

# Finance Director's review

## Delivering profitable growth



Chris Woodhouse, Finance Director

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

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

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

### Sales and profit performance

#### Group

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

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

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

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

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

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

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

## Magasin du Nord

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

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

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

## Online

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

## International franchise stores

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

## Store portfolio

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

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

## Costs

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

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



## Food for thought

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



## Looking after our best customers

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

### **Stocks**

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

### **Interest**

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

### **Taxation**

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

### **Dividends**

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

### **Capital expenditure**

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

### **Cash flow**

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

### **Borrowings**

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

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

### **Property transactions**

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

### **Financing risk and treasury management**

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

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

### **Pensions**

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

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

**Chris Woodhouse**  
Finance Director



**Roksanda Ilincic**

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

# Risk review

## Safeguarding future returns

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

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

#### Internal control

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

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

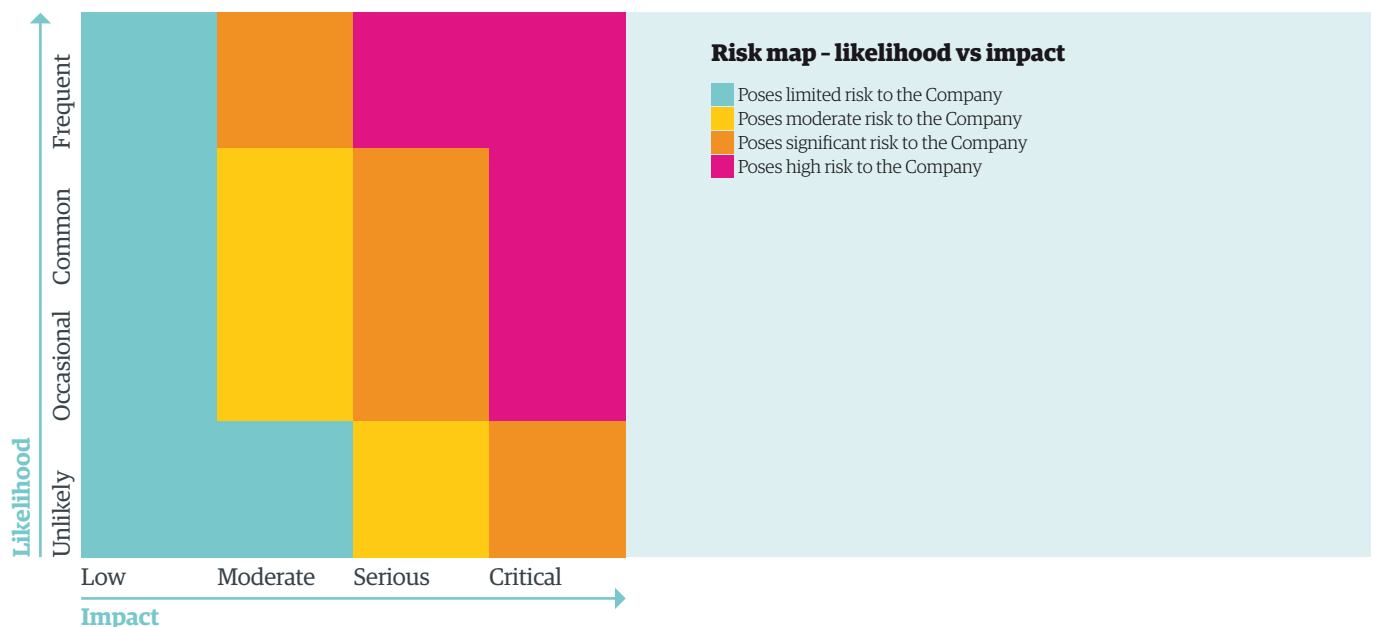
#### Control environment

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

#### Risk assessment

Risks to the achievement of Debenhams' strategic and operational goals have been identified through various organisation-wide reviews, the most recent of which was completed in October 2011. The senior management team, including the board, participated in this exercise which considered the business strategy, related objectives, internal and external risks to their achievement, changes in legislation and any new or emerging risks, together with existing and any new controls required to mitigate those risks. Risks were ranked according to a matrix of likelihood and impact of occurrence and plotted onto the Company risk map, an example of which is shown below.

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



## Information and communication

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

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

## Control activities

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

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

## Monitoring

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

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

## Risk management and internal audit

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

An evaluation of the effectiveness of both internal and external audit teams was undertaken by an external company in August 2011. The respondents included all members of the Audit Committee, members of the board, function heads and senior retail managers.

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

## Whistleblowing

All Debenhams' employees are required to adhere to the Code of Business Conduct and the Anti-Bribery and Corruption Policy, with senior employees required to confirm their compliance in writing. These policies set out the ethical standards expected by the Company and include details of how matters can be raised in strict confidence. Two main routes are available to employees at all levels within the Company to raise concerns over malpractices. The first, "Employees' guideline to problem solving", encourages employees to talk to their line manager, their manager's line manager or, if still concerned, to call HR Connect (the Debenhams' central human resources team) directly. The second route is a confidential reporting line through which employees can speak to Debenhams' anti-fraud team. If an employee feels that the matter is so serious that it cannot be discussed in any of these ways, they should contact the Company Secretary or the Head of Internal Audit and Risk Management directly and contact details are provided. The Company's policy on whistleblowing and these methods of raising issues of concern are published on the Debenhams intranet and emphasised on posters. The policy is also reviewed annually by the Audit Committee. All serious matters identified are raised with the Chairman of the Audit Committee.

## Principal risks and uncertainties

The risks detailed overleaf and in the Notes to the Financial Statements are the principal risks and uncertainties that may impact Debenhams' ability to achieve its strategic and operational goals. Both external factors, such as the economic environment, and internal factors, such as the retention of key management, are included in the risks and uncertainties that could substantially impact performance. Relevant mitigation for each risk is also outlined. These risks are presented in no particular order. It should be noted that any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

## Risk review continued

### External risk

Risk and impact	Examples of mitigation	Change*
<p><b>Consistent fall in customer spending as a result of economic downturn, inflation or deflation</b></p> <p>Reduction in gross transaction value and a decline in sales on discretionary purchases</p>	<p>Board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the growth strategy through new stores, brand development, enhanced multi-channel offer and expanding international opportunities.</p>	↔
<p><b>Competitive pressures in existing markets influencing customer behaviour</b></p> <p>Place pressure on our pricing strategy, margins and profitability</p>	<p>Debenhams differentiates its customer offer through its unique brand and product mix. An understanding of customers and their needs is developed by listening to their views, market intelligence and reviewing key performance indicators, which ensures that pricing is competitive.</p>	↔
<p><b>Sustained supplier cost price increases due to rising cost of raw materials, labour, water etc.</b></p> <p>Place pressure on margin and will also divert financial and management resources from more beneficial uses</p>	<p>Debenhams fosters excellent relationships with its suppliers that are mutually beneficial. Both parties work towards the objective of optimising fulfilment and costs, which is measured regularly by management through key performance indicators. Alongside this, Debenhams develops multiple sourcing routes to ensure pricing remains competitive.</p> <p>Whilst the impact of higher input prices was managed well and average price increases over the spring and summer season were lower than the market as a whole. Debenhams and its suppliers will continue to work hard to deliver the best performance possible in a very challenging market.</p>	↑
<p><b>Loss of profit or additional expenditure caused by increased energy or fuel costs</b></p> <p>Place pressure on margin and will also divert financial and management resources from more beneficial uses</p>	<p>The energy committee works on the key objectives to control energy usage including the impact of the Carbon Reduction Commitment scheme. An energy hedging policy is in place to provide a high degree of cost certainty.</p>	↔

### Financial risk

Risk and impact	Examples of mitigation	Change*
<p><b>Risks associated with currency, hedging, interest rates, credit, counterparties and financial covenants under the credit facilities</b></p> <p>Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow</p> <p>Hedging strategy may not adequately protect operating results from the impact of exchange rate fluctuations or may limit any benefit caused by favourable movements in exchange rates</p> <p>Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition</p> <p>Inappropriate decisions could be made using wrong or ambiguous information or lack of knowledge</p>	<p>Debenhams has a treasury policy in place which covers counterparty limits and hedging for both foreign exchange and energy. There is also an internal treasury function which is mandated by the board and audited annually.</p> <p>Debenhams closely monitors all aspects of working capital to support its objective of deleveraging the balance sheet and effectiveness is measured regularly by management through a series of key performance indicators.</p> <p>Business critical spreadsheets and databases used by the Finance department have been identified and appropriate control measures put in place in line with Debenhams policy to ensure data integrity.</p> <p>The risk has been decreased since net debt at year end was £373.7 million, a reduction of £133.1 million since the start of the year. On 18 July 2011 we announced a further refinancing of the senior credit facility which has extended its duration from October 2013 to October 2015 and reduced the cash interest rate from c.4.5% to c.4.0% with effect from that date.</p>	↓
<p><b>Shortfall in the pension fund</b></p> <p>Increases in pension related liabilities could impact profit and cash flow</p>	<p>Trustees carefully monitor the pension fund and adjust the investment strategy appropriately with any shortfall being brought to the board's attention.</p>	↔

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




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

## Strategic risk

Risk and impact	Examples of mitigation	Change*
<p><b>Inability to predict or fulfil customer demands or preferences</b></p> <p>Sales will be lower, market share reduced and forced to rely on markdowns and sales to dispose of excess or slow-moving inventory or inventory shortfalls on popular merchandise</p>	<p>Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. It delivers these requirements through multiple channels, including its stores and website. To achieve this Debenhams constantly develops these channels and maintains high operational standards to differentiate itself from its competitors. Debenhams manages stock levels and the supply chain closely in order to ensure product newness is maximised.</p> <p>Although Debenhams remains cautious about the strength of consumer confidence and the timing of an economic recovery, Debenhams will be focusing on the retail basics of giving our customers great products in an inspirational shopping environment, whether in our stores or through one of our multi-channel access points. We are therefore confident that Debenhams can continue to make progress over the coming year.</p>	
<p><b>Departure of key personnel and failure to attract or retain talent</b></p> <p>Significantly delay or prevent achievement of business plan</p>	<p>In order to attract and retain talent, both succession and personal development plans are in place throughout the organisation. In addition, target-led, performance-related incentive schemes exist.</p>	
<p><b>Failure to develop and implement the new store roll out or acquisitions successfully</b></p> <p>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</p>	<p>Debenhams undertakes research of key markets and demographics to identify potential locations to drive growth through new space. A full investment appraisal is conducted as part of the decision making process and a specialist team has responsibility for end-to-end management of each project once the decision is made.</p>	
<p><b>Failure of ethical trading policy, poor perception in the market on corporate responsibility matters or negative impact to brand due to product quality, supply chain practices, health and safety etc.</b></p> <p>Negative effect on reputation leading to loss of stakeholder trust and confidence, material adverse effect on the ability to attract and retain third party brands, suppliers, designers, concessionaires and franchisees with subsequent impact on performance and results</p>	<p>The sustainability committee works on the key objectives such as ethical sourcing, legislative change and corporate responsibility matters. The work includes consideration of key topics such as Waste Electrical and Electronic Equipment (WEEE); Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and Carbon Reduction Commitment (CRC). To ensure that Debenhams has the most current information available, it is a member of relevant industry bodies that provide awareness of changes to standards and legislation. Debenhams is an active member of the Ethical Trading Initiative (ETI) and expects all suppliers to follow the ETI base code and to adhere to Debenhams' own Supplier Code of Conduct. A robust approval process is in place, to underpin the ETI base code, for the selection of factories for both new and existing suppliers: adherence is monitored through regular third party audits. Factory outputs are also checked by the internal Quality Assurance team to ensure the integrity of Debenhams' own brand products.</p> <p>A reliance on third party suppliers, the challenges in the current economic environment and the complexity of the new and existing legislation make this an increasing risk which Debenhams and its suppliers must work harder to manage.</p>	

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

Operational risk



Risk and impact	Examples of mitigation	Change*
<p><b>Failure to deliver a business critical project</b></p> <p>Divert financial and management resources from more beneficial uses and significantly damage ability to manage information technology systems</p>	<p>A full investment appraisal is conducted as part of the decision making process and must be signed off by a board member before any projects are undertaken.</p> <p>As part of project governance, a steering committee monitors all key areas involved in the delivery of the project, a project framework is used, selected projects will be reviewed by internal audit and post investment appraisals are undertaken.</p>	
<p><b>Ineffective brand awareness and marketing programmes</b></p> <p>Loss of market share, customer loyalty, reduction in gross transaction value and a decline in sales on discretionary purchases</p>	<p>Debenhams utilises market, trend and customer awareness research to understand current demands and preferences. This information is used to identify specific segments of the market to target and to form a proposal as a marketing campaign. A full investment appraisal is conducted as part of the decision making process and must be signed off by a board member before any campaign is undertaken. Campaign effectiveness is monitored through external feedback and internal analysis.</p>	
<p><b>Risks associated with leasehold properties</b></p> <p>Significant alterations in rental terms could have a material adverse effect on the business, as would failure to secure desirable locations</p> <p>Disputes over store modernisations may lead to reinstatement costs 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 properties</p>	<p>Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store modernisation process, lease renewals and adherence to all legal obligations under the lease.</p> <p>Debenhams is also a member of key industry bodies which provide awareness of changes to standards and legislation.</p> <p>Debenhams consults with industry experts to ensure that its asbestos policy and asbestos register are fully up to date. All locations where asbestos has been identified are clearly marked with signage and the condition is checked on a regular basis with action taken in the event of any deterioration. Any works undertaken in these areas are approved by both the health and safety and building services teams, prior to any work permits being issued with specialist companies used as required.</p> <p>Review of the historical performance in this area suggests that the exposure to this risk has reduced.</p>	

Hazard

Risk and impact	Examples of mitigation	Change*
<p><b>Loss of business or additional expenditure caused by terrorism, strikes, riots, natural disaster or pandemics</b></p> <p>Adverse effect on inventory and gross transaction value and will divert financial and management resources from more beneficial uses. In the case of terrorism, customer confidence may be impacted</p>	<p>The business continuity committee works on the key objectives such as planning, testing and invoking. As part of this, the committee is responsible for: the selection of recovery sites which are equipped to minimise the disruption to Head Office operations; ensuring that key third parties have suitable business continuity plans in place; and the effective communication of matters surrounding business continuity to the organisation as a whole.</p> <p>The store business continuity plan was invoked as a result of the riots in August 2011 and the actions taken worked in practice and therefore losses were minimised.</p> <p>Insurance policies have been placed as appropriate to minimise the impact of specific risks.</p>	
<p><b>Additional expenditure or reputational damage caused by changes in legislation or a breach of regulations</b></p> <p>Adverse effect on inventory and gross transaction value and will also divert financial and management resources from more beneficial uses</p>	<p>Debenhams has specialist taxation and legal and secretariat teams and is also a member of key industry bodies which provide awareness of changes to standards and legislation.</p> <p>A new business policy is in place for anti-bribery and corruption, and forums exist to focus on specific areas of legislation, for example: a data protection steering group; an information security forum (to focus on PCI); an anti-bribery and corruption committee (to focus on compliance).</p>	

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

## Hazard continued

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

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