

Debenhams Finance Holdings Limited

Directors' Report and Financial Statements

10 months ended 2 September 2006

Registered Number: 4755814

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Debenhams Finance Holdings Limited

Directors' report

The directors submit their report together with the audited financial statements of the Company for the period ended 2 September 2006

Principal activities

The principal activities of the Company are to act as a holding company and to provide finance for group companies

Profit and dividends

The results for the financial year are set out in the profit and loss account on page 4. An interim dividend of £87,200,000 (14 months ended 29 October 2005, £71,918,000) was paid during the period. The directors do not recommend the payment of a final dividend (2005 £nil). The profit of £139,721,000 (2005 £19,342,000) has been transferred to reserves.

The directors of Debenhams plc manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Debenhams Finance Holdings Limited. The development, performance and position of the Group is shown on page 26 of the group's annual report which does not form part of this report.

Financial risk management

Due to the nature of the Company's activities, its exposure to financial risks is limited.

Directors

The following served as directors during the period to 2 September 2006

N R Kennedy

J D Lovering

R W Templeman (resigned 3 April 2006)

C K Woodhouse

None of the directors has a contract of service with the Company.

Directors' interests

At 2 September 2006 none of the directors had a direct interest in the share capital of the Company. J D Lovering and C K Woodhouse held an indirect interest in the share capital of the Company due to their interests in Debenhams plc (formerly Debenhams Retail Holdings Limited), the ultimate parent company of Debenhams Group Holdings Limited. Their interests in Debenhams plc are disclosed in the financial statements of that company.

N R Kennedy held an indirect interest in the Company due to his interest in Debenhams plc. He held 218,750 ordinary shares of 0.01p in Debenhams plc via the Baroness Employee Limited Partnership ("BELP") at 2 September 2006. Following Debenhams plc admission to the London Stock Exchange 93,750 shares were distributed out of the BELP to N R Kennedy.

On 24 May 2005, as part of the Group refinancing, shareholders in Baroness Group Holdings Limited received shares and loan notes issued by Debenhams plc (formerly Debenhams Retail Holdings Limited). C Loan notes were issued to the investors in Baroness Employee Limited Partnership of which N R Kennedy is a member. N R Kennedy's loan notes amounted to £368,164 which were repaid on 6 June 2006 along with interest of £13,266.

Details of share options held by N R Kennedy are set out below.

	Date of grant	Market price at date of award	At 3 September 2005	Granted during the year	Exercised in year	At 2 September 2006
N R Kennedy						
Ordinary shares – PSP	9 May 2006	195p	-	56,250	-	56,250

The Debenhams Performance Share Plan ("PSP") options will normally vest on the third anniversary of the date of grant subject to performance conditions set by the Remuneration Committee at the time awards are granted and if the Remuneration Committee is satisfied that the underlying financial performance of the Company over the performance period is sufficient to justify the vesting of the awards.

Debenhams Finance Holdings Limited

Directors' report (continued)

Directors' Indemnities

In accordance with the Company's Articles of Association directors are granted an indemnity from the Company to the extent permitted by law in respect of liabilities incurred as a result of their office. The Companies (Audit Investigations and Community Enterprise) Act 2004 came into force on 6 April 2005 and amongst other things, changed the provisions of Section 310 of the Companies Act 1985 to give companies the power to extend indemnities to directors against liability to third parties (excluding criminal and regulatory penalties) and to pay directors' legal costs as incurred provided that they are reimbursed to the Company if the individual is convicted or in an action brought by the Company, judgment is given against the director. Accordingly the Company has indemnified the directors to the extent permitted by the new legislation.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently except where required to comply with the new accounting policies. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 2 September 2006 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they have adopted the going concern basis in preparing these financial statements.

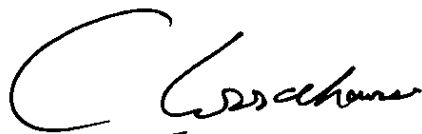
Audit information

The directors confirm that, so far as they are aware, there is no relevant audit information of which the auditors are unaware and that each director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of the information.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the board



C K Woodhouse
Secretary

Registered Office
1 Welbeck Street
London W1G 0AA

23rd May 2005

Debenhams Finance Holdings Limited

Independent auditors' report to the members of Debenhams Finance Holdings Limited

We have audited the financial statements of Debenhams Finance Holdings Limited which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

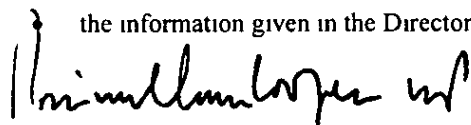
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 2 September 2006 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Leeds

13 June 2007

Debenhams Finance Holdings Limited

Profit and Loss Account

For 10 months ended 2 September 2006

		10 months ended 2 September 2006	14 months ended 29 October 2005		
	Note		Before exceptional items 2005 £ 000	Exceptional items (note 2) 2005 £ 000	After exceptional items 2005 £ 000
		£ 000			
Administrative expenses	2	-	-	(137)	(137)
Other income		3,244	-	-	-
Operating profit/(loss)	2 3	3,244	-	(137)	(137)
Income from shares in group undertakings		137,700	76,918	-	76,918
Profit/(loss) on ordinary activities before interest and taxation		140,944	76,918	(137)	76,781
Net interest payable	2 5	(1,749)	(7,637)	(74,477)	(82,114)
Profit/(loss) on ordinary activities before taxation		139,195	69,281	(74,614)	(5,333)
Taxation	6	526	2,291	22,384	24,675
Profit/(loss) for the financial period	12	139,721	71,572	(52,230)	19,342

All items in the profit and loss account relate to continuing activities

There are no differences between the results shown in the profit and loss account and the results as stated on an unmodified historical cost basis

There are no recognised gains and losses other than those included in the profit and loss account for each period and accordingly, no statement of total recognised gains and losses is given

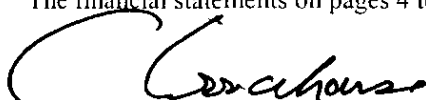
Debenhams Finance Holdings Limited

Balance Sheet

At 2 September 2006

	Note	2 September 2006 £'000	29 October 2005 £'000
Fixed assets			
Investments in subsidiary undertakings	8	519,900	519,900
		<u>519,900</u>	<u>519,900</u>
Current assets			
Debtors	9	4	352,237
Cash at bank and in hand		73	72
		<u>77</u>	<u>352,309</u>
Creditors – amounts falling due within one year	10	-	(404,753)
Net current assets/(liabilities)		<u>77</u>	<u>(52,444)</u>
Net assets		<u>519,977</u>	<u>467,456</u>
Capital and reserves			
Called up share capital	11	519,900	519,900
Profit and loss account	12	77	(52,444)
Shareholders' funds – Equity interests	12	<u>519,977</u>	<u>467,456</u>

The financial statements on pages 4 to 10 were approved by the Board on 23rd May 2007 and were signed on its behalf by



C K Woodhouse
Director

Debenhams Finance Holdings Limited

Notes to the financial statements *(continued)*

For the 10 months ended 2 September 2006

1 Accounting policies

Accounting convention

These financial statements are prepared on the going concern basis and in accordance with applicable accounting standards in the United Kingdom under the historical cost convention

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

Investment

Investments are held at cost less any provision for diminution in value

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at contracted rates or, where no contract exists, at average monthly rates. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the balance sheet date or the rates fixed by forward contracts. Differences on exchange are taken to the profit and loss account

2 Exceptional items

Exceptional items relate to the 14 month period ended 29 October 2005

Costs charged to administrative expense in the profit and loss account in relation to the refinancing amounted to £137,000 in relation to legal costs associated with the early repayment of the High Yield Bond notes

As part of the 2005 refinancing within the Debenhams Group the High Yield Bond notes were repaid in full in June 2005. The repayment included accrued interest and a 'Make-whole premium' of £70,521,000. The 'Make-whole premium', which relates to the early repayment of the bonds, has been charged to exceptional costs within interest payable.

On refinancing the unamortised debt issue costs from the high yield bonds amounted to £3,956,000. These costs were charged to interest payable on repayment of the High Yield Bond notes

3 Operating profit/(loss)

Auditors' remuneration is borne by another group undertaking

The directors did not receive any emoluments for their services as directors to the company. C K Woodhouse, R W Templeman and J D Lovering are remunerated by Debenhams plc (formerly Debenhams Retail Holdings Limited) for their services to the group. Their emoluments are disclosed in the financial statements of Debenhams plc. It has not been possible to allocate their emoluments between group companies

During the period there were no employees

Debenhams Finance Holdings Limited

Notes to the financial statements *(continued)*

For the 10 months ended 2 September 2006

4 Directors emoluments

The service contracts of R W Templeman C K Woodhouse and J D Lovering are held by Debenhams plc (formerly Debenhams Retail Holdings Limited), the ultimate parent company. These directors are remunerated by Debenhams plc for their services to the group and their emoluments are disclosed in the accounts of that company. As it is not possible to allocate their emoluments between group companies the disclosures below excludes the emoluments for these directors.

The remaining director is remunerated for his services by Debenhams Retail plc and his emoluments are charged to the profit and loss account in that company. The emoluments disclosed below represents the emoluments for his services to Debenhams group for the period shown.

	10 months ended 2 September 2006 £'000	14 months ended 29 October 2005 £'000
Aggregate emoluments	298	239

Retirement benefits are accruing to one (2005: one) director under a defined benefit scheme.

The amounts in respect of the highest paid director are as follows:

	10 months ended 2 September 2006 £'000	14 months ended 29 October 2005 £'000
Emoluments	298	239
Defined benefit pension scheme		
Accrued pension at the end of the year	62	55

5 Net interest payable

	10 months ended 29 September 2006 £'000	14 months ended 29 October 2005 £'000
Interest payable and similar charges		
Exchange loss on foreign currency borrowings	-	(2,299)
Group interest payable	(9,538)	(9,010)
Bank interest payable	-	(7)
	(9,538)	(11,316)
Interest receivable and similar income		
Group interest receivable	7,786	3,604
Bank interest receivable	3	75
Net interest payable before exceptional items	(1,749)	(7,637)
Exceptional items (note 2)		
Unamortised issue costs written off on repayment of borrowings	-	(3,956)
Make-whole premium	-	(70,521)
Net interest payable after exceptional items	(1,749)	(82,114)

Debenhams Finance Holdings Limited

Notes to the financial statements *(continued)*

For the 10 months ended 2 September 2006

6 Taxation

	10 months ended 2 September 2006 £'000	14 months ended 29 October 2005 £'000
Current tax		
UK corporation tax credit	(526)	(24,675)

The tax assessed for the period is lower (14 months ended 29 October 2005 lower) than the standard rate of corporation tax in the UK (30%)

The differences are explained below

	10 months ended 2 September 2006 £'000	14 months ended 29 October 2005 £'000
Profit/(loss) on ordinary activities before tax	139,195	(5,333)
Profit/(loss) on ordinary activities at standard rate of corporation tax in the UK of 30%	41,758	(1,600)
Effects of Non taxable receipts	(42,284)	(23,075)
Current tax credit for the period	(526)	(24,675)

Tax relating to exceptional charges for the 14 month period ended 29 October 2005 as detailed in note 2 amounted to a credit of £22,384,000

7 Dividends

	10 months ended 2 September 2006 £'000	14 months ended 29 October 2005 £'000
Equity - Ordinary		
Interim dividend paid – 16 77p (2005 13 8p) per £1 ordinary share	87,200	71,918

8 Investments in subsidiary undertakings

	2 September 2006 £'000	29 October 2005 £'000
Shares in group undertaking	519,900	519,900

The principal subsidiary undertaking of the Company at 2 September 2006 was as follows

Company	Country of operation	Country of registration	Activity
Baroness Retail Limited	UK	England	Holding Company
The company is wholly owned			

Debenhams Finance Holdings Limited

Notes to the financial statements *(continued)*

For the 10 months ended 2 September 2006

9 Debtors

	2 September 2006 £'000	29 October 2005 £'000
Amount owed by group undertakings	4	327,619
Corporation tax	-	24,618
	<u>4</u>	<u>352,237</u>

Amounts owed by group undertakings are unsecured, have no fixed date of redemption and interest is charged at an average rate of 7.2% (2005: 7.9%) per annum until 5 April 2006, when the amounts become non interest bearing

10 Creditors - amounts falling due within one year

	2 September 2006 £'000	29 October 2005 £'000
Amounts owed to other group undertakings	-	404,629
Accruals and deferred income	-	124
	<u>-</u>	<u>404,753</u>

11 Share capital

	Number	£'000
At 30 October 2005 and at 2 September 2006		
<i>Authorised</i>		
Ordinary shares of £1 each	600,000,000	600,000
	<u>600,000,000</u>	<u>600,000</u>
<i>Called up, allotted and fully paid</i>		
Ordinary shares of £1 each	519,900,423	519,900
	<u>519,900,423</u>	<u>519,900</u>

12 Reconciliation of movements in shareholders' funds

	Share Capital £'000	Profit and Loss account £'000	2 September 2006 Total £'000	29 October 2005 Total £'000
Profit for the financial period	-	139,721	139,721	19,342
Dividends	-	(87,200)	(87,200)	(71,918)
	<u>-</u>	<u>(87,200)</u>	<u>(87,200)</u>	<u>(71,918)</u>
Net addition/(reduction) to shareholders' funds	-	52,521	52,521	(52,576)
Opening shareholders' funds	519,900	(52,444)	467,456	520,032
	<u>519,900</u>	<u>(52,444)</u>	<u>467,456</u>	<u>520,032</u>
Closing shareholders' funds- equity	519,900	77	519,977	467,456
	<u>519,900</u>	<u>77</u>	<u>519,977</u>	<u>467,456</u>

Debenhams Finance Holdings Limited

Notes to the financial statements *(continued)*

For the 10 months ended 2 September 2006

13 Commitments and contingent liabilities

The Company has no capital commitments or commitments under operating leases. The Company has guaranteed the lease obligations in respect of certain group companies which, at 2 September 2006 amounted to £58.5 million (29 October 2005: £61.5 million) respectively.

14 Ultimate parent undertaking and related party disclosures

The immediate and ultimate parent undertaking is Debenhams plc (formerly Debenhams Retail Holdings Limited). On 9 May 2006 Debenhams plc gained admission to the London Stock Exchange.

The company is a wholly owned subsidiary of Debenhams plc and is included in that company's consolidated financial statements, which are publicly available. Consequently the Company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (Revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Debenhams plc group.

The smallest and largest Group that prepares consolidated statements of which the company is a member is headed by Debenhams plc.

Copies of the financial statements of Debenhams plc can be obtained by writing to the Company Secretary at 1 Welbeck Street, London, W1G 0AA, England.