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.

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.
## Strategic focus

### Competition for customers
- Inability to predict accurately or fulfill customer preferences or demand through competitive, economic and profitable channels
- This is an increasing risk given the ongoing market conditions faced

### Business strategy and transformation
- Failure to deliver Debenhams’ redesigned strategic priorities
- This is an increasing risk due to the importance of fully delivering the strategy

### Supply chain and key suppliers
- 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

## Potential impact

### Competition for customers
- 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

### Business strategy and transformation
- 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

### Supply chain and key suppliers
- 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

### Competition for customers
- 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

### Business strategy and transformation
- 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

### Supply chain and key suppliers
- 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
<table>
<thead>
<tr>
<th>Economic environment</th>
<th>Financial, liquidity and credit</th>
<th>Systems availability and cyber security</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk</strong></td>
<td><strong>Risk</strong></td>
<td><strong>Risk</strong></td>
</tr>
<tr>
<td>• Continuing adverse economic conditions</td>
<td>• Exposure to market rates, liquidity and credit risks have an adverse impact on the Group’s financial position or performance</td>
<td>• Systems failure, external attack of systems, or data inaccuracy</td>
</tr>
<tr>
<td><strong>Potential impact</strong></td>
<td><strong>Potential impact</strong></td>
<td><strong>Potential impact</strong></td>
</tr>
<tr>
<td>• A decline in sales on discretionary purchases leading to a reduction in profit alongside a material adverse effect on Debenhams’ results</td>
<td>• A material reduction in cash and liquidity could affect the financial position and/or performance of the Group</td>
<td>• 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</td>
</tr>
<tr>
<td><strong>Examples of mitigation</strong></td>
<td><strong>Examples of mitigation</strong></td>
<td><strong>Examples of mitigation</strong></td>
</tr>
<tr>
<td>• 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</td>
<td>• Committed funding lines are regularly reviewed for headroom and refinanced significantly in advance of expiry. Current facilities expire in June 2020 and July 2021</td>
<td>• A robust systems infrastructure is required to support the delivery of our strategic objectives which are outlined on page 7</td>
</tr>
<tr>
<td>• The continued volatility of the consumer environment makes this a risk that is monitored carefully</td>
<td>• Regular cash and liquidity forecasting supports proactive management of cash flows to meet the Group’s obligations as they fall due</td>
<td>• Information systems developments are key enablers and critical to ensure we can compete effectively, and these are monitored through a business change roadmap</td>
</tr>
<tr>
<td><strong>Strategic focus</strong></td>
<td><strong>Strategic focus</strong></td>
<td><strong>Strategic focus</strong></td>
</tr>
<tr>
<td>🌈 Digital</td>
<td>🌈 Different</td>
<td>🌈 Underpinned by Simplify &amp; Focus</td>
</tr>
</tbody>
</table>
### Principal Risks and Uncertainties

#### Property

**Risk**
- 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

**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 unexpected dilapidation costs being incurred

**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

**Strategic focus**
- 1
- 2
- 3

#### 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
- 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

**Strategic focus**
- 3
- 4

#### Key Personnel

**Risk**
- Loss of key management or other personnel Debenhams depends upon
- This is an increasing risk given the ongoing market conditions faced

**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

**Strategic focus**
- 4
- 5