

The board continues to be committed to high standards of corporate governance

Sir Ian Cheshire
Chairman



Dear shareholder,

On behalf of the board, I am pleased to present our corporate governance report for the financial year ended 1 September 2018.

We were delighted to welcome David Adams as a non-executive director in October 2017. David subsequently assumed the role of chair of the Audit Committee on 11 January 2018.

Martina King stepped down from the board on 31 July 2018 having served nine years as a non-executive director. I would like to take this opportunity to thank Martina for her valuable contribution to the board and the Remuneration Committee. Nicky Kinnaird took over the role as chair of the Remuneration Committee on 1 August 2018.

Peter Fitzgerald stepped down from the board as an independent non-executive director on 24 October 2018 following six years service. The board thanks him for his service to the board and to the Audit Committee.

The board continues to be committed to promoting high standards of corporate governance. Following the publication in July of the new UK Corporate Governance Code work has already begun to determine how we may apply the new provisions, which will be applicable for Debenhams in FY2020. Ahead of FY2020 the Remuneration Committee has recommended the introduction of post-holding periods for future awards granted under the Performance Share Plan. More details can be found on page 59.

Furthermore, the board recognises the importance of our wider stakeholders and its responsibility and duty to them under section 172 of the Companies Act 2016. Please refer to our Business Model and Strategy on pages 2 and 3 of this report which illustrates how we create value for our stakeholders. In addition, please refer to pages 49 and 50 which provides details on the results of our internal evaluation of the Board and its committees.

Finally, I look forward to meeting shareholders at our next Annual General Meeting which will be held on 10 January 2019 at 2.00pm at our registered office, 10 Brock Street, Regent's Place, London NW1 3FG.

Sir Ian Cheshire
Chairman

LEADERSHIP

Board statements

The directors consider that this annual report and accounts, taken as a whole, is fair, balanced and understandable and gives shareholders the information needed to assess the Group's performance, business model and strategy. Further confirmations to support the disclosures provided within this annual report and accounts are provided below.

| Requirement | Compliance statement | Where to find further information |
|---|---|-----------------------------------|
| Strategic report | The strategic report was approved by the board of directors on 24 October 2018. | Page 41 |
| NFR statement | The Company has complied with the Non-Financial Reporting Directive contained in sections 414CA and 414CB of the Companies Act 2006. | Page 27 |
| S.172 of the Companies Act 2006 | The board of directors, through the strategic report, provides information for shareholders to help them assess how the directors have performed their duty, under section 172, to promote the success of the Company and, in doing so, had regard to the matters set out in that section. This includes considering the interests of other stakeholders which will have an impact on the long-term success of the Debenhams. | Pages 2 to 41 |
| Compliance with the UK Corporate Governance Code | In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the period ended 1 September 2018 and at the date of this annual report, it was compliant with all the relevant provisions as set out in the April 2016 UK Corporate Governance Code, copies of which can be obtained from the Financial Reporting Council website (www.frc.org.uk). | Page 46 |
| Going concern | Having assessed the Group's liquidity outlook on the basis of business projections and sensitivities, the directors consider that the Group has sufficient headroom to its committed borrowing facilities to ensure it can operate as a going concern for at least the next 12 months and that it is therefore appropriate to adopt the going concern basis of accounting in preparing these financial statements. | Page 40 |
| Viability statement | The directors confirm that they have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the three year period under review. | Pages 41 and 78 |
| Robust assessment of the principal risks facing the Group | The directors confirm they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its strategy, business model and future performance. The directors also assessed the Group's risk appetite with regard to each risk and considered how to manage and mitigate such risks. | Pages 32 to 34 |
| Annual review of the systems of risk management and internal control | During FY2018, the Audit Committee provided transparency on the Group's systems of risk management and internal control which were confirmed as effective. | Pages 30 and 31 |
| Remuneration report | The directors confirm that the remuneration report for the year ended 1 September 2018 complies with the requirements of the Listing Rules of the Listing Authority, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the provisions of the April 2016 UK Corporate Governance Code. | Pages 58 to 75 |
| Competition and Markets Authority | The Audit Committee considers that the Company complied with the mandatory audit processes and audit committee responsibility provisions of the Competition and Markets Authority Audit Order for the period ending 1 September 2018. | Page 56 |
| Modern Slavery Act 2015 | The directors confirm, for the financial year ended 1 September 2018, that the steps that have been taken in relation to our responsibilities under section 54, part 6 of the Modern Slavery Act 2015 and our activities taken prior to this legislation have ensured, and will continue to ensure, that slavery and human trafficking is not taking place in Debenhams' supply chains or in any part of our business operations. | Page 23 |

Our board

1. Sir Ian Cheshire

Chairman

Date appointed to the board: Joined the board in January 2016, becoming Chairman in April 2016

Tenure on board: 2 years, 7 months

Independent: Yes

Committee membership: ① ②

Relevant skills and experience: Sir Ian has vast experience of a range of businesses in both an executive and non-executive capacity. He spent 17 years with Kingfisher plc, including seven years as Group Chief Executive between 2007 and 2014, where he drove consistent and significant growth in shareholder value. Sir Ian was formerly Chairman of the British Retail Consortium, a non-executive board member of the Cabinet Office, Senior Independent Director of Whitbread plc and Chair of the advisory board of the Cambridge Institute for Sustainability Leadership.

Principal current external appointments:

Chairman of Barclays' ring fenced bank, Barclays UK, Chairman of Menhaden Capital plc and President of Maisons du Monde. He is also Government Lead non-executive and Lead non-executive board member of the Cabinet Office and President of the Business Disability Forum.

2. Sergio Bucher

Chief Executive Officer

Date appointed to the board: October 2016

Tenure on board: 1 year, 10 months

Relevant skills and experience:

Sergio brings extensive experience of international and multi-channel retailing to his role as Chief Executive Officer. Sergio worked for Amazon.com, Inc. where he served as Vice President, Amazon Fashion Europe since 2013. Previously he was General Manager, Retail E-Commerce Worldwide, at Puma, and prior to that held retail roles at Nike and Inditex, where he led the start-up of its lingerie retail brand Oysho.

Principal current external appointments: None

3. Rachel Osborne

Chief Financial Officer

Date appointed to the board: September 2018

Relevant skills and experience: Rachel has a strong retail and customer-facing background including previous roles at John Lewis plc and Kingfisher plc. Her last position was Chief Financial Officer at Domino's Pizza Group plc. She has also held senior finance positions at Sodexo and Vodafone. Rachel is a chartered accountant and has also worked for KPMG.

Principal current external appointments: None

4. Terry Duddy

Senior Independent Director

Date appointed to the board: Joined the board in April 2015, becoming Senior Independent Director in January 2016

Tenure on board: 3 years, 5 months

Independent: Yes

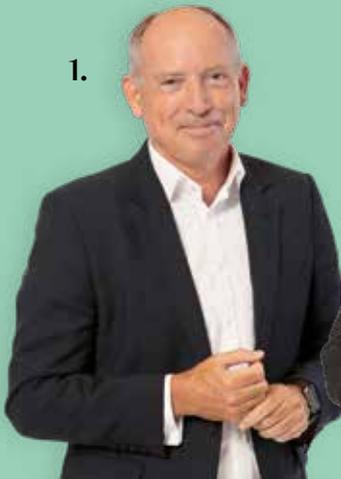
Committee membership: ① ② ③

Relevant skills and experience: Terry was Chief Executive of Home Retail Group from October 2006 until March 2014, having previously served as CEO of Argos since its acquisition by GUS in 1998. He had previously held senior executive roles at Dixons Stores Group, latterly as MD at PC World. In addition to the management of a large public company, Terry brings specific insight into customer behaviour and retail markets.

Principal current external appointments:

Non-executive director of Hammerson plc and Majid Al Futtaim Properties LLC, Chair of the Retail Trust and Senior Independent Director of GEMS Education Limited.

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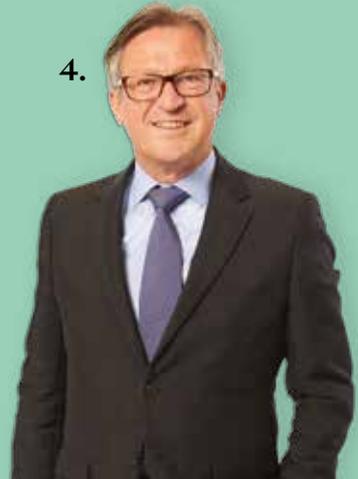
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5. Stephen Ingham

Independent non-executive director

Date appointed to the board:
January 2013

Tenure on board: 5 years, 7 months

Independent: Yes

Committee membership: 2

Relevant skills and experience: Stephen has been Chief Executive Officer of PageGroup plc since 2006 having worked for that company since 1987 transforming it into an international business. Having served as a CEO of a public company for many years, Stephen has strong entrepreneurial and strategic skills.

Principal current external appointments: Chief Executive Officer of PageGroup plc. Stephen is also a member of Great Ormond Street Hospital's corporate partnership.

6. Nicky Kinnaird

Independent non-executive director

Date appointed to the board:
November 2016

Tenure on board: 1 year, 9 months

Independent: Yes

Committee membership: 2

Relevant skills and experience: Nicky brings a wealth of experience and understanding in brand development and the global beauty industry. Nicky founded speciality retailer Space NK and, following the sale of the business, consults for an international roster of clients in the beauty, wellness and lifestyle sectors.

Principal current external appointments: Director of Nicky Kinnaird Consulting Limited and Colorscience Inc. Nicky is also co-founder of Ancora Holdings LLC and non-executive Chairman of Walkactive Company Limited.

7. Lisa Myers

Independent non-executive director

Date appointed to the board:
September 2016

Tenure on board: 2 years

Independent: Yes

Committee membership: 3

Relevant skills and experience: Lisa brings an investor's perspective to the board together with a strong focus on revenue and profitability drivers, brand equity and return on invested capital. Prior to joining L Catterton, the pre-eminent global consumer-focused private equity firm, Lisa was lead portfolio manager of some of Templeton's flagship global funds and Executive Vice-president at Franklin Templeton, managing or co-managing more than \$10 billion of assets. As the coordinator of Templeton's global consumer research, Lisa had direct research responsibility for the retail, textile and apparel and luxury good sectors.

Principal current external appointments: Partner at L Catterton.

8. David Adams

Independent non-executive director

Date appointed to the board:
October 2017

Tenure on board: 11 months

Independent: Yes

Committee memberships: 1 2 3

Relevant skills and experience: David was Finance Director and Deputy Chief Executive of House of Fraser plc until 2006, then Executive Chairman of Jessops plc, becoming non-executive Chairman in 2009. In addition, he has held several Executive and non-executive roles in 30 years in retailing, including ten years as a plc Finance Director.

Principal current external directorships: David is currently the Senior Independent Director and Chair of the Audit Committee at Halfords plc, and a non-executive Director and Chair of the Audit Committee at Thinksmart plc (AIM) listed. In addition, he is Chairman of Park Cameras Ltd and a trustee of Walk the Walk, a breast cancer charity. During this year, Conviviality plc (AIM listed), of which David was Chairman, went into administration.

Rosalynde Harrison

Company Secretary and General Counsel

Date appointed: September 2018

Board committees key:

- 1 Nomination Committee
- 2 Remuneration Committee
- 3 Audit Committee
- Chair of Committee

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Our corporate governance framework supports our strategy

In accordance with the Listing Rules of the UK Listing Authority, the Company confirms that throughout the period ended 1 September 2018 and at the date of this annual report, it was compliant with all the relevant provisions as set out in the April 2016 UK Corporate Governance Code ("the Code"), copies of which can be downloaded from the Financial Reporting Council website (www.frc.org.uk).

LEADERSHIP

The board

The board of Debenhams is collectively responsible for the long-term success of the Company by directing and supervising the affairs of the Company and is accountable to its shareholders for the Company's strategic aims, risk management and performance. No individual or small group of individuals dominates the board's decision-making process. Strong leadership and strong corporate governance are integral parts of our corporate culture and the board leads by example.

Biographical details of the board of directors are on pages 44 and 45. As at 25 October 2018, the board has eight members: the Chairman, five independent non-executive directors and two executive directors.

The Chairman

The Chairman is responsible for the effective leadership, operation and governance of the board and its committees. He ensures that all directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and

challenged. The Chairman is also responsible for the induction of new directors and their continuing development, board evaluations and succession planning. The Chairman holds regular meetings with the non-executive directors without the executive directors being present and has regular contact with all board members.

Sir Ian Cheshire has been Debenhams' Chairman since April 2016.

The Chief Executive Officer

The CEO is responsible for the management of the Group's business and for implementing the Group's strategic aims. He also chairs the executive committee and ensures that it achieves its delegated objectives in accordance with the Company's business policies. The roles and responsibilities of the members of the executive committee are detailed in the table on the next page. The CEO also leads an annual strategy event to focus on the Group's overall performance and the development of the business strategy.

Sergio Bucher has been Debenhams' CEO since October 2016.

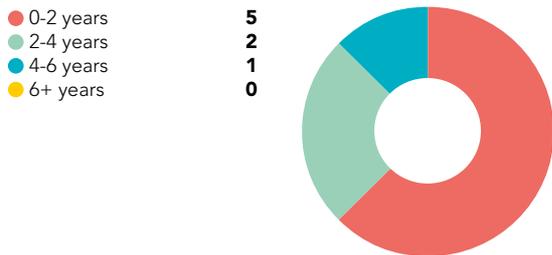
The Chief Financial Officer

The CFO is responsible for the financial reporting and management of the Group and strategy. In addition to the finance, audit, tax and treasury teams, the CFO is responsible for strategy, property, space planning, procurement and investor relations.

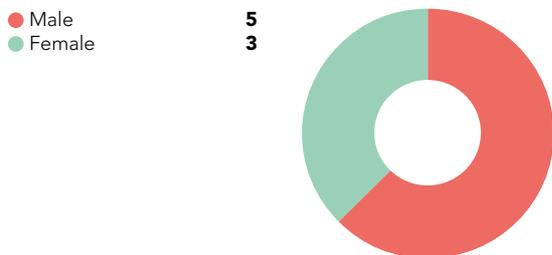
Rachel Osborne joined Debenhams as CFO in September 2018.

| Chairman | Chief Executive Officer | Chief Financial Officer | Senior Independent Director | Independent non-executive directors |
|-------------------------|-------------------------|---|-----------------------------|---|
| Sir Ian Cheshire | Sergio Bucher | Rachel Osborne (appointed to the board: 17 September 2018) | Terry Duddy | David Adams (appointed to the board: 19 October 2017) Stephen Ingham Nicky Kinnaird Lisa Myers |

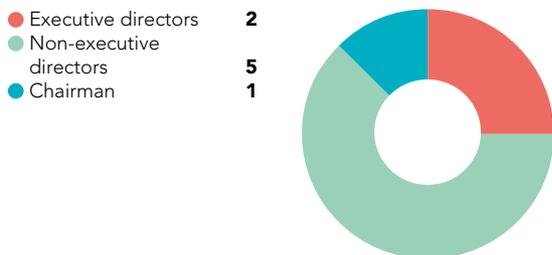
BOARD TENURE AT 25 OCTOBER 2018



BOARD BALANCE AT 25 OCTOBER 2018



BOARD COMPOSITION AT 25 OCTOBER 2018



The Senior Independent Director (SID)

Any concerns that shareholders may have which are not appropriate for discussion through the normal channels of Chairman, CEO or CFO will be dealt with by the SID, who also serves as an intermediary for the other directors as necessary and acts as a sounding board for the Chairman. In addition, the SID leads the annual appraisal of the Chairman's performance. This year's appraisal of the Chairman was considered by the non-executive directors at the conclusion of the September board meeting.

Terry Duddy has been the SID since January 2016.

Non-executive directors

As detailed in their biographies on pages 44 and 45, our non-executive directors have a diverse range of skills, experience and backgrounds and provide constructive challenge within the boardroom. They are well informed about the Company and have a strong command of the issues relevant to the business.

As at 1 September 2018, all the non-executive directors were considered by the board to be independent and free from any relationship or circumstances that could affect their independent judgement.

The independence of non-executive directors who serve more than six years is subject to rigorous review.

Executive committee

In order to support the delivery of the strategy, the business has three business units around our three Destinations: Fashion & Home; Beauty & Beauty Services, and Food & Events. Steven Cook, who joined Debenhams in January 2018, leads Fashion & Home; Ross Clemmow leads the Food & Events unit; and Richard Cristofoli leads the Beauty & Beauty Services unit. The roles of the members of the executive committee are reflected in the diagram below.

EXECUTIVE COMMITTEE

| | | | | | | |
|---|--|---|--|---|---|--|
| Sergio Bucher CEO | | | | | | |
| Rachel Osborne CFO Financial reporting and management, strategy, tax, treasury, internal audit, property, space planning, investor relations and procurement | Angela Morrison Technology and Supply Chain Director Systems, imports and exports, and distribution | David Smith Managing Director International Franchises, Magasin du Nord and responsibility for the international business strategy in all channels and markets | Richard Cristofoli Managing Director Beauty and Marketing Beauty & Beauty Services, product marketing, advertising, PR, visual and creative and customer strategy and insight | Ross Clemmow Managing Director Retail, Digital, Food and Events Retail & Digital Food & Events and UK and ROI stores | Sally Hyndman HR Director HR, culture, pay and reward, learning and development, recruitment, pensions, internal communications and engagement | Steven Cook Managing Director Fashion and Home Sourcing, buying, design and merchandising |

CORPORATE GOVERNANCE REPORT
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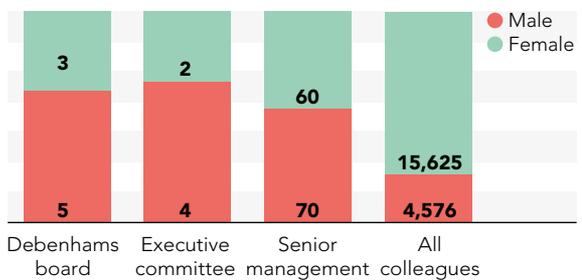
Board diversity

The Company's diversity policy was originally adopted by the board in FY2014. It is reviewed annually and incorporates best practice recommendations including those within the Hampton-Alexander Review and the Parker Report.

It is the responsibility of the Nomination Committee to implement and monitor the objectives set out in the board's diversity policy and to review the policy annually (last reviewed September 2018). The main objectives of the policy are to ensure that the board is well balanced, comprises directors who are sufficiently experienced and independent in character and who will provide the necessary skillsets to drive the business forward and to bring challenge to the boardroom.

Debenhams is aware of the added value diversity brings to the operation of the Debenhams business and is therefore seeking to achieve a diverse workforce that embraces different skillsets, cultural approaches and different mindsets throughout all areas of the Group. The bar chart above right illustrates this year's gender split at board level, within the executive committee, senior management and for the workforce as a whole (UK and ROI only).

Gender diversity¹



¹ As at the date of this report.

Induction and ongoing development

On appointment, a director is provided with an induction programme which is tailored to his or her experience of listed company responsibilities and based on his or her knowledge of the retail sector. Meetings are arranged with advisors and visits to operations around the Group are arranged. One-to-one meetings are held with members of the executive committee, other senior management in the business and external advisors as appropriate. The induction includes the provision of relevant current and historical information about the Company together with applicable business policies. The Company Secretary assists in the induction of new directors and their ongoing development as required and also undertakes a review with new directors following induction to consider any initiatives which would improve the induction process.

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

| Director | Date of appointment | Length of service as a non-executive director at 1 September 2018 |
|-------------------------------------|---------------------|---|
| Sir Ian Cheshire – Chairman | 14 January 2016 | 2 years, 7 months |
| Terry Duddy | 10 April 2015 | 3 years, 5 months |
| David Adams | 19 October 2017 | 11 months |
| Peter Fitzgerald¹ | 4 October 2012 | 5 years, 10 months |
| Stephen Ingham | 8 January 2013 | 5 years, 7 months |
| Nicky Kinnaird | 5 November 2016 | 1 year, 9 months |
| Lisa Myers | 6 September 2016 | 2 years |

¹ Peter Fitzgerald stepped down from the board on 24 October 2018.

Indemnification of directors

Qualifying third party indemnity provisions (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the directors who held office during the year. The Company also provides directors' and officers' liability insurance for its directors and other officers.

Board meetings

The board held seven scheduled meetings and a strategic awayday during FY2018 which were fully attended by all the board members, save for the October meeting which Lisa Myers was unable to attend due to a family commitment. A further four ad hoc telephone conference calls were held during the year. In addition to the directors, the operational section of each board meeting was attended by the members of the executive committee. Details of the principal items discussed at each meeting are shown in the table on page 51.

The presentation of timely, high quality information to the board and its committees is essential to ensure that there is thorough prior consideration of the issues and informed debate and challenge at all meetings. All information is published several days in advance via a secure web portal in order that directors can fully prepare for the meeting. If directors are not able to attend meetings due to conflicts in their schedule, they review the papers due for consideration and relay any comments to the Chairman, in advance of the meeting where possible, which are then passed on to the other directors. The Company Secretary ensures relevant information flows within the board, its committees and to senior management and records all matters discussed within the minutes of the meeting. The agenda for each board meeting typically includes operational reports from the members of the executive committee and an update on the execution of the strategy, with deep dives on selected projects. Presentations are requested by the board on an ad hoc basis from the trading divisions and other business areas, including investor relations, treasury, taxation, health and safety and human resources. In addition, the board receives regular updates on the key Group risks and ensures that the risk management framework and profile supports the business strategy. In accordance with the Code, the formal schedule of matters reserved for the board is reviewed annually.

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 on our website at www.debenhamsplc.com.

The members, together with the role and activities of each board committee, can be found at:

| | |
|------------------------|-----------------|
| Nomination Committee | Pages 52 and 53 |
| Audit Committee | Pages 54 to 57 |
| Remuneration Committee | Pages 58 to 75 |

In the interest of shareholders, the board created a sub-committee to provide oversight of the executive committee's review of Debenhams' long-term plan. Chaired by David Adams, the committee, whose other members are the Chairman and the SID, held regular meeting on several occasions throughout FY2017 and into FY2018.

The Company Secretary

The Company Secretary plays a leading role in the good governance of the Company by supporting the Chairman and helping the board and its committees to function efficiently. Together with the Chairman, the Company Secretary keeps under review the governance processes adopted by the Company to ensure that they remain fit for purpose and considers any improvements that could strengthen the governance of the Company. 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 Secretary acts as secretary to the board and each of its committees. The appointment or removal of the Company Secretary is a matter for the board as a whole. Rosalynde Harrison replaced Paul Eardley as the Company Secretary in September 2018.

PERFORMANCE EVALUATION

In accordance with the Code, we conduct external evaluations of the board, its committees and each individual director at least once every three years. The last external evaluation was carried out in FY2017 by Lintstock Limited.

During FY2018, an internal evaluation was carried out via the collation of results from questionnaires circulated to the members of the board and to the members of the Remuneration and Audit Committees. Questionnaires were also circulated to those colleagues who work closely with the internal and external auditors and the Remuneration Committee consultants. The findings of those evaluations are given below.

Board evaluation results:

- Given the tough trading conditions, the board is operating effectively as demonstrated by the activities of the sub-committee previously referred to and also by David Adams providing additional services in supporting and chairing the Company's strategic planning committee
- The number of non-executive directors on the board required consideration. The board concluded that, following the stepping down of Peter Fitzgerald in October 2018, eight non-executive directors was the right balance to support the needs of the business going forward
- Oversight of succession plans for key management positions below the board and the importance of further development of board diversity over the next 3-5 years remains on the board's radar

CORPORATE GOVERNANCE REPORT

CONTINUED

Audit Committee and internal & external auditor results:

- The composition of the Committee is appropriate and the new Chairman has hit the ground running
- The continuance of thorough analyses on particular risks and controls, together with ongoing training, would be beneficial to the members and these will be scheduled into the Committee's programme for FY2019
- The performance of both the internal and external auditors was highly rated

Remuneration Committee results:

- The Committee is mindful of governance and that the members benefit from regular updates by advisors, in particular from Deloitte LLP, who have been very supportive in this process
- The evaluation demonstrated the Committees commitment to retain and motivate colleagues whilst staying within appropriate guidelines

SHARE CAPITAL AND CONTROL

Information which the directors are required to disclose pursuant to section 992 of the Companies Act 2006 can be found on page 77 of the directors' report.

SHAREHOLDER ENGAGEMENT

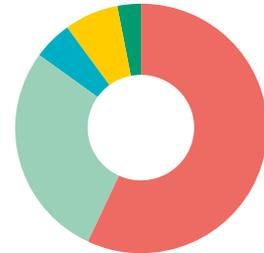
The board is responsible for ensuring that the Company maintains a satisfactory dialogue with shareholders. The Chairman and the SID are always available to major shareholders. Formal trading updates are given to the market on four occasions during the year. Following each of these announcements, conference calls are held with shareholders and analysts and, after the full year and interim results, a presentation is made to shareholders and analysts. Analysts' research is circulated to the board. A programme of meetings and conference calls is also organised at appropriate times during the year at which the CEO and CFO comment on Company performance and respond to any issues raised by investors (see table opposite). In addition, Debenhams arranges visits to its stores for analysts and shareholders and holds regular capital markets days in order to explain aspects of business performance and strategy.

JANUARY 2018 AGM - HIGHLIGHTS

- Between 701,737,090 and 986,781,044 votes were cast for each resolution
- The directors who retired and were elected/re-elected to the board received, on average, 78.69% of votes cast in favour
- The resolution to approve the directors' remuneration policy received 98.57% of votes cast in favour
- The resolutions to approve the director' remuneration report for the period ended 2 September 2017 was passed with 98.55% of votes cast in favour

SHAREHOLDERS BY GEOGRAPHY

| | |
|-----------------|-----------|
| ● UK | 57 |
| ● USA | 28 |
| ● EU | 5 |
| ● Middle East | 7 |
| ● Rest of World | 3 |



A geographical analysis of shareholders is shown in the pie chart above.

The major shareholders of the Company are listed on page 77 of the directors' report.

HOW GOVERNANCE SUPPORTS STRATEGY

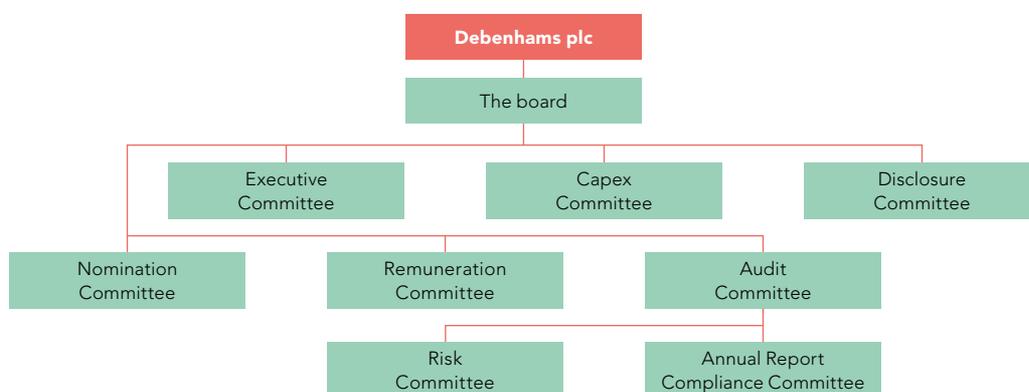
Our governance framework (see chart opposite), which has been adopted by the board, is underpinned by the UK Corporate Governance Code. It is designed to safeguard and enhance long-term shareholder value and to provide a platform to realise the Group's strategy, Debenhams Redesigned.

The board:

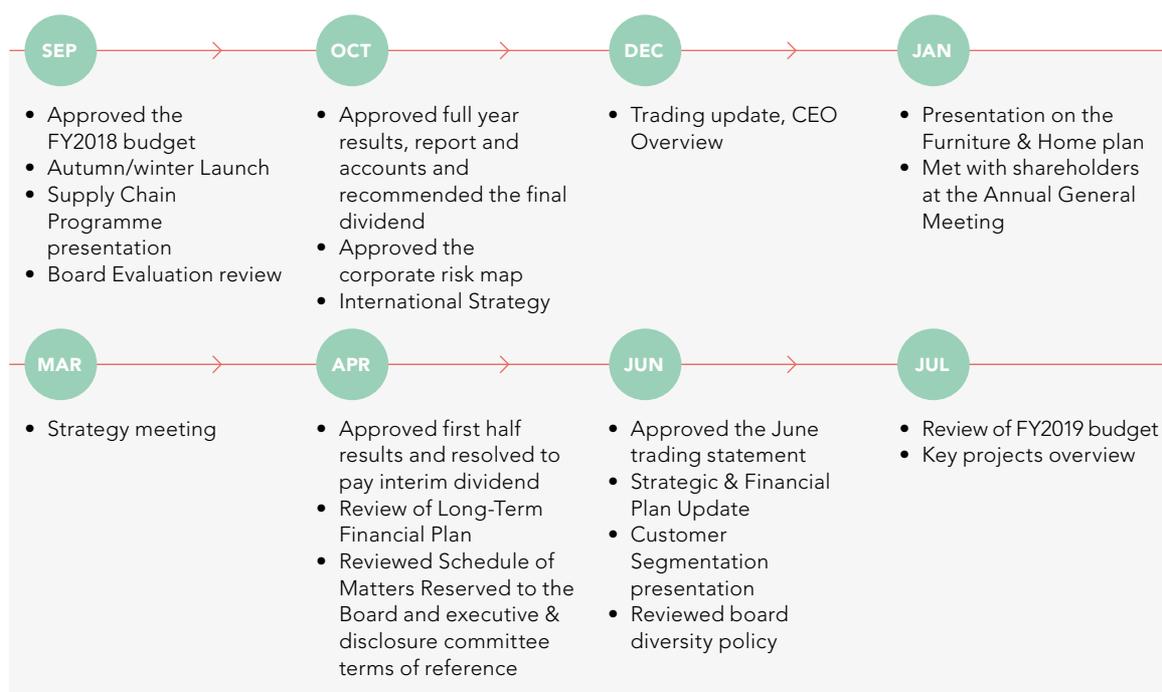
- Selects its membership through a comprehensive and considered process, aligned with Company's strategy and its diversity policy (see Nomination Committee section for more details on our approach)
- Sets the cultural stance for the organisation with management adopting and implementing policies and procedures designed to promote both legal compliance and appropriate ethical standards in all their business interactions, including the delivery of strategic objectives
- Agrees the risk management process which it considers to be a fundamental part of an effective governance programme (see Risk Management and Principal Risks and Uncertainties sections for more details on our approach and how this links to strategy)
- Maintains oversight across the delivery of strategic and operational objectives through independent reports from the Audit and Remuneration Committees and updates from key management
- Actively monitors management's execution of approved strategic plans against established budgets and timeframes, to ensure their alignment to strategic objectives

The framework is continually reviewed to ensure it remains fit for purpose.

GOVERNANCE FRAMEWORK



BOARD ACTIVITY THROUGH THE YEAR - 2017-2018



THE KEY ELEMENTS OF THE GROUP'S INVESTOR RELATIONS CALENDAR IN FY2018 ARE SHOWN IN THE TABLE BELOW.

| Sep 2017 | Oct 2017 | Nov 2017 | Dec 2017 | Jan 2018 | Feb 2018 | Apr 2018 | May 2018 | Jun 2018 | Jul 2018 | Aug 2018 |
|-------------------------------|-------------------|-------------------------|------------------------------|------------------------------|-------------------|-------------------------|------------------------------|----------------------|-------------------|-------------------|
| European investor meetings | Full year results | UK shareholder roadshow | UK investor meetings | Trading Update | Investor meetings | First half results | Investor conference meetings | Trading Update | Investor meetings | Investor meetings |
| Stevenage analyst store visit | | US shareholder roadshow | Investor conference meetings | Annual General Meeting | | UK shareholder roadshow | UK Investor meetings | UK Investor meetings | | |
| UK investor meetings | | | | UK Investor meetings | | | | | | |
| | | | | Investor conference meetings | | | | | | |

NOMINATION COMMITTEE REPORT

The goal is to ensure the board is well balanced and independent

Sir Ian Cheshire
Chairman, Nomination Committee



MEMBERSHIP OF THE NOMINATION COMMITTEE

The individuals who served on the Committee during the year under review are set out below:

| Member | Date appointed Committee member | Attendance at meetings during the year |
|--|---|--|
| Sir Ian Cheshire (Committee Chairman) | 14 January 2016 | 2/2 |
| Terry Duddy | 10 April 2015 | 2/2 |
| Martina King | 1 August 2009 (stepped down on 31 July 2018) | 2/2 |
| Mark Rolfe | 1 October 2010 (stepped down on 11 January 2018) | 1/1 |
| David Adams¹ | 31 July 2018 | 0/0 |

¹ Both Committee meetings were held prior to David becoming a member of the Committee.

Dear shareholder,

On behalf of the Nomination Committee, I am pleased to present its report for the year ended 1 September 2018.

The key responsibilities of the Committee are:

- Identifying and nominating, for the approval of the board, candidates to fill board vacancies based on merit and objective criteria as and when they arise together with leading the process for such appointments
- Putting in place plans for succession, in particular with respect to the Chairman, the CEO, the Senior Independent Director and the members of the executive committee
- Reviewing regularly the board structure, size and composition and making recommendations to the board of adjustments that are deemed necessary and in accordance with the Company's policy on diversity
- Annually reviewing the time required from and spent by a non-executive director in fulfilling his or her duties
- Annually reviewing the board's diversity policy and recommending any necessary changes in that policy to the board
- Reviewing director's conflicts of interest and the number of external directorships held

The full terms of reference of the Committee are available on the Company's website and are reviewed annually by the Committee.

ACTIVITIES DURING THE YEAR

The Committee met twice during the year at which it:

- Reviewed the time commitments and length of service of the non-executive directors. Mark Rolfe's fixed term was due to expire at the end of September 2017 and the Committee recommended that his term be extended until the AGM held in January 2018. David Adams took over Mark's role as chair of the Audit Committee effective from the end of the AGM
- Carried out an annual review of the directors' conflicts of interest register and the Committee's terms of reference
- Recommended to the board the re-appointment of Terry Duddy for a second three year term effective from 10 April 2018
- Recommended the appointment of Nicky Kinnaird as chair of the Remuneration Committee effective from 31 July 2018, pursuant to Martina King's departure from the board of Debenhams following nine years' service
- Recommended the appointment of Rachel Osborne as Chief Financial Officer, effective from 17 September 2018, further to Matt Smith's resignation from the role on 31 August 2018

DIVERSITY

The goal at Debenhams is to ensure that the board is well balanced and appropriate for the needs of the business, comprising directors who are sufficiently experienced and independent of character and judgement. When recommending new directors to the board, the Nomination Committee has regard to the balance of skills, knowledge and experience required for the board and its committees to operate effectively. Board appointments are, of course, made on merit but the Committee is also mindful of the board's diversity policy (for more details see page 48). The aim of the policy is for new directors to bring different experience, skills, perspective and different important personal attributes and thus make a positive contribution to Debenhams.

Following the board changes which took place during this year, the percentage of women on the Debenhams plc board at the end of FY2018 was 33.3%, which is at the current voluntary target to have a third of female board members by FY2020.

As detailed on page 21, Debenhams is keen to embrace diversity at all levels and is therefore assessing diversity, in the widest sense, in relation to the recruitment process throughout the business.

DIRECTORS' TIME COMMITMENT

All directors are aware of the need to allocate sufficient time to the Company in order to discharge their responsibilities effectively. The board, with the support of the Nomination Committee, monitors attendance, committee composition, length of service, the extent of the directors' external interests and any conflicts on an ongoing basis. The letters of appointment for non-executive directors set out the time commitment expected for them to perform their duties effectively. The time required of directors will fluctuate depending on the demands of the business and any other events, but the expected number of days required for each non-executive director is ten per annum.

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 2018. 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. We recognise that the non-executive directors have other business interests outside of the Company and that other directorships bring significant benefits to the board. All existing directorships are detailed within the director biographies on pages 44 and 45. Non-executive directors are required to obtain the approval of the Chairman before accepting any further appointments.

A register of related parties is maintained and updated by the Company Secretary in order that any related party transactions are identified and the necessary disclosures are made.

ACTIVITIES SINCE YEAR END

- Recommended to the board the re-appointment of Stephen Ingham for a further three years effective from 7 January 2019
- Peter Fitzgerald stepped down from the board on 24 October as an independent non-executive director. Following this board change our percentage of women on the Debenhams plc board moved from 33.3% to 37.5%
- All directors will seek election/re-election at the next AGM at the Annual General Meeting on 10 January 2019

Sir Ian Cheshire
Chairman

A focus on the control of risks

David Adams
Chairman, Audit Committee



MEMBERSHIP OF THE AUDIT COMMITTEE

The individuals who served on the Committee during the year under review are set out below:

| Member | Date appointed Committee member | Attendance at meetings during the year |
|---|--|--|
| David Adams (Committee chair) | 19 October 2017 (appointed Committee chair 11 January 2018) | 3/3 |
| Terry Duddy | 10 April 2015 | 3/3 |
| Peter Fitzgerald | 18 October 2012 | 3/3 |
| Martina King (Stepped down from the board and the Audit Committee on 31 July 2018) | 1 August 2009 | 3/3 |
| Lisa Myers | 6 September 2016 | 2/2 ¹ |
| Mark Rolfe | 1 October 2010 | 1/1 ² |

- 1 Lisa Myers was unable to attend the meeting held in October 2017 due to a family commitment.
- 2 Mark Rolfe stepped down from the board on 11 January 2018. Two of the Audit Committee meetings were held post that date.

Dear shareholder,

On behalf of the Audit Committee ("the Committee"), I am pleased to present my first report as chairman of the Committee for the period ended 1 September 2018. The report sets out the remit of the Committee, its areas of focus during the year and the Company's relationship with the external auditors.

The Committee has satisfied itself that the Debenhams plc 2018 annual report and accounts is fair and balanced. We have sought to make the report as clear, understandable and informative as possible to provide the information necessary for shareholders to assess the Company's performance, business model and strategy. The Committee therefore supports the board in making its formal statement on page 43.

During the year the Committee ran a thorough audit tender process and we are pleased to recommend the appointment of Ernst & Young LLP as our auditors.

On behalf of the Committee, I would like to thank PwC for their support over the last 12 years.

David Adams
Chairman, Audit Committee

All of the members of the Committee are independent non-executive directors and, in the board's view, the Committee as a whole has competence relevant to the retail sector and its operations. In accordance with the UK Corporate Governance Code, I am considered by the board to have recent and relevant financial experience.

In addition to the members of the Committee, the Chairman, the CFO, the Director of Internal Audit and Risk Management and senior representatives of the Company's external auditors, PwC LLP, attend and receive papers for each meeting. After each meeting, the chairman reports to the board on the matters discussed, on recommendations and on actions to be taken.

The Committee met three times during FY2018, with meetings timed to coincide with the financial and reporting cycles of the Company. Attendance at these meetings is set out on the opposite page. In addition, the Committee met with the Company's external auditor twice during the year without management being present and once with each of the CFO and the Director of Internal Audit and Risk Management without other management being present.

RESPONSIBILITIES OF THE COMMITTEE

The role and responsibilities of the Committee are set out in its terms of reference which are reviewed annually by the Committee taking into account relevant legislation and recommended good practice. The terms of reference of the Committee are available on the Company's website: www.debenhamsplc.com.

In accordance with the terms of reference, the Committee's responsibilities include, but are not limited to, the following matters:

- Monitoring 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
- Reviewing any changes in accounting principles, considering the appropriateness of accounting policies adopted by the Company, and the use of any alternative performance measures
- Reviewing the internal audit programme and ensuring that the internal audit function is properly resourced
- Agreeing with the external auditors the nature and scope of the audit and reviewing the output
- Reviewing and monitoring the effectiveness of the risk management and internal control systems within the business
- Considering the appointment of the external auditors and their independence and making recommendations to the board in relation to their appointment, remuneration and terms of engagement
- Reviewing the Company's plans for the prevention and detection of fraud, bribery and corruption
- Assessing the long-term viability of the Company over a three year period taking into account its current position and principal risks
- Providing advice to the board on whether the Company's annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy

ACTIVITIES OF THE COMMITTEE DURING THE YEAR

Financial reporting

- The Committee reviewed the annual and interim financial statements during the year. It considered significant accounting policies, financial reporting issues and judgements together with the findings as set out in the reports from the external auditors
- The Committee also received a presentation on the process and stress testing undertaken in relation to the viability statement included in this report
- The Committee considered the clarity and completeness of the disclosures within the financial reports reviewed
- The Committee received deep dives on the impact of Brexit and the new GDPR regulations
- The Committee carried out an audit tender process and recommended the appointment of Ernst & Young LLP as auditors

Internal audit and risk management

The Committee received and considered updates from the Director of Internal Audit and Risk Management at each of its meetings during the year covering, amongst other matters:

- The output from the Group-wide risk review process to identify, evaluate and mitigate risks and the Group's changing risk profile
- The adequacy and effectiveness of the internal financial controls
- Updates on any fraud attempts or incidents further to the processes in place throughout the Group which prevent and detect fraud, including concerns raised in confidence by employees via the Company's whistleblowing process which are also reported through to the Committee
- Progress against the approved audit plan, the key findings from reviews undertaken and management's implementation of its recommendations
- The resource requirements for internal audit and risk management

Governance

- Internally facilitated formal evaluations of the Committee together with the internal and external audit functions
- The compliance committee, chaired by the CFO, supported the Committee in assessing whether the Company's annual report, taken as a whole, is fair, balanced and understandable and complies with all legal and regulatory requirements. The compliance statements in relation to the disclosures within this annual report are provided on page 43
- The Risk Committee, which is chaired by the Director of Internal Audit and Risk Management, supported the Audit Committee in the identification and assessment of the Group's significant risks
- The Committee receives briefings and training by senior management which, this year, included a review of the requirements of IFRS 16 with regard to Debenhams' lease portfolio

Corporate governance
AUDIT COMMITTEE REPORT
 CONTINUED

External audit

- The scope of the audit for FY2018 was agreed together with the fees and terms of engagement. Details of the amounts paid to the external auditors for the audit services for FY2018 are given on page 109 in note 6 to the financial statements
- The Committee considered the regulations contained within the Competition and Markets Authority Audit Order to ensure that the Company carries out specific functions in relation to audit services. The Company's statement of compliance with these regulations is provided on page 43
- The audit tender was carried out
- The non-audit work carried out by PwC in accordance with the Company's prevailing External Auditor's Independence Policy was approved and PwC's independence confirmed

SIGNIFICANT AREAS OF FOCUS IN RELATION TO THE FINANCIAL STATEMENTS

The significant issues considered in relation to the Group's financial statements for the period ended 1 September 2018 are set out in the table below together with a summary of the actions taken. In addition, the Committee and the external auditors have discussed the other areas of focus of the audit as set out in the independent auditors' report on pages 80 to 89.

| Matters considered | Actions |
|---|---|
| <p>Going Concern The Committee considered the work management had undertaken to support the going concern statement and the review of that work by PwC.</p> | <p>A review was undertaken by management to stress test business projections for a variety of trading and working capital scenarios. This was further reviewed by PwC. Based on these projections and sensitivities, the Committee is satisfied that the Group would continue to have sufficient headroom to its committed borrowing facilities to ensure it can operate as a going concern for the next 12 months.</p> |
| <p>Exceptional items & Impairment As a result of the strategic reviews, the Group has incurred one-off costs totalling £524.7 million (before tax), see note 7 on pages 109 and 110.</p> | <p>The exceptional costs incurred this year related to: strategic review and restructure (£13.6 million); strategic warehouse restructure (£11.0 million); store impairment and onerous leases (£117.5 million); goodwill impairment (£302.1 million) and asset write-offs (£80.5 million). The Committee has considered the quantum of each exceptional cost or charge and has approved the disclosures made.</p> |
| <p>Revenue recognition As with most companies, there is a risk that, in order to achieve the planned results, revenue may be recognised in contravention of the Group's policy for revenue recognition.</p> | <p>The Committee has reviewed revenue recognition practice and the underlying assumptions and estimates. In addition, the internal audit function has reported to the Committee on the controls and processes in this area. The Committee also routinely monitors the views of the external auditors on revenue recognition issues.</p> |
| <p>Inventory valuation The Company continues to use the retail method in respect of valuation of inventory in the UK and Ireland which is reliant on a number of judgemental components, details of which are set out in note 5 to the financial statements on pages 107 and 108.</p> | <p>During FY2018, the Committee received reports from both the internal and external auditors setting out inventory risk metrics and findings from the examination of controls in these areas. These reports indicated that inventory was valued satisfactorily.</p> |

PERFORMANCE EVALUATION

An evaluation of the Audit Committee together with the internal and external auditors was this year carried out via an internal questionnaire.

The results for the Audit Committee and the internal and external auditors can be found on pages 49 and 50.

EXTERNAL 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 reviewed annually. This policy covers matters such as: auditors and their staff must 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 controls around the provision of non-audit services; and specifically those services which the Company's auditors may never provide. As part of the Committee's assessment of the ongoing independence of the auditors, the Committee receives details of any relationship between the Group and PwC that may have a bearing on their independence and seeks confirmation from PwC that they remain independent.

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 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. All fees for non-audit work require pre-authorisation by the CFO, or the Company Secretary, or by the Audit Committee in circumstances where the fees are above an agreed threshold. An independent report is produced each quarter 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 by the Company Secretary.

The Company's policy identifies three categories of accounting services. The first category is audit-related services which the auditors are permitted to provide, such as interim and full year reports. The second category is prohibited services which the auditors are not permitted to provide. Prohibited services are those which might result in the external auditors auditing their own work, or making management decisions for the Company, and those where some mutuality of interest is created or where the external auditors are put in the role of advocate for the Company. The prohibited services included in the Company's policy are itemised in more detail and the list includes all the services set out on the FRC's "black list". The third category is "potential" services which the auditors may, in certain circumstances, provide subject to compliance with the independence policy. These services include services where the auditors are acting as the Company's reporting accountant.

£63,900 was paid by the Company to PwC for non-audit services which represents 8.3% of the total audit fee paid to PwC, see note 6 on page 109.

The audit fees paid by the pension schemes were £35,000.

The FRC's Audit Quality Review team (AQR) routinely monitors the quality of the audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. The AQR carried out a review of the audit of our financial reporting for FY2017. The AQR engaged with the Committee during the review process. There were no significant findings resulting from the review.

EXTERNAL AUDITORS' APPOINTMENT

PwC has served as the Company's auditors since flotation in 2006 and John Ellis has been the audit partner since 1 September 2013.

As reported in the FY2017 annual reports and financial statements, the Committee decided to hold a competitive audit tender process for rotation of the audit firm in respect of FY2019. The tender process was overseen by the Audit Committee and the management of the process was delegated to the chairman of the Committee and the CFO. The key objective was to deliver a fair, transparent and successful tender process with minimum disruption to the business and at the conclusion of the process the Committee made its proposal to the board.

Two major firms of accountants were invited to take part in the tender. During the tender, each firm was given equal access to management and to information about the Group. The tender process was thorough and was designed to assess each firm's audit proposal against a set of predetermined criteria that had been agreed by the Committee. Each firm was invited to an extensive series of interviews with members of the Audit Committee, members of the board and a number of the Group's senior management team. These interviews formed part of a formal assessment process whereby each firm was assessed against these criteria, including matters such as the strength and experience of senior team members and their firm's ability to serve the Group's operations effectively.

Each firm was asked to provide a written document containing detailed information on certain matters in support of their audit proposal which were key to the Audit Committee's assessment of each bid, including the firm's evaluation of the Group's risks, the proposed audit plan and the use of technology. Both of the firms were invited to present their audit proposition to a meeting held with the chairman of the Committee, the CFO and a number of the Group's senior management team. The Committee subsequently considered each firm's audit proposals against the criteria that had previously been agreed by the Committee. The Committee's evaluation also took into account the outcome of recent external reviews to assess the quality of each firm's audits, details of each firm's audit methodology and areas of audit focus with regard to the Group.

Throughout the process, the Committee were mindful of the need to maintain the independence of the external auditors. As part of the tender, each firm was required to disclose all existing relationships with the Group and explain how the firm would meet Debenhams' policy on audit effectiveness and independence.

The Company announced, on 25 June 2018, that Ernst & Young LLP had been successful in the audit tender process and will therefore be appointed, subject to approval by shareholders at the AGM in January 2019, as its new auditor with effect from the year commencing 2 September 2018. Ernst & Young LLP have therefore been shadowing PwC during the FY2018 year end audit process and have attended a Committee meeting prior to their formal appointment. The Committee would like to record their thanks to PwC and their partners and staff for their many years of service to the shareholders of Debenhams.

The Committee is satisfied that Ernst & Young LLP is independent and is best placed to conduct the Company's audit for FY2019 and therefore recommends that Ernst & Young LLP be appointed as the Company's auditors.

David Adams
Chairman, Audit Committee