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COMPANIES HOUSE 07/08/99

Storehouse plc | Investing for growth

Annual report and accounts 1999

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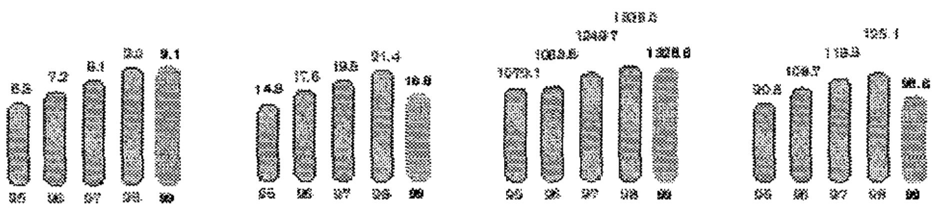
Contents

The cover shows designs by Leah Hawkes, winner of the Knitwear Award at Bhs Graduate Fashion Week. This unique event, sponsored by Bhs, showcases the best of young British fashion talent.

Cover photograph: Chris Moore

Storehouse plc has revenues of more than £1.3 billion, generated through 494 stores in the UK and 248 overseas with a total trading area of 6.8 million sq ft and employing more than 20,000 people worldwide



Dividend per share (p)

Earnings per share (p) excluding exceptionals

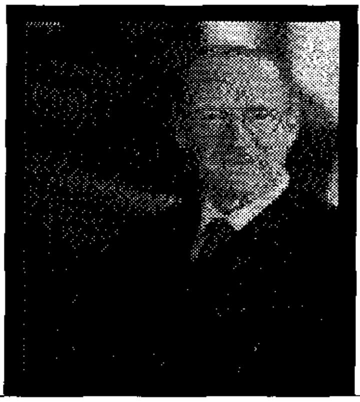
Turnover (£m)

Profit before tax (£m) excluding exceptionals

Storehouse plc

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

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

The year in review

This has been a difficult year. For the first time in seven years, the group has not been able to report an improvement in profit. It was particularly disappointing as good progress was being made into the summer of 1998.

However, during September, the retail sector experienced a sharp and sudden downturn in demand for clothing which resulted in significantly lower profits in the all-important Autumn fashion and Christmas trading periods. This trend continued through the final quarter of the year.

In addition, the outcome for the year was affected by two other major factors: the programme of investment in modernising the group's stores and systems which added to the cost base through an increased depreciation charge, and buying problems in the clothing division at Mothercare.

Despite these difficulties, stocks were well controlled throughout the group, gross margins were improved and there was a further increase in net cash from operations.

Investing for growth

During the year the management team continued to focus on the investments necessary to build the competitive position of both Bhs and Mothercare. Increasing competition, particularly in the clothing sector, is now a permanent feature of the retailing industry. In order for the group to grow, customers must be provided with ever improving merchandise, value and service in a modern environment.

The investment programme in stores, in systems, in the goods and in people will continue to be implemented vigorously in order to provide the right platform for future growth.

Major improvements were made during the year in the quality and variety of products, in the attractiveness of stores, in service delivery and in the introduction of modern systems. In addition, further development initiatives are now underway. Most important are the streamlining of management and the aggressive development of Mothercare's future store chain.

Group results

Group profit from retail operations before exceptional items was £104.3 million compared with £127.9 million in the previous year – a reduction of 18.5 per cent – on sales of £1,328.6 million (1998 – £1,335.0 million), which were down by 0.5 per cent. Gross margins for the group were 0.8 percentage points higher than the previous year.

Following an interest charge of £5.7 million, profit before tax and exceptional items was £98.6 million (1998 – £125.1 million).

An exceptional charge of £18.3 million has been made which relates to the reshaping of the Mothercare store portfolio and the organisation restructuring across the group. After exceptional items, profit before tax was £80.3 million.

Financial highlights

	Turnover excluding sales taxes (£m)		Profit from retail operations (£m)	
	99	98	99	98
Bhs	**856.2**	853.7	**86.4**	96.5
Mothercare	**472.4**	481.3	**17.9**	31.4
Before exceptional items	**1,328.6**	1,335.0	**104.3**	127.9
Profit before tax and exceptional items			**98.6**	125.1
Earnings per share before exceptional items			**16.8p**	21.4p
Full year dividend per share			**9.1p**	9.0p
Net assets per share			**145p**	142p
Net gearing			**14.8%**	8.6%

Alan Smith Chairman

Earnings per share before exceptional items were 16.8p (1998 – 21.4p), a reduction of 21.6 per cent. After exceptional items, earnings per share were 12.7p. An interim dividend of 3.7p per share was paid in February 1999. The board is recommending an unchanged final dividend of 5.4p per share, making a total of 9.1p per share for the year (1998 – 9.0p).

However, while profits were affected, the group produced further improvements in its generation of cash. Continued strong operating cash flow from Bhs and Mothercare resulted in a net cash inflow of £166.9 million (1998 – £163.4 million).

This year, the modernisation investment programme peaked. Capital investment for the year was £140.2 million compared to £124.1 million for the previous year. Major areas of expenditure included £59.9 million on new space, £26.4 million on store upgrades and £53.9 million on infrastructure, including new systems. Net debt at the year end was £91.2 million (1998 – £51.7 million) and balance sheet gearing was 14.8 per cent (1998 – 8.6 per cent).

Employees and suppliers

The year's results do not do justice to the levels of commitment, loyalty and effort shown by employees throughout the group. It is always in the most challenging times that an organisation sees the true worth of these teams in every area as they continue to improve the underlying quality of the business. On behalf of the board, I would like to thank our employees, and also our suppliers, for the immense contribution they have all made to the group's businesses in this very difficult year.

Management

I am delighted to announce the appointment of Stephen Tague to the Storehouse plc board. Stephen joined the group in January 1994 as Bhs' stores operations director, and he became managing director of Bhs in May 1997. Stephen is an experienced retailer and, through his leadership, the Bhs brand has developed substantially in recent years.

Looking forward

The combination of a difficult retail environment and costs associated with the investment programme will have a significant impact on first half profits.

This was the peak year of the group's modernisation programme. Early benefits confirm the group's strategy to invest in its brands to enable them to compete successfully and grow.

With strong cash generation and a prudently managed balance sheet, the group is financially robust and able to leverage its strengths in order to grow the business over the longer term.

chief executive's review

Strategic approach

During the past six years, the management team has single-mindedly followed a three-phased approach in developing the group and its businesses. This approach has involved: first, improving the group's profitability and cash flows; second, determining the strategic direction of both the Bhs and Mothercare businesses; and third, addressing the lack of investment during previous years which frustrated the group's prospects for growth.

Substantial progress has now been made on each of these fronts. Profitability has been improved significantly and, even in the latest difficult financial year, cash flows have continued to strengthen. A strategic view of the potential for Mothercare was undertaken and, as a result, Childrens World was acquired in 1996. The under-investment of past years is being reversed through a programme of substantial investment in stores and in systems.

In terms of timing, these phases, each of which was necessary if the group is to prosper in the future, have overlapped and each has produced distinct benefits in moving the group forward. In 1993, the group reported a retail profit before exceptional items of £43.0 million compared with £104.3 million for 1999. In 1993, the group's net cash inflow from operations was £3.8 million compared with £166.9 million for 1999. In 1993, the portfolios of Bhs and Mothercare stores were, by and large, tired and uninspiring. At the end of the 1999 financial year, both businesses have introduced proven new formats which will help to drive forward the brands in the future.

In addition, the introduction of new technology-based systems will improve the operating efficiency of the group and has helped already to reduce costs. This investment programme is essential for the long-term development of the group and will continue despite the challenging and competitive conditions in the economy. The result is an infrastructure for the business which compares well with leaders in the retail industry both at home and overseas.

Reshaping Mothercare's store portfolio

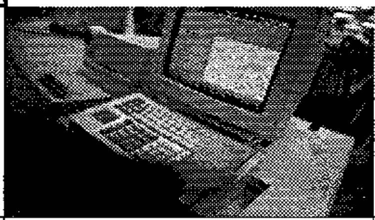
During the year a complete review of the Mothercare portfolio was undertaken, the results of which confirm the future of the brand is in a simplified structure comprising three formats: large Mothercare World stores, Mothercare stores and Mothercare Direct, the developing home shopping operation.

Since the acquisition of Childrens World, which provided Mothercare with large, out-of-town stores, a major programme has been undertaken to develop a unique format which differentiates the brand significantly in the marketplace. Following the trials at Romford and Aintree, a further flagship store was opened at Stoke-on-Trent during the year. These stores have successfully increased sales and, as a result, it is now appropriate to extend the investment programme in larger stores, both in-town and out-of-town. In addition, 94 high street stores have now been upgraded successfully by translating the key features of the larger stores and extending the range.

The review, together with the successful introduction of the new formats, indicates that the portfolio will benefit

Systems

Investment in new technology means that the group now has some of the most advanced systems in UK retailing



New computer till-points at Bhs, Reading

from substantial reshaping through a combination of disposals, re-sites and acquisitions. As a part of this process, 68 stores have been identified for disposal, resulting in an exceptional charge of £16 million. During 1998/99, these stores accounted for £55 million of sales and lost some £3 million. The benefit of this restructuring will be the optimisation of Mothercare's profitability on a local market-by-market basis.

Restructuring at Bhs and Mothercare

The remainder of the exceptional charge relates to reorganisation at Bhs and Mothercare. At Bhs, the result of the investment programme in stores and support systems, particularly as they relate to planning and merchandising, has enabled the business to move from a functional to a profit centre structure.

The move to the new structure has involved the reduction of 94 positions at Bhs' head office.This initiative will provide a greater degree of customer focus for divisional teams by improving sales and profit accountability throughout the business.

Similarly, in line with an increasing emphasis on customer care, a review of the organisation structure at Mothercare revealed that the balance between management and customer service roles was inappropriate given the drive to improve in-store service standards. A reorganisation was undertaken in order to provide higher levels of service, particularly at peak times. This has resulted in a reduction in the number of management positions and an increase in the amount of customer service staff in store. This move will further enhance the provision of excellent service, expert advice and personal attention which differentiates the Mothercare brand.

The costs associated with the restructuring at both Bhs and Mothercare amount to £2.3 million and are included in the £18.3 million exceptional charge.

Bhs results

In the UK, sales increased by 2.0 per cent to £813.7 million compared with £797.7 million for the previous year. Like-for-like sales were 0.7 per cent ahead in the first half of the year and 5.4 per cent lower in the second half, resulting in a reduction of 2.6 per cent for the year as a whole.

Overseas sales to Bhs' franchisees fell by 24.1 per cent compared to last year from £56.0 million to £42.5 million.

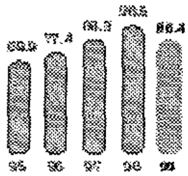
Total costs increased by 7.9 per cent. Controllable costs were managed tightly and, excluding those associated with new space, costs increased by 2.8 per cent. Profit from retail operations was £86.4 million (1998 - £96.5 million).

In building the Bhs brand, the strategic priority has been to reduce the level of discount and markdown in order to increase profitable sales. Customer research shows that Bhs' ability to retain the 'value' proposition is key, together with quality and fashionability. But value is defined by the initial prices at which products are offered, not by successive discounting. This strategy is proving effective: during the year, full price sales at Bhs increased by six per cent compared with last year.


New concepts enhance the Bhs shopping experience

Bhs brand

Investment in new stores and refurbishment at Bhs has provided customers with a modern and inspirational shopping environment



Bhs profit from retail operations (£m)

Alongside a reduction in discounting, further emphasis has been given to improving margins at the intake level. This has involved reducing the number of suppliers and negotiating better contractual arrangements, building a greater number of successful volume lines and sourcing a larger proportion of product direct from manufacturers.

As a result of these initiatives, gross margins in the UK at the intake level improved by 0.7 percentage points for the year. The overall gross margin in the UK increased by 0.8 percentage points. Further intake margin improvements are expected during the current year.

This focused approach, together with improvements in the quality, value and fashionability of products, has helped Bhs to increase its market share, particularly in womenswear, lingerie, menswear and food services.

Mothercare results

The performance of Mothercare in the UK was affected by two major factors: an intensely competitive trading environment and particular problems in the clothing division. Sales of transport, nursery equipment and toys were strong.

In the UK, sales fell by 1.1 per cent to £424.6 million (1998 – £429.4 million) and like-for-like sales were down by 2.3 per cent. Whilst the intake margin performance continued to improve during the second half, it was more than offset by the promotional activity necessary to keep stocks under control. This resulted in a slight reduction of 0.1 percentage points in gross margin for the year as a whole.

Sales to Mothercare's 172 franchise stores overseas were £47.8 million, a decrease of 8.0 per cent compared to the previous year.

Total costs increased by 6.5 per cent. Profit from retail operations was £17.9 million (1998 – £31.4 million).

International

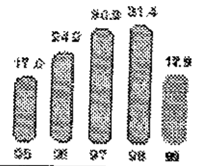
Pressure on the overseas franchise business intensified throughout the year due to the uncertainty in many of the world's major economies: namely, the crisis in Russia and the Far East, the strength of sterling against the currencies in countries in southern Europe and a weakening in trading conditions in the Middle East.

These factors reduced significantly the prospects for growth in the overseas business in the short term. However, shipments to Russia have now been resumed and further opportunities for continued expansion of the overseas business are being explored. Sales in the international operation were £90.3 million (1998 – £107.9 million).

Since the year end, a new managing director, Josh Herlihy, formerly commercial director at Eurostar, has been appointed for Storehouse's international operations.

New systems technology

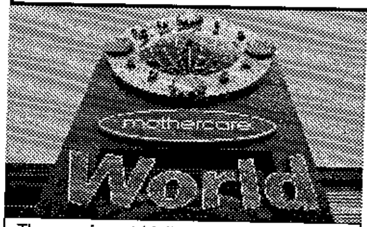
The introduction of new systems technology is significant in improving retail standards throughout the organisation. These systems are the 'heartbeat' of the business in that the processes they are designed to support include planning, merchandising, replenishment and financial control.



Mothercare profit from retail operations (£m)

Mothercare stores

The large, out-of-town Mothercare World format provides a unique shopping destination for the mother-to-be, her baby and her young family



The new-format Mothercare World at Stoke-on-Trent

The benefits of these systems include, for example, margin management, differential pricing and replenishment on a local market basis. All importantly, this new investment in technology will mean that the group is as well prepared as possible in making its critical systems and processes millennium compliant.

Customer direct

The application of technology is important in helping to develop additional sales channels for the group. At both Bhs and Mothercare, a major initiative is being undertaken to build customer databases. This has been helped particularly by the introduction of the Gold Card which extends Bhs' Choice scheme. There are now more than one million Gold Card customers. The benefits to the group of this scheme include targeted mailings together with regular and frequent opportunities to develop a dialogue with customers.

In addition, Bhs operates a mail order service to support its Homestore catalogue. This features the Bhs range of contemporary lighting and other home accessories and is proving popular with customers as well as leveraging a core strength of the Bhs brand. This channel offers significant potential as Bhs develops its home shopping capability and optimises its customer databases.

During the year, Mothercare began to work with Freemans, a leading agency mail order catalogue operator. This has involved Mothercare merchandise being featured in the Spring/Summer catalogue.The initiative provided an additional sales channel for Mothercare product and has demonstrated scope for further development. Mothercare has also continued to develop its own catalogue which offers significant potential in extending the home shopping capability.

The internet also provides a major business opportunity. Mothercare launched its web site, www.mothercare.co.uk during the second half of the year. At present, the web site is information based. However, the site is being developed and an 'e-commerce' facility, enabling customers to purchase products direct from the site, is planned to be on-line by the end of the current year.

Caring for the environment

Storehouse aims to conduct its business in a responsible way, demonstrating care for customers, employees, the wider community and the environment. The group has made significant progress in minimising the impact of its businesses on the environment.

Energy consumption At Mothercare and Mothercare World, the installation of a new energy management system was completed during the year, with benefits projected for 1999/2000. Ninety per cent of Bhs stores are already using the system. Meanwhile, changes to the design and operation of Bhs and Mothercare stores continue to improve the group's environmental performance.

The group has recently converted its distribution fleet of 135 vehicles to ultra low sulphur diesel, a fuel which is proven to reduce vehicle exhaust emissions. This move is

Bhs and Mothercare support the 'Cover-up campaign'

chief executive's review continued

Keith Edelman Group chief executive

generating a saving for the group through the lower rate of duty on this type of fuel.

A number of measures have been introduced to improve the logistical efficiency of the group's distribution fleet, which have also resulted in cost-savings and reduced exhaust emissions. The fleet serves the combined needs of Bhs and Mothercare, fulfilling the dual function of collecting merchandise from suppliers and delivering to stores. Further efficiencies have been achieved by increasing the number of night time deliveries to stores.

Recycling and reduction of waste All waste cardboard packaging generated at the group's distribution centre in Atherstone, Warwickshire, is now recycled. In conjunction with its distribution partner, Exel Logistics, the Company has also developed an innovative reusable plastic transit seal for hanging garments while they are being transported which has considerably reduced volumes of waste plastic.

Bhs has reduced the number of plastic garment hangers used in stores by 5.2 million during the year, partly due to the increase in the use of folded garments on display in stores. In addition, the number of recycled hangers as a proportion of the total in use has increased by three per cent to 30 per cent.

Various measures, including working more closely with suppliers to improve distribution methods and transit packaging specifications, have resulted in a 27 per cent reduction in damage to goods entering Bhs stores.

As products, technologies and legislation advance, the group and its suppliers are working together to safeguard the environment and the health and safety of customers. A recent example of this co-operation is the Bhs Code of Practice for Dyeing, Printing and Finishing which sets out comprehensive guidelines for the company and its garment and fabric suppliers.

Community involvement

Bhs Graduate Fashion Week In line with its commitment to cutting-edge British design, Bhs' sponsorship of Graduate Fashion Week is now in its fifth year. This prestigious event is a unique showcase for young British fashion designers, attracting more than 1,000 students from 37 colleges to come to London each year to participate.

Bhs Graduate Fashion Week has become synonymous with launching the careers of a number of leading designers. Several award-winning graduates, including Owen Gaster and Gemma Marsh (winner of the 1998 High Street Excellence Award), have also worked subsequently with Bhs as consultant designers.

Charitable contributions and fundraising Both Mothercare and Bhs continue to support a number of charities, both at a national and local level. These include Mothercare's support for the Institute of Child Health at Great Ormond Street, major fundraising activity for the Cancer Research Campaign and the Variety Club Gold Heart Appeal.

Gemma Marsh celebrates winning the Bhs High Street Excellence Award 1998

Bhs fashion awards

Bhs is proud to support Britain's young fashion designers at Bhs Graduate Fashion Week

(Above) The winning entry for the Knitwear Award 1998, designed by Leah Hawkes

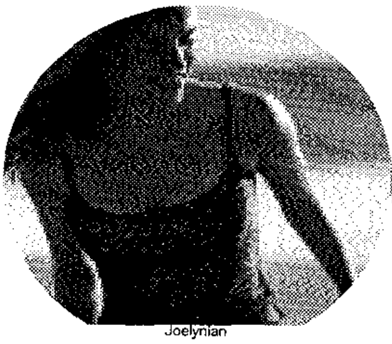
The Bhs brand

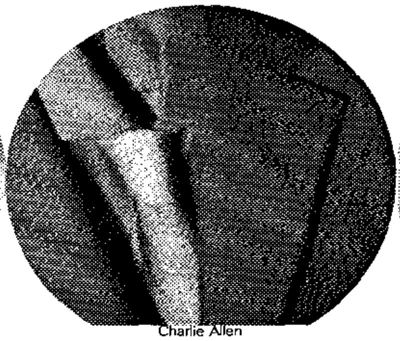
Event-based shopping

Holiday Shop is just one example of how Bhs is providing a specific product focus to help customers through the shopping calendar

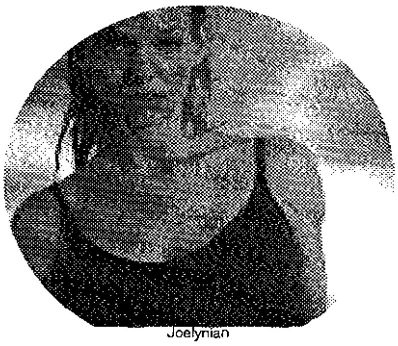

Owen Gaster


Graham Smith


Joelynian


Charlie Allen


Owen Gaster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Graham Smith

Designer ranges

Created by some of Britain's leading fashion designers, the Bhs Premier Collection brings designer ranges to the high street

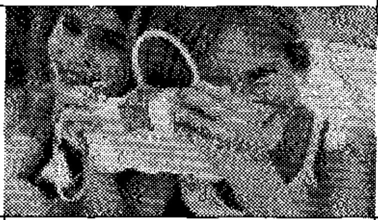

Paul Frith

Home and lighting

Eating, living, bathing, sleeping – Bhs continues to provide innovative, stylish solutions throughout the home


Stephen Tague Bhs managing director

Bhs


Fashion and swimwear for children at Bhs

Product development

Bhs made further progress during the year in developing its product range in line with its core brand attributes: value, quality and fashion. This, together with the introduction of new designers, has demonstrated the way in which Bhs is committed to becoming the first choice on the high street for its target customer.

As a result of this work, the contribution from womenswear continues to increase. For example, over the past two years lingerie sales have increased by 20 per cent; women's knitwear sales by 28 per cent and 'Holiday Shop' sales by more than 35 per cent.

The introduction of top designers has also helped to develop Bhs' reputation for affordable fashion. Womenswear collections by Paul Frith and Owen Gaster have proved highly successful as has the Graham Smith range of hats. The 1999 Spring/Summer season also includes, for the first time, a range of swimwear and beachwear from the Joelynian design team. In menswear, sales of formal shirts and trousers, ties and sportswear have increased significantly. The menswear designer, Charlie Allen, will introduce a new collection later in the current year.

Bhs has developed further its position in the important home accessories market through the extension of its range and the introduction of Bhs Homestore, a new focus on merchandising products for the home in major stores.

The improvements in product have been supported by further innovation in creative merchandising. The idea of event-based shopping, which began with the introduction of Bhs' successful Christmas gift shop, was extended to include other events and specialist areas of retailing excellence throughout the year, most notably a focus on products for holidays, back-to-school, parties, weddings and other formal occasions. The concept of helping customers through their shopping calendar, as well as offering a wider range of product generates further potential for developing the business. This will include a year-round gift shop, sales of mobile phones and the introduction of jewellery, toiletries and travel goods.

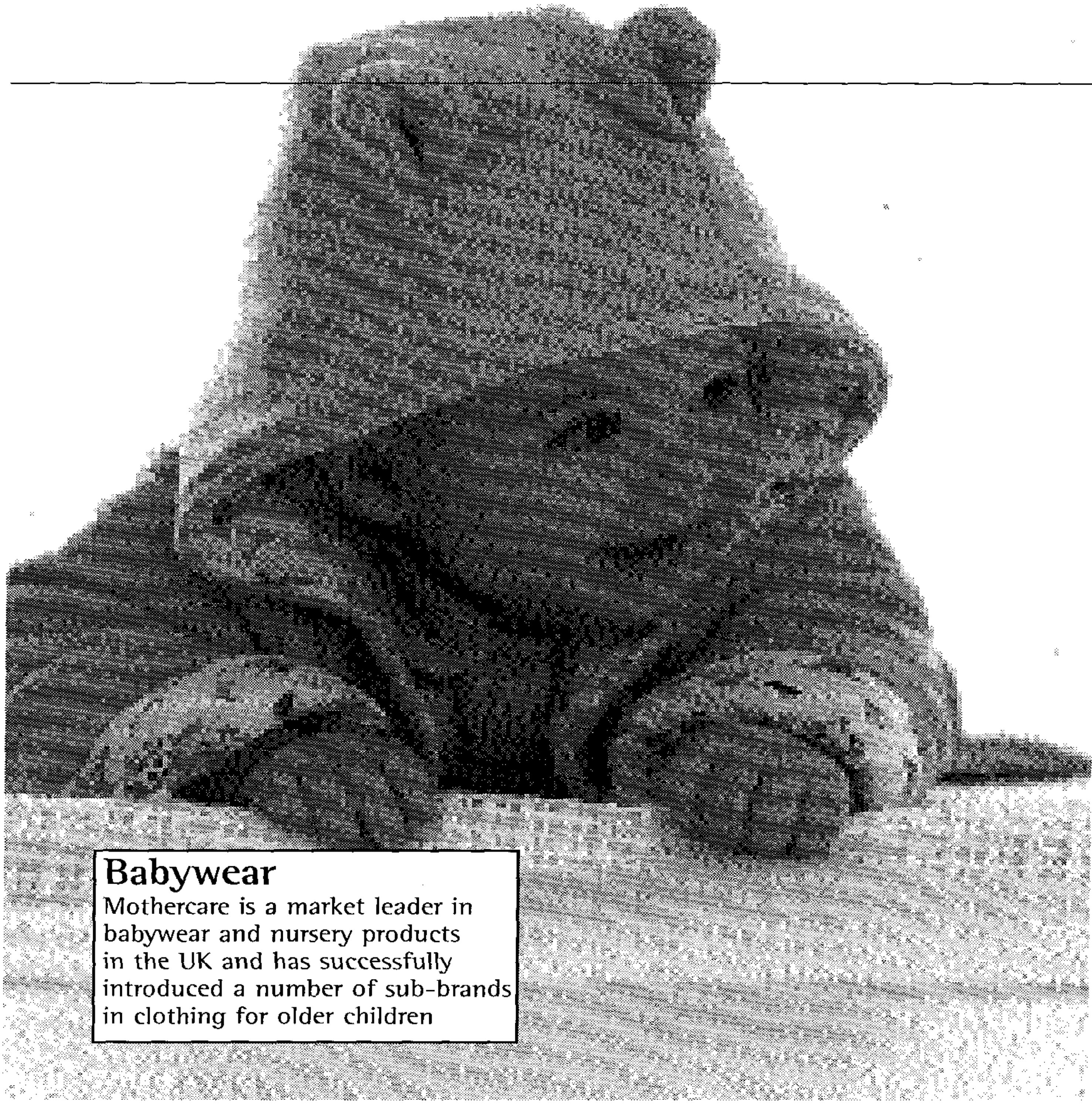
Store development

During the year, six new Bhs stores were opened at Cribbs Causeway (Bristol), Burton-on-Trent, Trafford Park (Manchester), Fosse Park (Leicester), Durham and Oxford. In addition two new stand-alone Bhs Homestores were opened at Bath and Coventry and a Bhs outlet store was opened at Hatfield. The new stores at Fosse Park and Harrogate, which opened in April 1999, represent a step-change in the Bhs format. More than 30 per cent of the total selling space will be in this improved format in time for the Christmas trading period. The improvements in format include: new wood-effect flooring which is more practical in terms of space management and more attractive for the customer in providing a contemporary, inspirational shopping environment; and new, innovative 'point of difference' merchandising fixtures.

Brand communication

The programme of customer research continued during the year in order to enable Bhs to understand more fully its target customers. This work is progressing alongside the development of the Bhs customer database which comes as a result of the introduction, via GE Capital Bank, of the combined loyalty and credit card scheme, Gold Card. There has been a significant increase in the number of customers participating in the scheme, all of whom are eligible for a range of discounts, privilege shopping evenings and other promotional events.

The Mothercare brand



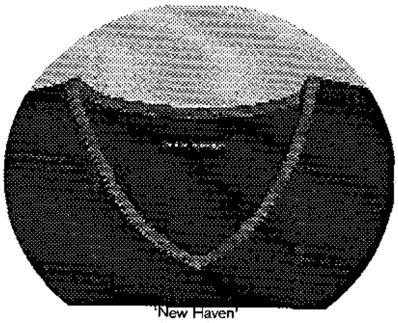
Babywear

Mothercare is a market leader in babywear and nursery products in the UK and has successfully introduced a number of sub-brands in clothing for older children

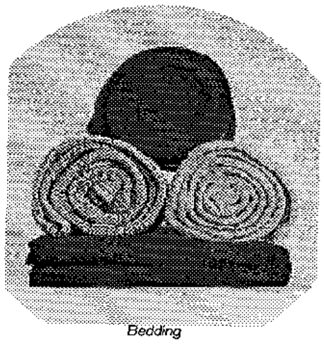
Product innovation

Innovation is the key to Mothercare's new product range from maternity wear and bedding to transport and toys

Off-road buggy

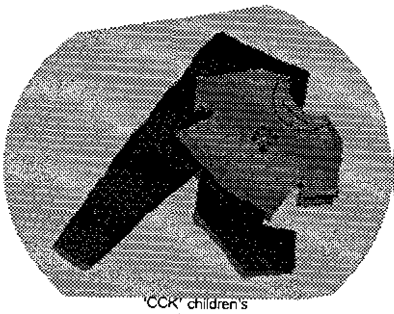


'New Haven' maternity fashion



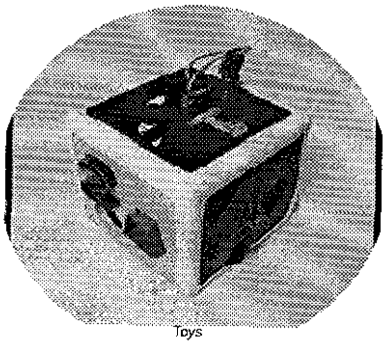
Bedding

Baby carrier

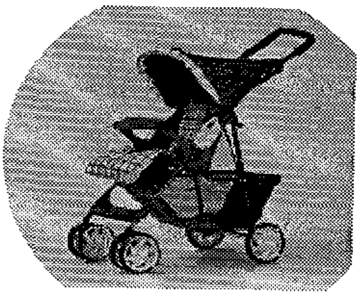


'CCK' children's clothing

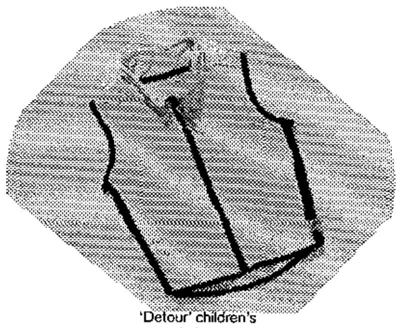
'New Haven' maternity fashion



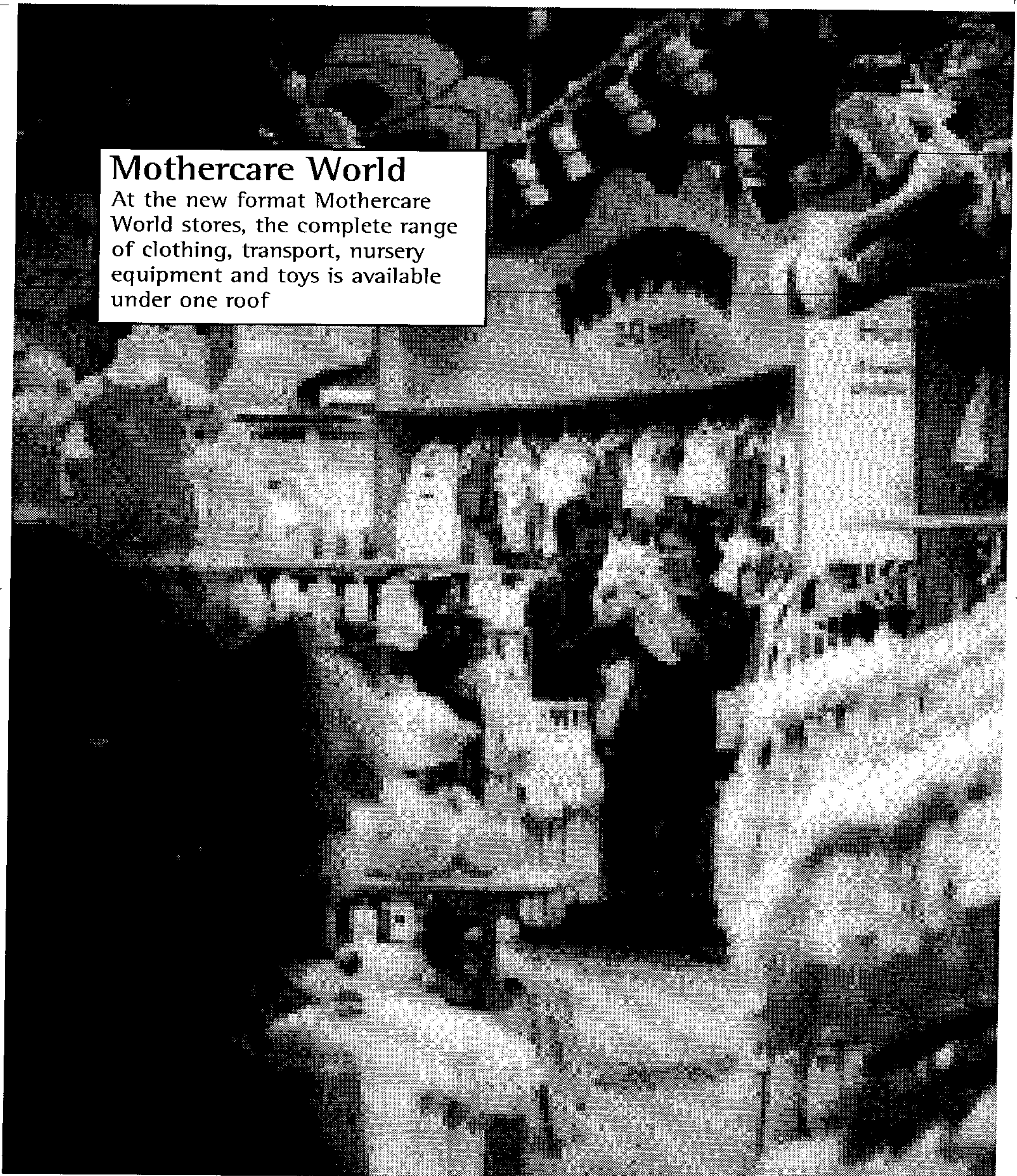
Toys



Transport system



'Detour' children's clothing



Mothercare World

At the new format Mothercare World stores, the complete range of clothing, transport, nursery equipment and toys is available under one roof

Greg Tufnell Mothercare managing director

mothercare

Mothercare's personal shopper service

Product development

During the year, Mothercare carried out a fundamental review of its clothing range in order to address the changing trends in the children's clothing market. This has resulted in changes to traditional age-breaks, and the introduction of sub-brands, particularly for older age groups.

While the Mothercare name has retained a leadership position in babywear and clothes for very young children, customer research indicates that it is less appropriate for older children as they become more 'brand aware'. As a result, Mothercare has introduced a number of sub-brands which are proving successful in meeting the demand for branded product whilst retaining the values of the overall Mothercare brand. These sub-brands, for the older age range, include CCK, Detour and J@m. Further developments will include the introduction of non-Mothercare branded product into the large, out-of-town Mothercare World stores to extend the range, choice and appeal of these destination stores. In addition, the maternity offer has improved significantly with the introduction of a contemporary new range called New Haven.

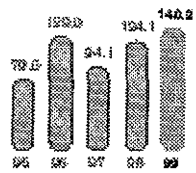
In transport and nursery equipment, significant improvements have been made in extending the product range both in the high street and out-of-town stores and have enabled Mothercare to improve further its market leadership position. New products, such as the 'off-road buggy', have been popular and are indicative of the way current fashion trends influence this particular market. During the year, Mothercare also launched an improved range of toys for younger children and, as a result, increased its share in the toy market.

Store development

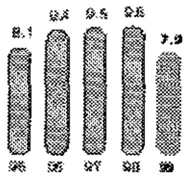
With the development of the large, out-of-town format for the 30,000 sq ft Mothercare World stores, a unique concept has been created. These flagship stores are now open at Romford, Aintree and Stoke-on-Trent, which opened in March 1999. The successful refurbishment programme will be extended to the remaining stores. The new format offers customers an unparalleled range of products for the mother-to-be, her baby, and her young family. The focal point is a giant tree at the centre of the store which accommodates a lift providing access to the upper sales floor devoted to an extensive toy range. Other features include new fixtures, improved layout and easier access to products by category, clearer signage, more information and improved service levels. In the high street, the focus has been on upgrading the store environment and providing a wider range of product. This has been achieved by translating the key elements of the large, flagship stores and introducing them into the high street which ensures improved brand clarity and consistency of offer.

Brand communication

The brand values of Mothercare are reflected in its core marketing message, 'a helping hand through life's great adventure'. This emphasis on care, expertise, safety and professionalism is central to the Mothercare philosophy as the brand is developed. The introduction of Personal Shopper, which gives customers the opportunity to arrange an appointment with a trained Mothercare customer service representative in store, has proved effective in differentiating the service standards of Mothercare from those of its competitors.



Capital expenditure (£m)



Operating margin (%)

finance director's review

Overview

The 1998/99 results reflect a year in which we experienced difficult trading conditions. The clothing market in the UK declined sharply in the second half year, and the overseas market continued to be impacted by the strength of sterling. As a result, the full year profit before tax and exceptionals declined to £98.6 million compared to £125.1 million last year. Cash flow from operations continued to grow despite the profit downturn, with a benefit coming from tight control of working capital. The cashflow was used to fund the capital expenditure of £140.2 million. Overall, the group generated a post tax return on capital employed of 10.9 per cent ahead of the cost of capital.

Trading review

The key headlines behind the trading performance are as follows:

- Group turnover was down 0.5 per cent, with the first half growth of 2.0 per cent being offset by a 2.8 per cent decline in the second half. The UK stores grew turnover by 0.9 per cent supported by an increase in average trading footage of 4.0 per cent.
- The group's achieved gross margin grew by 0.8 percentage points with the UK stores improving by 0.6 percentage points. Both Bhs and Mothercare increased intake margins, with the gains expected to continue into the next financial year.
- Costs in total increased by 7.4 per cent, with the investment programme in new space, store refurbishments and infrastructure driving a substantial element of this increase. The underlying cost increase excluding these is 1.7 per cent.

Before exceptional items, profit from retail operations is £104.3 million, 18.5 per cent below last year.

Exceptional items

An exceptional charge of £18.3 million has been taken for the year. This covers first, the redundancy programmes in both Mothercare and Bhs at a cost of £2.3 million, and secondly, £16.0 million for the restructure of the Mothercare store portfolio. Having taken the decision to dispose of some 68 stores, combined with the acceleration of the programme to refurbish the remaining stores, provision for loss on disposal of the stores of £12.1 million has been charged to profit before tax. A charge of £3.9 million has been taken against profit from retail operations for the write down of stock and lease exit costs.

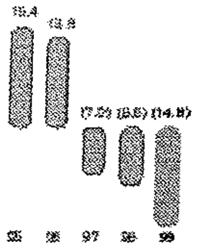
The stores affected by the disposal programme represent 15 per cent of the square footage, and in 1998/99 accounted for £55 million of sales and generated a trading loss of some £3 million.

Interest

The interest charge has risen in the year reflecting the increase in the average net debt position, principally due to the capital expenditure and increased dividend and taxation payments. The charge of £5.7 million compares with £2.8 million last year.

Taxation

The overall taxation charge was £26.5 million. The effective tax rate before exceptional items was 28 per cent which is consistent with last year.



(Gearing) net cash to equity (%)

Capital expenditure	99 £m	98 £m
New space*	59.9	47.6
Store upgrades	26.4	39.0
Infrastructure (including systems)	53.9	37.5
Total	140.2	124.1

* includes freehold purchase of the Harrogate store

Movement in net debt	99 £m	98 £m
Cash flow from operations	166.9	163.4
Capital expenditure net of disposals	(127.9)	(115.9)
Taxation	(31.2)	(25.9)
Other	(3.1)	1.5
Free cash flow	4.7	23.1
Cost of capital		
Financing	(5.7)	(2.8)
Dividends	(38.5)	(33.8)
Movement in net debt	(39.5)	(13.5)

Chris Martin

Chris Martin Group finance director

Capital expenditure

The capital expenditure programme is targeted at opening high-returning new stores and catch up investment in the store network and supporting infrastructure. The spend this year has peaked at £140.2 million with the majority of the expenditure on new space and implementation of the new systems. As a result the spend on store upgrades has been lower this year. This spend will increase going forward, particularly in Mothercare where the pace of refurbishment will increase as a result of the restructure of the store portfolio (see chart above).

Cash flow

A tight focus on cash management ensured that the group generated an increase in cash flow from operating activities from £163.4 million to £166.9 million. There was a small working capital inflow for the year compared to a £17.3 million outflow last year. This offset an 8.5 per cent decline in earnings before interest and depreciation. Free cash flow was £4.7 million which, after the deduction of the cost of capital of financing and dividends, resulted in an increase in net debt of £39.5 million (see chart above).

Liquidity

The increase in net debt to £91.2 million increased gearing to 14.8 per cent. This compares with gearing of 8.6 per cent for last year. The average level of net debt during the year was some £75 million, with the peak funding requirement occurring ahead of the Christmas trading period. These requirements are well within the group's committed bank facilities, which for the financial year 1999/2000 are at £235 million. Longer term, the group has in place committed bank facilities and loans of £195 million to November 2002.

Shareholders' funds

Profit for the year attributable to shareholders was £53.8 million. The board has proposed a final dividend of 5.4p per share which will make a total dividend for the year of 9.1p, an increase of 1.1 per cent on last year. After the cost of dividend the transfer to shareholders' funds is £15.2 million.

Internal control

Our compliance with the recommendations of the Combined Code is shown in the directors' report on pages 22 to 25. The group's treasury operations are centrally controlled and clearly monitored in accordance with approved board guidelines.

Pension costs

The next actuarial valuation of the pension fund will be as at 1 April 2000. Following the previous valuation there was no requirement for the group to contribute to the schemes.

Accounting policies and standards

The details of the main accounting policies used by the group appear on page 32. New Financial Reporting Standards have been adopted but have not had a significant impact on the group in the year. The requirements of FRS 15 will be adopted in the next financial year, requiring the depreciation of freehold stores. This is estimated at £0.4 million per annum.

board of directors

Directors' key
✣ Audit committee
◆ Remuneration committee
✻ Nomination committee

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: *Greg Tufnell, managing director,* Mothercare; Josh Herlihy, managing director of Storehouse's overseas operations; Clive Revett, company secretary, Storehouse *plc; and Stephen Pain, director of* corporate affairs, Storehouse plc.

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. Aged 58.

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 and Include (a registered educational charity); graduate in management sciences of the University of Manchester Institute of Science and Technology. Aged 48.

3 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. Former finance director of Pizza Hut (UK). Aged 38.

4 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. Aged 43.

5 Stephen Tague Managing director Bhs
Joined the group in January 1994 as stores operations director, Bhs. Appointed managing director of Bhs in May 1997. Formerly buying, merchandising and marketing director, Allders International and trading director Allders Department Stores. Appointed to the board on 20 May 1999 and in accordance with the Articles of Association, seeks re-election at the Annual General Meeting. Aged 44.

6 Brian Hardy Non-executive ✣◆
Appointed in November 1994. He is a chartered accountant and director, finance, of Burmah Castrol Plc. Graduate of the London School of Economics and MBA from Stanford Business School, California. Aged 57.

7 Angela Heylin OBE Non-executive ✣◆
Appointed in March 1997. She is UK President of Charles Barker BSMG Worldwide, a director of Provident Financial plc, a trustee of Historic Royal Palaces and deputy chairman of The House of St Barnabas, a house for homeless women, in Soho. Aged 55.

8 David Tagg CBE Non-executive ✣◆✻
Senior non-executive director. Appointed in July 1991. Formerly group services director of Grand Metropolitan PLC and Diageo plc. Non-executive director of Whitehead Mann Group Plc. Fellow of the Institute of Personnel and Development; graduate of Pembroke College, Oxford. Aged 59.

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Directors' report

Business review

The principal 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 27 March 1999, 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 3.7p per share paid on 9 February 1999, this will bring the total dividend for 1999 to 9.1p per share (1998 – 9.0p), an increase of 1.1 per cent.

The final dividend will be payable on 18 August 1999 to shareholders registered on 18 June 1999. Shareholders may continue to choose to receive shares in lieu of the cash dividend through the dividend re-investment plan. The plan purchases existing shares using the cash dividend. A dealing fee (of 0.5 per cent) and stamp duty (currently 50p for each £100 or part thereof of the value of the shares acquired) is charged. The shares will be acquired on the dividend payment day.

Full details of the dividend re-investment plan are available from the Company's registrars. The last day for election for the plan in relation to the final dividend is 28 July 1999.

Substantial shareholdings

At 18 May 1999 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	**76.5m**	**18.0**
The Prudential Corporation group of companies	**67.7m**	**16.0**
The Capital Group Companies, Inc	**33.7m**	**7.9**

Directors

Details of the directors of the Company are shown on pages 20 and 21. Alan Smith (chairman), Keith Edelman (chief executive), Steve Bedford, Brian Hardy, Angela Heylin OBE, Chris Martin and David Tagg CBE (senior non-executive director) served throughout the year ended 27 March 1999. Stephen Tague was appointed to the board on 20 May 1999 and in accordance with the Articles of Association of the Company he offers himself for re-election at the Annual General Meeting. Brian Hardy and Alan Smith retire by rotation and stand for re-election at the Annual General Meeting. Biographical details of Brian Hardy, Alan Smith and Stephen Tague indicating their experience and qualifications are set out on page 21.

Details of Alan Smith's and Stephen Tague's service contracts are set out in the report of the Remuneration Committee on page 46. Brian Hardy does not have a service contract.

A statement of directors' interests in the shares of Storehouse plc and of their remuneration is set out on pages 44 to 47.

Corporate governance

Throughout the year ended 27 March 1999, the Company and the group have been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange. As required by the London Stock Exchange, the Company has complied with Code Provision D 2.1 on internal control by reporting on page 23 on internal financial control in accordance with the guidance for directors on internal control and financial reporting issued in December 1994.

The Combined Code sets out the principles of good governance and these are briefly commented on below.

The board and directors The board of Storehouse comprises four independent non-executive directors and four executive directors. The full board, which meets regularly, usually on a monthly basis, maintains overall control of the group's affairs through a schedule of matters reserved for their decision. These include setting the group strategy, the approval of the annual budget and financial statements, major acquisitions and disposals, authority limits for capital and other expenditure and treasury matters. The non-executive directors are independent and free from any business or other relationship which could materially interfere with the exercise of their judgement. In addition they do not participate in any bonus, share option or pension scheme of the Company.

The board considers that the balance achieved between executive and non-executive directors is appropriate and effective for the control and direction of the business.

The board is assisted by committees which it has established with written terms of reference. The roles of the Remuneration and Audit Committees are set out below. The composition of the Audit and Remuneration Committees are the four non-executive

Directors' report

directors. The Nomination Committee consists of Alan Smith, Keith Edelman and David Tagg, and makes recommendations to the board on the appointment of directors at group board level.

The board delegates day-to-day and business management control to an executive committee (made up of the executive directors of Storehouse, the managing directors of Mothercare and Storehouse International, the director of corporate affairs and the company secretary) and to the boards of the operating companies.

As recommended by the Combined Code, the Company has maintained a clear division of responsibility between chairman and chief executive officer roles within the business during the financial year, the subject of this statement.

Throughout the year the board and its committees have been supplied with information and papers submitted at each board meeting which ensures that all aspects of the group's affairs are reviewed on an annual basis in accordance with a rolling agenda and programme of work. All directors whether executive or non-executive have unrestricted access to the company secretary, managing directors of the subsidiaries and executives within the businesses on any matter of concern to them in respect of their duties. Furthermore, the Company has undertaken to reimburse legal fees to the non-executive directors if circumstances should arise in which it is necessary for them to seek separate legal advice in furtherance of their duties. In accordance with the Articles of Association, all directors are required to offer themselves for re-election every three years.

The Remuneration Committee, chaired by David Tagg, the senior independent non-executive director, establishes the remuneration policy and arrangements for executive directors. In addition, the Remuneration Committee during the year requested and received an independent analysis of director remuneration to enable them to be assured that the stated policy of the group in setting competitive remuneration levels was met. As set out in the directors' report, the group fosters a culture of performance related salaries for both directors and other executives within the group. During the year no director was, and procedures are in place to ensure that no director is, involved in deciding or determining their own remuneration. Full disclosure of the Company's remuneration policy and details of the remuneration of each director is set out in the report of the Remuneration Committee on pages 44 to 47.

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.

Shareholder relations The Company has a programme of regular dialogue with institutional shareholders. During such meetings the board is able to put forward its objectives for the business and performance against those objectives. Mindful always of its obligations to the investing community as a whole, at the Annual General Meeting the board will continue with its practice of giving a business briefing. The board is keen to encourage full participation in the Annual General Meeting and for those who are unable to attend, provide an opportunity for shareholders to ask questions of their board by the provision of a reply paid questions service to the chairman.

Accountability and audit The board makes quarterly presentations of the financial performance of the business to the investing community through the interim and full year report, and trading statements at the Annual General Meeting and post Christmas.

Internal financial control is addressed by the Audit Committee at least on an annual basis. During the financial year the executive committee has carried out a risk assessment with the assistance of its auditors, Arthur Andersen, of those issues which may have a significant effect on the future of the business and have commenced a programme to ensure that the risks are identified and mitigated so far as is practicable. The board however is ultimately responsible for the group's system of internal control and review its effectiveness. It remains of the opinion that the system of internal control 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.

The control system is based on the following elements:

- A culture of integrity and control within a defined organisational structure and appropriate delegation of authorities 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.

As part of the audit of the system of internal financial control the group's auditors have unfettered access to the systems, accounts, records and executives within the businesses.

Directors' report

Year 2000 compliance and the euro The group has carried out an extensive review of the implications of Year 2000 compliance on its financial and operational systems within the group and its operating subsidiaries. This year has seen the successful implementation of the Bhs Genesis systems and the systems upgrade for millennium compliance within Mothercare. The Bhs Genesis programme has set the cornerstone for the implementation of group-wide systems as well as fitting Bhs for the new millennium. Year 2000 has mainly been addressed through the implementation of new systems which to date have a capital cost of £79 million. The Year 2000 compliance programme has heightened the awareness of the Year 2000 risk within all levels of management by:

- Assessing the impact on systems and equipment.
- Prioritising actions.
- Identifying Year 2000 resolution and systems testing.
- Assessing trading partner compliance.

The Compliance Programme is due for completion by the end of August 1999.

Whilst appropriate steps to liaise with clients, suppliers and business partners are being taken to minimise risk, the group, as with other organisations, is dependent upon significant factors outside its control, including telecommunications, power and the general business infrastructure.

The group however, for those areas under its own direct control and based on the work performed to date, remains confident with regard to the programme that it has put in place.

The implications of a potential entry into the EMU by the UK and the introduction of the euro with the consequent effects upon the group's business is being considered by a working party established under the chairmanship of the group finance director.

Employees

The group achieves an awareness amongst and consults with all its employees on corporate objectives, performance and economic activity relevant to its businesses through media such as in-house magazines and bulletins, e-mail and video presentations.

During the year, the capabilities of the group's senior management, management and associates have been measured, development needs ascertained and programmes designed to ensure that the critical skills required for the development of both the individual and the group are attained.

The group's reward philosophy remains performance orientated. In addition to its incentive plans, the group operates various share schemes including Option 2000, an all employee share option scheme, details of which are set out on page 48.

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 17 days (1998 – 6 days) of average daily purchases during the year for the Company and 21 days (1998 – 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.

Charitable donations

The group's direct charitable donations in the year were £109,000 (1998 – £126,000). The major charitable contributions arise however through money raised in its stores on the sale of certain products (such as Gold Hearts) and through various employee fundraising ventures. The group made no political donations during the year.

The group's charity policy and guidelines specify that the group believes that donations to charitable causes can be a justifiable use of shareholders' funds when such donations are related to the group's broad business.

Directors' report

In addition to the major charitable contribution through Mothercare to the Institute of Child Health at Great Ormond Street which comes to an end this year, both Mothercare and Bhs also have long-standing associations with various charities by raising funds with their customers for charities such as the Variety Club of Great Britain, Barnardos, Scope and other good causes.

During the forthcoming year, the group and its principal operating subsidiaries, Bhs and Mothercare, will be identifying appropriate community affairs, policies and activities which directly support the development of the respective brands and appropriate community and charitable policies.

Environment The group recognises that its activities do have an impact on the environment and a consequent responsibility to reduce that impact so far as is practicable. The group recognises that the greatest impact is through the stores, offices and distribution networks and through the supply base. Further details are set out on page 8.

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 foreseeable future. The financial statements are therefore prepared on a 'going concern' basis.

Annual General Meeting

The Annual General Meeting will be held on Thursday, 8 July 1999 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 the use of shareholders unable to come to the Annual General Meeting but who may wish to put any questions to the board of directors, are enclosed with this annual report. The chairman will respond in writing to questions received.

As with previous years, the chairman's opening statement, a summary of the chief executive's business presentation to the meeting together with a resumé of questions and answers given at the meeting will be prepared following the Annual General Meeting. This will be made available to shareholders on request to the company secretary at the Company's head office.

Auditors Arthur Andersen have indicated their willingness to continue as auditors to the Company and accordingly a resolution to reappoint them will be proposed at the Annual General Meeting.

Special resolution

A special resolution will be proposed at the Annual General Meeting on the following matter:

Purchase of own shares The Company was authorised at the 1998 Annual General Meeting 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 Annual General Meeting. Resolution 7 seeks to renew the authority for a further year. Shares purchased (if any) 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 that time.

By order of the board
Clive E Revett, company secretary
20 May 1999

Directors' responsibilities for the accounts

This statement has been prepared in compliance with the Combined Code of Best Practice in order to explain the responsibilities of the directors in preparing the financial statements. It should be read in conjunction with the auditors' report on page 27.

The Companies Acts require the directors to prepare accounts for each financial year which give a true and fair view of the state of the Company's affairs and those of the group, as at the end of each financial year and of the profit or loss for that year. In preparing those financial statements the directors are required to:

(a) Select suitable accounting policies and apply them on a consistent basis;
(b) Make prudent and reasonable judgements;
(c) State whether applicable accounting standards have been applied, identify where any material deviation from such standards have been made and the explanation for such deviation;
(d) Prepare the financial statements on a 'going concern' basis; and
(e) Keep proper accounting records, safeguard the group's assets and take reasonable steps to prevent and detect fraud and other irregularities or risks.

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

Auditors' report

To the shareholders of Storehouse plc:
We have audited the accounts on pages 28 to 43 and note 18 on pages 48 and 49 which have been prepared under the historical cost convention and the accounting policies set out on page 32. 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 44 to 47.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the annual report including, as described on page 26, the accounts. Our responsibilities, as independent auditors, are established by Statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Company and the group is not disclosed.

We review whether the statement on pages 22 to 25 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit 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 judgements 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 27 March 1999 and of the group's profit and cash flows for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen
Chartered accountants and registered auditors
1 Surrey Street, London
20 May 1999

Arthur Andersen

Group profit statement

For the 52 weeks ended 27 March 1999 (Note 1)

	Before exceptional items 1999 £ million	Exceptional items (Note 3) 1999 £ million	Total 1999 £ million	Total 1998 £ million
Turnover – continuing businesses (Note 2)	**1,328.6**	**–**	**1,328.6**	1,335.0
Cost of sales (Note 2)	**(1,194.8)**	**(5.0)**	**(1,199.8)**	(1,178.9)
Gross profit	**133.8**	**(5.0)**	**128.8**	156.1
Administrative expenses (Note 2)	**(29.5)**	**(1.2)**	**(30.7)**	(28.2)
Profit from retail operations (Note 2)	**104.3**	**(6.2)**	**98.1**	127.9
Provision for loss on disposal of stores (Note 3)	**–**	**(12.1)**	**(12.1)**	–
Interest and other items (Note 4)	**(5.7)**	**–**	**(5.7)**	(2.8)
Profit on ordinary activities before taxation	**98.6**	**(18.3)**	**80.3**	125.1
Tax on profit on ordinary activities (Note 5)	**(27.6)**	**1.1**	**(26.5)**	(35.0)
Profit for the financial year	**71.0**	**(17.2)**	**53.8**	90.1
Dividends (Note 6)	**(38.6)**		**(38.6)**	(38.0)
Retained profit for the financial year (Note 15)	**32.4**		**15.2**	52.1
Earnings per share (Note 7)	**16.8p**		**12.7p**	21.4p
Earnings per share diluted (Note 7)	**16.7p**		**12.6p**	21.3p

Statement of total recognised gains and losses

For the 52 weeks ended 27 March 1999 (Note 1)

	1999 £ million	1998 £ million
Company	**18.1**	1.1
Subsidiary undertakings	**35.7**	89.0
Profit for the financial year being total recognised gains and losses relating to the year	**53.8**	90.1

A statement of the movement in reserves is shown in Note 15.

The accounting policies on page 32 and the notes on pages 33 to 49 form an integral part of these statements.

Group and Company balance sheets

As at 27 March 1999 (Note 1)

	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Fixed assets				
Tangible assets (Note 8)	**658.7**	611.8	**5.8**	–
Investments (Note 9)	**6.5**	2.0	**324.7**	290.7
	665.2	613.8	**330.5**	290.7
Current assets				
Stocks	**185.2**	188.6	–	–
Debtors (Note 10)	**98.4**	100.3	**56.6**	100.8
Cash at bank and in hand and time deposits	**48.8**	41.6	–	–
	332.4	330.5	**56.6**	100.8
Creditors (amounts falling due within one year – Note 11)	**(323.6)**	(296.8)	**(145.5)**	(135.4)
Net current assets	**8.8**	33.7	**(88.9)**	(34.6)
Total assets less current liabilities	**674.0**	647.5	**241.6**	256.1
Creditors (amounts falling due after one year – Note 11)	**(27.3)**	(32.6)	**(3.9)**	–
Provisions for liabilities and charges (Note 13)	**(31.4)**	(16.4)	–	–
	615.3	598.5	**237.7**	256.1
Capital and reserves attributable to equity interests				
Called-up share capital (Note 14)	**42.4**	42.3	**42.4**	42.3
Share premium account (Note 15)	**31.7**	29.7	**31.7**	29.7
Acquisition and merger reserves (Note 15)	**73.5**	73.5	–	–
Profit and loss account (Note 15)	**467.7**	453.0	**163.6**	184.1
	615.3	598.5	**237.7**	256.1

Approved by the board on 20 May 1999
~~K G Edelman~~ A.K.P. Smith.
C N Martin
Directors

Reconciliation of movements in shareholders' funds for the 52 weeks ended 27 March 1999:

	1999 £ million	1998 £ million
Profit for the financial year	**53.8**	90.1
Dividends	**(38.6)**	(38.0)
	15.2	52.1
Scrip dividend	–	1.5
New share capital subscribed	**1.6**	1.7
Net increase in shareholders' funds	**16.8**	55.3
Opening shareholders' funds	**598.5**	543.2
Closing shareholders' funds	**615.3**	598.5

The accounting policies on page 32 and the notes on pages 33 to 49 form an integral part of these statements.

Group cash flow statement

For the 52 weeks ended 27 March 1999 (Note 1)

	1999 £ million	1999 £ million	1998 £ million	1998 £ million
Reconciliation of net cash inflow from operating activities				
Profit from retail operations	104.3		127.9	
Depreciation	63.2		55.2	
Decrease (increase) in stocks	2.1		(13.6)	
Decrease (increase) in debtors	1.4		(11.3)	
(Decrease) increase in creditors	(3.1)		7.6	
Net cash flow in respect of exceptional costs	(1.0)		(2.4)	
Net cash inflow from operating activities		166.9		163.4
Group cash flow statement				
Net cash flow from operating activities		166.9		163.4
Returns on investments and servicing of finance:				
Interest received	3.4		2.9	
Interest paid Note (b)	(9.1)		(5.7)	
		(5.7)		(2.8)
Taxation:				
Corporation tax including ACT	(30.9)		(25.6)	
Overseas tax	(0.3)		(0.3)	
		(31.2)		(25.9)
Capital expenditure:				
Purchase of tangible fixed assets	(140.2)		(124.1)	
Sale of tangible fixed assets	12.3		8.2	
		(127.9)		(115.9)
		2.1		18.8
Acquisitions and disposals:				
Acquisition of shares (Note 9)		(4.7)		(0.2)
Equity dividends paid		(38.5)		(33.8)
		(41.1)		(15.2)
Management of liquid resources Note (a)		(2.5)		(1.8)
Financing:				
Issue of share capital	1.6		1.7	
Increase in debt Notes (a) and (b)	39.3		35.2	
		40.9		36.9
(Decrease) increase in cash in the period		(2.7)		19.9
Reconciliation of net cash flow to movement in net debt				
(Decrease) increase in cash for the year		(2.7)		19.9
Cash flow from liquid resources		2.5		1.8
Cash flow from debt		(39.3)		(35.2)
Movement in net debt in the period Note (a)		(39.5)		(13.5)
Net debt at beginning of year		(51.7)		(38.2)
Net debt at end of year		(91.2)		(51.7)

Notes to the group cash flow statement

For the 52 weeks ended 27 March 1999 (Note 1)

		1997 £ million	Cash flow £ million	1998 £ million	Cash flow £ million	1999 £ million
(a) Analysis of net debt						
Cash*		11.9	(2.1)	**9.8**	**4.7**	**14.5**
Overdrafts (Note 11)		(37.3)	22.0	**(15.3)**	**(7.4)**	**(22.7)**
Net cash		(25.4)	19.9	**(5.5)**	**(2.7)**	**(8.2)**
Cash flow from management of liquid resources						
Time deposits*		30.0	1.8	**31.8**	**2.5**	**34.3**
Increase in debt						
Bills of exchange and bank loans (Note 11)		(10.0)	(43.0)	**(53.0)**	**(40.0)**	**(93.0)**
Obligations under finance leases:	Due within one year (Note 11)	–	–	**–**	**(1.9)**	**(1.9)**
	Due after one year (Note 11)	–	–	**–**	**(3.9)**	**(3.9)**
Obligations under property leases:	Due within one year (Note 11)	(6.2)	(0.2)	**(6.4)**	**(0.4)**	**(6.8)**
	Due after one year (Note 11)	(26.6)	8.0	**(18.6)**	**6.9**	**(11.7)**
Increase in debt		(42.8)	(35.2)	**(78.0)**	**(39.3)**	**(117.3)**
Net debt		(38.2)	(13.5)	**(51.7)**	**(39.5)**	**(91.2)**

*Cash and time deposits on the balance sheet represents the total of cash of £14.5 million (1998 – £9.8 million) and time deposits of £34.3milion (1998 – £31.8 million).

(b) Obligations under property leases and finance leases

During the year the group entered into finance lease arrangements in respect of computer equipment with a total capital value at the inception of the lease of £5.8 million. The capital element of lease payments made in the year was £6.5 million (1998 – £7.8 million). Interest paid includes £1.7 million (1998 – £2.2 million) in relation to obligations under property and finance 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 27 March 1999.

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 before 29 March 1997 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 provision for impairment. 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 27 March 1999. The comparative period covered the 52 weeks ended 28 March 1998.

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:

	1999 £ million	1998 £ million
UK including Channel Islands	**1,238.3**	1,227.1
Rest of Europe	**30.5**	42.4
Rest of World	**59.8**	65.5
	1,328.6	1,335.0

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

	1999 £ million	1998 £ million
Depreciation of tangible assets	**63.2**	55.2
Net rent of properties	**108.0**	98.5
Auditors' remuneration – audit	**0.2**	0.2
– non-audit	**0.3**	0.2
Staff costs:		
Wages and salaries (including bonuses)	**136.0**	128.4
Social security costs	**7.6**	7.1
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:

	1999	1998
Number of employees	**20,686**	20,994
Full-time equivalents	**10,747**	10,795

Notes to the accounts

3 Exceptional items

The profit and loss account includes the following exceptional items:

Redundancy

Following the implementation of the new systems at Bhs there was a reorganisation of the head office which resulted in a programme of redundancies at a cost of £1.1 million. There was also a reorganisation at Mothercare, which resulted in redundancies of £1.2 million.

Store closures

Following a review of the Mothercare store portfolio, the group has decided to dispose of some 68 Mothercare stores. A provision has therefore been set up to reflect the anticipated loss on the disposal of those stores of some £16.0 million. Within this we have reflected an anticipated loss on disposal of assets of £12.1 million including £1.1 million professional fees. In addition a provision has been taken against profit from retail operations of £3.9 million. This covers the anticipated write down of stock (£1.2 million) and lease exit costs (£2.7 million).

The exceptional item can be summarised as follows:

	£ million
Redundancy	
Charged to cost of sales	**1.1**
Charged to administration costs	**1.2**
	2.3
Store closures	
Charged to cost of sales – stock provisions	**1.2**
Charged to cost of sales – excess lease commitment	**2.7**
Provision for loss on disposal of stores including legal costs (£1.1 million)	**12.1**
	16.0
Total	**18.3**
Tax credit arising on exceptional items	**1.1**

A provision of £6.1 million has been set up to cover the redundancies (£2.3 million), legal costs (£1.1 million) and lease exit costs (£2.7 million), see Note 13.

Notes to the accounts

4 Interest and other items

	1999 £ million	1998 £ million
Interest payable:		
Bank loans and overdrafts (repayable within five years, not by instalments)	**(7.4)**	(3.5)
Obligations under finance leases (repayable within five years by instalments)	**(0.1)**	–
Obligations under property leases (repayable within five years by instalments)	**(1.6)**	(2.2)
Interest receivable	**3.4**	2.9
	(5.7)	(2.8)

5 Taxation

The charge for tax on profit on ordinary activities comprises:

	1999 £ million	1998 £ million
UK corporation tax at 31% (1998 – 31%)	**23.6**	29.3
Overseas taxation	**0.2**	0.4
Deferred taxation	**4.5**	6.8
	28.3	36.5
Adjustment for prior years	**(1.8)**	(1.5)
Taxation arising on income of the group	**26.5**	35.0

Deferred taxation included in the balance sheet comprises:

	Group	
	1999 £ million	1998 £ million
Excess of capital allowances over book depreciation	**23.4**	17.9
Other timing differences	**1.5**	2.5
ACT recoverable	–	(5.6)
	24.9	14.8

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

	£ million
Balance at beginning of year	**14.8**
ACT recoverable	**5.6**
Charged to profit and loss	**4.5**
Balance at end of year	**24.9**

The amount of deferred taxation cumulatively not provided, principally arising on capital allowances in the group balance sheet, was £26.7 million (1998 – £17.0 million).

Notes to the accounts

6 Dividends on equity shares

	1999 £ million	1998 £ million
Interim of 3.7p per share paid (1998 – 3.6p)	**15.8**	15.2
Final of 5.4p per share proposed (1998 – 5.4p)	**22.8**	22.8
	38.6	38.0

7 Earnings per share

	1999	(restated) 1998
Average number of ordinary shares in issue	**423.5m**	421.4m
Diluted impact of options including Option 2000	**0.6m**	1.6m
Diluted impact of LTIP shares	**0.2m**	0.3m
Average number of potential ordinary shares in issue	**424.3m**	423.3m
Profit for the financial year	**£53.8m**	£90.1m
Profit for the financial year excluding exceptional items	**£71.0m**	£90.1m
Earnings per share	**12.7p**	21.4p
Earnings per share excluding exceptional items	**16.8p**	21.4p
Diluted earnings per share	**12.6p**	21.3p

Earnings per share for 1997/98 has been restated to reflect the requirements of FRS 14. Accordingly shares which are held in the balance sheet have not been reflected in calculating the weighted average number of shares for basic EPS reducing the 1997/98 comparatively by 0.5m shares. Earnings per share has been calculated excluding the exceptional items in Note 3 to give the underlying trading performance of the group.

Notes to the accounts

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	70.2	437.0	403.9	33.6	944.7
Transfers	–	17.8	79.3	(97.1)	–
Additions	17.0	21.1	25.1	70.6	133.8
Disposals and write-offs	(1.2)	(12.1)	(7.4)	–	(20.7)
Balance at end of year	86.0	463.8	500.9	7.1	1,057.8
Accumulated depreciation:					
Balance at beginning of year	5.1	109.0	218.8	–	332.9
Charge for the year	0.3	17.6	45.3	–	63.2
Provision for loss and closure of stores	0.5	5.9	4.6	–	11.0
Disposals and write-offs	–	(0.6)	(7.4)	–	(8.0)
Balance at end of year	5.9	131.9	261.3	–	399.1
Net book value:					
Balance at beginning of year	65.1	328.0	185.1	33.6	611.8
Balance at end of year	80.1	331.9	239.6	7.1	658.7

The net book value of leasehold properties includes £166.2million (1998 – £164.4 million) in respect of short leasehold properties. The net book value of leasehold properties includes £52.0 million (1998 – £53.5 million) held under finance leases and fixtures, fittings and equipment include £5.8 million.

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

	Fixtures, fittings, equipment £ million
Cost and net book value:	
Additions	5.8
Balance at end of year	5.8

Included in fixtures, fittings and equipment is £5.8 million of assets held under finance lease.

Notes to the accounts

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 in the year is as follows:

	1999 £ million
Cost of shares at beginning of year	**2.0**
Shares allocated to beneficiaries	**(0.2)**
Shares acquired	**4.7**
	6.5

Shares were acquired for the LTIP and the ESOP during the year as set out in Note 17 on page 47.

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

The trading subsidiary undertakings at 27 March 1999 (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	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*	Investment property	England

*Direct subsidiary of Storehouse plc

Issued share capital represents only ordinary shares or their equivalent.

The principal country of operation for the subsidiary undertakings is the UK 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:

	1999 £ million	1998 £ million
Cost of investments less amounts written off £63.2 million (1998 – £63.2 million)	**153.5**	153.5
Loans to subsidiary undertakings	**171.2**	137.2
	324.7	290.7

10 Debtors

	Group		Company	
	1999 £ million	1998 £ million	1999 £ million	1998 £ million
Trade debtors	**42.9**	50.9	**–**	–
Amounts due from subsidiary undertakings	**–**	–	**47.5**	91.5
Prepayments and accrued income	**41.1**	39.4	**–**	–
Other debtors	**14.4**	10.0	**9.1**	9.3
	98.4	100.3	**56.6**	100.8

Included within group debtors is £8.8 million (1998 – £7.2 million) which is due in over one year; included within the Company is £8.4 million (1998 – £6.7 million) which is due in over one year.

Notes to the accounts

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

	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Bank overdrafts	**22.7**	15.3	**69.0**	57.4
Bills of exchange and bank loans	**93.0**	53.0	**–**	–
Obligations under finance leases	**1.9**	–	**1.9**	–
Obligations under property leases	**6.8**	6.4	**–**	–
Trade creditors	**81.0**	78.3	**0.4**	0.1
Proposed dividend	**22.8**	22.8	**22.8**	22.8
Current taxation	**27.7**	37.0	**–**	–
ACT payable	**3.9**	9.3	**–**	9.3
Amounts due to subsidiary undertakings	**–**	–	**49.4**	45.0
Payroll and other taxes, including social security	**4.4**	5.2	**0.3**	0.1
Accruals and deferred income	**47.3**	59.6	**1.7**	0.7
Landlords' contributions	**10.4**	8.7	**–**	–
Other creditors	**1.7**	1.2	**–**	–
	323.6	296.8	**145.5**	135.4

Amounts falling due after one year	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Obligations under finance leases	**3.9**	–	**3.9**	–
Obligations under property leases	**11.7**	18.6	**–**	–
Landlords' contributions	**11.4**	13.6	**–**	–
Corporation taxation	**0.3**	0.4	**–**	–
	27.3	32.6	**3.9**	–

Obligations under finance leases are analysed as follows:

	Group 1999 £ million	Group 1998 £ million	Company 1999 £ million	Company 1998 £ million
Amounts payable				
– within one year	**2.0**	–	**2.0**	–
– within two to five years	**4.2**	–	**4.2**	–
	6.2	–	**6.2**	–
Finance charges allocated to future periods	**(0.4)**	–	**(0.4)**	–
	5.8	–	**5.8**	–

Obligations under property leases are analysed as follows:

	Group 1999 £ million	Group 1998 £ million
Amounts payable		
– within one year	**7.9**	8.0
– within two to five years	**12.5**	20.7
	20.4	28.7
Finance charges allocated to future periods	**(1.9)**	(3.7)
	18.5	25.0

Notes to the accounts

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 18.7 per cent of the group's borrowings were at fixed interest rates.

The interest charge for the year, excluding interest receivable, of £9.1m was 7.5 per cent when measured against average gross borrowings of £119.1 million (1998 – 7.4 per cent on borrowings of £78 million) excluding time deposits. Interest overall is covered 18 times by profit before interest, exceptionals and tax (1998 – 46 times).

At the end of the year 12 per cent of the group's gross borrowings were due to mature 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 seven per cent of the sales of the group's UK businesses in 1999 were to franchisees overseas which are all billed in sterling. The group therefore has no currency exposure on these sales. Less than 2 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 foregoing the benefit of any upward 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 27 March 1999 were:

	Total £ million	Floating borrowings £ million	Fixed borrowings £ million
Bank overdrafts	**22.7**	**22.7**	–
Bills of exchange and bank loans	**93.0**	**93.0**	–
Obligations under finance leases excluding finance charges allocated to future periods	**6.2**	–	**6.2**
Obligations under property leases excluding finance charges allocated to future periods	**20.4**	–	**20.4**
Gross borrowings	**142.3**	**115.7**	**26.6**

The floating rate borrowings comprise sterling denominated bank borrowings that bear interest rates based on libor. The weighted average interest rate is 6.03 per cent and the weighted average time for which the rate is fixed is three years.

Maturity of gross borrowings

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

	£ million
Within one year	**125.6**
Between one and two years	**9.5**
Between two and five years	**7.2**
Total	**142.3**

12 Group borrowings continued

Borrowing facilities

The group had £189.3 million undrawn committed borrowing facilities available to it at 27 March 1999, all of which were due to expire beyond one year. These facilities were extended and increased in 1998. As a result of this exercise, the group now has committed facilities of £235 million for the next financial year.

Currency analysis of net assets

The group's borrowings and net assets (excluding gross borrowings) by currency at 27 March 1999 were:

	Currency	Net assets excluding gross borrowings by currency of operation £ million	Gross borrowings £ million
	Sterling	**757.0**	**142.3**
	US dollar	**0.6**	–
Total		**757.6**	**142.3**

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.

	1999 book values £ million	1999 fair values £ million
Other short-term financial assets	**0.6**	**0.6**
Forward currency contracts	**1.5**	**1.5**

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 1998/99 profit before tax and exceptionals by approximately 1.2 per cent.

Notes to the accounts

13 Provisions for liabilities and charges

	Group 1999 £ million	Group 1998 £ million
Deferred taxation (Note 5)	**24.9**	14.8
Other provisions	**6.5**	1.6
	31.4	16.4

The movement on other provisions can be analysed as follows:

	Acquisition provisions	Disposal provisions	Exceptional provisions	Total
Balance at beginning of year	**0.3**	**1.3**	–	**1.6**
Utilised in year	**(0.3)**	**(0.9)**	–	**(1.2)**
Exceptional items (Note 3)	–	–	**6.1**	**6.1**
Balance at end of year	–	**0.4**	**6.1**	**6.5**

The acquisition provisions were set up in May 1996 on the restructuring of Childrens World following its acquisition. The disposal provisions arose on the disposal of Habitat in 1992 and Blazer in 1996. The provisions included the cost of disposing of leases which remained with the group and the balance represents the remaining costs under those leases where the group still has some exposure. Details of the exceptional provisions are given in Note 3 to the accounts.

14 Called-up share capital

The authorised share capital is represented by 549,500,000 (1998 – 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	**422,962,778**	**42.3**
Issued under the Storehouse Sharesave Scheme	**676,416**	**0.1**
Issued under the Storehouse Executive Share Option Scheme	**448,551**	–
Balance at end of year	**424,087,745**	**42.4**

15 Reserves

The movement on reserves is as follows:

	Company Profit and loss account £ million	Company Share premium account £ million	Group Share premium account £ million	Group Profit and loss account £ million	Group Acquisition and merger reserves £ million
Balance at beginning of year	**184.1**	**29.7**	**29.7**	**453.0**	**73.5**
Profit for the financial year	**18.1**	–	–	**53.8**	–
Dividends paid and proposed	**(38.6)**	–	–	**(38.6)**	–
Transfer on reserves	–	–	**0.5**	**(0.5)**	–
Share issue	–	**2.0**	**1.5**	–	–
Balance at end of year	**163.6**	**31.7**	**31.7**	**467.7**	**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 (1998 – £30.1 million).

Notes to the accounts

16 Commitments

The capital commitments are as follows:

	Group 1999 £ million	Group 1998 £ million
Contracts for capital expenditure	**9.6**	7.8

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

	Buildings 1999 £ million	Buildings 1998 £ million	Other 1999 £ million	Other 1998 £ million
Leases which expire				
– within one year	**0.2**	0.5	**0.8**	1.3
– between two and five years	**3.2**	2.9	**4.1**	3.3
– over five years	**111.3**	102.1	**–**	–
	114.7	105.5	**4.9**	4.6

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. The latest valuations were carried out at 1 April 1997. The next actuarial valuation will be carried out as at 1 April 2000.

The assumptions which have the most significant effect on the results of the valuation are set out below:

Rate of return on investments	8.75 per cent
Rate of increase in salaries	7.0 – 8.0 per cent
Rate of increase in pensions	4.5 per cent

The aggregate market value of the investments at 1 April 1997 was £369.6 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 (1998 – £0.1 million) and includes a credit of £12.8 million (1998 – £11.9 million) in respect of amortisation of pension surpluses arising in earlier years which are being allocated over the remaining estimated service lives of members of between six and 15 years.

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.

Notes to the accounts

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 of the Combined Code and to the provisions of 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 Schedule A of the Best Practice Provisions annexed to the Combined Code included within 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 27 March 1999.

Long-term incentive plan

A further provisional award of shares was made during the year to 24 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	June 1998
Keith Edelman	59,726	84,541	71,428
Steve Bedford	35,836	50,724	39,375
Chris Martin	16,211	42,270	37,500
Stephen Tague	23,890	39,855	29,464

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. No grant in respect of the August 1996 provisional award has been made.

Notes to the accounts

17 Remuneration report continued

Executive share option scheme

Options are granted each year to some 120 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 the 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 an average of 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 executive options were exercised by the directors during the year.

Directors' share options

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

	28 March 1998	Granted during year	Exercised during year	Grant date	Exercise price	**27 March 1999**
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**
	–	143,369	–	May 98	279p	**143,369**
Total	1,117,238	143,369	–			**1,260,607**
Steve Bedford	114,783	–	–	Nov 92	184p	**114,783**
	75,376	–	–	May 93	199p	**75,376**
	*4,312	–	*4,312	June 93	160p	**–**
	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**
	–	79,032	–	May 98	279p	**79,032**
Total	649,104	79,032	4,312			**723,824**
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**
	–	75,268	–	May 98	279p	**75,268**
Total	241,075	75,268	–			**316,343**

Stephen Tague was appointed a director on 20 May 1999. His share options under all schemes as at the date of his appointment are as follows:

	Grant date	Exercise price	**20 May 1999**
Stephen Tague	May 94	208p	**173,076**
	June 94	167p	**11,676***
	May 95	264p	**45,454**
	June 96	317p	**44,164**
	June 97	202p	**65,346**
	May 98	279p	**47,958**
	Jan 99	124.8p	**160,256**
Total			**547,930**

Note: *Options granted under the five year SAYE scheme (three years for Chris Martin, seven years for Stephen Tague). The market price of Storehouse shares on 26 March 1999 was 125.5p, with a range during the year of 108.5p to 293.5p.

Notes to the accounts

17 Remuneration Report continued

Pension

The contribution by the Company for Keith Edelman to make his own pension arrangements is 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 5 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 contribution 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 10 per cent of salary under age 40, rising in increments of 5 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 28 March 1998 £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 27 March 1999 £000s	Company contributions £000s
Steve Bedford	**51**	**5**	**30**	**56**	**–**
Chris Martin	**8**	**3**	**26**	**11**	**8**

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.

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 for up to six months from the notice date. In the event of termination of Alan Smith's terms of engagement he is entitled to 12 months' fees. The other non-executive directors do not have service arrangements with the Company which provide for payment on termination of their engagement.

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.

Notes to the accounts

17 Remuneration Report continued

Directors' emoluments

Total emoluments (including pension contributions) in 1999 were £1,207,000 (1998 – £1,135,000). Stephen Tague received no emoluments as a director during the year. The following table shows the breakdown of emoluments:

		Salary fees £000s	Benefits £000s	Total remuneration ex. pension contributions £000s	Pension contributions £000s
Executive directors					
Keith Edelman	**1999**	**400**	**16**	**416**	**80**
	1998	369	15	384	74
Steve Bedford	**1999**	**221**	**23**	**244**	–
	1998	218	24	242	–
Chris Martin	**1999**	**210**	**11**	**221**	**8**
	1998	175	12	187	5
Non-executive directors					
Alan Smith	**1999**	**150**	**15**	**165**	–
	1998	150	14	164	–
Brian Hardy	**1999**	**25**	–	**25**	–
	1998	25	–	25	–
Angela Heylin	**1999**	**23**	–	**23**	–
	1998	23	–	23	–
David Tagg	**1999**	**25**	–	**25**	–
	1998	25	–	25	–
Martin Sorrel	1998	6	–	6	–

Share interests

The beneficial interests of the directors in the share capital of the Company (excluding options which are set out on page 45) are as follows:

	27 March 1999	28 March 1998
Steve Bedford	**129,417**	125,105
Keith Edelman	**253,260**	243,260
Brian Hardy	**2,802**	2,666
Angela Heylin	**6,450**	6,137
Chris Martin	**11,327**	1,000
Alan Smith	**21,946**	20,881
David Tagg	**15,000**	10,000

Stephen Tague had 5,000 ordinary shares at the date of his appointment.

Alan Smith and David Tagg are the shareholders and directors of Storehouse Employees Share Trustee Limited, which held 175,047 (1998 – 230,047) Storehouse shares in trust on 27 March 1999. A separate trust, the Storehouse Employee Trust, held 3,744,429 shares on 27 March 1999 (1998 – 531,759), having purchased a further 2,912,670 Storehouse shares between 29 January 1999 and 9 February 1999 at an average price of £1.296 per share, and 300,000 shares at an average price of £2.78 between 10 and 11 June 1998. The market value of shares held under these trusts at 27 March 1999 was £4,918,942.

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 (1998 – 200,000) Storehouse shares.

There have been no movements in directors' interests, whether beneficial or non-beneficial, between 27 March 1999 and 20 May 1999.

Notes to the accounts

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. This year, the grant due to be made in May 1999 was brought forward to January following the Christmas Trading Statement. The exercise of Executive Share Options granted after 5 April 1999 will attract Employers' National Insurance contributions at 12.2 per cent. By bringing forward the grant to January, this liability has been avoided. No awards were made to the then executive directors at that time in January 1999.

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 £2.93 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 (ie 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.

Notes to the accounts

18 Employees' and executive share schemes continued

Outstanding options at 27 March 1999 under the group's share option schemes were as follows:

		Ordinary shares 1999	Ordinary shares 1998	Date of grant	Option price (p)
Storehouse executive share option scheme		–	63,276	June 88	254
		15,303	16,921	June 89	161
		11,474	11,474	June 90	127
		15,974	15,974	May 91	99
		60,885	63,860	May 92	142
		114,783	114,783	Nov 92	184
		342,463	367,550	May 93	199
		722,388	786,937	Nov 93	201
		918,215	1,242,082	May 94	208
		18,887	40,008	Nov 94	214
		939,298	1,065,439	May 95	264
Storehouse 1995 executive share option scheme		**119,467**	144,467	Dec 95	339
		1,273,094	1,414,853	June 96	317
		75,668	146,299	Nov 96	269
		2,381,623	2,709,698	June 97	202
		307,374	307,374	Nov 97	244
		2,231,688	–	May 98	279
		358,153	–	Nov 98	141
		4,826,750	–	Jan 99	124.8
Storehouse sharesave scheme:	7 year	–	232,033	June 91	79
	5 year	**431**	567,879	June 93	160
	7 year	**105,915**	111,276	June 93	160
	5 year	**442,243**	484,984	June 94	167
	7 year	**77,614**	85,645	June 94	167
	5 year	**448,845**	586,505	June 95	212
	7 year	**50,625**	57,980	June 95	212
Storehouse 1995 sharesave scheme:	3 year	**225,600**	282,090	June 96	260
	5 year	**214,018**	278,239	June 96	260
	7 year	**52,260**	57,960	June 96	260
	3 year	**738,212**	1,001,920	June 97	178
	5 year	**686,163**	874,877	June 97	178
	7 year	**134,190**	176,558	June 97	178
Storehouse Option 2000 scheme		**6,283,000**	6,755,250	July 96	293
Storehouse Option 2001 scheme		**1,262,500**	1,378,250	July 97	293
		25,455,103	21,442,441		

Five year record

Summary of turnover and profit

	1999 £ million	1998 £ million	1997 £ million	1996 £ million	1995 £ million
Turnover	**1,328.6**	1,335.0	1,249.7	1,083.6	1,079.1
Profit from retail operations	**98.1**	127.9	119.0	102.0	87.2
Exceptional items	**(12.1)**	–	(20.5)	1.2	–
Interest and other items	**(5.7)**	(2.8)	(0.7)	6.7	3.6
Profit before taxation	**80.3**	125.1	97.8	109.9	90.8
Taxation	**(26.5)**	(35.0)	(34.0)	(35.3)	(29.2)
Profit for the financial year	**53.8**	90.1	63.8	74.6	61.6
Earnings per share	**12.7p**	21.4p	15.2p	17.9p	14.8p
Dividend per share	**9.1p**	9.0p	8.1p	7.2p	6.3p

Summary of balance sheets

	1999	1998	1997	1996	1995
Fixed assets	**665.2**	613.8	546.5	491.7	429.2
Net current assets	**8.8**	33.7	53.3	61.0	76.4
Creditors falling due after one year	**(27.3)**	(32.6)	(43.9)	(13.3)	(11.9)
Provisions for liabilities and charges	**(31.4)**	(16.4)	(12.7)	(7.4)	(9.5)
Total net assets	**615.3**	598.5	543.2	532.0	484.2

Other key statistics

	1999	1998	1997	1996	1995
Share price (p) at year end	**125.5**	254.0	236.5	341.0	230.0
Net cash (debt)/equity (%)	**(14.8)**	(8.6)	(7.0)	13.8	15.4
Capital expenditure	**140.2**	124.1	94.1	129.0	79.0
Depreciation	**63.2**	55.1	45.3	39.4	33.6
Rents	**108.0**	98.5	90.9	76.4	67.9
Number of stores	**494**	485	481	435	433
Net selling space (000s sq ft)	**6,774**	6,520	6,349	5,268	5,005
Average number of employees	**20,686**	20,994	20,841	19,088	19,086
Average number of full-time equivalents	**10,747**	10,795	10,866	9,946	10,046

The results for 1995 have been restated in accordance with UITF Abstract 13 Employee Share Ownership Plans and the results for 1993 to 1998 have been restated in accordance with FRS 14 Earnings per Share.

Storehouse profile

People at 27 March 1999

	Total employees		Full-time equivalents	
	1999	1998	**1999**	1998
Bhs	**14,273**	14,469	**7,576**	7,235
Mothercare	**6,106**	6,557	**2,911**	3,218
Other	**28**	25	**27**	24
	20,407	21,051	**10,514**	10,477

Stores

	Total selling area (000s sq ft)		Number of stores	
UK at 27 March 1999	**1999**	1998	**1999**	1998
Bhs	**4,462**	4,191	**153**	144
Mothercare	**2,312**	2,329	**341**	341
Total	**6,774**	6,520	**494**	485

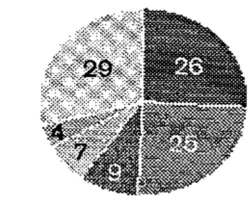
Of the 13 new stores opened during the year, nine were Bhs stores and four were Mothercare. In addition four Mothercare stores were closed.

International at 27 March 1999	Europe	Middle East	Far East	Other	Total
Bhs	**38**	**35**	**3**	**–**	**76**
Mothercare	**62**	**65**	**43**	**2**	**172**
Total	**100**	**100**	**46**	**2**	**248**

Bhs currently has 76 franchised outlets, having opened eight and closed nine during the year. Mothercare has 172 franchised outlets, opening 20 and closing nine during the year.

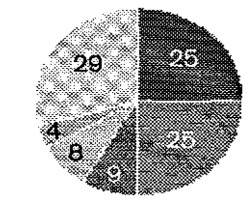
Products

1999 Turnover by product



%

1998 Turnover by product



%

Key to charts

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

Shareholder information

Financial calendar

	1999
Annual General Meeting	**8 July**
Payment of final dividend	**18 August**
Announcement of interim results	**19 November**
	2000
Payment of interim dividend	**February**
Preliminary announcement of results for 53 weeks to 1 April 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 11 May 1999 is as follows:

	Storehouse ordinary shares	
	Number million	Number of holders
Banks, insurance companies and pension funds	**10.4**	18
Nominee companies	**381.5**	1,559
Other corporate holders	**6.8**	296
Individuals	**24.3**	33,893
Employees	**1.1**	635
	424.1	36,401

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

	1999	1998
Share price at 26 March 1999 (27 March 1998)	**125.5p**	254p
Market capitalisation	**£532.2m**	£1,074.3m
Share price movement during the year: high	**293.5p**	270.5p
low	**108.5p**	185.5p

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
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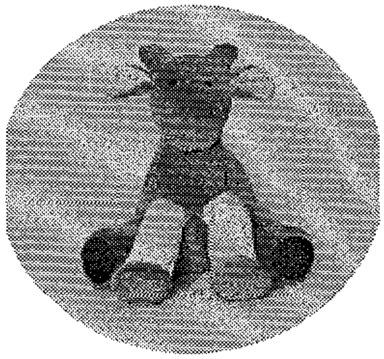

Advisers

Principal Bankers
Midland Bank plc

Financial Advisers
Merrill Lynch International
J Henry Schroder & Co Limited

Brokers
SBC Warburg
Cazenove & Co

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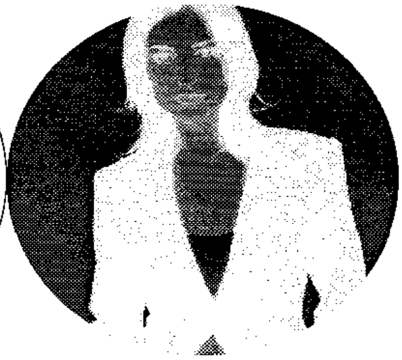

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