Strategic report

Resources, relationships and sustainability

HOW WE MANAGE OUR RESOURCES & RELATIONSHIPS

78% Employee engagement

£1.7m raised by the Debenhams Foundation

COLLEAGUE ENGAGEMENT & CULTURE

Debenhams directly employs around 27,000 people globally. Our annual engagement survey demonstrates we have a loyal and engaged workforce and that our colleagues particularly value the teams that they work with.

Our colleagues have told us that our culture is warm and friendly. To build on this and align our culture to our ambition to be customer-led, we are embarking on a comprehensive review of our Colleague Proposition. We are working with over 200 colleagues to build our new Proposition which will harness the best of our culture today together with the cultural shifts needed to achieve our mission to make shopping confidence-boosting, sociable and fun.

We again held our Learning@Work Week programme, where 2,000 support centre colleagues can choose to attend sessions on a wide variety of topics that range from those aiding understanding of aspects of the business, to those aimed at encouraging health and wellbeing.

EQUAL OPPORTUNITIES

We are committed to ensuring that colleagues are treated equally, regardless of gender, sexual orientation, religion or belief, age, mental status, social class, colour, race, ethnic origin, creed, disability, political or philosophical beliefs, or marital or civil partnership status.

Through our equal opportunities policy, we aim to create an environment that offers all colleagues the chance to use their skills and talent. Decisions on recruitment, training, promotion and employment conditions 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 a colleague 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 colleagues’s duties to other members of staff; transferring the colleague 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.

Debenhams is also supportive of the UK government’s commitment to address the gender pay gap, refer to page 49 for more information on our gender diversity policy. In line with new regulations, we will be publishing our data on our corporate website in FY2018.

BUILDING A PIPELINE OF LEADERS FOR THE FUTURE

We adopt a consistent approach to identifying and developing talent across the stores and the support centres.

We have an aligned talent development approach across our stores and our support centre and use a consistent framework to develop our leaders of the future. Our six-step development programme allows for easy transferability of talent across retail and support centre functions.
“Respecting human rights is a fundamental part of our company ethics and integrity.”

In addition, we run a business placement programme which brings new talent into the business and have extended this programme’s reach in focus and growth areas such as e-commerce.

APPRENTICESHIPS

With the arrival of the apprenticeship levy, we have developed a three-year plan for apprenticeships to support key areas of the business in order to build our skill set and pipeline of talent. Year one focuses on the first step into retail management with 140 retail apprentices having commenced their 16 month programme in May 2017.

We have been one of the first retailers to use the new retail trailblazer apprenticeships and will continue to build on this in years two and three of our plan. Additionally, in years two and three, we will introduce apprenticeship programmes into our support centre and build further routes to recruit externally for apprenticeship programmes.

DEBENHAMS FOUNDATION

Since 2012, we have raised over £7 million for charitable causes under the Debenhams Foundation. In FY2017, over £1.7 million was raised via activities such as in-store fundraising, dedicated product donation and donated carrier bag income. These funds help to support a range of charities including Look Good Feel Better, Help for Heroes, BBC Children in Need and Breast Cancer Now.

For more information, visit our webpage at http://sustainability.debenhamsplc.com/debenhams-foundation.

ANTI BRIBERY & CORRUPTION

Debenhams is committed to conducting its business affairs so as to ensure that it does not engage in or facilitate any form of bribery or corruption. It is Debenhams’ policy to prohibit all forms of corruption involving our employees, contractors, agents, and any associated parties acting on our behalf. Our Anti Bribery Policy outlines the expected standards of behaviour and provides guidance to our colleagues on the giving and receiving of gifts and hospitality. This policy has been supported by a training programme for selected roles.

GLOBAL SOURCING

We source our product from a diverse supply chain. Respecting human rights across our global reach is a fundamental part of our Company ethics and integrity. Our sourcing ethical trade programme covers the entire product supply chain.

939 factories impacting over 525,000 workers in 34 countries.

<table>
<thead>
<tr>
<th>Supplier Compliance</th>
<th>Worker Welfare</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplier on boarding</td>
<td>Female empowerment</td>
</tr>
<tr>
<td>Risk management</td>
<td>Health &amp; Safety</td>
</tr>
<tr>
<td>Processes</td>
<td>Worker wellbeing</td>
</tr>
<tr>
<td>Capacity building</td>
<td>Worker inclusion</td>
</tr>
</tbody>
</table>

Our extensive due diligence processes and assessment of suppliers and factories ensure that our Supplier Code of Conduct is adhered to. Our Code is based on the ETI (Ethical Trade Initiative) and ILO (International Labour Organisation) core conventions. We have been a member of the ETI since 2001.

Intertek, our global audit partner, together with our own ethical compliance teams based in the UK, Hong Kong, Shanghai, Bangladesh and Sri Lanka, conducted over 800 factory visits in FY2017 to assess their compliance, the majority of which were unannounced.

>800 compliance audits

939 factories

Top 6 countries: Number of factories April 2017

- China: 465
- India: 148
- Bangladesh: 65
- Turkey: 40
- Romania: 23
- UK: 24

For more information, visit our webpage at www.sustainability.debenhamsplc.com/debenhams-foundation.

WHAT WE DO

- New supplier factory on boarding
- Audit programme on factories
- Governance policy and process
- Collaborative industry partnerships
- Factory visits
- Programmes & projects

DRIVEN BY

- Modern Slavery Act 2015
- Human Rights and United Nations guiding principles
- Sustainable development goals

For more information, visit our webpage at www.sustainability.debenhamsplc.com/debenhams-foundation.

www.debenhams.com
Strategic report
Resources, relationships and sustainability continued

-13% CO₂ emissions

ENVIRONMENT AND ENERGY EFFICIENCY
Annual Report Greenhouse Gas ("GHG") emissions reporting
We have reported our greenhouse gas (GHG) emissions for our UK, Irish and Danish operations since 2008. Since then, our footprint boundary has evolved to include areas such as other international offices, packaging, production of hangers, and manufacture of catalogues, brochures and direct mail. This section provides a breakdown of our GHG emissions for this year. Further details of our GHG emissions can be found on our website http://sustainability.debenhamsplc.com/.

With the support of Ricardo Energy & Environment, we have applied the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), and the UK Government Conversion Factors for Company Reporting, 2017, to calculate our carbon emissions. Our annual reporting year is 4 September 2016 to 2 September 2017 and we report GHG emissions in line with this period.

Last year we followed the GHG Protocol’s new, Scope 2 emissions reporting guidance and used two different quantification methods: location-based and market-based. We followed this methodology again this year. Scope 2 emissions using the market-based method are lower than those derived from the location-based approach, mainly because of our decision to purchase 100% renewable electricity in the Republic of Ireland and Northern Ireland.

This year, our overall carbon footprint has decreased by 13%, from 204,136 tonnes CO₂e in 2016 to 177,611 tonnes CO₂e this year (using the location-based approach). Table 1 opposite provides a breakdown of these figures.

1 The location-based method reflects the average emissions intensity of grids on which energy consumption occurs, whereas the market-based method reflects emissions from the electricity that companies have chosen in the market (or their lack of choice).

HUMAN RIGHTS & MODERN SLAVERY
The Company has a number of policies in place to protect and promote employee welfare and is committed to supporting all human rights in our business operations as well as in our relationships with our suppliers and other stakeholders.

Our commitment to prohibiting modern slavery is defined in our Human Rights and Modern Slavery policy.

The following outlines some of the actions Debenhams has carried out to support the Act:

- Training extended to our suppliers and factories in Delhi, Bangalore and Bangladesh.
- Further sessions have been held internally to raise awareness of modern slavery across UK, Denmark, Hong Kong, Shanghai and Bangladesh. Training will be conducted for our Sri Lankan office, which has recently opened.
- All of our 21 UK manufacturers have had a Fast Forward audit and now have action plans if required.
- We have collaborated with the Gangmasters & Labour Abuse Authority to understand practices of labour providers.
- We have gained further understanding of our goods not for re-sale service providers and they have attended mandatory training on modern slavery which was provided by Fast Forward during FY2017.

A full version of Debenhams’ statement on Modern Slavery is on our website at www.sustainability.debenhamsplc.com.

Debenhams previously operated a Sustainability Committee which, amongst other activities, oversaw and monitored actions taken to prevent modern slavery. This role is now the responsibility of the Risk Committee.

The Director of Ethical Trade and Corporate Responsibility, who is responsible for driving initiatives internally and externally to support the Act, provides quarterly updates to the Risk committee on all risks and mitigating actions covering corporate social responsibility work.

Read more on page 29
Table 1: Absolute GHG emissions from Scopes 1, 2 and 3 shown in tonnes CO₂e (tCO₂e)

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016**</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1</td>
<td>14,850</td>
<td>17,786</td>
<td>15,989</td>
<td>19,668</td>
<td>14,241</td>
<td>13,721</td>
</tr>
<tr>
<td>Scope 2 (location-based)</td>
<td>144,536</td>
<td>139,607</td>
<td>149,068</td>
<td>139,354</td>
<td>125,453</td>
<td>103,754</td>
</tr>
<tr>
<td>Scope 2 (market-based)</td>
<td>Not calculated; market-based method was introduced in FY2016</td>
<td></td>
<td></td>
<td></td>
<td>113,134</td>
<td>81,914</td>
</tr>
<tr>
<td>Scope 3</td>
<td>19,071</td>
<td>16,687</td>
<td>28,308</td>
<td>31,908</td>
<td>64,442</td>
<td>60,136</td>
</tr>
<tr>
<td>Total</td>
<td>178,457</td>
<td>174,080</td>
<td>193,365</td>
<td>190,930</td>
<td>204,136*</td>
<td>177,611*</td>
</tr>
</tbody>
</table>

* Total emissions calculated using the location-based Scope 2 emissions figure.
** FY2016 is a 53 week year.

The emissions data is made more meaningful when compared to a core business variable. We have used intensity ratios, alongside the absolute figures provided above, to report our GHG emissions in the context of our annual turnover and premises floor area.

Table 2 shows the total annual turnover and floor area for the whole business. The total absolute emissions are then divided by these figures to provide tonnes of CO₂e per million pounds of turnover and tonnes of CO₂e per m² of floor area, respectively, as shown in Table 3.

These tables show that the tonnes CO₂e for both intensity metrics have also decreased.

Table 2: Data used for intensity measurements

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016**</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover (£m)</td>
<td>2,700</td>
<td>2,777</td>
<td>2,824</td>
<td>2,860</td>
<td>2,939</td>
<td>2,954</td>
</tr>
<tr>
<td>Total floor area* (m²)</td>
<td>1,838,924</td>
<td>1,808,398</td>
<td>1,850,874</td>
<td>1,867,291</td>
<td>1,876,533</td>
<td>1,873,568</td>
</tr>
</tbody>
</table>

* Total floor area includes stores, offices and distribution centres.
** FY2016 is a 53 week year.

Table 3: Assessment of absolute footprint emissions

<table>
<thead>
<tr>
<th></th>
<th>FY2012</th>
<th>FY2013</th>
<th>FY2014</th>
<th>FY2015</th>
<th>FY2016**</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute Emissions (tCO₂e)</td>
<td>178,457</td>
<td>174,080</td>
<td>193,365</td>
<td>190,930</td>
<td>204,136*</td>
<td>177,611*</td>
</tr>
<tr>
<td>Absolute tCO₂e/£m Turnover</td>
<td>66</td>
<td>63</td>
<td>68</td>
<td>67</td>
<td>69</td>
<td>60</td>
</tr>
<tr>
<td>Absolute tCO₂e/m²</td>
<td>0.097</td>
<td>0.096</td>
<td>0.104</td>
<td>0.102</td>
<td>0.109</td>
<td>0.095</td>
</tr>
</tbody>
</table>

* Total emissions calculated using the location-based Scope 2 emissions figure.
** FY2016 is a 53 week year.

The carbon footprint has decreased across all three scopes this year compared to 2016. The main reasons for the decrease in the overall emissions is due to a reduction in: electricity consumption, including the associated grid losses (18% reduction); company vehicles mileage (27% reduction); staff travel (21% reduction); and outsourced- freight (4% reduction).

We will continue to invest in projects that will reduce our footprint and environmental impacts. We are committed to continuously improving the energy efficiency of our buildings and operations as seen by a reduction in this year’s carbon footprint. In FY2017, we invested over £3 million and retrofitted LED lighting in 16 stores. These projects have not only delivered excellent results in reducing energy use, but have also led to a more comfortable customer environment. We will be investing £3 million in 2018 on energy efficiency projects, with LED lighting continuing to feature heavily since lighting typically accounts for 35% of energy use in a store.

We have a carbon reduction target to reduce group-wide Scope 1 and 2 absolute operational CO₂e emissions by 10% by 2020 against our 2007/08 baseline. The FY2017 Scope 1 and Scope 2 total emissions have reduced by 32% compared to the Scope 1 and 2 CO₂e emissions in FY2008. This suggests that if the reduction continues, or remains stable, we will meet our target by 2020.

Overall, the progress on improvement and monitoring management remains stringent and during the next few years towards 2020, we aim to continue to positively contribute to the Better Retail Climate as part of our drive to save energy and protect the environment.
In light of our new strategy, Debenhams Redesigned, strategic KPIs linked to the Destination categories where Debenhams is targeting growth have been established. These, along with some of the financial KPIs, are linked to management remuneration and more information can be found in the directors’ remuneration report starting on page 64. We have also maintained sustainable KPIs that ensure that the management of resources and relationships remains core to our business model.

All income statement numbers for FY2016 are given on a 52-week basis.

GROUP FINANCIAL KPIs

<table>
<thead>
<tr>
<th>Year</th>
<th>Like-for-like sales change (%)</th>
<th>Underlying profit before tax* (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>0.6</td>
<td>113.5</td>
</tr>
<tr>
<td>2016</td>
<td>0.6</td>
<td>114.1</td>
</tr>
<tr>
<td>2017</td>
<td>2.1</td>
<td>95.2</td>
</tr>
</tbody>
</table>

**Rationale**
Like-for-like (LFL) is a measure of the annual performance of stores that have been open for at least one year, plus digital sales growth, from our UK and international business.

**2017 performance**
Group LFL sales increased by 2.1%. When adjusted for foreign exchange translation, constant currency LFL growth was (0.2%), with UK LFL of 0.0% and international (0.2%).

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying earnings per share* (pence)</th>
<th>Return on capital employed* (%)</th>
<th>Net debt (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>7.6p</td>
<td>12.2%</td>
<td>319.8</td>
</tr>
<tr>
<td>2016</td>
<td>7.5p</td>
<td>11.8%</td>
<td>279.0</td>
</tr>
<tr>
<td>2017</td>
<td>6.4p</td>
<td>11.1%</td>
<td>275.9</td>
</tr>
</tbody>
</table>

**Rationale**
Basic earnings per share (EPS) divides earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the financial year.

**2017 performance**
Underlying EPS* declined by 14.7% to 6.6p, after a reduction in profit after tax.

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on capital employed before exceptional items (%)</th>
<th>Net debt before exceptional items (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>11.8%</td>
<td>319.8</td>
</tr>
<tr>
<td>2016</td>
<td>11.3%</td>
<td>279.0</td>
</tr>
<tr>
<td>2017</td>
<td>11.1%</td>
<td>275.9</td>
</tr>
</tbody>
</table>

**Rationale**
Return on capital employed (ROCE) measures the profitability of the company relative to the size of assets used to generate returns.

**2017 performance**
Underlying ROCE declined from 11.8% to 11.1% reflecting the fall in profitability in the year.

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying ROCE (%)</th>
<th>Net debt adjusted before exceptional items (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>11.8%</td>
<td>319.8</td>
</tr>
<tr>
<td>2016</td>
<td>11.3%</td>
<td>279.0</td>
</tr>
<tr>
<td>2017</td>
<td>11.1%</td>
<td>275.9</td>
</tr>
</tbody>
</table>

**Rationale**
Net debt measures Group borrowings net of cash held at the balance sheet date, and reflects the movement in cash generated by the business after cash expenses.

**2017 performance**
Including cash outflow relating to the exceptional restructuring charges, year end net debt has reduced to £275.9 million.


* Lease-adjusted before exceptional items.
### STRATEGIC KPIs

#### Growth in Beauty & beauty services – gross transaction value growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>4.4%</td>
<td>6.0%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

**Rationale**
Core destination category in which Debenhams will build market leadership.

**2017 performance**
The Beauty category delivered sales growth of 4.8% supported by strong performance in new and exclusive cosmetics brands underpinned by good market growth.

#### Growth in Food, drink & events – gross transaction value growth (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>1.9%</td>
<td>8.2%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

**Rationale**
“Meet me @ Debenhams” is a core destination category that drives frequency of visits.

**2017 performance**
Food and drink GTV grew by 8.0% driven by further new third party brand introductions.

#### Growth in mobile penetration – Mix of demand (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>43.1%</td>
<td>48.2%</td>
<td>55.0%</td>
</tr>
</tbody>
</table>

**Rationale**
Mobile@everywhere will be the primary form of customer interaction unifying channels and building loyalty.

**2017 performance**
Mobile demand grew by 57%, outpacing desktop demand and accounting for 55% of digital orders.

#### Accelerating warehouse automation – online cost improvement (bps improvement to GTV)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>160</td>
<td>40</td>
<td>70</td>
</tr>
</tbody>
</table>

**Rationale**
Driving efficiency through investment in warehouse automation to improve digital profitability.

**2017 performance**
Cost ratios improved by 70 bps as a result of efficiencies made.

### SUSTAINABILITY KPIs

#### Carbon emissions (CO₂e 000 tonnes)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>191</td>
<td>204</td>
<td>178</td>
</tr>
</tbody>
</table>

**Rationale**
CO₂e is used as a measure of environmental impact. It takes into account harmful emissions from the six greenhouse gases identified by the Kyoto Protocol.

**2017 performance**
Applying the same emissions criteria as last year, emissions declined by 13%. This reflects a reduction in electricity consumption, reduced company vehicle mileage and outsourced freight.

#### Employee engagement (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>79</td>
<td>79</td>
<td>78</td>
</tr>
</tbody>
</table>

**Rationale**
We conduct an annual engagement survey, inviting all employees in our UK and Irish stores and support centres to participate.

**2017 performance**
In a year of rapid change in the organisation, our engagement score was slightly down at 78%, with more than 20,000 colleagues participating.
Strategic report

Risk management

OPTIMISING OUR RISK MANAGEMENT PROCESSES

**Figure 1: Debenhams’ risk management framework**

**THE BOARD**
- Set strategic objectives
- Agree risk framework and risk appetite
- Identify principal risks and ensure appropriate management
- Set delegation of authority
- Approve Group policies & procedures

**EXECUTIVE COMMITTEE**
- Monitor performance and changes in key risks facing the business and provide regular reports to the board
- Agree key actions to manage risks

**RISK MANAGEMENT**
- Guidance and advice to heads of function and specialist teams to help them with the following:
  - Risk reporting
  - Risk treatment
  - Risk evaluation
  - Risk identification
  - Set risk appetite

**HEADS OF FUNCTION**
- Management and employees are responsible for the identification, evaluation, treatment and reporting of local risks
- Maintenance of individual department risk registers
- Implementation of key risk mitigation plans

**AUDIT COMMITTEE**
- Monitor assurance and risk management arrangements

**EFFECTIVENESS OF RISK AND CONTROL PROCESSES**
- Reviews of the effectiveness of key risk management and control processes through:
  - Internal audit
  - External audit
  - Whistleblowing
  - Risk Committee
The board of Debenhams considers it important that there should be a regular and systematic approach to the management of risks to provide assurance that strategic and operational goals can be met and the Group’s reputation is protected.

The board has conducted a review of the effectiveness of internal controls and is satisfied that those in place remain appropriate.

An overview of the risk management process including clearly defined roles and responsibilities is outlined in the risk management framework (figure 1).

RISK MANAGEMENT ACTIVITIES

Risk appetite
The Group’s risk appetite is defined by the board, and provides guidance on any requirement for additional controls, implementation timeframes and authority levels.

Risk identification
Risks are identified through a number of routes, including a regular organisation-wide review facilitated by the risk management team across each operating division on an ongoing cyclical basis. All senior managers participate in the exercise, including the Executive Committee.

Risk evaluation
In order to understand the impact specific risks would have on the Group, risks are evaluated based on the likelihood of occurrence and severity using a standardised scoring model. The model which considers the degree of change across one or more performance indicators.

Risk treatment
The organisation-wide review captures the controls used by management to mitigate identified risks, with the risk score determining if additional treatment is required based on the Group’s risk appetite.

Risk reporting
The outputs from these processes are collated into the Group’s risk register and linked together to define the principal risks faced by the Group. Performance is monitored by the board, Executive Committee, Audit Committee, Risk Committee, and other key governance groups. The overall risk profile is taken into consideration when setting the annual internal audit plan.

Viability assessment
The principal risks and uncertainties identified through these risk management activities are taken into consideration as part of the directors’ assessment of ongoing viability, described in more detail on page 37.

WHISTLEBLOWING
Two main routes are available to colleagues to raise concerns over malpractice. The first encourages colleagues to talk to their line manager, their manager’s manager or the human resources team. The second route is a confidential telephone reporting line via which colleagues can speak to the Group’s anti-fraud team.

If a colleague feels that the matter is so serious that it cannot be discussed in any of these ways, they can contact the Company Secretary or the Director of Internal Audit and Risk Management. The Group’s policy on whistleblowing and these methods of raising issues are reviewed annually by the Audit Committee and any serious matters identified are raised with the chairman of the Audit Committee.

PRINCIPAL RISKS AND UNCERTAINTIES

The risks detailed on pages 28 to 30 are the principal risks and uncertainties that may impact the Group’s ability to achieve its strategic and operational goals. They are reviewed on, at least, an annual basis as part of the risk management process, and have been ranked based on overall risk to the business.

Whilst the impact of the UK’s decision to exit the European Union cannot yet be fully quantified, a number of existing risks have already been identified as sensitive to this decision and which continue to be monitored carefully, with appropriate levels of mitigating action being considered as details emerge.

It should be noted that any system of risk management and internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.
Principal risks and uncertainties

PRINCIPAL RISKS AND UNCERTAINTIES

1 ECONOMIC ENVIRONMENT

Risk
• Continuing adverse economic conditions

Potential impact
• A decline in sales on discretionary purchases leading to a reduction in profit and cashflow alongside a material adverse effect on Debenhams’ results

Examples of mitigation
• The board conducts strategic business reviews which ensure that management is focused on key priorities and cost control. These reviews also focus on the Group’s strategy to make shopping confidence-boosting, sociable and fun.
• The continued volatility of the consumer environment and the ongoing economic uncertainty that has followed the UK vote to leave the European Union make this a risk that is monitored carefully

2 CURRENCY AND HEDGING

Risk
• Currency fluctuations or insufficient hedging

Potential impact
• Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow
• Affect available cash and liquidity and could have material effect on the business, results of operations and financial condition

Examples of mitigation
• Debenhams has a treasury policy in place which covers counterparty limits and hedging for interest rates, foreign exchange and energy. There is also an internal treasury function which is mandated by the board
• Debenhams closely monitors all aspects of cash management to optimise balance sheet metrics. Effectiveness is measured regularly by management through a series of KPIs
• The ongoing economic uncertainty that has followed the UK vote to leave the European Union makes this a risk that is monitored carefully

Please refer to note 22 to the financial statements for more information on this risk.

3 SYSTEMS AVAILABILITY AND CYBER SECURITY

Risk
• Systems failure, external attack of systems, or data inaccuracy.
• Inability to continue smooth operations following a major incident

Potential impact
• Failure in the stability, integrity or availability of information systems could adversely affect Debenhams’ business operations and results or could cause inappropriate decisions to be made using wrong, missing or ambiguous information

Examples of mitigation
• A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on pages 6 and 7
• Information systems developments are key enablers and critical to ensuring we can compete effectively, and these are monitored through a business change roadmap
• The overall governance framework has been further enhanced, and includes committees that focus on areas such as general data protection regulation and payment card industry compliance
• A business continuity policy and processes, describing roles and responsibilities across the Group, ensure an effective framework is in place to enable the recovery and continuation of normal business operations as soon as possible in the event of any disruptive incidents
• This is an increasing risk given the rising levels of cybercrime globally and the increasing reliance on information assets

Strategic focus

28 Debenhams plc Annual Report & Accounts 2017
4 COMPETITION FOR CUSTOMERS

Risk
- Inability to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels

Potential impact
- Sales will be lower, market share will be reduced and the Company may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortages on popular merchandise
- Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability

Examples of mitigation
- Making shopping confidence-boosting, sociable and fun is at the heart of Debenhams’ strategy, which is outlined on pages 6 to 19
- In developing its strategy, the Group takes into consideration market, trend and customer research, with the customer insight team providing valuable intelligence on any changes in customer priorities
- An understanding of customers and their needs is developed by listening to their views, market intelligence and reviewing KPIs which ensures that pricing is competitive and promotional activity is appropriate
- The UK exiting the European Union (EU) may generate foreign exchange rate volatility, or changes to trade agreements and duty rates, which could impede the organisations ability to compete effectively, meaning this is a risk that is carefully monitored

5 BUSINESS STRATEGY AND TRANSFORMATION

Risk
- Failure to deliver Debenhams’ key strategic priorities

Potential impact
- Could significantly delay or prevent the achievement of Debenhams’ business plan and could have a material adverse effect on Debenhams’ business, financial condition or results of operations

Examples of mitigation
- Debenhams is reviewing and updating its business change roadmap to ensure the project portfolio supports the delivery of the key strategic priorities
- Management supplies detailed updates on progress within the transformation programme, which are closely reviewed by the board to ensure that management is focused on key priorities, cost control and benefit realisation
- The UK exiting the European Union may lead to loss of access to the free movement of goods, services, people and capital, making this a risk that is closely monitored
- The volume and complexity of change being implemented, its importance to the business plan, and our reliance on third-party specialist resource to support delivery make this a risk that is monitored carefully

6 SUPPLY CHAIN AND KEY SUPPLIERS

Risk
- Adverse events influencing either the sustainability of the supply chain or Debenhams’ relationship with any of its major suppliers, service providers, international partners, designers or concessionaires

Potential impact
- Place pressure on margins and profitability or require the Group to divert financial and management resources from more beneficial uses
- Additional unplanned costs required to transfer operations between providers or additional operational costs from a new provider
- Changes in exclusivity arrangements with designers or any decline in their popularity
- The loss of a number of key concession partners

Examples of mitigation
- Debenhams fosters close and collaborative relationships with its suppliers. Both parties work towards the objective of optimising sustainable fulfilment and costs, which is measured regularly by management through KPIs. You can read more about how the Group builds relationships with our suppliers on pages 21 and 22
- Debenhams continues to develop its supplier base to mitigate the potential of cost price inflation without compromising the quality of its products. In addition, the sourcing division has been strengthened to include additional expertise which assists with sourcing decisions, production consolidation and lead time reduction, amongst other things
- This is an increasing risk given the uncertainty around future trade agreements and duty rates following the UK decision to exit the European Union and is an area of high management focus.
Strategic report
Principal risks and uncertainties continued

7 ➰
**LEGAL AND REGULATORY**

**Risk**
- Events that negatively impact the reputation of, or value associated with, Debenhams’ brand

**Potential impact**
- Loss of stakeholder trust and confidence, including an adverse effect on Debenhams’ ability to attract and retain third-party brands, suppliers, designers, concessions and franchisees
- Material adverse effect on Debenhams’ business, financial condition or profitability

**Examples of mitigation**
- Forums exist to focus on specific areas of legislation, with business policies and procedures in place to ensure roles and responsibilities are understood across the Group
- Debenhams has specialist teams in place to monitor changes to legislation and standards, further supported by membership of key industry bodies to enhance awareness
- All suppliers are expected to adhere to Debenhams’ own supplier code of conduct, which is underpinned by Debenhams’ robust policy on compliance that includes a focus on social and ethical standards
- This is an increasing risk given the uncertainty around the likely changes to UK legislation following the UK decision to exit the European Union so it is being monitored carefully

8 ➰
**PROPERTY***

**Risk**
- An adverse impact on performance from property-related events, such as store closures and business rate or rental increases

**Potential impact**
- Significant alterations in rental terms could have a material adverse effect on the business
- Disputes over store modernisations may lead to reinstatement costs and termination of leases may lead to dilapidation costs being incurred that are in addition to those provided for
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- Disputes over store modernisations may lead to reinstatement costs and termination of leases may lead to dilapidation costs being incurred that are in addition to those provided for

**Examples of mitigation**
- Debenhams has a specialist property team which manages all aspects of leasehold property, including cost renegotiations, communication of the store modernisation programme, lease renewals and adherence to all legal obligations under the lease
- This is an increasing risk given the potential ten store closures identified over the next five years and the risk of impairment

9 ➰
**KEY PERSONNEL**

**Risk**
- Loss of key management or other personnel whom Debenhams depends upon

**Potential impact**
- Significantly delay or prevent the achievement of Debenhams’ business plan
- Material adverse effect on Debenhams’ business, financial condition or results of operations

**Examples of mitigation**
- In order to attract and retain talent, both succession and personal development plans are in place throughout the Group. In addition, target-led, performance-related incentive schemes exist
- The UK decision to exit the European Union could impact on the availability of talent in the job market and the eligibility for individuals to work in certain jurisdictions, making this a risk that is monitored carefully

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*Risk is not new but now classed as a principal risk following annual review.