

# Chairman's introduction to governance

Managing the business responsibly

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

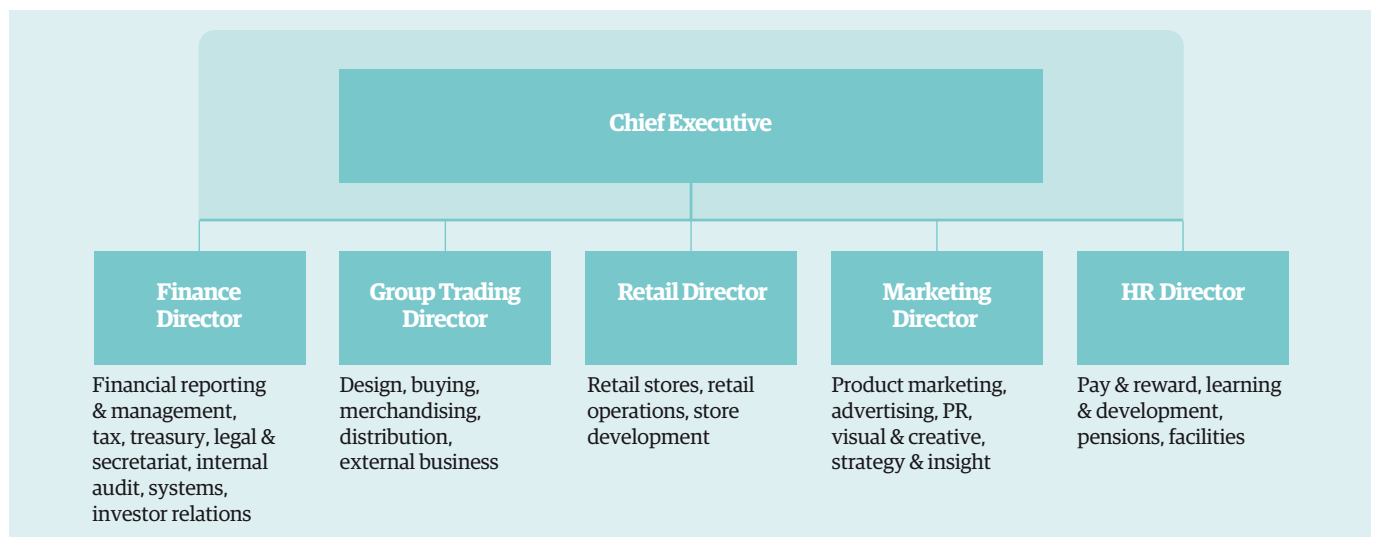
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Nigel Northridge, Chairman

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

## Management structure



## Introduction

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

## UK Corporate Governance Code

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

## The board

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

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

## Board succession

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

## Board effectiveness

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

## Stakeholder engagement

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

## Nigel Northridge

Chairman

## Committees

### Nomination Committee

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

### Audit Committee

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

### Remuneration Committee

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

### Sustainability Committee

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

# Board of directors

Nigel Northridge



**Chairman (55)**

**Joined board**

January 2010

**Committees**

Nomination (Chairman)

Remuneration

**Experience**

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

Michael Sharp



**Chief Executive (54)**

**Joined board**

May 2006

**Experience**

Michael Sharp was appointed Chief Executive in September 2011 having previously held the post of Deputy Chief Executive from November 2008 and Chief Operating Officer from May 2006. From 1997 to 2004, Mr Sharp was Trading Director of Debenhams Limited and from January 2004 to May 2006 was Chief Operating Officer of Debenhams Limited. He previously worked in various capacities within the Burton Group, including as managing director of Principles and Racing Green and buying and merchandising director of Topshop and Topman.

Chris Woodhouse



**Finance Director (50)**

**Joined board**

May 2006

**Experience**

Chris Woodhouse has been Finance Director of the Company since May 2006. Prior to the IPO in May 2006 he was Finance Director of Debenhams Limited having been appointed in December 2003. Mr Woodhouse is currently Group non-executive chairman of Gondola Group Limited and non-executive chairman of Agent Provocateur Limited. He was previously deputy chairman of Halfords Group and commercial director and deputy chief executive of Homebase Group. He is a former finance director of Birthdays Group and Superdrug Stores Plc. Mr Woodhouse is a Fellow of the Institute of Chartered Accountants in England and Wales and an Associate of the Association of Corporate Treasurers.

## Dennis Millard

**Senior independent director (62)****Joined board**

April 2006

**Committees**Remuneration  
Audit (Chairman)  
Nomination**Experience**

Dennis Millard assumed the role of senior independent director in April 2010. He is also Chairman of the Audit Committee. Mr Millard is currently chairman of Halfords Group plc and Smiths News plc and a non-executive director of Xchanging PLC and Premier Farnell plc. His former appointments include group finance director of Cookson Group plc, finance director of Medeva plc and non-executive director of Exel plc, Arc International and EAG Ltd. Mr Millard is a member of the South African Institute of Chartered Accountants.

## Martina King

**Independent non-executive director (50)****Joined board**

August 2009

**Committees**Remuneration  
Audit  
Nomination**Experience**

Martina King is a non-executive director of Capita Group plc, Cineworld PLC and Trade Doubler AB and managing director of Aurasma, a division of Autonomy PLC. Her former appointments include non-executive director of Johnston Press Plc and Independent Media Distribution PLC, managing director, Europe of Yahoo Limited and sales director and then managing director of Capital Radio. Ms King is also a trustee of Coram and Suffolk Foundation and a governor of Seckford Foundation and Woodbridge School.

## Adam Crozier

**Independent non-executive director (47)****Joined board**

April 2006

**Committees**Remuneration (Chairman)  
Audit  
Nomination**Experience**

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

## Mark Rolfe

**Independent non-executive director (52)****Joined board**

October 2010

**Committees**Remuneration  
Audit  
Nomination**Experience**

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

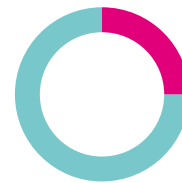
## Sophie Turner Laing

**Independent non-executive director (51)****Joined board**

August 2009

**Committees**Remuneration  
Audit  
Nomination**Experience**

Sophie Turner Laing is currently managing director, entertainment, news and broadcast operations at British Sky Broadcasting Group plc and on the board of AETN UK and NGC Network International LLC. In addition, she is a vice president of BAFTA, a trustee of The Media Trust and governor of the National Film and Television School. Her previous roles include controller, programme acquisition at the BBC and vice president, broadcasting at Flextech (now Virgin Media Television). Ms Turner Laing was also co-founder and managing director of HIT Entertainment PLC.

**Composition of the board**

Directors	No.
<b>Executive</b>	<b>2</b>
<b>Non-executive</b>	<b>6</b>

# Corporate governance report

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

## The board

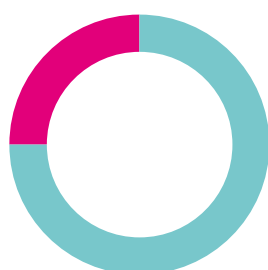
The role of the board of Debenhams is to provide entrepreneurial leadership of the Company within a framework of controls enabling risk to be assessed and managed. It is collectively responsible for the long-term success of the Company.

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

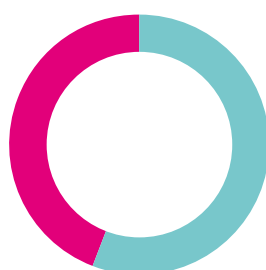
All the directors will comply with the new Code requirement to submit themselves for re-election at the Annual General Meeting in January 2012. Biographies for the members of the board can be found on pages 44 to 45 of this report.

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

## Gender ratios



Debenhams plc board	
Male	75%
Female	25%



Senior executives	
Male	56%
Female	44%

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

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

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

## The Chairman and the Chief Executive

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

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

The Chairman (who sets the board agenda), together with the Company Secretary, ensures that the members of the board and its committees receive clear, comprehensive, up-to-date and timely information so that there can be thorough consideration of the issues prior to, and informed debate and challenge, at board and committee meetings. Where directors have not been able to attend meetings due to conflicts in their schedule, they receive and read the papers for consideration at that meeting, relaying any comments to the Chairman in advance of the meeting where possible. The Company Secretary reports to the Chairman on all board governance matters and reviews the Company's governance processes such as the induction, development and evaluation of the board members. The Company's induction process aims to enable new members of the board to make a full contribution to its discussions, be aware of the business policies in place and to refresh their knowledge on corporate governance, best practice and general compliance. On the anniversary of each appointment the induction process is reviewed with the respective board member in order to obtain feedback on the induction provided with a view to enhancing future inductions. All directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties. The Company provides insurance cover and indemnities for its directors and officers.

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

#### Non-executive directors

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

#### Length of service

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

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

#### Performance evaluation

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

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

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

The questionnaires addressed the following issues:

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

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

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

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

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

#### Board committees

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

#### The Remuneration Committee

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

## Nomination Committee



Nigel Northridge  
Chairman, Nomination Committee

### Directors and meetings

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

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

Other individuals such as the Chief Executive, the HR Director and external advisers may be invited to attend for all or part of any meeting, as and when appropriate. The Company Secretary also attends meetings in his capacity as Secretary of the Committee. The Committee met once formally during the year.

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

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

## Audit Committee



Dennis Millard  
Chairman, Audit Committee

### Directors and meetings

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

The Audit Committee is chaired by Dennis Millard. The other members are Adam Crozier, Martina King, Mark Rolfe and Sophie Turner Laing. Dennis Millard brings significant recent and relevant financial expertise to the Committee which is enhanced by the other members of the Committee who have appropriate business expertise. The Audit Committee meetings are also attended by the Chairman, the Finance Director, the Head of Internal Audit and Risk Management, the external auditors PricewaterhouseCoopers LLP, and the Treasurer for the presentation of his report. The Company Secretary also attends any meeting in his capacity as Secretary of the Committee.

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

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

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

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

### **Directors' conflicts of interest**

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

### **Share capital and control**

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

### **Auditors' independence**

In order to ensure that an appropriate relationship is maintained with the external auditors, a policy on auditor independence has been established and is regularly reviewed. This covers matters such as that auditors and their staff have no family, financial, employment, investment or business relationship with the Company, the employment by the Company of former audit employees, the rotation of audit partners and the provision of non-audit services. The Audit Committee makes recommendations to the full board in respect of reappointment annually of the auditors and the board then ensures that this is included on the Notice for the Annual General Meeting. As regards the risk of the external auditors withdrawal from the market, the Company considers that there are sufficient other auditors in the marketplace should this situation ever arise.

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

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

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

### **Relations with shareholders**

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

# Directors' report

## Principal activities

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

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

This Business review has been prepared in accordance with the Companies Act 2006 which requires the Company to set out in this report a fair review of the business of the Group during the 53 week year ended 3 September 2011, including an analysis of the position of the Group at the end of the financial year and the trends and factors likely to affect the future development, performance and position of the business. The purpose of the Business review is to enable shareholders to assess how the directors have performed their duty under Section 172 of The Companies Act 2006.

The contents of this Directors' report, together with the Chairman's statement, the Chief Executive's review, the Finance Director's review, the Sustainability report, the board of directors, the Corporate governance report, the Remuneration report and the Directors' responsibility statement on page 61 constitute the Business review and are therefore incorporated into this report by reference. Any liability is restricted to the extent prescribed by the Companies Act 2006.

## Events since the year end

It was announced on 20 October 2011 that Chris Woodhouse would be stepping down from the board at the Annual General Meeting on 10 January 2012. Simon Herrick will succeed Chris Woodhouse. He joins Debenhams on 1 November 2011 and takes up his appointment of Chief Financial Officer on 10 January 2012. In addition, since the year end Debenhams has opened an international franchise store in the Philippines.

## Profit and dividends

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

## Interests in voting rights

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

As at 3 September 2011:

Shareholder	Number of shares	% of issued share capital
Bestinver Gestion, S.A.	154,282,220	12.0
Schroders plc	154,214,402	12.0
Standard Life Investments Ltd	90,364,958	7.0
Milestone Resources Group Ltd	89,183,155	6.9
Artemis Investment Management Ltd	63,855,868	5.0
AXA S.A.	60,803,116	4.7
Legal & General Group plc	42,075,474	3.3
Morton Holdings, Inc	39,359,706	3.1

The following notifications have been received since 3 September 2011:

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

## Share capital and control

The issued share capital of the Company is shown in Note 28 to the Financial Statements on page 98 and consists of ordinary shares of 0.01 pence each. All the shares rank *pari passu*. The rights and obligations attaching to the Company's ordinary shares, in addition to those conferred on their holders by law, are set out in the Company's Articles of Association, a copy of which can be obtained by writing to the Company Secretary. The Company was authorised by shareholders at the January 2011 Annual General Meeting to purchase in the market up to 128,680,629 ordinary shares. Although this authority was not utilised by the Company during the last financial year, approval will be sought from shareholders at the forthcoming Annual General Meeting to renew this standard authority for a further year. It is the Company's present intention, should shares be bought back, for them to be cancelled or retained in treasury pending a subsequent sale, cancellation or transfer. The Company does not currently hold any shares in treasury. The Company will only buy back shares if the directors believe that it is in shareholders' best interests and will increase earnings per share.

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

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

## Essential contracts

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

## Board of directors

The membership of the board and biographical details of the directors are given on pages 44 to 45. The rules governing the appointment and replacement of the board members are set out in the Company's Articles of Association.

### **Directors' indemnities**

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

### **Directors' interests**

The beneficial and non-beneficial interests of the directors and their connected persons in the shares of the Company are shown on page 59 of the Remuneration report. Their interests in options and awards over shares in the Company are shown on page 60 of the same report.

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

### **Employees**

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

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

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

### **Payment of suppliers**

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

The ratio, expressed in days, between the amounts owed by the Company to trade creditors at the end of the year and the amounts invoiced by suppliers in the financial year ended 3 September 2011 was nil days (2010: nil days). The ratio, expressed in days between the amounts owed by the Group to trade creditors and the amount invoiced by suppliers in the financial year ended 3 September 2011 was 60 days (2010: 61 days).

### **Financial instruments**

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

### **Political donations**

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

### **Charitable giving**

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

### **Going concern**

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

### **Corporate governance statement**

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

### **Disclosure of information to auditors**

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

- a) so far as the director is aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- b) s/he has taken all the steps that s/he ought to have taken as a director in order to make herself or himself aware of any information needed by the Company's auditors in connection with preparing the report and to establish that the Company's auditors are aware of that information.

### **Auditors**

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

### **Annual General Meeting**

The Annual General Meeting of Debenhams plc will be held at Holborn Gate, 26 Southampton Buildings, London WC2A 1PB on Tuesday 10 January 2012 at 2.00pm. The Notice is given, together with explanatory notes, in the booklet which accompanies this report.

### **By order of the board**

**Paul Eardley**  
Company Secretary

20 October 2011

# Remuneration report



Adam Crozier, Chairman of the Remuneration Committee

**This Remuneration report for the year ended 3 September 2011 has been prepared by the Remuneration Committee on behalf of the board for approval by shareholders at the Annual General Meeting to be held on 10 January 2012. The report complies with the requirements of the Listing Rules of the UK Listing Authority, Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 and the provisions of the 2010 UK Corporate Governance Code.**

## Directors and meetings

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

### Part 1: Unaudited information

#### The Remuneration Committee

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

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

In performing its duties, the Committee has received external advice from Deloitte LLP ("Deloitte") who acted as external advisers to the Committee throughout the financial year, providing independent advice on directors' remuneration and share incentives. Deloitte also provides industry and comparative employee remuneration data to Debenhams' management. The Chief Executive, Finance Director and Human Resources Director have attended Committee meetings and provided advice to the Committee during the year but not on matters relating to their own compensation or contracts. Deloitte also provided unrelated advisory services in respect of corporate and employment taxes during the year.

The Remuneration Committee reviews external data produced through surveys and benchmarking from Deloitte about total remuneration in other comparable companies, and the elements of that total remuneration, in order to inform its consideration of the remuneration of company executives. A comprehensive benchmarking and market practice review of executive compensation was carried out in September 2010. As a result, detailed benchmarking has not been carried out again this year.

During the year the Committee:

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

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

#### Remuneration policy

When determining remuneration policy and arrangements for executive directors, the Remuneration Committee considers pay and employment conditions elsewhere in the Group and that offered by other comparable companies to ensure that the pay of executive directors remains appropriate. The Committee particularly takes into account pay increases throughout the Group when determining salary increases for executive directors. It is the Company's policy to provide remuneration packages that will attract motivate and retain high calibre employees in a competitive retail market and, where possible, to do this in the most cost effective way for the business.

In addition to basic salary and pension provision (or equivalent cash contribution) the Company seeks to incentivise its executives and senior managers through an annual bonus scheme and through its share incentives.

#### Remuneration policy for 2012

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

## Summary of remuneration

The following table summarises the various elements of executive remuneration:

Element	Purpose and link to remuneration policy	Key features	Policy for 2012
Base salary	<ul style="list-style-type: none"> <li>Reflects the competitive market salary level for the individual and their role</li> <li>Takes account of personal performance and contribution to corporate performance</li> </ul>	<ul style="list-style-type: none"> <li>In cash</li> <li>Based on individual contribution</li> <li>Reviewed annually</li> </ul>	<ul style="list-style-type: none"> <li>Salary increase of 2% with effect from 1 September 2011 in line with increases received throughout the Group</li> </ul>
Annual bonus	<ul style="list-style-type: none"> <li>Rewards the achievement of meeting stretching annual profit changes</li> </ul>	<ul style="list-style-type: none"> <li>100% of base salary</li> <li>In cash following year end</li> <li>Based on profit before tax performance</li> </ul>	<ul style="list-style-type: none"> <li>In line with the Company scheme, the percentage of salary earned at plan reverts back to 40%. All other elements of the plan remain unchanged</li> </ul>
Deferred Bonus Matching Plan ("DBMP")	<ul style="list-style-type: none"> <li>Encourages executives to further invest in the success of the Company</li> <li>Aligns with shareholders' interest through the delivery of shares</li> <li>Rewards growth in earnings and creation of shareholder value</li> </ul>	<ul style="list-style-type: none"> <li>Executives are given the opportunity to defer up to 100% of their post tax bonus into shares ("Invested Shares"). These invested shares are deferred for a period of three years</li> <li>Executives are able to earn a matching award equal to the pre-tax level of bonus deferred subject to the delivery of stretching performance conditions</li> <li>The Committee offered employees the opportunity to invest up to 50% of their 2010 bonus into the Company's shares with the opportunity to earn matching shares subject to the delivery of stretching EPS performance and maintaining a strong level of ROCE</li> </ul>	<ul style="list-style-type: none"> <li>This plan will not be operated this year</li> </ul>
Performance Share Plan ("PSP")	<ul style="list-style-type: none"> <li>Aligns with shareholder interests through the delivery of shares</li> <li>Rewards growth in earnings and maintenance of an efficient and sustainable level of return on our capital</li> </ul>	<ul style="list-style-type: none"> <li>Maximum award of 200% of base salary (250% of base salary in exceptional circumstances)</li> <li>Awards vest after three years</li> </ul>	<ul style="list-style-type: none"> <li>It is intended that the PSP will be the key incentive vehicle going forward with awards being granted on an annual basis</li> <li>The normal level of awards will be 125% - 150% of base salary for the Chief Executive and 100% - 125% of base salary for the Finance Director</li> <li>In 2012, the Chief Executive will be made an award of 150% of base salary</li> <li>PSP awards will be subject to a combination of EPS and ROCE performance conditions</li> </ul>
Executive Share Option Plan ("ESOP")	<ul style="list-style-type: none"> <li>Direct link to value creation through share price growth</li> <li>Aligns with shareholder interests through the delivery of shares</li> </ul>	<ul style="list-style-type: none"> <li>Maximum award of 100% of base salary</li> <li>HMRC approved element (up to £30,000)</li> <li>Awards vest after three years and remain exercisable up to the tenth anniversary</li> <li>Subject to achieving stretching performance targets</li> </ul>	<ul style="list-style-type: none"> <li>It is intended that no awards will be made under the ESOP to executive directors (other than in exceptional circumstances)</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>Reflects market practice</li> </ul>	<ul style="list-style-type: none"> <li>Car allowance</li> <li>Healthcare</li> <li>Dental insurance</li> <li>Life insurance</li> </ul>	<ul style="list-style-type: none"> <li>No change</li> </ul>
Pension	<ul style="list-style-type: none"> <li>Provides funds to allow executives to save for retirement</li> </ul>	<ul style="list-style-type: none"> <li>15% of base salary</li> <li>Executive directors are provided with a salary supplement in lieu of a pension provision</li> </ul>	<ul style="list-style-type: none"> <li>No change</li> </ul>

## Components of remuneration

### Base salary

The Committee considers base salary and salary increases for executives in the context of remuneration levels at comparable companies of a similar size and complexity and comparable companies in the FTSE 350 Retail sector, as well as considering salary increases across the Group's wider employee population. The Committee's policy is to set base salaries at an appropriate level to attract and retain the quality of individuals required to successfully run a business of the size and complexity of Debenhams but without paying more than is necessary to do this.

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

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

### Executive directors' bonus schemes

#### 2011 bonus

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

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

#### 2012 bonus

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

### The Company's share incentives

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

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

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

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

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

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

Date of grant	Vesting criteria	Performance condition over three-year period
24 November 2009	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%
23 May 2011	EPS growth	Below absolute growth of 6% pa = zero vesting Absolute growth of 6% pa = 30% vesting Absolute growth of 10% pa = 100% Between absolute growth of 6% and 10% pa = straight line basis between 30% and 100%

No awards vested during the year.

#### 2012 awards

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

## Components of remuneration continued

### 2012 awards continued

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

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

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

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

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

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

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

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

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

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

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

Options under the Scheme are currently based on one performance measure: the Company's return on capital employed ("ROCE") exceeding the cost of capital. The Committee believes ROCE is an appropriate performance condition as it incentivises sustainable, efficient profit performance. If the performance condition is not met at the end of the performance period the options will lapse immediately without any opportunity to re-test the relevant performance condition.

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

Date of grant	Vesting criteria	Performance condition over three-year period
24 November 2009	ROCE growth against cost of capital	ROCE < cost of capital = zero vesting ROCE > cost of capital = 30% vesting ROCE > cost of capital + 5% = 100% vesting Between these points the options vests on a straight line basis between 30% and 100%

No options under the ESOP were exercised during the year.

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

### Debenhams 2006 Sharesave Scheme (the Sharesave Scheme)

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

### The Debenhams 2008 Share Incentive Plan

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

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

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

The Debenhams Retail Employee Trust 2004 currently holds 1,195,042 shares in the Company. 690,000 were transferred from the Trust during the year as a result of the vesting of the share incentive awards described above. 650,000 shares are held in the trust to potentially satisfy the grants made during the year under that plan. The Trust also holds the invested shares of participants of the Deferred Bonus Matching Plan ("DBMP"). Dividends receivable on the shares held in the Trust which are not subject to the DBMP are waived on the recommendation of the Company.

### Components of remuneration continued

#### Funding of share schemes

It is the Company's current intention to satisfy any future requirements of its share schemes in a method best suited to the interests of the Company, either by acquiring shares in the market, or, subject to institutional guidelines, issuing new shares. Where the awards are satisfied by newly issued shares the Company will comply with ABI guidelines on shareholder dilution. Current levels of shareholder dilution are 0.30% (2010: 0.23%) of share capital.

#### Change of control

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

#### Pension

The directors are not members of a Company pension plan, except for Michael Sharp who is a deferred member of the Debenhams Executive Pension Plan. Full details are disclosed on page 60 of this report. However, under the terms of their contracts of employment, the executive directors are entitled to a salary supplement in lieu of pension provision of 15% of base salary. These amounts are disclosed in the directors' emoluments table on page 60.

#### Termination arrangements for Rob Templeman

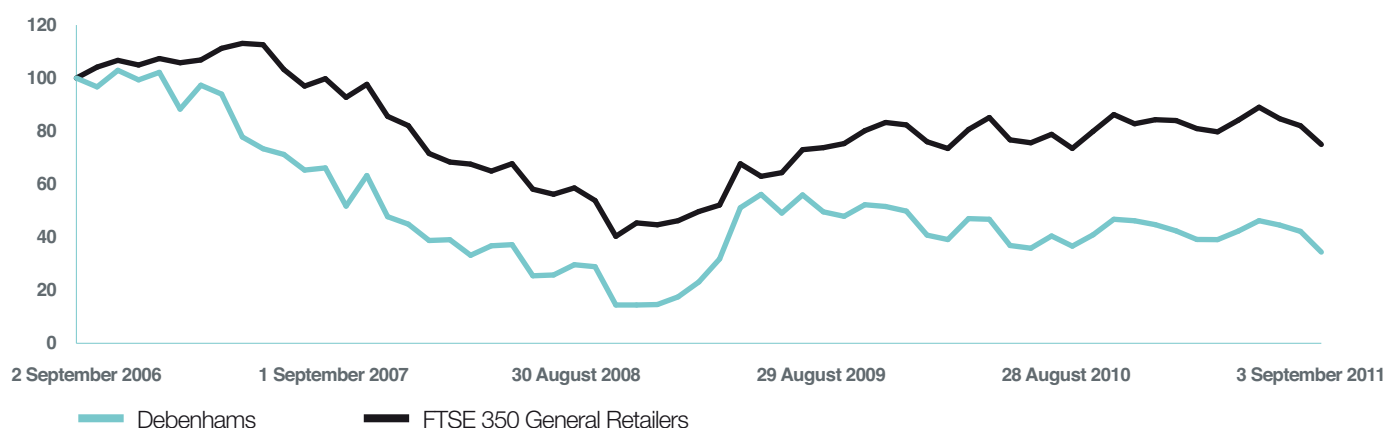
As announced on 14 April 2011, Rob Templeman retired as Chief Executive on 4 September 2011. No termination payments were made under his service agreement.

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

#### Performance graph

The performance graph below shows the Company's total shareholder return against the FTSE 350 General Retailers Index over the period from flotation (3 May 2006) to 3 September 2011. The FTSE 350 has been chosen as Debenhams has been a member throughout the period and it is made up of a broad spectrum of retail competitors (including major general retail listed competitors) in the principal product areas in which the Company trades.

#### Total shareholder return



#### Letters of appointment and service contracts

Nigel Northridge's appointment as Chairman is subject to the terms of a letter of appointment dated 28 January 2010 and the appointment is for a term of three years ending on 31 March 2013, subject to the Company's Articles of Association and shareholders' re-election. In addition to time commitment, the annual engagement fee and other business interests, the Chairman is permitted to hold the office of a director or chairman of certain named companies provided that any such appointment does not interfere with his position at the Company.

The non-executive directors have letters of appointment from the Company covering matters such as duties, time commitment, fees and other business interests. The appointments of Messrs Crozier and Millard may be terminated by either party giving one month's notice. Sophie Turner Laing, Martina King and Mark Rolfe are appointed for a term of three years, subject to the Company's Articles of Association and shareholders' re-election.

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

## Components of remuneration continued

### Letters of appointment and service contracts continued

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

Name	Date of joining the Group	Basic salary	Committee member fee	Committee Chairman fee	SID Fee	Current annual fee
Nigel Northridge	1 January 2010	175,000	-	-	-	175,000
Dennis Millard	9 May 2006	40,000	5,000	10,000	10,000	65,000
Adam Crozier	9 May 2006	40,000	5,000	7,500	-	52,500
Martina King	1 August 2009	40,000	7,500	7,500	-	55,000
Mark Rolfe	1 October 2010	40,000	7,500	-	-	47,500
Sophie Turner Laing	1 August 2009	40,000	7,500	-	-	47,500

Michael Sharp, Chris Woodhouse and Rob Templeman entered into service agreements with the Company on 3 May 2006. Each agreement is terminable by either party giving not less than 12 months' written notice. It is the Company's policy that the notice periods of executive directors should not exceed one year. The Remuneration Committee has considered the financial consequences of early termination of directors' service contracts; in order to limit and provide certainty in the event of termination of a contract without cause, the directors contracts contain liquidated damages clauses. If the Company terminates the employment without due notice, other than in circumstances such as gross misconduct or other immediate justifiable cause, the Company is required to make a payment equal to the aggregate of the executive director's basic salary and the value of their contractual benefits for the notice period together with a payment equal to the average of the annual bonus paid to the executive director in the two bonus years prior to the termination of employment. The liquidated damages clause within service agreements of any future executive directors appointed to the board will exclude the requirement to make a payment by reference to any bonus payments made prior to termination. Further to Michael Sharp's succession as Chief Executive, the liquidated damages clause within his service agreement has been varied by removing the reference to bonus payments. Executive directors are entitled, in addition to salary, to other benefits or equivalent cash allowances, the value of which is set out in the table of directors' emoluments. Such benefits include company car and fuel, life, medical, dental and personal accident insurance together with product discount and personal financial advice.

The contracts for Rob Templeman and Chris Woodhouse permit each of them to hold up to two non-executive directorships in non-competing companies and to retain payments received in respect of those other directorships. Rob Templeman, who was appointed a non-executive director of Gala Coral Limited on 8 November 2010, retained fees of £248,076.89 during the year. Chris Woodhouse, who was appointed non-executive chairman of Agent Provocateur Limited on 21 April 2011 retained fees of £18,493 during the year together with £150,000 (2010: £150,000) in respect of his role of group non-executive chairman of Gondola Group Limited.

### Directors' shareholdings

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

Director	Ordinary shares held as at 28 August 2010 or date of appointment	Ordinary shares held as at 3 September 2011	Ordinary shares held as at 20 October 2011
Nigel Northridge	100,000	100,000	100,000
Rob Templeman	14,558,769	14,558,769	14,558,769
Michael Sharp <sup>(1)</sup>	5,854,579	5,854,579	5,854,579
Chris Woodhouse	3,152,387	3,152,387	3,152,387
Adam Crozier	32,681	32,681	32,681
Martina King	10,000	10,000	10,000
Dennis Millard	69,455	69,455	69,455
Mark Rolfe	-	30,000	30,000
Sophie Turner-Laing	20,000	20,000	20,000

<sup>(1)</sup> As at 20 October 2011 Mr Sharp's holding includes 218,904 shares held by The Sharp Discretionary Settlement of which the director is a Trustee.

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

## Part 2: Audited information

### Directors' emoluments

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

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

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

<sup>(2)</sup> Mr Rolfe was appointed a non-executive director on 1 October 2010.

### Pension

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

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

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

### Directors' interests in the Performance Share Plan

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

### Directors' interests in the Executive Share Option Plan

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

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

On behalf of the board

### Adam Crozier

Chairman of the Remuneration Committee

20 October 2011