2011 highlights

Financial highlights*

Gross transaction value	£2.7bn	+4.5%
Revenue	£2.2bn	+4.2%
Headline profit before tax	£166.1m	+10.0%
Basic earnings per share	9.1p	+21.3%
Dividend per share	3.0p	

*All numbers calculated on 53 week basis

Operational highlights

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

[1] 53 weeks to 3 September 2011

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

Welcome

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

Overview 2011
Our business model

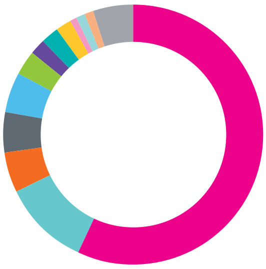
Debenhams is an iconic British department store group which was established over 200 years ago. Debenhams has a strong presence in key product categories including womenswear, menswear, childrenswear, home and health & beauty and offers its customers a unique and differentiated mix of brands. It has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

How we buy

A diverse supply chain

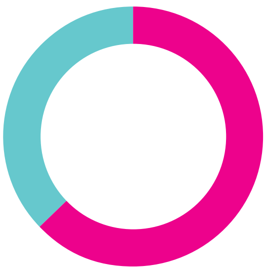
We buy from around the world using a strategy of "right product, right country". Years of direct sourcing experience have resulted in long-standing supplier relationships.

Country sourcing



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

Direct vs indirect sourcing

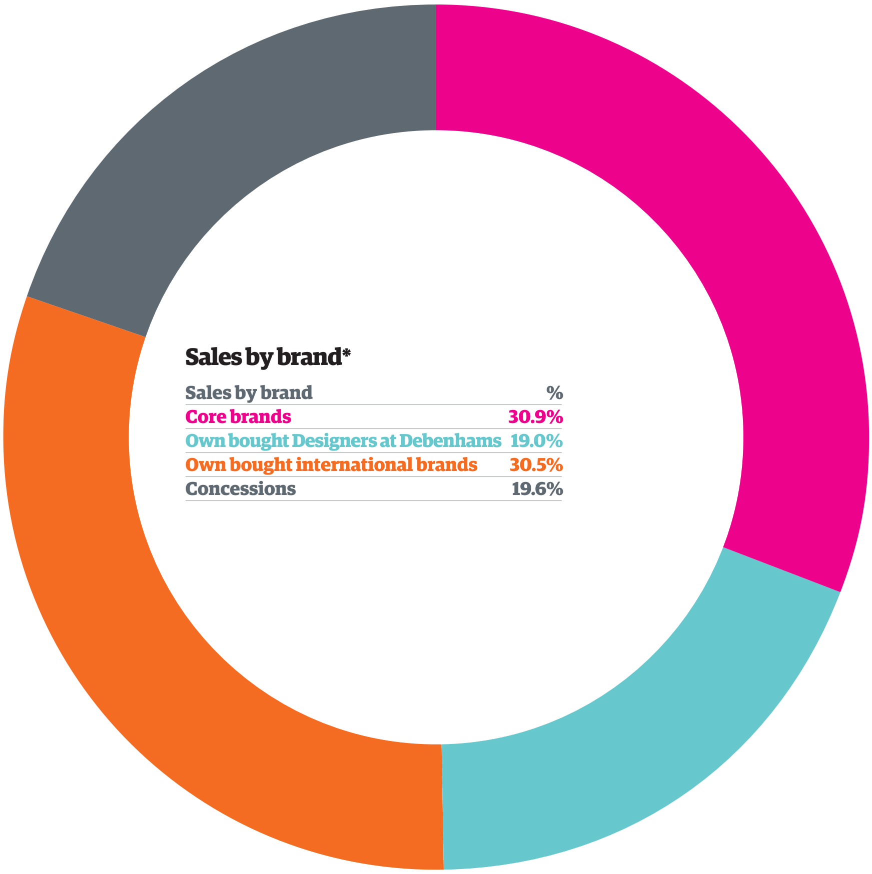


	%
Direct	63%
Indirect	37%

What we sell

Driving growth through differentiated brands and products

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

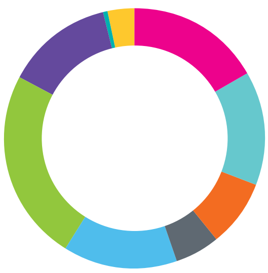


Sales by brand*

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

Own bought products vs concessions trend*

Own bought sales by product category*



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

*excluding Magasin

How we sell

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

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

UK & Ireland	Denmark	International franchises
163 stores and online	6 stores	65 stores
Gross transaction value	Gross transaction value	Gross transaction value
£2,355.6m	£246.7m	£77.0m
87.9%	9.2%	2.9%

Sales by channel

Instore
93.3% £2,498.9m

Online
6.7% £180.4m

Instore vs online sales trend

Year	Instore	Online
2009	97.9%	2.1%
2010	96.0%	4.0%
2011	93.3%	6.7%

Instore
Online

Our customers

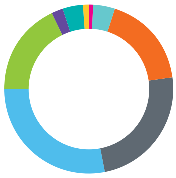
Growing market share through a loyal customer base

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

Customer age

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

Frequency of visit



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

Market share

	2010	2011
Childrenswear	3.4%	3.6%
Menswear	4.7%	4.8%
Womenswear	5.1%	5.1%
Health & beauty	27.2%	28.5%

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

Chairman's statement

Making good progress

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

Nigel Northridge, Chairman

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

Reintroducing the dividend

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

Board succession

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

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

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

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

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

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

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

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

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

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

Nigel Northridge
Chairman

Earnings per share

9.1p

A 21.3% increase over last year

Dividend per share

3.0p

Reinstated in April 2011

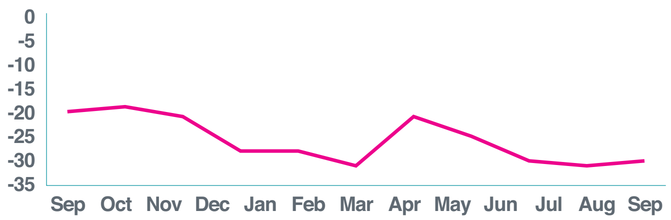
Gaining share in health & beauty
One of the biggest areas of market share growth in 2011 was in health and beauty where our share of the premium market increased to 28.5%, aided by our Beauty Club loyalty scheme which now has 1 million members.

Market overview

Putting our performance in context

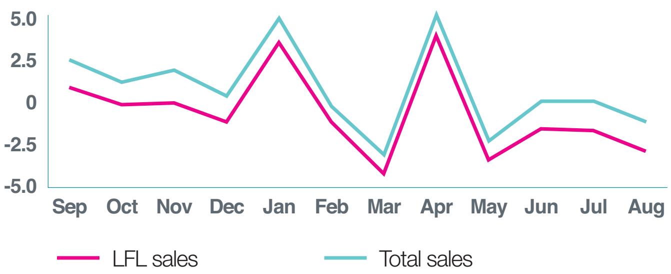
Across the retail sector, 2011 was undoubtedly a difficult year with harsh winter weather, soaring input prices and downbeat consumer confidence all taking their toll.

UK consumer confidence



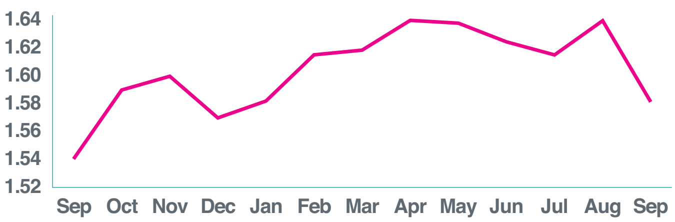
(source: NOP GfK)

UK high street sales (%)

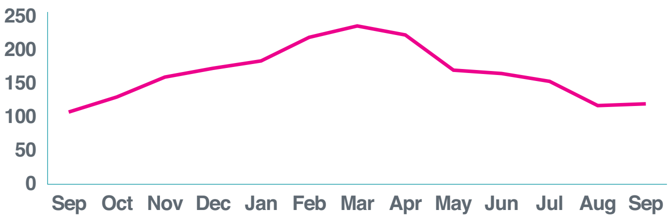


(source: BRC-KPMG Retail Sales Monitor)

GBP/USD exchange rate



Monthly average cotton prices (US cents per pound)



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

An independent view of the UK retail market from Verdict

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

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

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

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

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

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

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

Key market facts 2011

Consumer confidence

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

High street sales

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

Input prices

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

UK clothing selling prices

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

Our conclusions

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

Key trends by category

Overview

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

Womenswear

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

Menswear

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

Childrenswear

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

Health & beauty

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

Accessories

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

Lingerie

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

Home

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

Overview
Strategic review
Finance review
Sustainability
Governance
Accounts

2011 performance

Key performance indicators

Financial performance indicators

Strategy | **2011 performance** | **KPI**

Gross transaction value

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

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

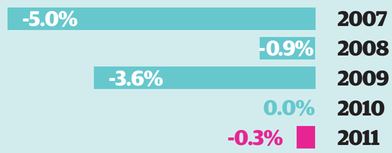
Gross transaction value £m

Like-for-like sales

Like-for-like sales provides a measure of annual sales performance from stores that have been open for one year or more. This metric is therefore an indication of organic sales growth.

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

Like-for-like sales growth %

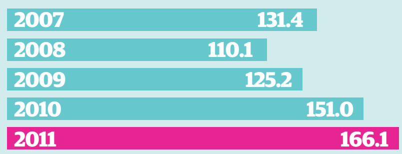


Headline profit before tax

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

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

Headline profit before tax £m

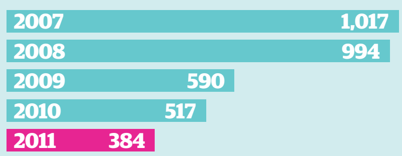


Net debt

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

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

Net debt £m



Non-financial performance indicators

Strategy | **2011 performance** | **KPI**

Own bought sales mix

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

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

Our medium-term target remains 85%.

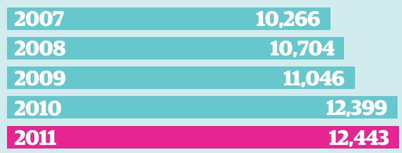
Own bought sales mix %

Trading space

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

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

Trading space m/sq ft



Online sales

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

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

Online sales £m