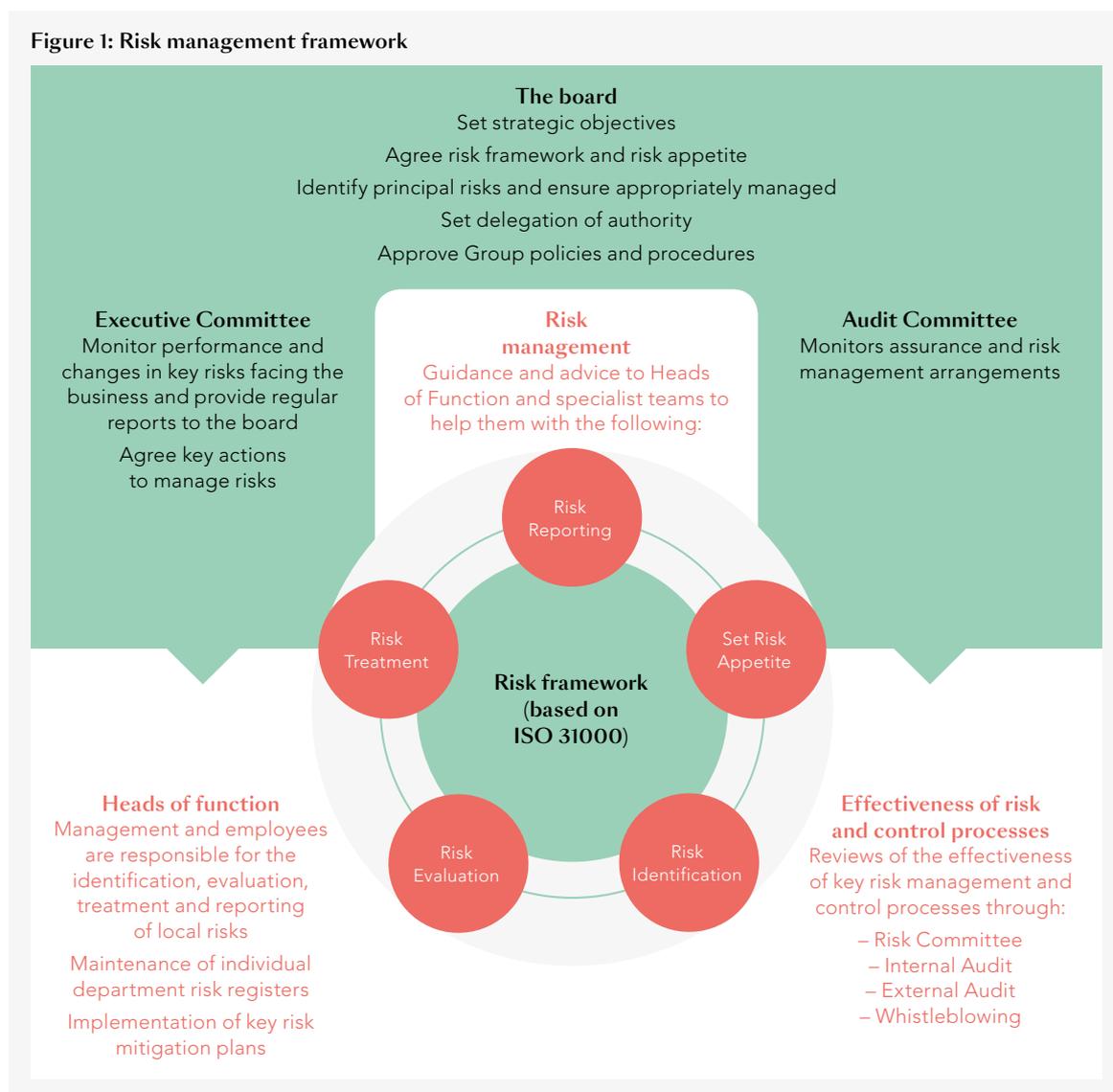


Optimising our risk management processes

Figure 1: Risk management framework



The board of Debenhams considers it important that there should be a regular and systematic approach to the management of risks in order 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, 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 41.

Anti-Bribery and 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 in any part of its supply chain. Expected standards of behaviour are outlined in the anti-bribery policy, which also provides guidance on the giving and receiving of gifts and hospitality, and is supported by an e-learning training programme for selected roles.

Figure 2: Principal risks



Whistleblowing

Two main routes are available to colleagues and direct supply chain workers to raise concerns over malpractices. 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 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 policy on whistleblowing and the methods to raise issues are reviewed annually by the Audit Committee and any serious matters are raised with the chairman of the Audit Committee.

Principal risks and uncertainties

The risks detailed on pages 32 to 34 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 are ranked based on overall risk to the business.

Whilst the impact of the UK's decision to exit the European Union (EU) cannot yet be fully quantified, a number of existing risks have already been identified as sensitive to Brexit and 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

<p>1 </p> <p>Competition for customers</p>	<p>2 </p> <p>Business strategy and transformation</p>	<p>3 </p> <p>Supply chain and key suppliers</p>
<p>Risk</p> <ul style="list-style-type: none"> • Inability to predict accurately or fulfil customer preferences or demand through competitive, economic and profitable channels • This is an increasing risk given the ongoing market conditions faced 	<p>Risk</p> <ul style="list-style-type: none"> • Failure to deliver Debenhams' redesigned strategic priorities • This is an increasing risk due to the importance of fully delivering the strategy 	<p>Risk</p> <ul style="list-style-type: none"> • 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 • This is an increasing risk due to the potential of reduced access to credit insurance for our supply base
<p>Potential impact</p> <ul style="list-style-type: none"> • Sales will be lower, market share will be reduced and the Group may be forced to rely on additional markdowns or promotional sales to dispose of excess or slow-moving inventory or may experience inventory shortfalls on popular merchandise • Channel shifts away from stores to online could lead to higher operational costs within the online channel and lower profitability, or even impairment, of store assets 	<p>Potential impact</p> <ul style="list-style-type: none"> • 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 	<p>Potential impact</p> <ul style="list-style-type: none"> • 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
<p>Examples of mitigation</p> <ul style="list-style-type: none"> • Making shopping confidence-boosting, sociable and fun is at the heart of Debenhams' strategy, which is outlined on pages 10 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 may generate foreign exchange rate volatility, lead to delays at ports, or changes to trade agreements and duty rates, which could impede the organisation's ability to compete effectively, meaning this is a risk that is carefully monitored 	<p>Examples of mitigation</p> <ul style="list-style-type: none"> • Debenhams is reviewing and updating its business change roadmap to ensure its project portfolio focuses on the five key strategic areas outlined on pages 10 to 19 • 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 	<p>Examples of mitigation</p> <ul style="list-style-type: none"> • 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 page 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 • Loss of supplier confidence impacts on quality or availability of key product
<p>Strategic focus</p> <p>   </p>	<p>Strategic focus</p> <p>   </p>	<p>Strategic focus</p> <p> </p>

Key

📍 Destination 📱 Digital ⭐ Different 📌 Underpinned by Simplify & Focus

4 📍

Economic environment

Risk

- Continuing adverse economic conditions

Potential impact

- A decline in sales on discretionary purchases leading to a reduction in profit 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 make this a risk that is monitored carefully

Strategic focus

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Financial, liquidity and credit

Risk

- Exposure to market rates, liquidity and credit risks have an adverse impact of the Group's financial position or performance
- This is an increasing risk due to the recent fall in profitability and the reduction in credit insurance available for Debenhams' suppliers

Potential impact

- A material reduction in cash and liquidity could affect the financial position and/or performance of the Group
- Hinder ability to adjust rapidly to changing market conditions and impact earnings and cash flow

Examples of mitigation

- Committed funding lines are regularly reviewed for headroom and refinanced significantly in advance of expiry. Current facilities expire in June 2020 and July 2021
- Regular cash and liquidity forecasting supports proactive management of cash flows to meet the Group's obligations as they fall due
- Hedging policies are in place to manage interest and exchange rate risk to minimise the impact of any material market movements
- Further details on financial risks are included in the Notes to the Financial Statements

Strategic focus

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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
- Cyber attack resulting in reduced availability of Debenhams' systems, loss of reputation and customer trust, and regulatory fines

Examples of mitigation

- A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on page 7
- Information systems developments are key enablers and critical to ensure 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, ensure an effective framework is in place to enable the swift recovery and continuation of normal business operations, and this has been improved through the introduction of a new data centre
- This continues to be an area of high management focus given the rising levels of cybercrime globally and the increasing reliance on information assets

Strategic focus

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PRINCIPAL RISKS AND UNCERTAINTIES
CONTINUED

 Property	 Legal and regulatory	 Key personnel
<p>Risk</p> <ul style="list-style-type: none"> • An adverse impact on performance from property-related events, such as store closures, business rates or rental increases • This is an increasing risk due to the potential for additional store closures, and associated costs of exit, following the comprehensive review of the UK portfolio 	<p>Risk</p> <ul style="list-style-type: none"> • Events that negatively impact the reputation of, or value associated with, Debenhams' brand 	<p>Risk</p> <ul style="list-style-type: none"> • Loss of key management or other personnel Debenhams depends upon • This is an increasing risk given the ongoing market conditions faced
<p>Potential impact</p> <ul style="list-style-type: none"> • 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 unexpected dilapidation costs being incurred 	<p>Potential impact</p> <ul style="list-style-type: none"> • 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 	<p>Potential impact</p> <ul style="list-style-type: none"> • Significantly delay or prevent the achievement of Debenhams' business plan • Material adverse effect on Debenhams' business, financial condition or results of operations
<p>Examples of mitigation</p> <ul style="list-style-type: none"> • 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 	<p>Examples of mitigation</p> <ul style="list-style-type: none"> • 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 • The uncertainty around the likely changes to UK legislation following the UK decision to exit the European Union mean this is a risk which is being monitored closely 	<p>Examples of mitigation</p> <ul style="list-style-type: none"> • 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
<p>Strategic focus</p> 	<p>Strategic focus</p> 	<p>Strategic focus</p> 