Stores which have yet to be modernised.

## Designers at Debenhams

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

## Desire

Our smaller format store, typically 15-20,000 sq ft, which sells a mix of own bought womenswear, women's accessories, lingerie, childrenswear and health and beauty.

## Direct

Our online store available at [www.debenhams.com](http://www.debenhams.com).

## Earnings Per Share (EPS)

The profit for the year attributable to shareholders, divided by the weighted average number of shares in issue.

## 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 and Liverpool. A new flagship store in Newcastle upon Tyne opens in February 2010.

## Footfall

The number of people who visit our stores.

## 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 and staff discounts.

## Headline Profit Before Tax

Profit before tax, exceptional items and amortisation of capitalised bank fees.

## International Brands

Brands such as Levis, Ben Sherman, Clarins and Estée Lauder for which Debenhams owns the stock.

## Market Share

The percentage of the market or market segment that is being serviced by Debenhams. For instance, if 100 T-shirts were sold a year in the UK and Debenhams sold ten of them, it would have 10 per cent market share.

## Own Bought

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

## Own Label

Brands designed and produced exclusively for Debenhams. They include core brands such as Collection and Maine New England and Designers at Debenhams such as J by Jasper Conran and Betty Jackson.Black.

## Store Pipeline

The future programme of new store openings.

# 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  
Merrill Lynch Financial Centre  
2 King Edward Street  
London EC1A 1HQ

## Solicitors

Freshfields Bruckhaus Deringer  
65 Fleet Street  
London EC4Y 1HS

## Auditors

PricewaterhouseCoopers LLP  
1 Embankment Place  
London WC2N 6RH

## Registrars

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone: 0871 384 2766  
[www.shareview.co.uk](http://www.shareview.co.uk)

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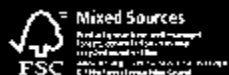
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A new look and feel for debenhams.com is launching in Autumn 2009.



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DEBENHAMS

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