KEY FEATURES OF THIS WRITING TO EMULATE IN YOUR ANSWERS
1. Integrating the evidence (from Fig 1) into the explanation of the changes during the period
2. Linking cause and effect: indicated by "as a result", "resulted in", "impacted by"
3. Clear and concise commentary aided by direct, simple and precise wording e.g. "increased operating profits"
4. Structured and sequenced logically, with informative headings, to help the reader understand readily, and cross check to the relevant sections of the income statement.
5. Use of specific, relevant details e.g. FY2014, "borrowing facilities", "year-on-year".

FINANCIAL REVIEW

Improved profit performance translates into good net cash generation

How to comment/discuss changes: relevant to
- AC102, Section C q7b,c

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CHIEF FINANCIAL OFFICER

The Group's performance for the 52 weeks to 29 August 2015 is summarised in figure 1. An improved profit performance in the first half of the year was reinforced by further progress in the second half and underpinned by good cash generation.

SALES AND REVENUE

For the 52 weeks to 29 August 2015 Group GTV increased by 1.3% to £2,860.1 million and Group revenue increased by 0.4% to £2,322.7 million. Group like-for-like sales increased by 2.1% on a constant currency basis and by 0.6% on a reported basis. There was strong growth in online sales, which increased by 11.4% to £388.2 million, net of online returns to store, and at Magasin du Nord, which grew 8.1% like-for-like in constant currency. The components of the Group gross transaction growth and like-for-like sales growth are shown in figure 2 opposite.

Group own bought sales mix decreased to 75.4% from 76.2% in FY2015 largely as a result of the movement in UK sales mix.

OPERATING PROFIT

Good progress was made against the strategic priorities as set out last year. The combination of 17 fewer days on promotion and tight stock control resulted in reduced markdown and a 90 bps benefit to the gross margin rate. This was offset by the impact of sales mix from growing sales in the lower margin cosmetics and concession categories (60 bps) and planned investment in reducing prices in some categories (30 bps). The net effect on a full year basis was a flat margin rate compared with FY2014.

Costs were managed tightly throughout the year. Total costs increased by 0.2% over the prior year to £2,188.6 million, despite the further shift into online and the investment in expanded online services such as next day click & collect from stores. Cost of sales (defined as product costs associated with gross margin, together with related buying, marketing and store costs) of £2,023.5 million decreased by 0.5% as own bought mix declined and cost saving initiatives were implemented. Distribution costs increased by 12.8% to £111.1 million, reflecting increased costs associated with online growth and store deliveries. Administrative expenses increased by 3.4% to £54.0 million from additional systems costs.

Depreciation and amortisation, including losses on disposal of property, plant and equipment, increased by 2.3% to £104.5 million, reflecting higher capital expenditure in recent years. Despite that profit increased

As a result of the foregoing, Group operating profit increased by 4.3% to £134.1 million from £128.6 million in the previous year.

UK performance

The UK sector includes sales from UK stores and online sales to UK addresses. Inter-dependency between stores and online continues to grow.

GTV increased by 2.1% and revenue by 1.1%. This was a result of continued online sales growth to UK customers and the benefit of new store openings. Stores continued to experience a small level of sales decline from the channel shift into online. As we have added choice in concessions, the own bought mix has decreased from 79.3% to 78.3% with consequent margin dilution.

Operating profit increased by 5.6% to £101.7 million reflecting benefits from lower markdown, strong cost control within the Group and sales growth.

Cause-effect framing - the specification for the answer to an "explain" question. This is an exemplar of clear and concise writing succinctly weaving the causes with the effects in a coherent commentary.

International performance

The sector comprises our Danish and Irish stores, the franchise stores and online sales to non-UK addresses.

In constant currency, GTV improved by 5.3% reflecting the strong performance in Denmark. In reported currency GTV was 2.2% lower than last year and revenue decreased by 2.5%, primarily impacted by the effect of the strengthening pound on conversion of Magasin du Nord and Republic of Ireland results.

International operating profit increased by 0.3% despite the adverse foreign exchange movements.

Conined from page 30

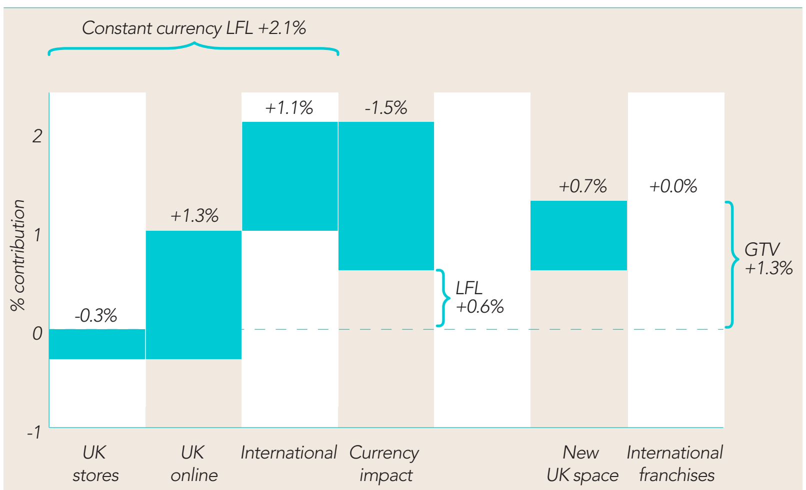
How to comment/discuss changes: relevant to
- AC102, Section C q7b,c
- AC 369,
- AC 500
- ACCA P2, G.2

Figure 1: Financial summary

	52 weeks to 29 August 2015	52 weeks to 30 August 2014
Gross transaction value		
UK	£2,323.5m	£2,275.3m
International	£536.6m	£548.6m
Group	£2,860.1m	£2,823.9m
Increase in Group like-for-like sales	+0.6%	+1.0%
Revenue		
UK	£1,922.3m	£1,902.1m
International	£400.4m	£410.6m
Group	£2,322.7m	£2,312.7m
Operating profit		
UK	£101.7m	£96.3m
International	£32.4m	£32.3m
Group	£134.1m	£128.6m
Underlying net finance costs[1]	£20.6m	£18.3m
Underlying profit before tax[1]	£113.5m	£110.3m
Non-recurring finance costs	£-m	£4.5m
Reported profit before tax	£113.5m	£105.8m
Basic earnings per share	7.6p	7.1p
Diluted earnings per share	7.6p	7.1p
Dividend per share	3.4p	3.4p

[1] Before non-recurring finance costs (2014:£4.5 million).

Figure 2: Sales growth driven by online and international* (%)



* Represents contribution to LFL and GTV growth.
* Adjusted to reflect sales net of online returns to store.

NET FINANCE COSTS

Net finance costs increased by 12.6% to £20.6 million as a result of increased interest following the refinancing of the borrowing facilities in 2014. This refinancing resulted in a non-recurring write-off to the income statement of £4.5 million of unamortised issue costs in FY2014. Including the impact of this write-off, net finance costs decreased by 9.6%.

PROFIT BEFORE TAX

Increased operating profits resulted in a 7.3% increase in reported profit before tax from £105.8 million to £113.5 million. Excluding the non-recurring finance costs of £4.5 million in FY2014, the year-on-year increase was 2.9%.

TAXATION

The Group's tax charge of £20.0 million equates to an effective tax rate of 17.6%, in line with 2014. The effective tax rate benefited from the resolution of prior year tax matters, the utilisation of historic losses within Magasin du Nord and the reduction in the UK corporation tax headline rate.

The tax charge for the year was also marginally impacted by the timing benefit resulting from the adoption of FRS 101 "Reduced disclosure framework" by Debenhams Retail plc at the beginning of the financial year, and by Debenhams Properties Limited from 1 September 2013.

PROFIT AFTER TAX

Profit after tax increased by 7.2% to £93.5 million.

EARNINGS PER SHARE

Increased profits resulted in a 7.0% increase in both basic and diluted earnings per share (including the non-recurring finance costs in FY2014) to 7.6 pence. The basic weighted average number of shares in issue decreased from 1,226.8 million last year to 1,226.4 million and diluted weighted average number of shares remained at 1,228.7 million.

Continued from page 31

Changes, AC102, AC 369, etc.
ACCA P5, P2

FINANCIAL REVIEW CONTINUED

ACCA P2, G.2 See Exam Guidance

CASH FLOW AND USES OF CASH

Debenhams is a cash generative business and has clear priorities for the uses of cash.

The first priority for cash is to invest in our strategy to build a leading international, multi-channel brand. Second, we pay our shareholders a dividend. Third, we have set a new medium-term target for net debt to earnings before tax, interest, depreciation and amortisation ("EBITDA") of 0.5 times, previously a target of 1.0 times over the medium term.

multiple

Operating cash flow before financing and taxation decreased from £112.5 million to £102.9 million as a result of a working capital outflow of £2.3 million in 2015 compared with a £9.7 million inflow in 2014. Whilst benefiting from the reduction in stocks held, working capital includes recovery plan payments for the defined benefit pension scheme of £9.6 million (2014 £9.4 million). The movement in working capital from last year is largely associated with timing of capital invoices in FY2014.

Cash flow generation, the uses of cash and the movement in net debt are summarised in figure 3.

CAPITAL EXPENDITURE

Capital expenditure amounted to £133.4 million during the year, slightly higher than last year's expenditure of £128.0 million. Capital spend has shifted from a focus on modernisations in previous years to operational effectiveness, including systems development, particularly to support the Group's multi-channel business, and investment in space optimisation initiatives as shown in figure 4. Spend in FY2016 is expected to be c.£130 million with the shape of spend broadly in line with FY2015.

DIVIDENDS

An interim dividend of 1.0 pence per share was paid to shareholders on 3 July 2015 (2014: 1.0 pence). The board has recommended a final dividend of 2.4 pence per share which will be paid to shareholders on 22 January 2016 taking the total dividend for the year to 3.4 pence (2014: 3.4 pence). The record date is 4 December 2015.

Given the cash generative nature of the business and confidence in future performance, the board intends to adopt a progressive dividend policy in future, applying earnings growth to both dividend increases and the rebuilding of cover towards a medium term target of 2.5 times.

NET DEBT

The Group's net debt position on 29 August 2015 was £319.8 million, £41.7 million lower than at the same point a year ago (30 August 2014: £361.5 million), benefiting from improved operating cash flow and reduced tax payments from the adoption of FRS 101 "Reduced disclosure framework". The ratio of reported net debt to EBITDA of 1.3 times improved from last year's position at 1.6 times, moving towards the new medium-term target for net debt to EBITDA of 0.5 times. The medium-term target has been reduced from 1.0 times in FY2014.

BALANCE SHEET

Key balance sheet items are summarised in figure 5.

INVENTORY

Stock levels were managed tightly during the year in line with our aim of setting more prudent sales targets and reducing our level of stock. Total stock decreased by 4.1% to £331.6 million reflecting tight control and the benefit of flexible purchasing strategies. Terminal stock at year end of 3.1% was in line with historical results.

FINANCIAL POSITION

During the year ended 29 August 2015, the Company repurchased £25.0 million of the £225.0 million senior notes for a consideration of £24.8 million and cancelled £75.0 million of the £425.0 million revolving credit facility.

TREASURY MANAGEMENT

ACCA P5

The board has established an overall treasury policy which has approved authority levels within which the treasury function must operate. Treasury policy is to manage risks within the agreed framework whilst not taking speculative positions. The policies for managing financial risks are disclosed in note 21 to the Group financial statements starting on page 119.

SUPPLIER INCOME

The Group receives income from its suppliers, mainly in the form of settlement discounts, volume-based rebates and marketing and advertising income. Supplier income is recognised as a deduction from cost of sales, based on the expected entitlement that has been earned up to the balance sheet date. Included in prepayments and accrued income is £4.7 million (FY2014: £3.9 million) of accrued supplier income relating to rebates which have been earned but not yet invoiced.

PENSIONS

The Group provides a number of pension arrangements for its employees. These include the Debenhams Retirement Scheme and the Debenhams Executive Pension Plan (together "the pension schemes") which both closed for future service accrual from 31 October 2006. Under IAS 19 revised "Employee benefits", the surplus on the Group's pension schemes as at 29 August 2015 was £26.2 million (30 August 2014: net deficit of £2.4 million). The surplus was driven by asset returns.

Figure 3: Cash flow, uses of cash and movement in net debt

	52 weeks to 29 August 2015	52 weeks to 30 August 2014
EBITDA	£238.6m	£230.8m
Working capital	(£2.3m)	£9.7m
Cash generated from operations	£236.3m	£240.5m
Capital expenditure	(£133.4m)	(£128.0m)
Operating cash flow before financing and taxation	£102.9m	£112.5m
Taxation	£1.1m	(£20.6m)
Financing	(£19.3m)	(£13.1m)
Dividends paid	(£41.7m)	(£41.7m)
Share buyback	–	(£15.1m)
Other movements	(£1.3m)	(£11.5m)
Change in net debt	£41.7m	£10.5m
Opening net debt	£361.5m	£372.0m
Closing net debt	£319.8m	£361.5m

Figure 4: Capital expenditure

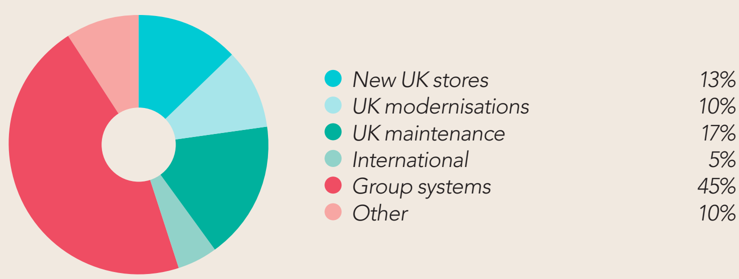


Figure 5: Key balance sheet items

	52 weeks to 29 August 2015	52 weeks to 30 August 2014
Intangible assets	£931.5m	£892.8m
Property, plant and equipment	£675.3m	£689.2m
Inventory	£331.6m	£345.7m
Other assets	£124.5m	£98.4m
Trade and other payables	(£523.6m)	(£529.3m)
Other liabilities	(£358.4m)	(£363.1m)
Retirement benefit surplus/(obligations)	£26.2m	(£2.4m)
Net deferred tax liabilities	(£34.0m)	(£2.4m)
Net debt	(£319.8m)	(£361.5m)
Reported net assets	£853.3m	£767.4m

During June 2015, the triennial actuarial valuation was completed and a new agreement was concluded under which the Group agreed to contribute £9.5 million per annum to the pension schemes (previously £8.9 million per annum) for the period from 1 April 2014 to 31 March 2022 increasing by the percentage increase in RPI over the year to the previous December. The Group agreed to continue to cover the non-investment expenses and levies of the pension schemes, including those payable to the Pension Protection Fund.

Current pension arrangements for Debenhams' employees are provided by defined contribution pension schemes.

Further information can be found in note 23 to the Group financial statements starting on page 126.

MATT SMITH
CHIEF FINANCIAL OFFICER
22 OCTOBER 2015