

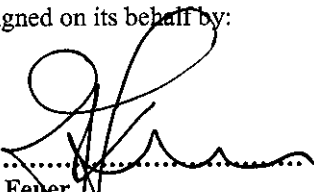
# Debenhams Retail Holdings Limited

## Balance sheet

At 5 April 2006

	Note	5 April 2006 £m
<b>Fixed assets</b>		
Investments	2	4,068.7
		<b>4,068.7</b>
<b>Current assets</b>		
Debtors	3	232.1
Cash at bank and in hand		0.1
		<b>232.2</b>
<b>Creditors: amounts falling due within one year</b>	4	(1,265.4)
<b>Net current liabilities</b>		<b>(1,033.2)</b>
<b>Total assets less current liabilities</b>		<b>3,035.5</b>
<b>Creditors: amounts falling due after more than one year</b>	5	(1,814.7)
<b>Net assets</b>		<b>1,220.8</b>
<b>Capital and reserves</b>		
Called up share capital	6	-
Merger reserve	7	1,200.9
Profit and loss account	7	19.9
<b>Shareholders' funds – Equity interests</b>	8	<b>1,220.8</b>

The balance sheet and associated notes on pages 3 to 8 were approved by the board of directors on 12 April 2006 and were signed on its behalf by:

  
 .....  
**J Feuer**  
 Director



# Debenhams Retail Holdings Limited

## Notes to the financial statements

For the financial period ended 5 April 2006

### 1 Accounting policies

#### *Accounting convention*

The balance sheet and associated notes are drawn up on the going concern basis under the historical cost convention in accordance with the provisions of the Companies Act 1985 which would have applied had the balance sheet been prepared for a financial period of the Company and applicable accounting standards.

#### *Investments*

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

#### *Borrowings*

All borrowings are stated at the fair value of the consideration received after deduction of issue costs. Issue costs together with finance costs, are charged to the income statement over the term of the borrowings and represents a constant proportion of the balance of capital repayments outstanding.

#### *Debt issue costs*

Immediately after issue all borrowings are stated at the fair value of the consideration received less issue costs. Finance costs are charged to the profit and loss account over the term of the debt at a constant rate on the carrying amount.

#### *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.

Deferred tax is measured on a non-discounted basis. A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying timing differences can be deducted.

#### *Derivative financial instruments*

The Group uses various derivative financial instruments, as defined in its Treasury policy, to reduce exposure to foreign currency and interest rate risks. Derivative financial instruments are accounted for using hedge accounting to the extent that they are held to hedge a financial asset or liability or future expenditure. When a derivative financial instrument ceases to be a hedge, either as a result of the underlying asset or liability being extinguished, or because a future event is no longer likely to occur, the derivative will be accounted in the profit and loss account. The Group policy is not to use derivative financial instruments for speculative purposes. During the year there were no derivatives used for speculative purposes.

#### *Interest rate swaps and caps*

Interest payments and receipts under interest rate swaps and caps are accounted for with the net interest differential recognised in the profit and loss account by adjusting the net interest charge. They are not revalued to fair value in the balance sheet.

#### *Changes in accounting policies*

The Company has adopted FRS 25, 'Financial instruments: disclosure and presentation', in the preparation of this balance sheet. The effect of the change in accounting policy to adopt the presentation requirements of FRS 25 was to reclassify accrued interest on borrowings to bank loan and overdrafts.

# Debenhams Retail Holdings Limited

## Notes to the financial statements *(continued)*

For the financial period ended 5 April 2006

### 2 Investments

	Investments in Subsidiary undertakings £m
<b>Cost</b>	
At 4 September 2005	2,310.0
Additions	1,758.7
<b>At 5 April 2006</b>	<b>4,068.7</b>
<b>Net book value</b>	
At 5 April 2006	4,068.7
At 3 September 2005	2,310.0

#### Investment in subsidiary undertakings

On 5 April 2006 the issued shares of Debenhams Limited and BF III Limited were transferred to the Company from another group company. The consideration paid on transfer was £1,757.8 million and £954,900 respectively. The consideration amounted to the nominal value of the shares acquired and was met through inter company loans.

The principal subsidiary undertakings of the Company at 5 April 2006 were as follows:

Company	Country of operation	Country of registration	Activity
Baroness Group Holdings Limited *	Jersey	Jersey	Holding Company
BF VII Limited *	UK	England	Holding Company
Debenhams Retail plc	UK	England	Department Store Retailing
Debenhams Limited*	UK	England	Holding Company
Debenhams Finance Holdings Limited *	UK	England	Holding Company
Baroness Retail Limited	UK	England	Holding Company
Debenhams Retail (Ireland) Limited	Ireland	Ireland	Department Store Retailing
Debenhams Properties Limited	UK	England	Property Investment
BF Properties (No.1) Limited	UK	England	Property Investment
BF Properties (No.2) Limited	UK	England	Property Investment
BF Properties (No.3) Limited	UK	England	Property Investment
Debenhams Direct Limited	UK	England	Internet Retailing

All companies are wholly owned.

\* Denotes investments held directly by Debenhams Retail Holdings Limited at 5 April 2006. All other investments are held by subsidiary undertakings.

### 3 Debtors

	5 April 2006 £m
Amount owed by group undertakings	232.0
Prepayments & accrued income	0.1
	<b>232.1</b>

All amounts included in debtors are recoverable within one year.

# Debenhams Retail Holdings Limited

## Notes to the financial statements *(continued)*

For the financial period ended 5 April 2006

### 4. Creditors: amounts falling due within one year

	5 April 2006 £m
Bank loans and overdraft (note 5)	35.2
Other Loans – 'C' Loan Notes (note 5)	20.1
Other Creditors	0.1
Amounts owed to group undertakings	1,200.9
Accruals and deferred income	8.8
Corporation tax	0.3
	<b>1,265.4</b>

Amounts owed to group undertakings are unsecured, have no fixed date of redemption and carry an average interest rate of 7.9%.

### 5 Creditors: amounts falling due after more than one year

	5 April 2006 £m
Other Loans – 'C' Loans Notes (note 4)	20.1
Senior Term Loan – Tranche A	453.1
Senior Term Loan – Tranche B	564.1
Senior Term Loan – Tranche C	564.3
Senior Term Loan – Tranche D	302.8
<b>Total Borrowings</b>	<b>1,904.4</b>
Less: Issue costs	(34.4)
<b>Less: Amounts falling due within one year</b>	
- Bank loans and overdraft (note 4)	(35.2)
- Other Loans – 'C' Loans Notes (note 4)	(20.1)
<b>Amounts falling due after more than one year</b>	<b>1,814.7</b>

#### Maturity of debt

	5 April 2006 £m
Amounts falling due:	
In one year or less or on demand	60.5
In more than one year but not more than two years	45.6
In more than two years but not more than five years	247.2
In more than five years	1,551.1
	<b>1,904.4</b>
Less: issue costs	(34.4)
	<b>1,870.0</b>
Less: amounts falling due within one year	(55.3)
<b>Amounts falling due after more than one year</b>	<b>1,814.7</b>

# Debenhams Retail Holdings Limited

## Notes to the financial statements *(continued)*

For the financial period ended 5 April 2006

### 5 Creditors: amounts falling due after more than one year *(continued)*

On 26 May 2005 the Group refinanced its debt structure through the draw down of a new Senior Term Loan of £1.9 billion, which is split into Tranches A, B, C and D. The Senior Term Loan Tranche A facility repayments are made in stages with the loan being repaid in full during 2012. The Senior Term Loan Tranche B is repayable in full during 2013 with Tranches C and D being repayable in full during 2014. Interest rates are floating and vary on each Tranche of the Senior facility, all are based on LIBOR and denominated in sterling. The loan is secured by a first ranking fixed security and a floating charge over the assets of the Company and its subsidiaries.

On 13 January 2006 £0.8 million was drawn on the Senior Term Loan Tranche A to repay £0.8 million of the 'B' Loan Notes. On 28 February 2006 a mandatory repayment of £9.5 million was made on the Senior Term Loan Tranche A.

On 21 March 2006 a further £51.5 million was drawn on the Senior Term Loan Tranche A to repay £49.3 million of the 'B' Loan Notes and £2.2 million of the 'C' Loan Notes. The redemption date on the remaining 'C' Loan Notes is the earlier of 6 July 2006 or the date of the flotation, these Loan Notes accrue interest at a rate of 4.8% per annum.

The balance of the movement in the Senior Term Loans relates to accrued interest in the period end balance as a result of the adoption of FRS 25 with effect from 4 September 2005. Previously this accrued interest was included in accruals.

Issue costs of £39.1 million were incurred upon the draw down of the Senior Term Loans and are being amortised over the term of the facilities at a constant rate on the carrying amount of the loan. Costs of £3.2 million have been amortised during the financial period (2005: £1.5 million).

As part of the Group interest rate management strategy a number of interest rate swaps and a cap are held with a total notional value of £1.5 billion with fixed interest payments varying from 4.5% to 6.0%.

### 6 Share capital

	5 April 2006		3 September 2005	
	£	Number	£	Number
<b>Authorised, called up, allotted and fully paid</b>				
Ordinary shares of £0.001 each	50,000	50,000,000	10,000	10,000,000
Governance shares of £0.01 each	1,000	100,000	1,000	100,000
Subscriber shares of £1.00 each	3	3	3	3
<b>Called up, allotted and fully paid</b>	<b>51,003</b>	<b>50,100,003</b>	<b>11,003</b>	<b>10,100,003</b>
<b>Movements in ordinary share capital</b>				
			£	Number of shares
<b>At 3 September 2005</b>			10,000	10,000,000
Bonus issue of shares			40,000	40,000,000
<b>At 5 April 2006</b>			<b>50,000</b>	<b>50,000,000</b>

On 5 April 2006, the directors approved a bonus issue of four ordinary shares for one ordinary share held. The new Ordinary shares have a nominal value of £0.001. The increase in share capital was effected by a bonus issue of £40,000, using retained earnings to fully pay up the newly issued shares.

The Ordinary shares do not carry voting rights and shareholders are entitled to receive dividends in proportion to the nominal value of their holding of shares. In the event of a winding up, shareholders are entitled to receive the amount paid in respect of their nominal value together with any surplus so arising in proportion to the number of Ordinary shares held. The holders of Ordinary shares are not entitled to attend or speak at general meetings of members.

The Governance shares carry voting rights and shareholders are not entitled to receive dividends. In the event of a winding up, shareholders are entitled to receive the amount paid in respect of their nominal value together with any surplus so arising in proportion to the number of governance shares held. The holders of Governance shares are entitled to attend and vote at general meetings of members.

The Subscriber shares, which do not carry voting rights, were issued on incorporation at £1.00 per share and shareholders are not entitled to a dividend. In the event of a winding up, the Subscriber shareholders are entitled to receive the amount paid in respect of the nominal value of their shareholding. The holders of Subscriber shares are not entitled to attend or speak at a general meeting.

# Debenhams Retail Holdings Limited

## Notes to the financial statements *(continued)*

For the financial period ended 5 April 2006

### 7 Reserves

	Merger Reserve £m	Profit and loss account £m
At 4 September 2005	1,200.9	(20.0)
Profit for the financial period	-	39.9
<b>At 5 April 2006</b>	<b>1,200.9</b>	<b>19.9</b>

The bonus issue of shares on 5 April 2006 has resulted in the capitalisation of £40,000 of retained earnings.

### 8 Reconciliation of movements in shareholders' funds

	5 April 2006 £m
Profit for the financial period	39.9
<b>Retained profit</b>	<b>39.9</b>
Issue of ordinary share capital	-
<b>Net increase to shareholders' funds</b>	<b>39.9</b>
Opening shareholders' funds	1,180.9
<b>Closing shareholders' funds</b>	<b>1,220.8</b>

### 9 Ultimate parent undertaking and related party disclosures

The Company is controlled by funds managed or advised by CVC Capital Partners ("CVC"), Texas Pacific Group ("TPG") and Merrill Lynch Global Private Equity ("MLGPE").

### 10 Related party disclosures

The directors of the Company are officers of the controlling parties. None of the directors are remunerated by the Company or any of its subsidiary undertakings.

The 'C' Loan Notes are held by Baroness Employee Limited Partnership, which is an employee share ownership plan operated by the Company. On 21 March 2006 £2.2 million of 'C' Loan Notes were repaid by the Company. The redemption date on the remaining 'C' Loan Notes is the earlier of 6 July 2006 or the date of the flotation.