Storehouse plc

Annual report and accounts 1998

Storehouse plc is a leading UK-based retailer of clothing and homeware products, nursery equipment and food services

Annual revenues of more than £1.3 billion

485 stores in the UK and 238 overseas

Total trading area is 6.5 million sq ft

More than 21,000 employees worldwide

Contents

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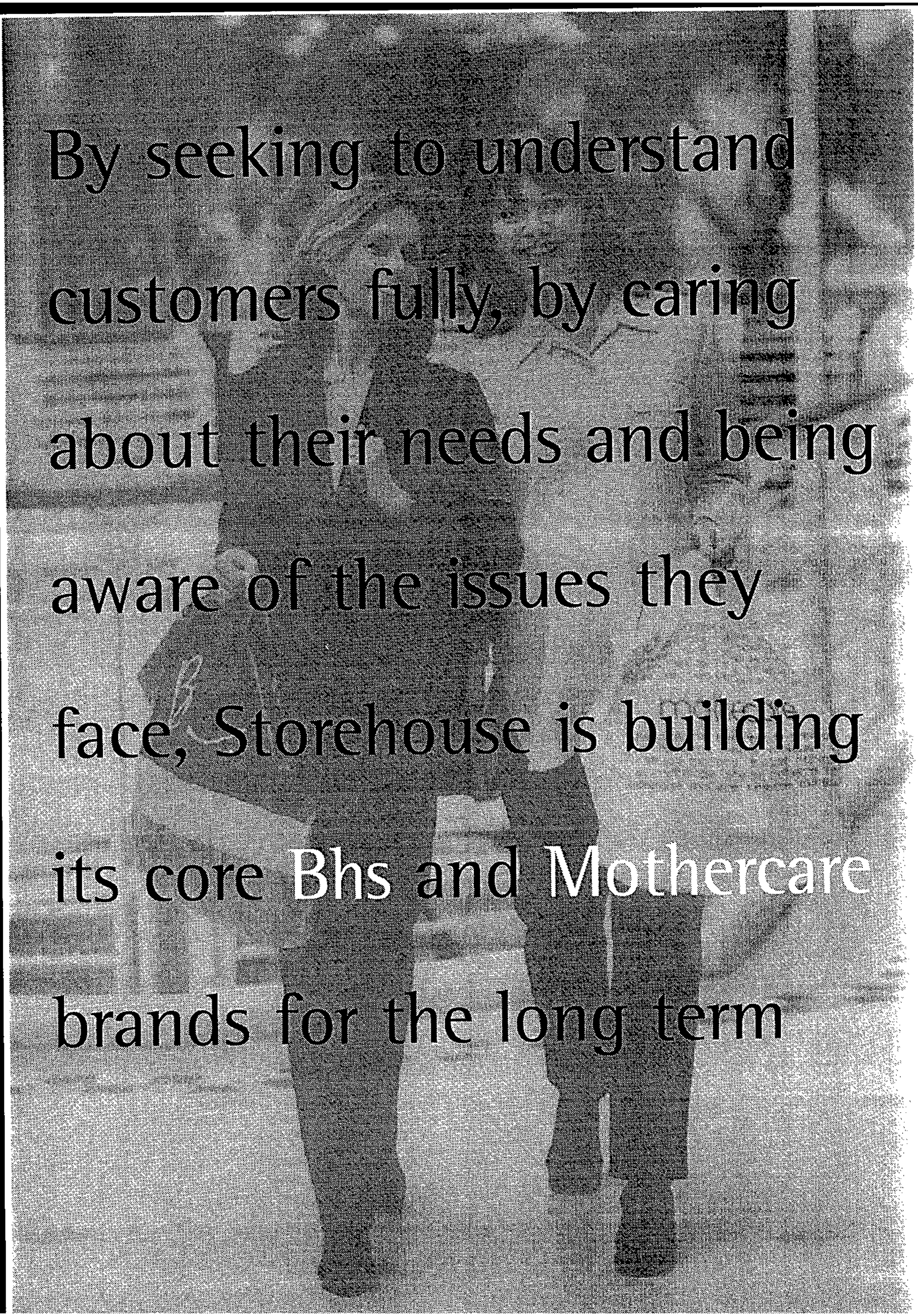


By seeking to understand customers fully, by caring about their needs and being aware of the issues they face, Storehouse is building its core Bhs and Mothercare brands for the long term

Chairman's statement We are investing to drive forward our brands and improve returns to shareholders

Alan Smith discussing the product quality improvement programme with Gemma Cockayne at the newly refurbished Mothercare World store at Romford, Essex.

A combination of improved quality and innovation in our product together with more modern and attractive store environments has resulted in a sixth consecutive year of increased turnover and profits.

A clear strategy

The board's objective for the group is clear; to earn a place as a leader in the retail sector based on achieving consistent levels of profitable growth. The investment phase of the group's development, announced last year, is well underway and will provide the platform for sustained levels of growth from the Bhs and Mothercare brands.

Group financial performance

Turnover for the group increased by 6.8 per cent to £1,335.0 million (1997 - £1,249.7 million), helped by improved products, a combination of new and better stores, additional space and the first full year of Childrens World, (this business was acquired in May 1996 and is now fully integrated within the Mothercare business).

Sales patterns during the year fluctuated, particularly at Christmas, influenced by short term factors. Whilst the market for childrens' fashion clothing remained difficult, overall consistent underlying advances were made in many important markets such as menswear, womenswear, lingerie, homeware, babywear and baby equipment.

For the group as a whole, gross margins were level with the previous year. At Bhs gross margins

Financial highlights

	Turnover excluding sales taxes		Profit from retail operations	
	1998 £ million	1997 £ million	1998 £ million	1997 £ million
Bhs	**853.7**	805.5	**96.5**	88.3
Mothercare	**481.3**	441.8	**31.4**	30.9
Continuing businesses	**1,335.0**	1,247.3	**127.9**	119.2
Profit before tax and exceptional items			**125.1**	118.3
Earnings per share before exceptional items			**21.4p**	19.4p
Full year dividend per share			**9.0p**	8.1p
Net assets per share			**142p**	129p
Net gearing			**8.6%**	7.0%

improved, whilst at Mothercare, the improvement during the second half did not offset the first half reduction. Largely as a result of a reduction in discounting and markdown and, therefore, trading significantly more merchandise at full-price, the gross margin for the group as a whole improved significantly during the second half of the year.

Profit from retail operations for the group as a whole increased by 7.5 per cent to £127.9 million (1997 - £119.0 million). This represents a return on sales of 9.6 per cent, 0.1 per cent ahead of last year. Profit before tax increased by 5.7 per cent, before 1996/97 exceptional items, to £125.1 million (1997 - £118.3 million), which includes an interest charge of £2.8 million (1997 - £0.7 million).

Earnings per share increased by ten per cent, before 1996/97 exceptional items, to 21.4p (1997 - 19.4p). In line with the increase in earnings per share, the board is recommending a final dividend of 5.4p per share (1997 - 4.8p per share) - an increase of 12.5 per cent - making a total of 9.0p (1997 - 8.1p) for the year. The level of the dividend is, therefore, rebalanced slightly to reflect that, in profit terms, the second half of the year contributes more than the first.

Effective management of cash resulted in an increase in cash flow from operations to £163.4 million from £93.3 million for the previous year. Capital investment for the year amounted to £124.1 million (1997 - £94.1 million). Store upgrades accounted for approximately one third of the total while investment in new stores and information technology amounted to £35.4 million and £33.7 million respectively. Net debt at the year end was £51.7 million (1997 - £38.2 million) with gearing at 8.6 per cent (1997 - 7.0 per cent).

Recognising achievement

Inside the organisation, more than 21,000 people work very hard to deliver the improvements which are necessary for us to succeed. I would like to say 'thank you' on behalf of the board, for the tireless dedication and commitment everyone has shown during the year in helping to move the group forward. Outside the organisation, there are other groups to whom thanks are due; most notably our suppliers with whom a partnership approach is proving mutually beneficial.

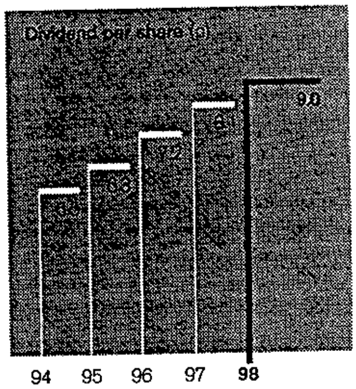
Looking forward

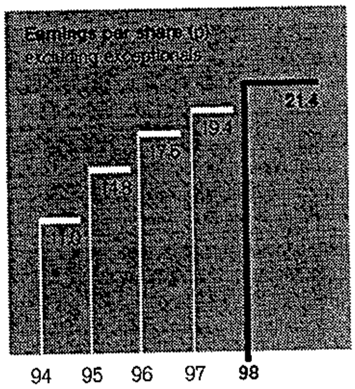
There is no doubt that, in an increasingly competitive trading environment, Bhs and Mothercare are better equipped than ever before to compete and to win on the strength of product quality, fashion and price - all areas where the group feels increasingly confident.

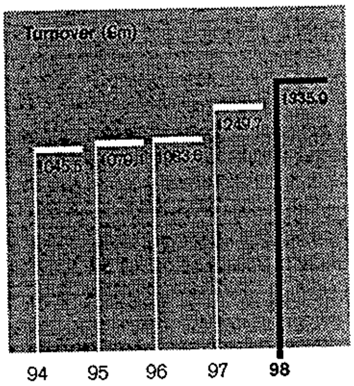
The group has a clear strategy with a focus on the customer, product improvement, store refurbishment and systems enhancement as its cornerstones. The board is confident that the group's development is being managed in a prudent manner and at an appropriate speed to produce sustainable profit growth, yet there remains a great deal still to do. Further progress is expected this year although the upward pressure on costs as a result of the investment phase will begin to show through.

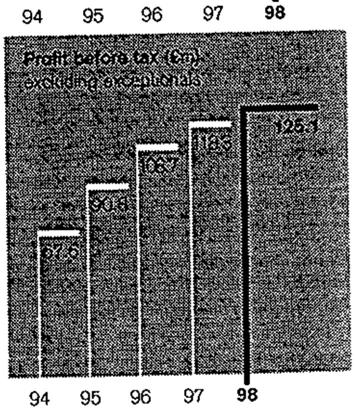
The capital projects in the current phase of heavier spending are beginning to achieve their planned targets and the returns will continue to be monitored closely. The improving trend in like-for-like sales and margins experienced in the second half of last year is continuing in the first seven weeks of the current year and meeting all expectations.

Alan Smith Chairman









Chief executive's review The key to it all is getting closer to our customers - and staying close to them to build a lasting relationship

Ann-Marie Williams takes Keith Edelman through the new season's ranges in Bhs' store at Oxford Street, London.

Group development

Having rebuilt profitability by completing the divestment of the remaining, poorly performing businesses in the portfolio and strengthening the two core brands, Bhs and Mothercare, the focus is now firmly on the future.

As part of the rebuilding process, a major strategic step was taken through the acquisition of Childrens World. This significantly improved the potential for the Mothercare brand and accelerated the building of Storehouse's share of spending on children's products. The acquisition brought together an already strong high street presence through Mothercare's network of 272 stores in the UK with 57 larger, edge-of-town, 'destination' stores.

The first phase of the group's restructuring is, therefore, complete. As a result of its improving financial position, the group has been able to embark on a substantial programme of investment. This investment phase is currently the focus of management attention throughout the group as it involves further improvements to product quality, store environments, and the root-and-branch modernisation of information and supply chain technology systems.

This phase requires prudent central financial controls in judging where to direct capital investment to maximum effect, and these are in place. Long term generation of real economic profit is the ultimate financial objective. This period of accelerated investment will result in a retail infrastructure and brand support system which compares well with the leaders in the sector. It will provide a strong and sustainable platform on which to base subsequent growth.

Bhs financial performance

Sales at Bhs increased by 6.0 per cent to £853.7 million, (1997 - £805.5 million), further evidence that the Bhs brand is moving steadily forward as the company continues to play to its strengths in the fashion, home and food services business. Of this, sales in the UK increased by 5.9 per cent while sales to Bhs' 77 overseas franchise stores moved ahead by 6.8 per cent to £56.0 million (1997 - £52.4 million). In the UK, like-for-like sales for the year as a whole increased by 2.2 per cent with the remainder arising from additional space. Like-for-like sales during the second half of the year increased by 2.9 per cent.

Cost pressures were, once again, managed effectively, increasing by only 5.7 per cent over last year. Profit from retail operations was £96.5 million (1997 - £88.3 million), an increase of 9.2 per cent. Overall, Bhs' gross margin improved by

0.3 percentage points despite the effect of investing in improvements to product quality whilst maintaining price competitiveness. This increase was due, primarily, to a successful move towards trading a higher proportion of merchandise at full price. This 'first price - right price' philosophy is one which reflects increasing confidence in the product for quality, fashion and value: the core attributes of the Bhs brand.

Mothercare financial performance

The results for Mothercare include the first full year of contribution from Childrens World - comparisons with the previous financial year include only 45 weeks of trading in Childrens World due to the timing of the acquisition. The Childrens World stores, 40 of which have been renamed Mothercare World, have been fully integrated with the Mothercare business both operationally and financially.

Sales at Mothercare increased by 8.9 per cent to £481.3 million (1997 - £441.8 million). UK sales increased by 8.3 per cent, 1.8 per cent of which was on a like-for-like basis and consistent over both the first and the second halves of the year. Sales from Mothercare's 161 overseas stores increased by 14.5 per cent.

Profit from Mothercare's retail operations increased by 1.8 per cent to £31.4 million (1997 - £30.9 million). Gross margins in the UK during the second half of the year improved by 0.6 percentage points, helped by a reduction in the level of discounting and improved intake margins. However, a reduction in UK gross margins of 1.5 percentage points during the first half, caused by the markdown of former Childrens World merchandise, resulted in a reduction of 0.4 percentage points in gross margin for the year as a whole.

Product innovation

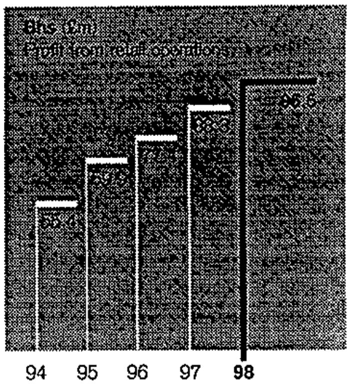
Improvements in product quality and increased innovation are core aims at both Bhs and Mothercare.

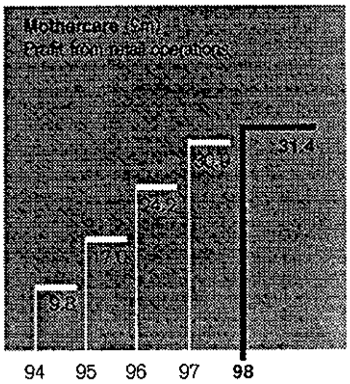
Research at Bhs shows that customers, above all else, expect quality, fashion and value for money from their Bhs store. During the past two years, Bhs has been working hard to put more quality into its product while continuing its price competitiveness. Certain key product areas have been subject to a thorough review, most notably lingerie where significant advances have been made in product design and manufacture. Similarly, areas where product innovation has been particularly effective in increasing market share include womenswear, gifts and homeware, all of which have reported improving sales trends.

In womenswear, the appointments of fashion designers Paul Frith and Owen Gaster and hat designer Graham Smith have proved highly successful in translating catwalk couture trends into fashionable, wearable and affordable clothes for today's customer. These moves, widely reported in the national media and fashion press, have highlighted the way in which the Bhs brand is moving ahead.

One of Bhs' most successful product areas is homeware. Since the year end, Bhs has opened a store dedicated exclusively to homeware - an area where the brand has traditional strengths - at Bath. The early signs are encouraging.

At Mothercare, emphasis has been increased on providing the mother and the mother-to-be with an improved range of product. Currently, Mothercare holds 24 patents for products it has developed and provides five main product groups: maternity; baby; young children; nursery equipment and toys.





Chief executive's review continued

Childrenswear

For both Bhs and Mothercare, childrenswear remains an important part of the product mix. Within that market, the group remains strong in childrens' essentials, in schoolwear, in babywear and in bridesmaids' dresses and formalwear where there has been significant growth.

Fashion for older children remains the most difficult market, though at Mothercare, for example, it is a small proportion of the total business. Key actions are being taken to develop the group's strengths in the childrenswear market and to anticipate and take advantage of any movement towards alternative fashion trends. During the first half of the current year, both Bhs and Mothercare will introduce a number of sports brands into its stores on a trial basis. These moves, together with the increased development of areas of proven brand strength such as womenswear and homeware, should help to reduce any further adverse effect on the group from the difficult childrenswear market while both businesses continue work on building their core fashion ranges.

Bhs stores

The group's aim in improving product, stores and systems is to ensure a greater level of consistency across each of the Bhs and Mothercare brands. This is particularly important in revitalising the visual appeal of its stores. At Bhs, 57 stores are now operating in the full upgrade format. Virtually all the remaining stores have received some level of upgrade. This programme of upgrading stores further will continue during the current year in order to ensure greater brand consistency and improve the returns from these stores.

In addition, four new stores were opened at Cameron Toll, Bury, Falkirk and St Helens which, together with one store resited at Bath, added 109,000 sq ft to the Bhs total trading area of four million sq ft. The combination of the new stores and the conversions have helped to move the Bhs brand forward significantly, providing a more accessible, contemporary and inspiring store environment for customers.

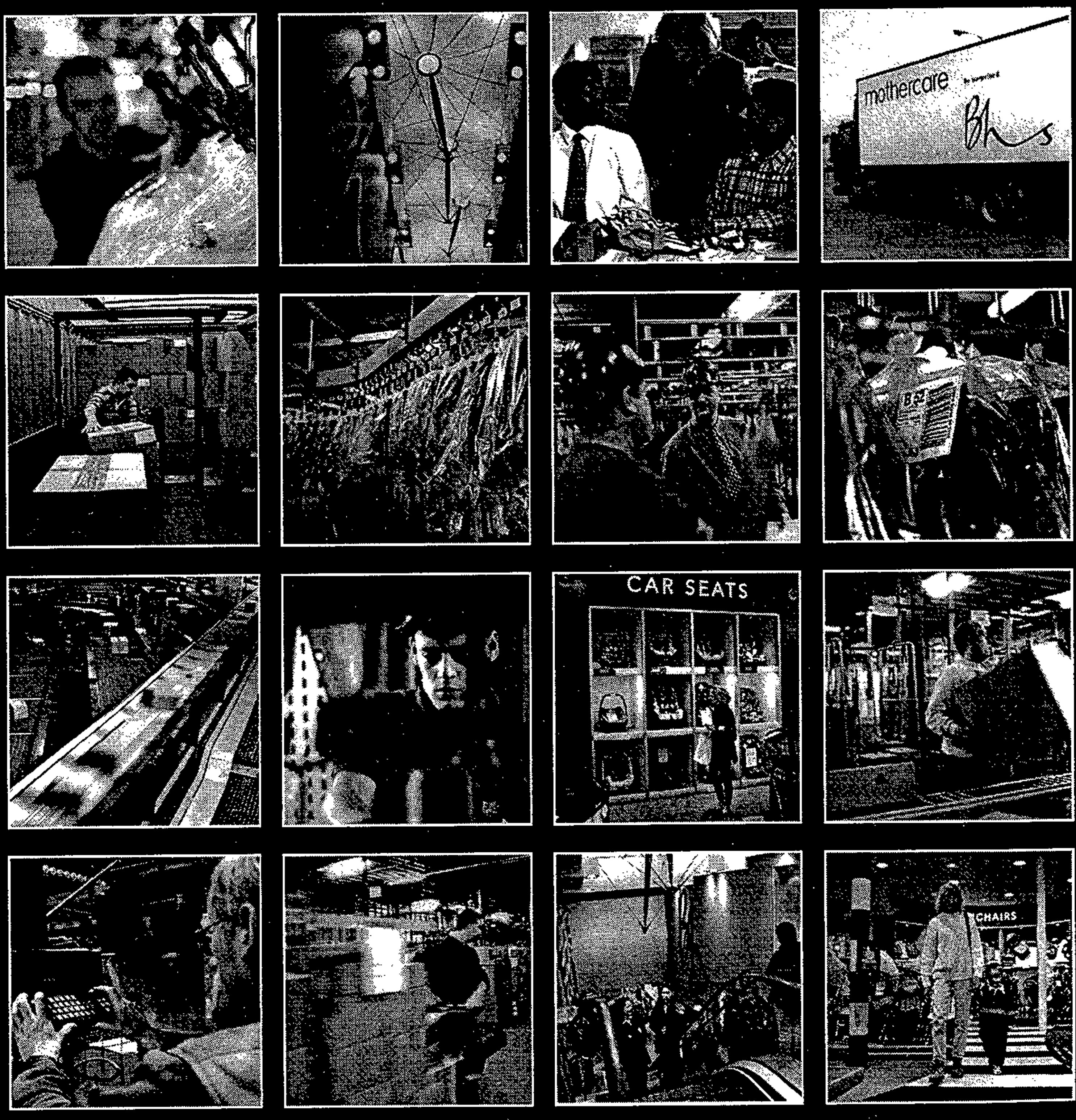
Since the year end, new Bhs stores have been opened at Cribbs Causeway (Bristol), and Burton-on-Trent. In line with Bhs' aim of achieving national coverage in the UK, plans are in place to open a further 12 new stores at Durham, Trafford (Manchester), Oxford, Fosse Park (Leicester), Banbury, Braehead (Glasgow), Wrexham, Uxbridge, High Wycombe, Chesterfield, Basingstoke and Oldham. This programme of new stores will create an estimated 1,500 new jobs.

Mothercare stores

Since the acquisition of Childrens World in May 1996 the priority has been establishing the Mothercare World brand as a 'destination' store. The thirty-nine 15,000 sq ft stores have been rebranded Mothercare World and sales from these stores have been strong.

In November 1997, Mothercare opened the 30,000 sq ft refurbished former Childrens World store at Romford, Essex as its flagship Mothercare World store. The refurbishment of this store is the design blueprint for the remaining 30,000 sq ft edge-of-town Mothercare World stores and offers a unique opportunity to increase Mothercare's prominence in its markets. Major benefits include the extensive range of product, improved customer service and an innovative shopping environment.

Storehouse



Chief executive's review continued

Work has already begun on introducing elements of the new design into the core high street stores, many of which are in need of refurbishment. The initial phase of this programme will include trials in four large high street stores and four smaller stores. In addition, the blueprint will be introduced to other large out-of-town stores during the current year.

Overseas markets

Both the Bhs and the Mothercare brands continue to travel well. Sales at the international business increased by 10.4 per cent and gross margins improved slightly. Bhs stores overseas now total 77 compared to 72 at the end of the previous financial year. Similarly, Mothercare, which performed particularly well during the second half, increased the number of its overseas stores to 161. While certain markets in the Far East and in southern Europe, suffered due to an economic crisis and the strength of sterling, others, including the Middle East and eastern Europe, showed strong growth.

Efforts to grow the international franchise operations of both Bhs and Mothercare will continue and areas of particular interest include the eastern European countries. Since the year end, the group's international operations have been recognised by the Retail Week 1998 Awards as 'UK's international retailer of the year'.

People

The group has continued to invest in its people by promoting from within and by recruiting talented retail managers from outside. Stephen Tague was appointed managing director of Bhs a little more than a year ago; Greg Tufnell joined the group as managing director of Mothercare in November 1997; and Andy Meehan became managing director of the international business. Subsequently, in line with the group's commitment to brand development, the boards of each business have been strengthened with the appointment of new marketing directors. The management teams at both group and operating level are focused on driving a high performance culture into the business through consistency and excellence in brand management.

Information and supply technology

The introduction of state-of-the-art technology systems to support the organisation continued as planned. These systems include range planning, merchandising, financial control and supply chain management. As part of its continuing modernisation programme, Bhs is introducing new technology at its points-of-sale to ensure year 2000 compliance, which will involve an expenditure of some £25 million.

All systems being introduced will position the group well as it moves into the next century.

Some of the projects supported by Bhs and Mothercare include:

1. Raising more than £52,000 for Barnardos through the sale of Christmas cards and pin badges.
2. Promoting simple sun protection guidelines, developed in association with the Cancer Research Campaign, 'Cover up.'
3. Sponsoring Graduate Fashion Week for the fourth consecutive year.
4. Raising funds to purchase a Variety Club of Great Britain 'Sunshine Coach' for the Hapa Adventure Playground.

1 Barnardos

2 Cover up campaign

3 Bhs Fashion Graduate Week

4 Gold Heart Day

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This investment will result in improved efficiency, faster and more effective range building, improved customer service and even closer relationships with our supplier-partners. Further major improvements were made during the year to find new and better ways of working with suppliers with the aim of improving flexibility in the supply chain and consistency across the range.

One company

By phasing its development, the objective is to develop Storehouse as a group which is known for its ability to realise the full potential of leading brands through skills in product development, store design and the application of advanced technology to the retail cycle. The group's financial position is now sound. It is building its brands through a combination of product quality, store environment and support technology. The management team will drive common professional standards down through both the brands from the top to the bottom. This will, over time, enhance Storehouse's reputation for managing premier brands.

These common standards of corporate behaviour - the Storehouse way of doing things - are reflected in the policies which have been established, and are monitored by, the board; for example, the group ethical policy and the group environmental policy. Specific environmental initiatives include reducing the amount of product and distribution packaging, recycling (eg hangers) and energy efficiency. Targets are set and progress is monitored. These policies, together with other aspects of corporate governance in the widest sense, particularly in terms of remuneration, employee training and development and internal and external communications are all part of changing the culture of the group.

Storehouse recognises its responsibility to the communities its businesses serve. Both Bhs and Mothercare share a common duty to play their part in community affairs at both national and local level. Both of the businesses continue to support the important work of major charities including the Variety Club of Great Britain, Cancer Research, Tommy's campaign and Barnardos. Thanks are due to the many group employees who give freely so much time and energy to raise amounts of money for these important causes.

Keith Edelman

Keith Edelman Group chief executive

5 The Mothercare World store at Romford, Essex, is the design blueprint for Mothercare stores.

6 The 'hands' image represents the essence of the Mothercare brand's values: trust, safety and care.

7 The Bhs store at Liverpool; a new, modern format has transformed Bhs stores throughout the UK, providing an attractive and inspiring store environment for customers.

8 Andy Meehan, managing director of the group's overseas businesses, received the Retail Week 1998 award for 'UK's international retailer of the year.'

Bhs made significant progress during the year in modernising its brand by tightening the focus on its core customer base, improving the range and quality of its products and services and refurbishing its stores.

Over the past four years, a major process of change has been undertaken at Bhs. The aim has been to modernise the Bhs brand; not by moving away from traditional strengths of fashion, quality and outstanding value for money, but to recognise them and make them integral to the brand. This process has involved understanding the customer more fully and delivering products that are relevant to today's lifestyle in an attractive and inspiring store environment.

Responding to customers' needs

Bhs serves a broad spectrum of customers and in order to map any changes in customer need and in shopping trends, regular research

is undertaken among target customers. This research is valuable in helping Bhs to improve the shopping experience. For example, as an extension to the recent refurbishment programme, a new signage scheme has been introduced which explains much more about product attributes and price. Research showed that customers needed more information and Bhs was able to make a positive response. Bhs strongly believes that staying close to its customers and developing further its relationship with them is important in improving the brand's competitive position in the future.

Other research has pointed out the importance of store layout and the need for ease in finding particular merchandise. Bhs has addressed this issue very effectively and is developing further its 'pockets of brilliance' which are unique on the high street. For example, customers can shop right through the calendar at Bhs with gift shop at Christmas, holiday shop during late Spring and Summer and an all-year-round school shop. This is in addition to other, more seasonal promotions and other year-round offers such as the hat shop, where Bhs is developing a fine reputation for superiority in quality and design.

Products

Over the past four years, the product development process has been dismantled and rebuilt with an emphasis on design, innovation, quality and improving supplier relationships. The positive results of this product investment process are beginning to show through. For example, as a result of the introduction of textile technologists and designers, the lingerie range has been revolutionised in terms of garment construction, design and supply base. Other areas include homeware, a traditional strength for Bhs and one where the company believes that there is significant development potential as its distinctive product 'handwriting' is increasingly recognised.

Stores

The programme to modernise the Bhs brand has involved improving the physical appearance of the stores. A new concept was developed which introduces several features including wooden finishes on display areas, new store layouts, increased use of photographic panels and better displays, particularly of fashion product. These elements are designed to inspire customers and to help them co-ordinate garments to create a particular 'look'. The result is a more modern and compelling shopping experience.

Customer service

Several improvements to customer service were made during the year to improve the speed and efficiency of service provided to customers.

Successful trials for new initiatives were also made, including tests on new electronic point of sale (EPOS) systems. These trials showed that the new technology will improve transaction times by up to 30 seconds each which, in peak times, is significant in offering a speedier service to customers. These EPOS systems will be fully integrated with new technology which is being developed to manage the planning, merchandising, financial control and supply base more efficiently. All these systems are capable of handling multiple currencies and are year 2000 compliant.

Bhs was one of the first retailers in the UK to introduce a loyalty card. This scheme, called Choice, was extended during the year to include a credit card option. The new service, Gold Card, was launched in association with GE Capital and allows Bhs to communicate more effectively with target customer groups.

People

The development of people at Bhs remains a priority. The Spotlight on Success programme recognises employees for their contribution both as teams and individuals. Progressive training and remuneration policies together with flexible working arrangements provide a modern and attractive working environment. The skills and dedication of Bhs employees are critical to the success of the company and increasing emphasis is being placed on their retention and training, particularly through a new management programme, 'Driving High Performance'.

1+8 Quality, fashion and outstanding value for money are attributes which characterise Bhs products right through the store from menswear to hats.

2,4+7 Lingerie, womenswear and homeware; all areas where product innovation has helped to achieve improving sales trends.

3+4 Holiday Shop and School Shop are just two examples of the way in which Bhs is helping its customers all year round.

6 Bhs restaurants are increasingly popular and offer a wide range of meals and snacks.

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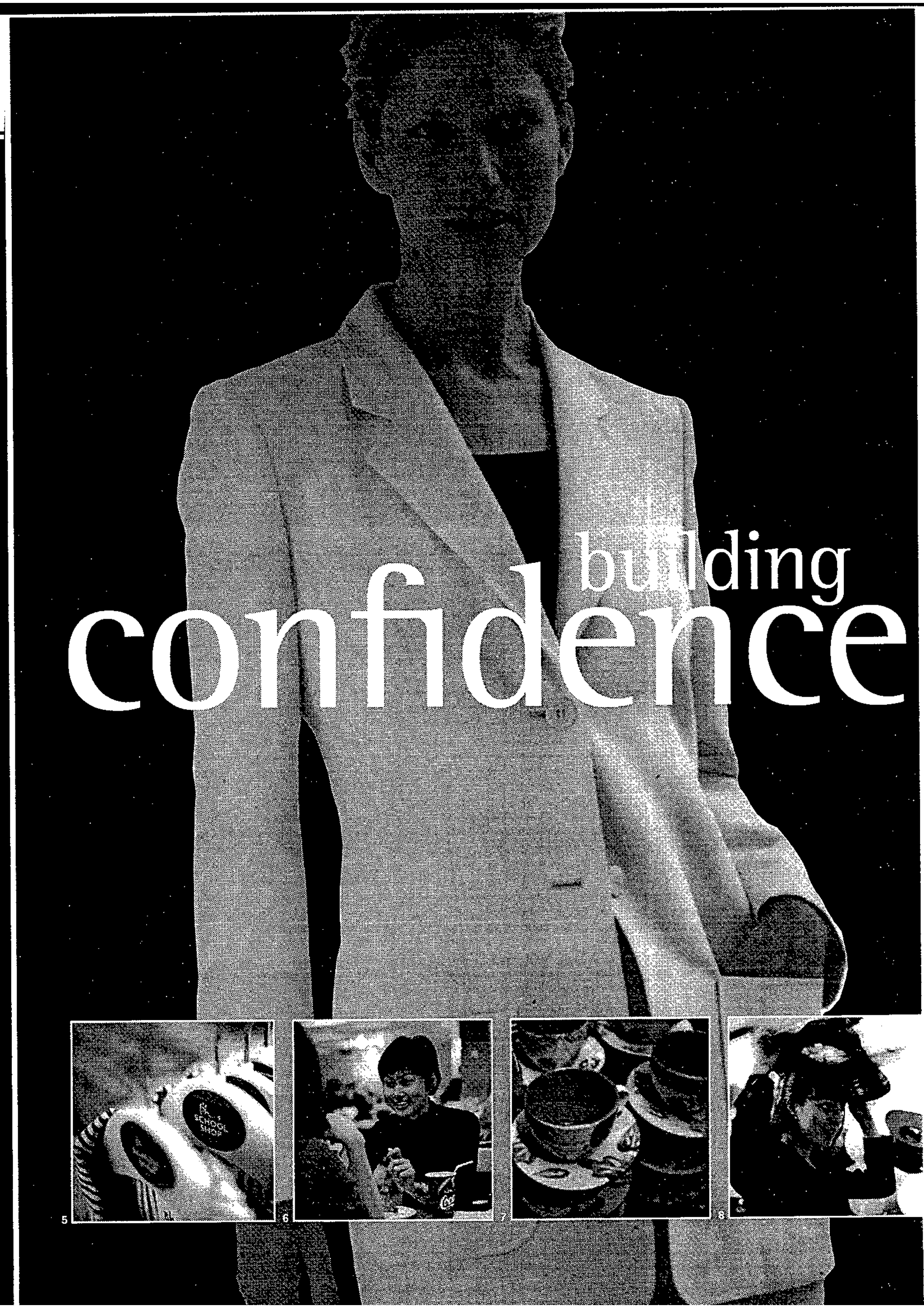

building confidence

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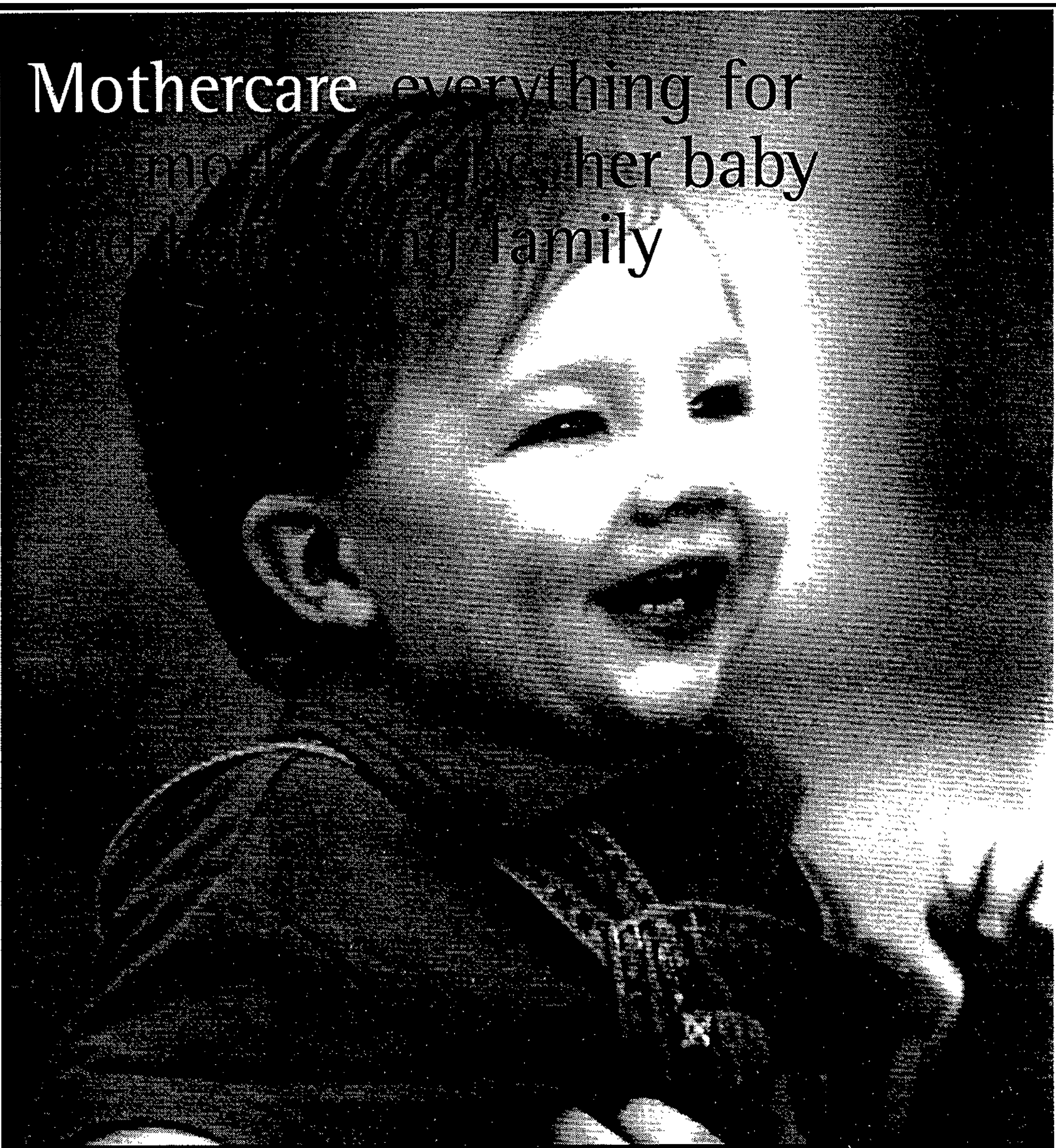

mothercare

The brand

The Mothercare brand remains a unique concept in providing everything for the mother-to-be, her baby and her young family. It is synonymous with expertise, trust, safety, integrity and the closeness which can only exist between parents and their children.

Strategy

Since its formation in 1961, Mothercare has developed an authoritative position on the high street in the UK through its chain of stores.

This position was further enhanced with the acquisition, in May 1996, of Childrens World which fulfilled Mothercare's strategic aim of in-town and edge-of-town representation. This combination of 'local' and 'destination' is important in developing the brand further. A continued strong presence on the high street means that the brand is on hand and convenient for every day purchases while a powerful edge-of-town destination shopping experience offers unrivalled choice and service in a friendly and exciting format.

In implementing its strategy, Mothercare has adopted six key principles which guide management actions:
'Winning people' encourages the right customer-focused attitude throughout the business as well as helping people to develop the right skills. The group's investment in information technology presents significant opportunities to re-skill and re-energise people at all levels.
'Great ideas' aims to make innovation part of the culture of the Mothercare brand and management system. Everyone in the business is encouraged to contribute their own thoughts and ideas.
'Product obsessed' involves redefining the traditional design, buying and quality processes. The desire to create ranges and products that deliver outstanding performance and value is at the heart of the Mothercare brand proposition.
'Famous brand' status for Mothercare means being a brand that is close to its customers and understands their needs.
'Fabulous stores' will play an important role during the current year as Mothercare begins to update its core high street chain in addition to the further development of the large space, edge-of-town formats.
'Remarkable service' within Mothercare represents a significant point of competitive advantage with service and support knowledge being provided by in-store experts.

Product

Mothercare is well known for its strength in product innovation. Currently, the company holds 24 patents for products it has developed and provides five main product groups, each aimed at the different yet unique stages of parenthood:

Maternity Mothercare remains the dominant force in the maternity market providing a comprehensive range of clothing as well as specialist products and advice.

Baby The Mothercare baby ranges offer both function and fashion. Ranges are especially designed in consultation with midwives for early babies to reinforce the authority and expertise inherent in the brand. There are also exclusive in-house fashion brands such as Mini Club.

Young children Clothing ranges for young children start at two years and include age groups up to eight in the high street stores and up to ten in the edge-of-town stores. Traditional areas of strength such as 'essentials' are now being developed with increased fashion and branded goods.

Nursery equipment Mothercare is a market leader in areas of the nursery equipment market, particularly in car safety, transport and bedding. Consistent growth has been achieved in these important markets through continued product development and by working closely both with manufacturers and suppliers.

Toys Following the acquisition of Childrens World, toys represent both a significant challenge and an opportunity. New ideas and new management are tasked with defining the role of the Mothercare brand in the marketplace and establishing a clear strategy for the future.

Stores

During the year the priority for the business was to re-brand the former Childrens World stores, Mothercare World. Significant progress was achieved and a flag-ship Mothercare World store opened at Romford, Essex in November 1997. It is the only type of its kind in the UK. Over time, other 30,000 sq ft stores will be converted to this new format and, during the current year, elements of the new large store format will be introduced into some high street stores.

The development of international franchisee partners is an important aspect of Mothercare's growth strategy as the brand gains increasing international appeal.

Overseas, Mothercare operates a total of 161 stores which are located primarily, in the Far East, the Middle East and Europe.

Systems and supply chain

As a result of the investment by the group on information and supply chain management technology major new improvements are being made. The systems strategy is focused on delivering the best range building, merchandising and logistics to support the Mothercare brand.

These improved technologies also help Mothercare to develop closer relationships with its suppliers, all of whom deserve thanks for their continued support. By working closely with its suppliers, Mothercare can manage the many challenges ahead which will include the need for constant product innovation to satisfy increasingly discerning customers.

1+4 At Mothercare children really can feel that the store is for them.

2+3+5 Mothercare provides a comprehensive range of products for the mother-to-be and her young family.

6+7 Mothercare's store staff are always at hand to offer specialist advice on products ranging from feeding to transport.

8 Caring for Mum as well as baby is central to the Mothercare offer; experienced staff can measure and advise on the correct support, nursing and sleep bras for expectant and new mothers.

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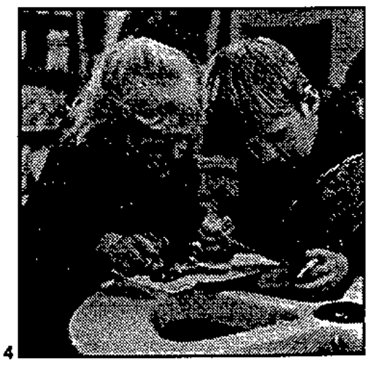

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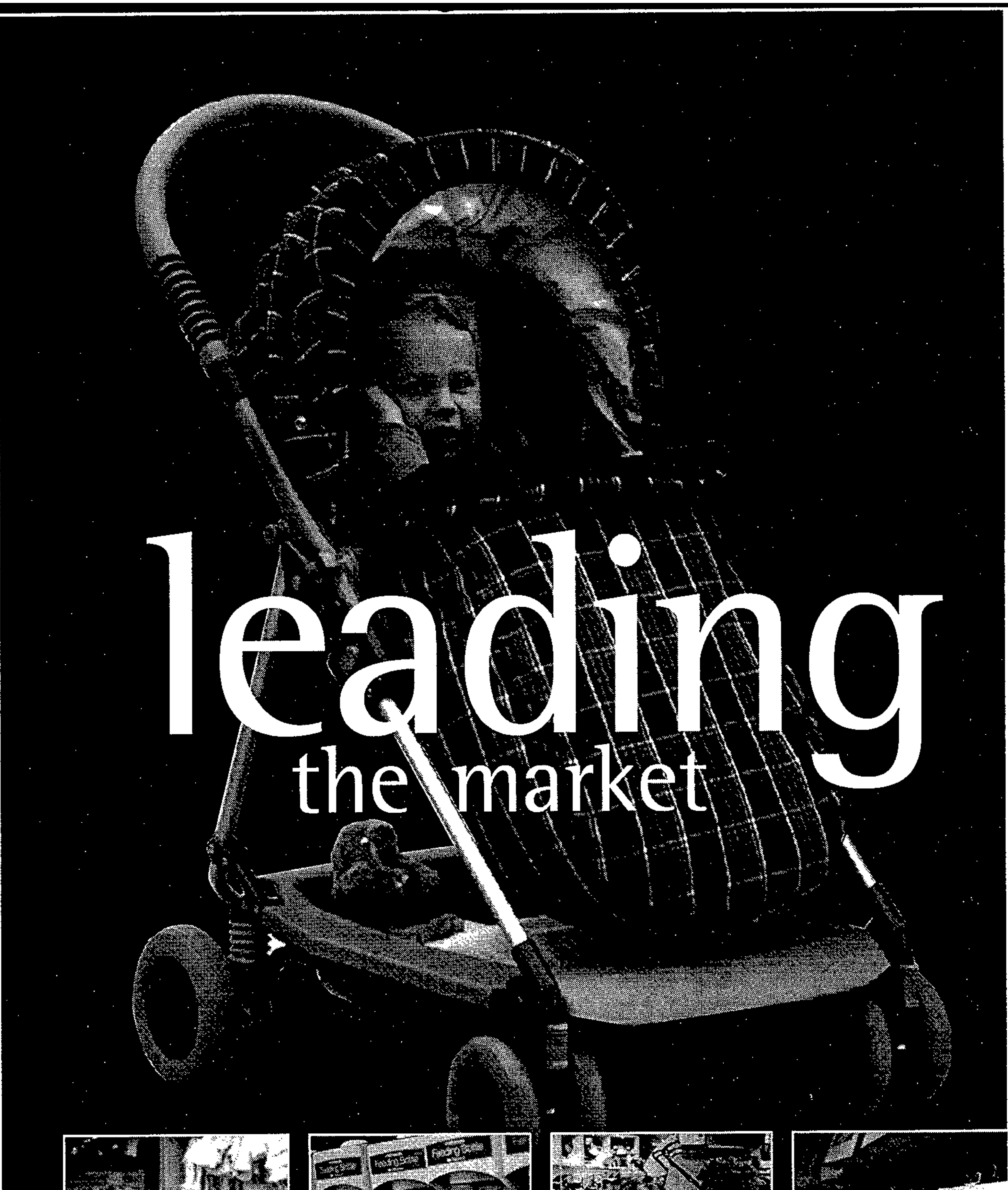


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Financial review The investment programme is being carefully targeted to achieve the best return to shareholders

Basis of results

The results have been prepared on the same basis as last year. The previous year's results include the Childrens World business which traded 45 of the 52 weeks and the Blazer business which traded 10 weeks.

Results for the year

Sales and operating profits from continuing operations increased by 7.0 per cent and 7.2 per cent respectively. After an interest charge of £2.8 million, profit before tax and exceptionals increased by 5.7 per cent to £125.1 million. Earnings per share increased from 19.4p to 21.4p, a growth of ten per cent.

The first half sales growth in Bhs of 5.7 per cent improved to 6.3 per cent in the second half. The Mothercare sales growth in the second half was 5.8 per cent which maintained the first half trend (after adjusting for the growth from the extra weeks trading of Childrens World stores).

The group gross margins were level for the year despite a 0.5 percentage point reduction in the first half due to stock clearance at Mothercare. Both Bhs and Mothercare delivered margin gains in the second half.

Costs in total increased by 6.5 per cent running below the sales increase. The underlying cost increase is 2.7 per cent after adjusting for the increased costs from new space and the extra weeks from Childrens World.

Within the overall increase in retail profit of 7.5 per cent, Bhs increased profits by 9.2 per cent and Mothercare by 1.8 per cent.

Interest

The interest charge has grown in the year reflecting the increase in average net debt due to the enlarged capital expenditure programme.

Taxation

The tax charge for the year was £35.0 million. The effective tax rate has been reduced from 31 per cent to 28 per cent. This reduction includes the two per cent reduction in the corporation tax rate to 31 per cent.

Capital expenditure

In the first year of this new investment phase, the cashflow on capital expenditure amounted to £124.1 million. This spend has been targeted at new openings, the refurbishment of our stores and the development of new systems as shown in the table below.

New stores include four openings in Bhs and four in Mothercare. The upgrade of our stores includes £26.8 million on the roll out of the 'millennium' format in Bhs and £10.2 million on the Mothercare World conversions. The systems spend includes £28.6 million on the Genesis project as work proceeds to the first phase of implementation in 1998.

Expenditure in the coming year is expected to be some £130 million which will include new store openings, the continued roll out of the 'millennium' store concept and the conversion of Mothercare stores into the new format.

Capital expenditure

	1998 £ million	1997 £ million
New stores	**35.4**	33.8
Store refurbishments and extensions	**46.6**	30.4
Systems	**33.7**	14.7
Other	**8.4**	15.2
	124.1	94.1

Cashflow

A tight focus on cash management ensured that the group generated a significant operating cash inflow during the year. Cashflow from operating activities was £163.4 million compared to £93.3 million last year. This improvement arises from a 11.4 per cent increase in earnings before interest and depreciation and an improved working capital to sales ratio compared to last year. After net payments for capital expenditure, taxation, interest, dividends and other payments, the group had a cash outflow of £15.2 million. Taking into account financing, this results in a £13.5 million increase in net debt.

Movement in net debt

	1998 £ million	1997 £ million
Cashflow from operations	**163.4**	93.3
Capital expenditure	**(124.1)**	(94.1)
Sale of fixed assets	**8.2**	15.5
Acquisitions	**(0.2)**	(55.5)
Dividends, tax and financing	**(60.8)**	(70.9)
Movement in net debt	**(13.5)**	(111.7)
Net debt	**51.7**	38.2
Gearing	**8.6%**	7.0%

Liquidity

The increase in net debt gave a small increase in gearing from 7.0 per cent to 8.6 per cent to give a closing net debt of £51.7 million. The peak borrowings are normally some £70 million above year end borrowings and occur in advance of Christmas trading. These requirements are well within the group's committed bank facilities which have been increased to £205 million. In view of the performance of the business the continued capital expenditure can be funded within comfortable gearing levels.

Shareholders' funds

Profit for the year attributable to shareholders was £90.1 million. The board has proposed a final dividend of 5.4p per share which will make a total dividend for the year of 9.0p, an increase of 11.1 per cent on last year. The dividend is covered 2.4 times before exceptional items which is consistent with the previous year. After the cost of dividend, the transfer to shareholders' funds is £52.1 million.

Internal control

Our compliance with the recommendations of the Cadbury report is shown in the directors' report on pages 22 and 23. The group's treasury operations are centrally controlled and clearly monitored in accordance with approved board guidelines.

Pension costs

An actuarial valuation of the pension fund was completed in the year. Taking into account the change in the taxation of dividend income announced in the Chancellor's budget in July 1997, the valuation shows the pension fund to have a surplus. The amortisation of this surplus gives a pension cost to the group of £0.1 million.

Year 2000 and preparing for the euro

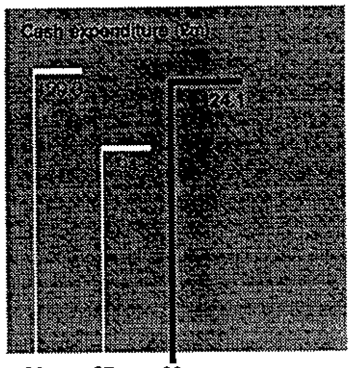
The Genesis programme significantly enhances the group's business systems by implementing integrated third party software packages. The implementation of the packages and the re-engineering of processes will address compliance problems and issues relating to the introduction of the euro. This programme is also addressing year 2000 issues in relation to all other areas of the group. It is therefore not possible to isolate the costs relating to the year 2000 and euro issues within the costs of the more general system development programme. In 1997/98, a total of £28.6 million was spent on these programmes which is being depreciated on implementation in accordance with normal accounting policy. Including the upgrade of till technology in Bhs, a further £48 million is expected to be invested over the next two years.

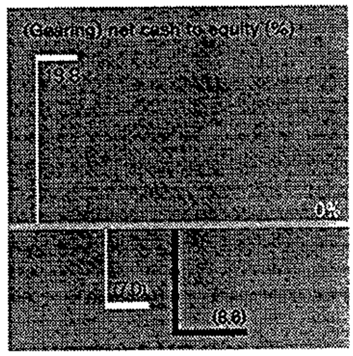
Conclusion

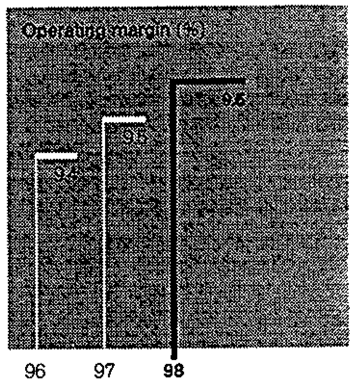
The group's financial position has improved with the sixth year of retail profits growth. Profits have moved ahead despite a difficult childrenswear market. Our progress is supported by an investment programme which is being carefully targeted to achieve the best return to shareholders. The balance sheet is strong with a comfortable gearing level.

Chris Martin

Chris Martin Group finance director

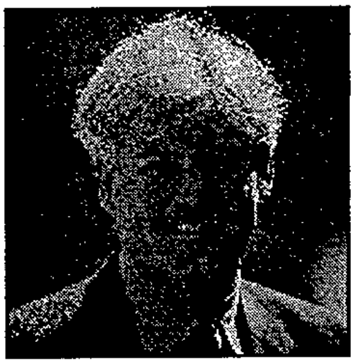






Group board







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Group executive committee

The group executive committee of Storehouse plc is responsible for the day to day management of the group's affairs.

In addition to the executive directors of Storehouse, the committee comprises: Stephen Tague, managing director, Bhs; Greg Tufnell, managing director, Mothercare; Andy Meehan, managing director of Storehouse's overseas operations; Guy Johnson, company secretary, Storehouse plc; and Stephen Pain, director of corporate affairs, Storehouse plc.

✣ Audit committee
◆ Remuneration committee
❊ Nomination committee

1 **Alan Smith** Chairman ✣◆❊
Appointed chairman in July 1996, having joined the board as a non-executive director and chairman-elect in January 1996. Previously a director of Marks & Spencer plc for 15 years and chief executive of Kingfisher plc 1993-1995. Non-executive director of Booker Plc, Colefax and Fowler plc and Whitehead Mann Group Plc. Adviser to Andersen Consulting. Aged 57

2 **Keith Edelman** Group chief executive ❊
Joined Storehouse in August 1993 as group chief executive. Former managing director of Carlton Communications Plc and director of Ladbroke Group PLC where he was also chairman of Texas Homecare. Non-executive director of Eurotunnel PLC; graduate in management sciences of the University of Manchester. Aged 47.

3 **Steve Bedford** Group development director
Joined the group in 1987 and appointed to the board as group development director in July 1992, responsible for IT, supply chain and human resources. Director of Bhs. Aged 42.

4 **Brian Hardy** Non-executive ✣◆
Appointed in November 1994. He is a chartered accountant and director, finance, of Burmah Castrol Plc. Aged 56.

5 **Angela Heylin OBE** Non-executive ✣◆
Appointed in March 1997. She is chairman of Charles Barker and a director of Provident Financial plc. Aged 54.

6 **Chris Martin** Group finance director
Appointed group finance director in January 1997. Joined Storehouse in April 1995 as Mothercare finance director and appointed Bhs finance director in October 1996, a role he retains. Former finance director of Pizza Hut (UK). Aged 37.

7 **David Tagg** Non-executive ✣◆❊
Appointed in July 1991. He was group services director of Grand Metropolitan PLC where his responsibilities included human resources, and is now group services director of Diageo plc. Fellow of the Institute of Personnel and Development; graduate of Pembroke College, Oxford. Aged 58.

financial information

Contents

Directors' report

Business review

The main companies within the Storehouse group are Storehouse plc, the holding company, Bhs plc and Mothercare UK Limited. A review of the development of the business of the Storehouse group during the year ended 28 March 1998, its position at the year end and an indication of likely future developments are given in the chairman's statement and in the chief executive's, business and financial reviews on pages 2 to 19.

Dividend

The directors recommend a final dividend of 5.4p per share. With the interim dividend of 3.6p per share paid on 10 February, this would bring the total dividend for 1998 to 9.0p per share (1997 - 8.1p), an increase of 11.1 per cent.

The final dividend will be payable on 18 August to shareholders registered on 19 June. Shareholders may continue to choose to receive shares in lieu of the cash dividend, although this year through a dividend re-investment plan. The plan is similar to the scrip scheme previously offered by the Company, although existing shares will be purchased using the cash dividend rather than new shares being issued. A dealing fee (of 0.5 per cent) and stamp duty (currently 50p for each £100 of part thereof of the value of the shares acquired) will be charged, whereas under a scrip scheme such costs are not payable. However, shareholders who are not liable to pay income tax will, unlike a scrip scheme, be entitled to claim a repayment of the tax credit applying to the dividend. The shares will be acquired on the dividend payment day, avoiding the risk of market movements which affects scrip dividends.

Full details of the dividend re-investment plan will be sent to shareholders on 29 June. The last day for election for the plan in relation to the final dividend is 27 July 1998.

Substantial shareholdings

At 11 May 1998 the Company had been advised by the following companies of notifiable interests in the ordinary share capital:

Holder	Number of shares	Percentage of issued capital
Franklin Resources, Inc	**50.8m**	**12.0**
The Prudential Corporation group of companies	**44.3m**	**10.5**
The Capital Group Companies, Inc	**34.7m**	**8.2**
Scudder Kemper Investments, Inc	**25.3m**	**6.0**
Legal & General	**13.3m**	**3.1**

Directors

Details of the directors of the Company are shown on page 20. With the exception of Martin Sorrell, who retired from the board on 10 July 1997, all the directors held office throughout the year. Keith Edelman and David Tagg, who were last re-elected by shareholders in 1996, retire by rotation and stand for re-election at the AGM. Biographical details, indicating their relevant qualifications and experience, are given on page 20. Details of Keith Edelman's service contract are given on page 42. David Tagg does not have a service contract with the Company.

Corporate governance

Storehouse complied throughout the financial year with the Code of Best Practice published in December 1992 by the committee on the financial aspects of corporate governance.

Storehouse conducts its operations so as to allow appropriate emphasis to be placed on the application of the principles of good corporate governance. This can be seen in the way in which the board and its committees are organised, its handling of directors' remuneration, shareholder communications and reporting, and its control systems.

Board organisation In addition to certain specific matters which are reserved to it for decision, the board decides the strategy and objectives of the group and reviews performance. It meets on a regular basis with timely access to all appropriate information. The board of Storehouse comprises four independent non-executive directors (including the chairman) and three executive directors. All the non-executive directors are free from any business or other relationship which could materially interfere with the exercise of their judgement. They do not participate in any bonus, share option or pension scheme of the company.

The board is assisted by committees which it has established with written terms of reference. Further details are given below of the roles of the remuneration and audit committees, both of which comprise the four non-executive directors. The nomination committee, which consists of Alan Smith, Keith Edelman and David Tagg, makes recommendations to the board on the appointment of directors. The group's operations are managed and the strategy is implemented by the executive committee (which is made up of the executive directors of Storehouse, the managing directors of Bhs, Mothercare and Storehouse International, the director of corporate affairs and the company secretary) and by the boards of the operating companies.

Directors' report

Remuneration committee The remuneration committee, which is chaired by David Tagg, the senior non-executive director, establishes the remuneration policy and arrangements for executive directors. It aims to set competitive remuneration packages (taking into account internal and external factors) in order to attract and retain executives of the appropriate calibre, to link remuneration to performance and shareholders' interests, and to provide full disclosure to shareholders. The report on remuneration is set out on pages 40 to 43.

Communications Detailed presentations are made to analysts, individual major shareholders and financial media on the interim and full year results, and regular dialogue is maintained throughout the year with them through the company's investor relations programme. In addition to the interim and full year announcements, press releases covering the first and third quarter's trading are made in July and January respectively.

Reporting and internal control The board is responsible for the group's system of internal control and has reviewed its effectiveness. They consider that it provides reasonable but not absolute assurance, in view of the inherent limitations in any such system, that assets are safeguarded and transactions are properly authorised and recorded. In addition to the external audit, the control system is based on the following elements:

- A culture of integrity and control, with a defined organisational structure and appropriate delegation of authority within limits.
- A professional approach to control and financial reporting, with regular monitoring and reconciliation processes and a financial review cycle which encompasses the corporate plan, budget and a post event appraisal of all major investments.
- A review of key performance indicators and identification of key business risks through the budgeting, forecast review and other monitoring processes and a consequent establishment of priorities for the allocation of resources.
- The provision of relevant, accurate, timely information based on the management information systems which are being updated and improved through the Genesis 2000 programme.

The Company has established within Genesis 2000 an internal millennium compliance programme. In addition a project has been initiated to review external issues relating to Year 2000 compliance which could materially impact on the group.

The group has taken into account the proposed introduction of the euro in the upgrading of its existing systems.

Audit committee The audit committee, which is chaired by Brian Hardy, reviews the scope and issues arising from the audit and matters relating to financial control. It also assists the board in its presentation of the company's financial results and position through its review of the interim and full year accounts before approval by the board, focusing in particular on compliance with accounting principles, any changes in accounting practice, and major areas of judgement.

Employees

The group achieves an awareness among and consults with all its employees on corporate objectives, performance, economic and other factors which affect the business through regular team meetings, training courses and bulletins disseminated through various media including video and e-mail. The systems changes within the group have prompted a review of the development programmes for employees, which have been codified based on the separate capabilities or critical skills required within the various roles. In addition to management development, these programmes include Spotlight on Success for store employees and a development programme in buying and merchandising.

The group's reward philosophy is performance orientated. In addition to its incentive plans, the group operates various share schemes including Option 2000, an all employee share option scheme, under which a further grant was made during the financial year. Note 18 on page 43 gives details of the schemes.

Storehouse is an equal opportunities employer and ensures that recruitment and promotion decisions are made solely on the basis of suitability for the job. Disabled persons are given due consideration for employment opportunities, and if employees become disabled, every effort is made to retain them, providing requisite employment aids.

Payment of suppliers

Payments to merchandise suppliers are made in accordance with the general conditions of purchase, which are communicated to suppliers at the beginning of the trading relationship. It is the group's policy to make payments to non-merchandise suppliers, unless otherwise agreed, within the period set out in the supplier's invoice or within 50 days from the date of invoice.

The amount owed to trade creditors at the end of the financial year represented six days of average daily purchases during the year for the Company and 23 days for the group.

Fixed assets

In the opinion of the directors, there is a small surplus in the market value over the book value of the group's interest in land and buildings excluding rack rented properties.

Directors' report

Charitable donations

The group's direct charitable donations in the year were £126,000 (1997 - £130,000). The major charitable contributions arise however through money raised in its stores on the sales of certain products and through various employee fund raising ventures. The group made no political donations during the year.

Environmental policy

The Storehouse environmental policy was published in late 1996 and there are a number of specific initiatives behind that policy, of which some further details are given on page 9. Steve Bedford, the group development director, has overall responsibility for the policy.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company and the group have adequate resources to continue in operational existence for the forseeable future. The financial statements are therefore prepared on a going concern basis.

Annual General Meeting

The AGM will be held on Friday, 10 July 1998 at 12.00 noon at the Merchant Taylors' Hall, 30 Threadneedle Street, London EC2. The notice of the meeting and a pre-paid form for use, if you are unable to come to the AGM but wish to put any questions to your board, are enclosed with this annual report. The chairman will respond in writing to questions received.

The chairman's opening statement and a summary of the chief executive's business presentation at the AGM, together with a resumé of questions and answers given at the meeting and voting figures (including the proxy count), will be prepared following the AGM. This will be available to shareholders on request to the company secretary at the Company's head office.

Auditors A resolution to re-appoint Arthur Andersen as auditors will be proposed at the AGM.

Disapplication of pre-emption rights The Companies Act 1985 provides that, unless shareholders otherwise consent, all new equity securities to be allotted for cash must first be offered to shareholders in proportion to their existing holdings. The effect of resolution 6, set out in the notice of the AGM, is to authorise the directors to issue equity securities for cash up to a limited aggregate amount of 21,148,000 ordinary shares. This is five per cent of the Company's issued ordinary share capital, within the guidelines of the Institutional Investment Committees and the London Stock Exchange. The resolution will also authorise the directors to allot shares otherwise than strictly pro rata in connection with an issue by way of rights where practical considerations, such as foreign securities laws or fractional entitlements, make this desirable. The authority will terminate on 9 July 2001, at the same time as the general authority to allot shares.

Purchase of own shares The Company was authorised at the 1997 AGM to purchase up to 10 per cent of its shares in the market. This authority has not been used and expires at the conclusion of this year's AGM. Resolution 7 seeks to renew the authority for a further year. Shares purchased will be cancelled. The directors have no present intention of using this authority, but wish to be in a position to act quickly in the interests of the Company and shareholders generally if circumstances so warrant. Purchases of the Company's shares would only be made if this would result in an increase in earnings per share and be in the best interests of the Company at the time.

By order of the board
G A Johnson, company secretary
21 May 1998

Directors' responsibilities for the accounts

The following statement has been prepared, in accordance with the Cadbury Code of Best Practice, in order to explain the directors' responsibilities for preparing the accounts. It should be read in conjunction with the Auditors' report set out below.

The directors are required to prepare accounts which give a true and fair view of the state of affairs of the Company and the group as at the end of its financial year, and of the profit of the group for the financial year. The directors are also required to ensure that adequate accounting records are maintained.

In preparing the accounts, the directors consider that appropriate accounting policies consistently applied and supported by reasonable and prudent judgements have been used. Applicable accounting standards have been followed. The accounts have been prepared on a going concern basis.

The directors are also responsible for taking reasonable steps to safeguard the assets of the Company and the group and to prevent and detect fraud and other irregularities.

Auditors' report

To the shareholders of Storehouse plc:

We have audited the accounts on pages 26 to 39 and note 18 on pages 43 and 44 which have been prepared under the historic cost convention and the accounting policies set out on page 30. We have also examined the amounts disclosed relating to the emoluments, share options and long term bonus scheme interests of the directors which form part of the remuneration committee report on pages 40 to 43.

Respective responsibilities of directors and auditors

As described on page 24 the Company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the group, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the group at 28 March 1998 and of the group's profit and cash flows for the fifty-two weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate Governance

In addition to our audit of the accounts, we have reviewed the directors' statements on pages 22 to 24 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company and group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on pages 23 and 24, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 22 to 24 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Arthur Andersen
Chartered accountants and registered auditors
1, Surrey Street, London
21 May 1998

Arthur Andersen

Group profit statement

For the fifty-two weeks ended 28 March 1998 (Note 1)

	1998 £ million	1997 £ million
Turnover		
Continuing businesses	**1,335.0**	1,247.3
Discontinued operations	**–**	2.4
Total (Note 2)	**1,335.0**	1,249.7
Cost of sales (Note 2)	**(1,178.9)**	(1,102.5)
Gross profit	**156.1**	147.2
Administrative expenses (Note 2)	**(28.2)**	(28.2)
Profit from retail operations: (Note 2)		
Continuing businesses	**127.9**	119.2
Discontinued operations	**–**	(0.2)
	127.9	119.0
Exceptional items: (Note 3)		
Restructuring of Childrens World	**–**	(16.4)
Disposal of Blazer	**–**	(4.1)
Interest and other items (Note 4)	**(2.8)**	(0.7)
Profit on ordinary activities before taxation	**125.1**	97.8
Tax on profit on ordinary activities (Note 5)	**(35.0)**	(34.0)
Profit for the financial year	**90.1**	63.8
Dividends (Note 6)	**(38.0)**	(34.0)
Retained profit for the financial year (Note 15)	**52.1**	29.8
Earnings per share (Note 7)	**21.4p**	15.2p
Earnings per share excluding exceptional items (Note 7)	**21.4p**	19.4p

Statement of total recognised gains and losses

For the fifty-two weeks ended 28 March 1998 (Note 1)

	1998 £ million	1997 £ million
Company	**1.1**	6.0
Subsidiary undertakings	**89.0**	57.8
Profit for the financial year being total recognised gains and losses relating to the year	**90.1**	63.8

A statement of the movement in reserves is shown in Note 15.
The accounting policies on page 30 and the notes on pages 31 to 44 form an integral part of these Statements.

Group and Company balance sheets

As at 28 March 1998 (Note 1)

	Group		Company	
	1998 £ million	1997 £ million	1998 £ million	1997 £ million
Fixed Assets				
Tangible assets (Note 8)	**611.8**	544.1	**–**	0.2
Investments (Note 9)	**2.0**	2.4	**290.7**	222.6
	613.8	546.5	**290.7**	222.8
Current Assets				
Stocks	**188.6**	175.2	**–**	–
Debtors (Note 10)	**100.3**	94.1	**100.8**	148.6
Cash at bank and in hand and time deposits	**41.6**	41.9	**–**	–
	330.5	311.2	**100.8**	148.6
Creditors (amounts falling due within one year - Note 11)	**(296.8)**	(257.9)	**(135.4)**	(81.6)
Net Current Assets	**33.7**	53.3	**(34.6)**	67.0
Total Assets Less Current Liabilities	**647.5**	599.8	**256.1**	289.8
Creditors (amounts falling due after one year - Note 11)	**(32.6)**	(43.9)	**–**	–
Provisions for Liabilities and Charges (Note 13)	**(16.4)**	(12.7)	**–**	–
	598.5	543.2	**256.1**	289.8
Capital and Reserves attributable to equity interests				
Called-up share capital (Note 14)	**42.3**	42.1	**42.3**	42.1
Share premium account (Note 15)	**29.7**	28.2	**29.7**	28.2
Acquisition and merger reserves (Note 15)	**73.5**	73.5	**–**	–
Profit and loss account (Note 15)	**453.0**	399.4	**184.1**	219.5
	598.5	543.2	**256.1**	289.8

Approved by the board on 21 May 1998
K G Edelman
C N Martin
Directors

Reconciliation of movements in shareholders' funds for the fifty-two weeks ended 28 March 1998:

	1998 £ million	1997 £ million
Profit for the financial year	**90.1**	63.8
Dividends	**(38.0)**	(34.0)
	52.1	29.8
Goodwill on acquisition of Childrens World	**–**	(27.1)
Goodwill on disposal of Blazer	**–**	5.1
Scrip dividend	**1.5**	0.8
New share capital subscribed	**1.7**	2.6
Net increase in shareholders' funds	**55.3**	11.2
Opening shareholders' funds	**543.2**	532.0
Closing shareholders' funds	**598.5**	543.2

The accounting policies on page 30 and the notes on pages 31 to 44 form an integral part of these Statements.

Group cash flow statement

For the fifty-two weeks ended 28 March 1998 (Note 1)

	1998 £ million	1998 £ million	1997 £ million	1997 £ million
Reconciliation of net cash inflow from operating activities				
Profit from retail operations	127.9		119.0	
Depreciation	55.2		45.3	
Increase in stocks	(13.6)		(38.3)	
Increase in debtors	(11.3)		(22.0)	
Increase (decrease) in creditors	7.6		(1.9)	
Net cash flow in respect of exceptional costs	(2.4)		(8.8)	
Net cash inflow from operating activities		163.4		93.3
Group cash flow statement				
Net cash flow from operating activities		163.4		93.3
Returns on investments and servicing of finance:				
Interest received	2.9		2.4	
Interest paid Note (d)	(5.7)		(3.3)	
		(2.8)		(0.9)
Taxation:				
Corporation tax including ACT	(25.6)		(41.8)	
Overseas tax	(0.3)		(0.3)	
		(25.9)		(42.1)
Capital expenditure:				
Purchase of tangible fixed assets	(124.1)		(94.1)	
Sale of tangible fixed assets	8.2		15.5	
		(115.9)		(78.6)
		18.8		(28.3)
Acquisitions and disposals:				
Acquisition of subsidiaries and shares Note (b) and Note 9	(0.2)		(65.0)	
Net cash acquired with subsidiary undertaking Note (b)	–		2.5	
Disposal of subsidiaries Note (c)	–		7.0	
		(0.2)		(55.5)
Equity dividends paid		(33.8)		(30.5)
		(15.2)		(114.3)
Management of liquid resources Note (a)		(1.8)		(1.3)
Financing:				
Issue of share capital	1.7		2.6	
Increase in debt Note (a)	35.2		42.8	
		36.9		45.4
Increase (decrease) in cash in the period		19.9		(70.2)
Reconciliation of net cash flow to movement in net debt				
Increase (decrease) in cash for the year		19.9		(70.2)
Cash flow from liquid resources		1.8		1.3
Cash flow from debt		(35.2)		(42.8)
Movement in net debt in the period Note (a)		(13.5)		(111.7)
Net (debt) funds at beginning of year		(38.2)		73.5
Net debt at end of year		(51.7)		(38.2)

Notes to the group cash flow statement

For the fifty-two weeks ended 28 March 1998 (Note 1)

	1996 £ million	Cash Flow £ million	1997 £ million	Cash Flow £ million	1998 £ million
(a) Analysis of net funds (debt)					
Cash*	44.8	(32.9)	**11.9**	**(2.1)**	**9.8**
Overdrafts (Note 11)	–	(37.3)	**(37.3)**	**22.0**	**(15.3)**
Net cash	44.8	(70.2)	**(25.4)**	**19.9**	**(5.5)**
Cash flow from management of liquid resources					
Time deposits*	28.7	1.3	**30.0**	**1.8**	**31.8**
Increase in debt					
Bills of exchange and bank loans (Note 11)	–	(10.0)	**(10.0)**	**(43.0)**	**(53.0)**
Obligations under property leases: Due within one year (Note 11)	–	(6.2)	**(6.2)**	**(0.2)**	**(6.4)**
Due after one year (Note 11)	–	(26.6)	**(26.6)**	**8.0**	**(18.6)**
Increase in debt	–	(42.8)	**(42.8)**	**(35.2)**	**(78.0)**
Net funds (debt)	73.5	(111.7)	**(38.2)**	**(13.5)**	**(51.7)**

*Cash and time deposits on the balance sheet represents the total of cash of £9.8 million (1997 – £11.9 million) and time deposits of £31.8 million (1997 – £30.0 million).

(b) Acquisition of subsidiaries and shares **Net assets on acquisition of Childrens World:**	1998 £ million	1997 £ million
Tangible fixed assets		26.7
Stocks		15.0
Debtors including £0.3 million taxation recoverable		2.5
Cash at bank and in hand		2.5
Creditors		(10.0)
Net assets on acquisition		36.7
Goodwill		27.1
Cash paid including costs of £1.3 million	–	63.8
Acquisition of shares by Long Term Incentive Plan (Note 9)	**0.2**	1.2
	0.2	65.0

(c) Sale of Blazer	1997 £ million
Net assets disposed of:	
Fixed assets	2.3
Stocks	2.2
Other net liabilities	(0.7)
Net assets	3.8
Cash consideration after costs of £0.1 million	7.0
Gain on disposal before goodwill written-off	3.2
Provision for termination costs	(2.2)
Net gain on disposal	1.0
Goodwill written off at time of acquisition	(5.1)
Net loss on disposal (Note 3)	(4.1)

(d) Obligations under property leases

Proceeds from finance leases in 1997 amounted to £37.1 million. The capital element of lease payments made in the year was £7.8 million (1997 - £4.3 million). Interest paid includes £2.2 million (1997 – £1.9 million) in relation to obligations under property leases.

Accounting policies

Accounting convention
The accounts have been prepared under the historic cost convention and in accordance with applicable accounting standards..

Basis of consolidation
The group accounts include the accounts of the Company and all its subsidiary undertakings drawn up to the close of business on 28 March 1998.

Intercompany transactions have been eliminated on consolidation. The results of companies acquired or disposed of in the year are included to the date of disposal or from the effective date of acquiring control. Goodwill arising on the acquisition of subsidiary undertakings and representing the difference between the consideration given and the fair value of the net assets acquired is written off to reserves but included in the calculation of the loss/gain on subsequent disposal. As provided by the Companies Act 1985, the Company does not disclose its own separate profit and loss account.

Stocks
Stocks consist substantially of goods for resale and are stated at the lower of cost and net realisable value. Cost includes an appropriate element of overhead expenditure.

Leased assets
Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of capital repayments outstanding. Operating leases are charged to profit and loss as incurred.

Deferred taxation
Deferred taxation is provided on the excess of capital allowances over book depreciation and in respect of short-term timing differences to the extent that the directors are of the opinion that such tax will become payable in the foreseeable future.

Tangible fixed assets
Tangible fixed assets are included at cost, less accumulated depreciation. Depreciation is not provided on freehold stores as it is the group's practice to maintain these assets in a continual state of sound repair. Accordingly the directors consider that the lives of these assets and the estimated residual values based on prices prevailing at time of acquisition are such that any depreciation charge would be insignificant. Depreciation is charged on a straight-line basis over the following periods. Freehold land is not depreciated.

Freehold buildings other than stores – 50 years
Fixed equipment in freehold buildings – 20 years
Leasehold improvements – the period of the lease
Fixtures, fittings and equipment – 3 to 20 years

Pension costs
The cost of providing pensions is calculated using actuarial valuation methods which reflect the long-term costs. The amount charged to the profit and loss account is calculated so as to produce a substantially level percentage of the current and future pensionable payroll. Variations from the regular cost so calculated are allocated to the profit and loss account over the average remaining service lives of employees.

Foreign currency
Transactions in foreign currencies are translated into local currency at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in a foreign currency are translated into local currency at the rates ruling at each balance sheet date. Resulting exchange gains or losses are included in trading profit. For the purposes of consolidation, the results of overseas subsidiary undertakings are translated at average rates of exchange during the year. Translation differences on the opening net assets and results for the year of overseas subsidiary undertakings, net of gains or losses on related foreign currency borrowing, are dealt with through reserves.

Investments
The Company's investment in subsidiary undertakings is stated at cost less amounts written off. Dividends receivable are credited to the Company's profit and loss account.

Turnover
Group turnover comprises the value of sales (excluding sales taxes and net of discounts) of goods in the normal course of business.

Notes to the accounts

1 Basis of presentation

The Company's accounting period covers the 52 weeks ended 28 March 1998. The comparative period covered the 52 weeks ended 29 March 1997.

2 Supplementary profit and loss information

All turnover and retail profit is derived from continuing businesses in the UK.

Turnover by destination can be analysed as follows:

	1998 £ million	1997 £ million
United Kingdom including Channel Islands	**1,227.1**	1,151.9
Rest of Europe	**42.4**	34.3
Rest of World	**65.5**	63.5
	1,335.0	1,249.7

Discontinued operations represented £2.3m of cost of sales and £0.2m of administrative expenses in 1997.

Profit from retail operations, all from continuing businesses, has been determined after charging the following items:

	1998 £ million	1997 £ million
Depreciation of tangible assets	**55.2**	45.3
Net rent of properties	**98.5**	90.9
Auditors' remuneration – audit	**0.2**	0.2
– non-audit (taxation and in 1997 advice on acquisition of Childrens World)	**0.2**	0.4
Staff costs:		
Wages and salaries (including bonuses)	**128.4**	124.8
Social security costs	**7.1**	6.7
Other pension costs	**0.1**	0.1

An analysis of the average number of full and part-time employees throughout the group, all of whom are employed in the UK, including executive directors, is as follows:

	1998	1997
Number of employees	**20,994**	20,841
Full-time equivalents	**10,795**	10,866

3 Exceptional items

Restructuring of Childrens World

The restructuring charge of £16.4 million arose on the acquisition of Childrens World in May 1996.

Disposal of Blazer

The loss on disposal of Blazer in June 1996 amounted to £4.1 million including the goodwill of £5.1 million which had been written off on acquisition.

The tax relief on the exceptional costs in 1997 was £2.8 million.

Notes to the accounts

4 Interest and other items

	1998 £ million	1997 £ million
Interest payable:		
Bank loans and overdrafts (repayable within five years, not by instalments)	**(3.5)**	(1.2)
Obligations under property leases (repayable within five years by instalments)	**(2.2)**	(1.9)
Interest receivable	**2.9**	2.4
	(2.8)	(0.7)

5 Taxation

The charge for tax on profit on ordinary activities comprises:

	1998 £ million	1997 £ million
UK corporation tax at 31% (1997 – 33%)	**29.3**	27.0
Overseas taxation	**0.4**	0.3
Deferred taxation	**6.8**	4.4
	36.5	31.7
Adjustment for prior years	**(1.5)**	2.3
Taxation arising on income of the group	**35.0**	34.0

Deferred taxation included in the balance sheet comprises:

	Group	
	1998 £ million	1997 £ million
Excess of capital allowances over book depreciation	**17.9**	12.1
Other timing differences	**2.5**	1.5
ACT recoverable	**(5.6)**	(5.0)
	14.8	8.6

The movement on deferred taxation in the year was as follows:

	£ million
Balance at beginning of year	**8.6**
ACT recoverable	**(0.6)**
Charged to profit and loss	**6.8**
Balance at end of year	**14.8**

The amount of deferred taxation cumulatively not provided, principally arising on capital allowances in the group balance sheet, was £17.0 million (1997 - £19.8 million).

6 Dividends on equity shares

	1998 £ million	1997 £ million
Interim of 3.6p per share paid (1997 – 3.3p)	**15.2**	13.8
Final of 5.4p per share proposed (1997 – 4.8p)	**22.8**	20.2
	38.0	34.0

Notes to the accounts

7 Earnings per share

	1998	1997
Average number of ordinary shares in issue	**421.9m**	420.2m
Profit for the financial year	**£90.1m**	£63.8m
Earnings per share	**21.4p**	15.2p
Profit for the financial year excluding exceptional items (Note 3)	**£90.1m**	£81.5m
Earnings per share excluding exceptional items	**21.4p**	19.4p

Profit for the 1996/7 financial year excluding exceptional items is shown in order to give the underlying trading performance of the group. Fully diluted earnings per share are not materially different from the amounts shown above.

8 Tangible assets

The net book value of tangible fixed assets shown in the group balance sheet comprises:

	Properties, including fixed equipment				
	Freehold £ million	Leasehold £ million	Fixtures, fittings, equipment £ million	Assets in course of construction £ million	Total £ million
Cost:					
Balance at beginning of year	69.8	413.9	362.8	–	846.5
Additions	3.0	30.1	64.2	33.6	130.9
Disposals and write-offs	(2.6)	(7.0)	(23.1)	–	(32.7)
Balance at end of year	70.2	437.0	403.9	33.6	944.7
Accumulated depreciation:					
Balance at beginning of year	4.8	96.9	200.7	–	302.4
Charge for the year	0.3	13.9	41.0	–	55.2
Disposals and write-offs	–	(1.8)	(22.9)	–	(24.7)
Balance at end of year	5.1	109.0	218.8	–	332.9
Net book value:					
Balance at beginning of year	65.0	317.0	162.1	–	544.1
Balance at end of year	65.1	328.0	185.1	33.6	611.8

The net book value of leasehold properties includes £164.4 million (1997 – £153.0 million) in respect of short leasehold properties. The net book value of leasehold properties includes £53.5 million (1997 - £58.9 million) held under finance leases.

8 Tangible assets continued

The net book value of tangible fixed assets shown in the Company balance sheet comprises:

	Fixtures, fittings, equipment £ million	Total £ million
Cost:		
Balance at beginning of year	**0.3**	**0.3**
Disposals	**(0.3)**	**(0.3)**
Balance at end of year	**–**	**–**
Accumulated depreciation:		
Balance at beginning of year	**0.1**	**0.1**
Charge for the year	**0.1**	**0.1**
Disposals	**(0.2)**	**(0.2)**
Balance at end of year	**–**	**–**
Net book value:		
Balance at beginning of year	**0.2**	**0.2**
Balance at end of year	**–**	**–**

9 Investments

Investments in the group balance sheet consist of the group's interests in its own shares through an ESOP (Employee Share Ownership Plan) and the LTIP (Long Term Incentive Plan) which have been accounted for in accordance with UITF Abstracts 13 and 17. The cost of shares to be allocated is spread over the period of the LTIP. The movement reflects the allocation of 243,525 shares to directors in May 1997 and the acquisition of 120,000 shares by the Storehouse Employee Trust as set out in Note 17.

Investments in the Company's balance sheet consist of its investments in its subsidiary undertakings.

The trading subsidiary undertakings at 28 March 1998 (all wholly owned and all of which are consolidated in the accounts) and their respective countries of incorporation or registration which in the opinion of the directors principally affected the profits or net assets of the group are:

	Business	Country of Registration
Bhs plc(i)	Retailing	England
Bhs (Jersey) Limited	Retailing	Jersey
Mothercare UK Limited	Retailing	England
Childrens World Limited	Retailing	England
Storehouse Finance plc*	Finance Company	England
Storehouse Properties Limited*	Investment Property	England
Davenbush Limited*(i)	Investment Property	England

*Direct subsidiary of Storehouse plc

Issued share capital represents only ordinary shares or their equivalent except for companies marked (i) where there are also preference shares.

The principal country of operation for the subsidiary undertakings is the United Kingdom except for Bhs (Jersey) Limited which operates in Jersey. Details of investments which are not significant have been omitted to avoid a statement of excessive length.

The Company's investment in its subsidiary undertakings is as follows:

	1998 £ million	1997 £ million
Cost of investments less amounts written off £63.2 million (1997 – £63.2 million)	**153.5**	153.5
Loans to subsidiary undertakings	**137.2**	69.1
	290.7	222.6

10 Debtors

	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Trade debtors	**50.9**	41.0	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**91.5**	140.3
Prepayments and accrued income	**39.4**	43.8	**–**	–
Asset held for re-sale	**–**	0.4	**–**	–
Other debtors	**10.0**	8.9	**9.3**	8.3
	100.3	94.1	**100.8**	148.6

Included within group debtors is £7.2 million (1997 – £7.1 million) which is due in over one year; included within the Company is £6.7 million (1997 – £6.1 million) which is due in over one year.

11 Creditors (amounts falling due within one year and after one year)

Amounts falling due within one year	Group 1998 £ million	Group 1997 £ million	Company 1998 £ million	Company 1997 £ million
Bank overdrafts	**15.3**	37.3	**57.4**	8.5
Bills of exchange and bank loans	**53.0**	10.0	**–**	–
Obligations under property leases	**6.4**	6.2	**–**	–
Trade creditors	**78.3**	63.4	**0.1**	0.1
Proposed dividend	**22.8**	20.2	**22.8**	20.2
Current taxation	**37.0**	35.3	**–**	–
ACT payable	**9.3**	8.2	**9.3**	8.2
Amounts due to subsidiary undertakings	**–**	–	**45.0**	43.1
Payroll and other taxes, including social security	**5.2**	7.6	**0.1**	0.1
Accruals and deferred income	**59.6**	59.9	**0.7**	1.4
Landlords' contributions	**8.7**	8.2	**–**	–
Other creditors	**1.2**	1.6	**–**	–
	296.8	257.9	**135.4**	81.6

Amounts falling due after one year	Group 1998 £ million	Group 1997 £ million
Obligations under property leases	**18.6**	26.6
Landlords' contributions	**13.6**	17.0
Corporation taxation	**0.4**	0.3
	32.6	43.9

Obligations under property leases are analysed as follows:

	1998 £ million	1997 £ million
Amounts payable		
– within one year	**8.0**	8.4
– within two to five years	**20.7**	30.3
	28.7	38.7
Finance charges allocated to future periods	**(3.7)**	(5.9)
	25.0	32.8

12 Group borrowings

The group uses financial instruments to raise finance for its operations and to manage risk arising from those operations. All transactions in derivatives (principally forward foreign exchange contracts) are taken to manage the risks outlined below. No transactions of a speculative nature are undertaken, and no options are used.

The major financial risks faced by the group are interest risk and exchange rate risk. The board reviews and agrees the policies for managing each of these risks as summarised below. There has been no change since the year end to the major financial risks faced by the group or to the group's approach to the management of these risks.

Finance and interest rate risk

The group's policy is to finance operating companies by a mixture of retained profits and bank borrowings. The group borrows in sterling at both fixed and floating rates of interest. At the year end 29 per cent of the group's borrowings were at fixed interest rates.

The interest charge for the year, excluding interest receivable, of £5.7m was 7.4 per cent when measured against average gross borrowings of £78 million (1997 – 7.3 per cent on borrowings of £49 million) excluding time deposits. Interest overall is covered 46 times by profit before interest and tax (1997 – 142 times).

At the end of the year 21 per cent of the group's gross borrowings matured in over one year. Short term flexibility is achieved by overdraft facilities to meet the peak borrowing requirements of the group before Christmas.

Foreign currency risk

About eight per cent of the sales of the group's UK businesses are to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than two per cent of the group's purchases are made in a foreign currency and the exchange risk is hedged by using forward contracts. The group's policy is to cover 100 per cent of all material exposures on such creditors that arise from time to time. All other purchases sourced from overseas are invoiced in sterling and therefore the group manages the currency exposure by eliminating any adverse movements in sterling against the underlying currencies whilst losing the benefit of any upwards movements.

Analysis of borrowings by interest rate and currency

The gross borrowings of the group, all of which are in sterling, by interest rate exposure at 28 March 1998 were:

	Total £ milion	Floating borrowings £ million	Fixed borrowings £ million
Bank overdrafts	**15.3**	**15.3**	**–**
Bills of exchange and bank loans	**53.0**	**53.0**	**–**
Obligations under property leases excluding finance charges allocated to future periods	**28.7**	**–**	**28.7**
Gross borrowings	**97.0**	**68.3**	**28.7**

The floating rate borrowings comprise sterling denominated bank borrowings that bear interest rates based on LIBOR. The weighted average interest rate is 7.75% and the weighted average time for which the rate is fixed is 3.3 years.

Maturity of gross borrowings

The maturity of the group's gross borrowings is as follows:

	£ million
Within one year	**76.3**
Between one and two years	**8.0**
Between two and five years	**12.7**
Total	**97.0**

12 Group borrowings continued

Borrowing facilities

The group had £72.0 million undrawn committed borrowing facilities available to it at 28 March 1998, all of which expired beyond one year. These facilities were extended and increased in May 1998. As a result of this exercise, the group now has committed facilities of £205 million of which £140 million is for a period of five years from May 1998.

Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 28 March 1998 were:

	Currency	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million
	Sterling	**695.0**	**97.0**
	US dollar	**0.5**	**–**
Total		**695.5**	**97.0**

The amounts shown in the previous table are after taking into account forward foreign currency contracts.

Fair values of financial instruments

Set out below is a year-end comparison of current book values of all the group's financial instruments by category.

Where market prices are not available for a particular instrument, fair values have been calculated by discounting cash flows at prevailing interest and exchange rates.

	1998 book values £ million	1998 fair values £ million
Other short term financial assets	**0.5**	**0.5**
Forward currency contracts	**0.4**	**0.4**

Market price risk

The group monitors interest rate risk by determining the effect on profit before tax of a range of possible changes in interest rates. Assuming no changes to the borrowings described above, it is estimated that a rise of one percentage point in interest rates would reduce 1997/98 profit before tax by approximately 0.6 per cent.

13 Provisions for liabilities and charges

	Group 1998 £ million	Group 1997 £ million
Deferred taxation (Note 5)	**14.8**	8.6
Other provisions	**1.6**	4.1
	16.4	12.7

The movement on other provisions can be analysed as follows:

	Acquisition Provisions	Disposal Provisions	Total
Balance at beginning of year	**2.5**	**1.6**	**4.1**
Utilised in year	**(2.2)**	**(0.3)**	**(2.5)**
Balance at end of year	**0.3**	**1.3**	**1.6**

14 Called-up share capital

The authorised share capital is represented by 549,500,000 (1997 – 549,500,000) ordinary shares of 10p each.
The called-up share capital, all fully paid, is as follows:

	Number of shares	£ million
Balance at beginning of year	**421,351,360**	**42.1**
Issued under the Storehouse Sharesave Scheme	**36,404**	**–**
Issued under the Storehouse Executive Share Option Scheme	**773,000**	**0.1**
Issued under the Scrip Dividend Scheme	**802,014**	**0.1**
Balance at end of year	**422,962,778**	**42.3**

15 Reserves

The movement on reserves is as follows:

	Company		Group		
	Profit and Loss account £ million	Share premium account £ million	Share premium account £ million	Profit and Loss account £ million	Acquisition and merger reserves £ million
Balance at beginning of year	**219.5**	**28.2**	**28.2**	**399.4**	**73.5**
Profit for the financial year	**1.1**	**–**	**–**	**90.1**	**–**
Dividends paid and proposed	**(38.0)**	**–**	**–**	**(38.0)**	**–**
Scrip dividend adjustment	**1.5**	**–**	**–**	**1.5**	**–**
Share issue	**–**	**1.5**	**1.5**	**–**	**–**
Balance at end of year	**184.1**	**29.7**	**29.7**	**453.0**	**73.5**

The Company's realised gains and losses are the same as the profit for the financial year and the historic cost profit and loss.

The cumulative amount of goodwill resulting from acquisitions, net of amounts written back on subsequent disposals, arising since the formation of Storehouse, which has been written off is £30.1 million (1997 – £30.1 million).

16 Commitments

The capital commitments are as follows:

	Group	
	1998 £ million	1997 £ million
Contracts for capital expenditure	**7.8**	10.6

Current annual rental commitments of the group under operating leases are as follows:

	Buildings		Other	
	1998 £ million	1997 £ million	1998 £ million	1997 £ million
Leases which expire				
– within 1 year	**0.5**	0.7	**1.3**	2.9
– between 2 and 5 years	**2.9**	0.7	**3.3**	3.1
– over 5 years	**102.1**	96.1	**–**	0.5
	105.5	97.5	**4.6**	6.5

The Company has committed to support certain of its subsidiary undertakings and has banking cross guarantees with certain of its principal subsidiary undertakings.

Pensions

The group has operated two defined benefit pension schemes for its employees during the year.

The majority of the assets of each scheme are held in a separate trustee common investment fund, the Storehouse Pension Investment Fund. The pension costs relating to the schemes were assessed in accordance with the advice of qualified actuaries using primarily the projected unit and current unit methods. A new valuation was carried out effective at 1 April 1997 and the figures below reflect the results of that valuation.

The assumptions which have the most significant effect on the results of the valuation are set out below, with the assumptions used at the previous actuarial valuation (April 1994) shown in brackets. The major change was to the rate of return on investments, which was reduced from 9.0 per cent to 8.75 per cent to reflect the taxation of dividend income announced in the July 1997 budget.

Rate of return on investments	8.75% (9.0%)
Rate of increase in salaries	7.0 – 8.0% (7.0 – 8.0%)
Rate of increase in pensions	4.5% (4.5%)

The aggregate market value of the investments at 1 April 1997 was £369 million and the actuarial values were sufficient to cover between 127 per cent and 156 per cent (average 134 per cent) of the benefits that had accrued to members after allowing for expected future increases in earnings.

The total pension cost for the group is £0.1 million (1997 – £0.1 million) and includes a credit of £11.9 million (1997 - £10.3 million) in respect of amortisation of pension surpluses arising in earlier years which are now being allocated over the remaining estimated service lives of members of between six and 15 years. Most of the increase in the credit reflects the increase in the cost of the future service benefit which also results from the change in the taxation of fund dividend income. However, the effect of this has been minimised by the good investment returns achieved by the fund over the last three years, such that amortisation of the surplus is still sufficient to cover the increased company contributions.

For the protection of members' interest, the group has appointed three trustees, two of whom are independent of the Company. To maintain this independence, the trustees and not the group are responsible for appointing their own successors.

17 Report by the remuneration committee on behalf of the board

Remuneration policy

It is the Company's policy to set competitive remuneration levels, with an emphasis on performance related rewards, in order to attract and retain directors and employees of the quality required. In setting the remuneration arrangements comparison is particularly made with other major quoted general retail companies. The long term elements of executive directors' remuneration are aligned to shareholders' interests in that the share option scheme and 50 per cent of the long term incentive plan are based on share price performance, with earnings measures also incorporated into both schemes. The remuneration committee has given full consideration, in framing its policy on directors' remuneration, to the best practice provisions annexed as Section B to the Listing Rules of the London Stock Exchange.

Remuneration committee

The remuneration committee is chaired by David Tagg and also comprises the other non-executive directors. It determines the remuneration arrangements for each of the executive directors and oversees the operation of the long term incentive plan and the executive share option scheme. The Company has adopted the provisions of the Code of Best Practice of the Study Group on Directors' Remuneration, and complies with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange.

Executive directors' remuneration comprises the fixed elements of salary and pension, and the variable incentive based elements of annual bonus, long term incentive plan and executive share option scheme.

Salary

Consideration is given to remuneration arrangements throughout the group when reviewing executive pay levels. Base salary only is pensionable, with no account taken in calculating pension entitlement of any payments under the bonus schemes.

Annual bonus

An annual bonus may be paid if targets set by the remuneration committee, based on growth in profit before tax and exceptional items, are achieved. The maximum annual bonus is 50 per cent of salary. No bonus was paid in respect of the year to 28 March 1998.

Long term incentive plan

A further provisional award of shares was made during the year to 20 executives, including the executive directors of the Company, under the long term incentive plan.

Awards are made each year (beginning in 1996 when the scheme was approved by shareholders) to a value of up to 50 per cent of salary at the time. The shares may be transferred to participants, usually after three years, depending on the achievement over that period of two separate measures: share price performance compared with the largest 150 companies listed on the London Stock Exchange; and earnings per share before exceptional items (eps) compared to the same group of companies, although the remuneration committee has the discretion to cancel any awards under this measure if it considers that the eps performance is unacceptable. No shares have yet been transferred to any participant under the plan.

The maximum provisional awards granted to date to the executive directors of the Company under the plan are:

	August 1996	June 1997
Keith Edelman	59,726	84,541
Steve Bedford	35,836	50,724
Chris Martin	16,211	42,270

Twenty per cent of the provisional award of shares will be transferred for median performance, increasing on a straight line basis to 100 per cent for upper quartile performance. No shares will be transferred for performance below the median.

Executive share option scheme

Options are granted each year to some 130 executives within the group, including the executive directors of the Company, at a multiple normally of one times salary for directors except on appointment to the board. The options, which are granted at market value, are usually exercisable between three and ten years after date of grant. The scheme was approved by shareholders in 1995. The exercise of options is normally subject to the performance condition that growth in earnings per share before exceptional items, as determined under the scheme, must exceed the growth in the Retail Price Index over a three year period by at least two per cent per annum. The scheme also encourages the directors to hold shares as further options are granted only if shares representing at least 20 per cent of the after tax profit on options which have been exercised are retained. The directors have also received options, granted in 1995 and earlier, under the executive share option scheme which was replaced in 1995. No options were exercised by the directors during the year.

17 Remuneration Report continued

Directors' Share Options

Directors' share options under all schemes are shown in the following table:

	29 March 1997	Granted during year	Grant date	Exercise price	28 March 1998
Keith Edelman	522,388	–	Nov 93	201p	**522,388**
	168,269	–	May 94	208p	**168,269**
	*10,329	–	June 94	167p	***10,329**
	132,575	–	May 95	264p	**132,575**
	110,410	–	June 96	317p	**110,410**
	–	173,267	June 97	202p	**173,267**
Total	943,971	173,267			**1,117,238**
Steve Bedford	114,783	–	Nov 92	184p	**114,783**
	75,376	–	May 93	199p	**75,376**
	*4,312	–	June 93	160p	***4,312**
	200,000	–	Nov 93	201p	**200,000**
	79,545	–	May 95	264p	**79,545**
	*4,882	–	June 95	212p	***4,882**
	66,246	–	June 96	317p	**66,246**
	–	103,960	June 97	202p	**103,960**
Total	545,144	103,960			**649,104**
Chris Martin	34,090	–	May 95	264p	**34,090**
	29,968	–	June 96	317p	**29,968**
	*3,750	–	June 96	260p	***3,750**
	–	173,267	June 97	202p	**173,267**
Total	67,808	173,267			**241,075**

Note: * Options granted under the five year SAYE scheme (three years for Chris Martin).
The market price of Storehouse shares on 27 March 1998 was 254p, with a range during the year of 185.5p to 270.5p

Pension

Following a comparative review of pension arrangements in other companies, the contributions by the Company for Keith Edelman to make his own pension arrangements have been increased to 20 per cent of salary.

Steve Bedford and Chris Martin are members of the Storehouse senior management scheme. Pension accrues at the rate of one forty-fifth of salary for each year of pensionable service. The normal retirement age is 60. Employee contributions are up to five per cent of pensionable salary (the Company currently makes no contributions to the scheme).

In addition to his membership of the senior management scheme, pension benefits on earnings in excess of one and a half times the Inland Revenue earnings cap are provided to Chris Martin through a funded unapproved retirement benefits scheme. The Company made contributions of 10 per cent of such earnings to that scheme.

The contributions rates for the Company in relation to Keith Edelman and Chris Martin (in his instance in relation to his salary in excess of one and a half times the earnings cap) are ten per cent of salary under age 40, rising in increments of five per cent every five years to 30 per cent at age 55 - 60.

The table below shows, in relation to the two directors who are members of the senior management scheme, the annual pension earned or accrued at the beginning and end of the year, the increase in the earned pension during the year, and the capital value of that increase:

	Annual pension accrued by 29 March 1997 £000s	Annual pension earned (in excess of inflation) during the year £000s	Capital value of the increase in pension (in excess of inflation) £000s	Annual pension accrued by 28 March 1998 £000s	Company contributions £000s
Steve Bedford	42	7	69	51	–
Chris Martin	5	3	22	8	5

The capital value of the increase in pension represents a liability of the Company but not a sum paid or due to the individual. It cannot meaningfully be added to annual remuneration.

17 Remuneration Report continued

Service contracts

The executive directors have service contracts which can be terminated on 12 months' notice. The contracts provide for liquidated damages on termination by the Company of one year's basic salary, benefits and pension credits, the average of the previous three years' annual bonus, and that exercisable share options may be retained. Alan Smith has a service contract which can be terminated by the Company on one year's notice. The other non-executive directors do not have service contracts with the Company.

External appointments

An executive director may take one external appointment as a non-executive director, for which he may retain the fees.

Non-executive directors

The fees of the non-executive directors are determined by the board with the individuals concerned abstaining from discussions on their own arrangements. They do not participate in any bonus, share option or pension scheme of the Company.

Directors' emoluments

Total emoluments (including pension contributions) in 1998 were £1,135,000 (1997 - £1,727,000). The following table shows the breakdown of emoluments:

		Salary Fees £000s	Benefits £000s	Payment for Loss of Options £000s	Annual Bonus £000s	Long Term Bonus @ £2.155 a share £000s	Total Remuneration ex. Pension Contributions £000s	Pension Contributions £000s
Executive Directors								
Keith Edelman	**1998**	**369**	**15**	**–**	**–**	**–**	**384**	**74**
	1997	350	14	52	62	250	728	35
Steve Bedford	**1998**	**218**	**24**	**–**	**–**	**–**	**242**	**–**
	1997	210	23	–	37	92	362	–
Chris Martin	**1998**	**175**	**12**	**–**	**–**	**–**	**187**	**5**
	1997	35	2	–	6	–	43	1
Dick Steele	1997	168	7	–	30	73	278	17
Non-Executive Directors								
Alan Smith	**1998**	**150**	**14**	**–**	**–**	**–**	**164**	**–**
	1997	150	14	–	–	–	164	–
Ian Hay Davison	1997	28	–	–	–	–	28	–
Margaret Downes	1997	5	–	–	–	–	5	–
Brian Hardy	**1998**	**25**	**–**	**–**	**–**	**–**	**25**	**–**
	1997	22	–	–	–	–	22	–
Angela Heylin	**1998**	**23**	**–**	**–**	**–**	**–**	**23**	**–**
	1997	1	–	–	–	–	1	–
Martin Sorrell	**1998**	**6**	**–**	**–**	**–**	**–**	**6**	**–**
	1997	21	–	–	–	–	21	–
David Tagg	**1998**	**25**	**–**	**–**	**–**	**–**	**25**	**–**
	1997	22	–	–	–	–	22	–

Share interests

The beneficial interests of the directors in the share capital of the Company (excluding options which are set out on page 41) are as follows:

	1998	1997
Steve Bedford	**125,105**	125,105
Keith Edelman	**243,260**	127,235
Brian Hardy	**2,666**	2,566
Angela Heylin	**6,137**	2,000
Chris Martin	**1,000**	1,000
Alan Smith	**20,881**	20,393
David Tagg	**10,000**	10,000

17 Remuneration Report continued

Alan Smith and David Tagg are the shareholders and directors of Storehouse Employees Share Trustee Limited, which held 230,047 (1997 - 473,572) Storehouse shares in trust on 28 March 1998. A separate trust, the Storehouse Employee Trust, held 531,759 shares on 28 March 1998 (1997 - 411,759), having purchased a further 120,000 Storehouse shares on 17 June 1997 at £2.03 per share. The market value of shares held under these trusts at 28 March 1998 was £1.9 million.

The executive directors of the Company are technically deemed to be interested in all the shares held by Storehouse Employees Share Trustee Limited and by the Storehouse Employee Trust as potential beneficiaries.

Steve Bedford is a trustee of Bhs Ltd Employees' Trust Fund and therefore has a non-beneficial interest in its holding of 200,000 (1997 - 200,000) Storehouse shares.

There have been no movements in directors' interests, whether beneficial or non-beneficial, between 28 March 1998 and 20 May 1998.

18 Employees' and executive share schemes

The Storehouse Executive Share Option Scheme

Under this scheme full-time executives are granted options to acquire shares in the Company. Further details of the schemes are given in the report of the remuneration committee. Options are usually granted each year after the announcement of the Company's full year results, but an allocation to a small number of participants is also made after the interim results are announced.

The Storehouse Sharesave Scheme (SAYE)

This scheme enables all employees with at least one year's service to acquire options over ordinary shares of the Company at 80 per cent of market price in conjunction with a save-as-you-earn contract. The options are exercisable either three, five or seven years after the date of commencement (usually two months after the date of grant) of the SAYE contract.

Option 2000

This scheme was introduced in 1996, when all employees (excluding directors and other employees eligible for the executive share option scheme) with one year's service at 1 July 1996 were granted options to purchase shares for £2.93p between June and November 2000. A further grant of options was made in July 1997 at the same option price exercisable between June and November 2001, for employees at July 1996 who had not then completed one year's service (i.e. those who joined between 1 July 1995 and 30 June 1996). In both 1996 and 1997 full time employees received options over 1,000 shares, with smaller option grants for part-time employees.

Long Term Incentive Plan

Under this plan selected directors and full-time executives may, subject to the achievement of pre-defined performance criteria over a three year period, receive shares in the Company. Further details of the plan are given in the report of the remuneration committee.

Storehouse Employee Trust

The Storehouse Employee Trust is a discretionary trust for the benefit of employees and former employees (and their dependants) of the Company and its subsidiaries. The Trust may buy shares in the market or subscribe for new shares in the Company; for example it may buy shares for awards under any of the share schemes. The Trust has waived the payment of any dividends.

18 Employees' and executive share schemes continued

Outstanding options at 28 March 1998 under the group's share option schemes were as follows:

		Ordinary shares 1998	Ordinary shares 1997	Date of grant	Option price
Storehouse executive share option scheme		–	33,952	June 87	290p
		63,276	63,276	June 88	254p
		16,921	20,680	June 89	161p
		11,474	11,474	June 90	127p
		15,974	18,324	May 91	99p
		63,860	82,591	May 92	142p
		114,783	114,783	Nov 92	184p
		367,550	619,078	May 93	199p
		786,937	786,937	Nov 93	201p
		1,242,082	1,927,508	May 94	208p
		40,008	40,008	Nov 94	214p
		1,065,439	1,251,686	May 95	264p
Storehouse 1995 executive share option scheme		**144,467**	169,467	Dec 95	339p
		1,414,853	1,595,149	June 96	317p
		146,299	157,647	Nov 96	269p
		2,709,698	–	June 97	202p
		307,374	–	Nov 97	244p
Storehouse sharesave scheme	(7 year)	–	22,582	Dec 89	90p
	(5 year)	–	7,119	June 91	79p
	(7 year)	**232,033**	238,867	June 91	79p
	(5 year)	**567,879**	628,613	June 93	160p
	(7 year)	**111,276**	125,166	June 93	160p
	(5 year)	**484,984**	596,746	June 94	167p
	(7 year)	**85,645**	92,182	June 94	167p
	(5 year)	**586,505**	791,709	June 95	212p
	(7 year)	**57,980**	69,927	June 95	212p
Storehouse 1995 sharesave scheme	(3 year)	**282,090**	514,365	June 96	260p
	(5 year)	**278,239**	473,146	June 96	260p
	(7 year)	**57,960**	101,160	June 96	260p
	(3 year)	**1,001,920**	–	June 97	178p
	(5 year)	**874,877**	–	June 97	178p
	(7 year)	**176,558**	–	June 97	178p
Storehouse Option 2000 scheme		**6,755,250**	7,574,750	July 96	293p
Storehouse Option 2001 scheme		**1,378,250**	–	July 97	293p
		21,442,441	18,128,892		

Five year record

Summary of turnover and profit

	1998 £ million	1997 £ million	1996 £ million	1995 £ million	1994 £ million
Turnover	**1,335.0**	1,249.7	1,083.6	1,079.1	1,045.5
Profit from retail operations	**127.9**	119.0	102.0	87.2	65.2
Exceptional items	**-**	(20.5)	1.2	–	(6.4)
Interest and other items	**(2.8)**	(0.7)	6.7	3.6	2.4
Profit before taxation	**125.1**	97.8	109.9	90.8	61.2
Taxation	**(35.0)**	(34.0)	(35.3)	(29.2)	(22.3)
Profit for the financial year	**90.1**	63.8	74.6	61.6	38.9
Earnings per share	**21.4p**	15.2p	17.8p	14.8p	9.4p
Dividend per share	**9.0p**	8.1p	7.2p	6.3p	5.5p

Summary of balance sheets

Fixed assets	**613.8**	546.5	491.7	429.2	389.8
Net current assets	**33.7**	53.3	61.0	76.4	80.6
Creditors falling due after one year	**(32.6)**	(43.9)	(13.3)	(11.9)	(4.6)
Provisions for liabilities and charges	**(16.4)**	(12.7)	(7.4)	(9.5)	(18.5)
Total net assets	**598.5**	543.2	532.0	484.2	447.3

Other key statistics

Share price (p) at year end	**254.0**	236.5	341.0	230.0	226.0
Net cash (debt)/equity (%)	**(8.6)**	(7.0)	13.8	15.4	8.5
Capital expenditure	**124.1**	94.1	129.0	79.0	46.2
Depreciation	**55.1**	45.3	39.4	33.6	30.6
Rents	**98.5**	90.9	76.4	67.9	66.0
Number of stores	**485**	481	435	433	431
Net selling space (000's sq ft)	**6,520**	6,349*	5,268	5,005	4,815
Average number of employees	**20,994**	20,841	19,088	19,086	18,095
Average number of full-time equivalents	**10,795**	10,866	9,946	10,046	10,136

The results for 1994 and 1995 have been restated in accordance with UITF Abstract 13 Employee Share Ownership Plans.

*Restated see page 46 for details

Storehouse profile

People

at 28 March 1998	Total employees 1998	Total employees 1997	Full-time equivalents 1998	Full-time equivalents 1997
Bhs	**14,469**	13,799	**7,235**	7,051
Mothercare including Childrens World	**6,557**	6,548	**3,218**	3,203
Other	**25**	50	**24**	48
	21,051	20,397	**10,477**	10,302

Stores

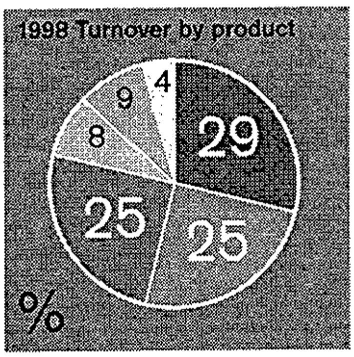
United Kingdom at 28 March 1998	Total selling area (000's sq ft) 1998	Total selling area (000's sq ft) 1997	Number of stores 1998	Number of stores 1997
Bhs	**4,191**	4,067	**144**	141
Mothercare	**2,329**	2,282	**341**	340
Total	**6,520**	6,349	**485**	481

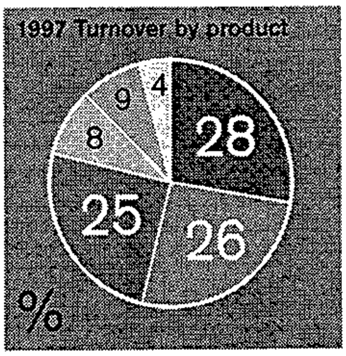
Of the 8 new stores opened during the year, four were Bhs stores and four were Mothercare of which one opened as a Mothercare World. In addition four stores were closed, one Bhs and three Mothercares. As part of the refurbishment programme a major remeasurement exercise of all stores took place during the year. As a result of this exercise the 1997 selling areas have been restated.

International at 28 March 1998	Europe	Middle East	Far East	Other	Total
Bhs	**42**	**33**	**2**	--	**77**
Mothercare	**56**	**55**	**49**	1	**161**
Total	**98**	**88**	**51**	1	**238**

Bhs currently has 77 franchised outlets, having opened 11 and closed six during the year. Mothercare has 161 franchised outlets, opening 37 and closing 14 during the year.

Products





Key to charts

- Womenswear & fashion accessories
- Childrenswear
- Household, toys & infant hardware
- Menswear
- Franchises
- Restaurants & sandwich shops

Shareholder information

Financial calendar

	1998
Annual general meeting	10 July
Payment of final dividend	18 August
Announcement of interim results	19 November

	1999
Payment of interim dividend	February
Preliminary announcement of results for 52 weeks to 27 March 1999	End-May
Issue of report and accounts	Mid-June
Annual general meeting	Mid-July
Payment of final dividend	Mid-August

Shareholder analysis

A summary of holdings as at 14 May 1998 is as follows:

		Storehouse Ordinary shares
	Number million	Number of holders
Banks	0.1	10
Insurance companies and pension funds	11.4	23
Nominee companies	381.0	2,023
Other corporate holders	5.7	343
Individuals	23.9	34,279
Employees	0.9	671
	423.0	37,349

As can be seen from the above analysis, many shares are registered in the name of a nominee company as the legal owner. The underlying holder of shares through a nominee account is the beneficial owner of these shares, being entitled to the capital value and the income arising from them. An analysis of these nominee holdings shows that the largest underlying holders are pension funds, with unit trusts and insurance companies the other major types of shareholder.

Individual shareholders owning 500 or more Storehouse shares are entitled to a 10 per cent discount in defined denominations on up to £500 of merchandise in our stores. If an individual shareholding of 500 or more shares is not on the share register but is held through a nominee or trustee, the book of vouchers can nevertheless be obtained by contacting the company secretary at Storehouse.

Share price data

	1998	1997
Share price at 27 March 1998 (28 March 1997)	254p	236.5p
Market capitalisation	£1,074.3m	£996.5m
Share price movement during the year: high	270.5p	361p
low	185.5p	235.5p

All share prices are quoted at the mid-market closing price. The market value of the ordinary shares, as calculated for the purpose of capital gains tax, on 31 March 1982 was as follows: Bhs 155p, Habitat Mothercare 133p.

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Company registered
number 1950509

Advisers

Principal Bankers
Midland Bank plc

Financial Advisers
Merrill Lynch International
J Henry Schroder & Co Limited

Brokers
SBC Warburg
Cazenove & Co

Solicitors
Gouldens

Registrars and Transfer Office
Lloyds Bank Registrars,
The Causeway, Worthing,
West Sussex BN99 6DA

Auditors
Arthur Andersen

Bhs

Bhs cover shot
From this year's new specimen collection designer range - an Owen Gaster one button jacket with matching boot leg trousers

mothercare

Mothercare cover shot
From Mothercare's range of stylish maternity fashion - a loose fitting ribbed cream blouse worn over black, classic fit jeans