



Registration
Number
3467418

BOOTS INSURANCE SERVICES LIMITED

DIRECTOR'S REPORT

and

FINANCIAL STATEMENTS

YEAR ENDED 31ST MARCH 2003



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Registration
No: 3467418

BOOTS INSURANCE SERVICES LIMITED

Board of Directors

Year ended 31st March 2003

Director

J S Sinclair

Secretary

S Fennell

Registered Office

1 Thane Road West
Nottingham, NG2 3AA

BOOTS INSURANCE SERVICES LIMITED

Director's Report

Year ended 31st March 2003

The director presents his annual report together with the audited financial statements for the year ended 31st March 2003.

Principal activities

The company's principal activity is the provision of health and travel insurance products.

Review of the business

The company continues to grow its business in Health and Travel Insurance, primarily through the store networks. The products are underwritten and administered by different specialist insurers and third party administrators, to ensure that customers are provided with the best possible offer.

Store activity drives the majority of sales, although new channel development is encouraging, particularly internet sales through Bootsinsurance.com. Sales and profit this year are in line with expectations.

Results, retentions and dividends

The results and retentions for the year are shown in the profit and loss account on page 6.

Staff

The company continues to involve staff in the decision-making process and communicates regularly with staff during the year. Their involvement in the company's performance is encouraged through employee bonus and share schemes. The involvement extends to the board of Boots Pensions Ltd; on which there are three group employee representatives as well as a retired employee.

The company's aim for all members of staff and applicants for employment is to fit the qualifications, aptitude and ability of each individual to the appropriate job, and to provide equal opportunity, regardless of sex, religion or ethnic origin. The company does all that is practicable to meet its responsibility towards the employment and training of disabled people. Where an employee becomes disabled, every effort is made to provide continuity of employment in the same job or a suitable alternative.

Directors

The details of the director in office on 31st March 2003 are shown on page 1. There have been the following changes to the board of directors during the year and up to the date of signing the financial statements:

<u>Appointments</u>	<u>Date</u>
N A Usher	25th July 2003
C Grimsdell	25th July 2003
<u>Resignations</u>	<u>Date</u>
K S Piggott	31st December 2002
J S Sinclair	7 th November 2003

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BOOTS INSURANCE SERVICES LIMITED

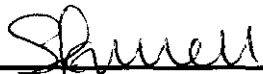
Director's Report

Year ended 31st March 2003

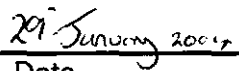
Remuneration of director and director's shareholding

Details of the remuneration and shareholdings of the director are included in notes 13 and 14 on pages 14 to 16.

By order of the board



S Fennell
Secretary



Date

BOOTS INSURANCE SERVICES LIMITED

Director's responsibilities statement

Year ended 31st March 2003

Company law requires the director to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss for that year. In preparing those financial statements, the director is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He has general responsibility for taking such steps as are reasonably open to him to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

BOOTS INSURANCE SERVICES LIMITED

Independent Auditors' Report

Year ended 31st March 2003

Independent Auditors' Report to the members of Boots Insurance Services Limited

We have audited the financial statements on pages 6 to 17.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The director is responsible for preparing the director's report and, as described on page 4, the financial statements, in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the director's report is not consistent with the financial statements, 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 regarding director's remuneration and transactions with the company is not disclosed.

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st March 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Birmingham

29/1/04
Date

BOOTS INSURANCE SERVICES LIMITED**Profit and Loss Account**

Year ended 31st March 2003

	Notes	2003 £000	2002 £000
Turnover	1	4,260	3,671
Operating costs	2	(1,661)	(2,028)
Operating profit		2,599	1,643
Net interest payable	3	-	(2)
Profit on ordinary activities before taxation		2,599	1,641
Tax on profit on ordinary activities	4	(780)	(497)
Profit on ordinary activities after taxation being profit for the financial year		1,819	1,144

The result for the year is wholly attributable to the continuing operations of the company.

There are no recognised gains and losses for the current financial year and preceding financial year other than the profit shown above.

BOOTS INSURANCE SERVICES LIMITED
Reconciliation of Movements in Shareholders' Funds

Year ended 31st March 2003

	2003 £000	2002 £000
Profit for the financial year	1,819	1,144
Net decrease in shareholders' deficit	<u>1,819</u>	<u>1,144</u>
Opening shareholders' deficit	(2,079)	(3,223)
Closing shareholders' deficit	<u>(260)</u>	<u>(2,079)</u>

BOOTS INSURANCE SERVICES LIMITED

Balance Sheet

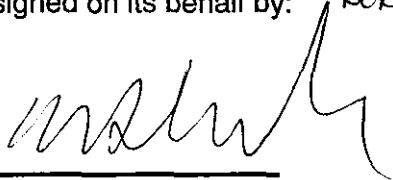
At 31st March 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	5	66	98
Current assets			
Debtors falling due within one year	6	429	358
Debtors falling due after more than one year	6	1,942	1,594
		2,371	1,952
Cash at bank and in hand		609	84
		2,980	2,036
Creditors: Amounts falling due within one year	7	(790)	(416)
Net current assets		2,190	1,620
Total assets less current liabilities		2,256	1,718
Creditors: Amounts falling due after more than one year	8	(2,516)	(3,797)
Net liabilities		(260)	(2,079)
Capital and reserves			
Called up share capital	10,11	-	-
Profit and loss account	11	(260)	(2,079)
Equity shareholders' deficit		(260)	(2,079)

The financial statements were approved by the Board of Directors on
and are signed on its behalf by:

29th January 2004

NORMAN USHER



Director

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

The director believes it is appropriate to prepare the financial statements on the going concern basis because it is the Group's intention to support the company for the foreseeable future.

Depreciation

Depreciation of tangible fixed assets is provided to write-off the cost or valuation, less residual value, by equal instalments over their expected economic usefulness as follows:

- Plant, equipment, fixtures and fittings - depreciated over 3 to 20 years according to the estimated life of the asset.

Any impairment in the value of such fixed assets is recognised immediately.

Turnover

Turnover comprises commission on sales of insurance policies.

Pensions

The company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of the pensions over the employees' working lives with the company.

Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years membership of this plan, employees have the opportunity to join Boots Pension Scheme.

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

1. Accounting policies (continued)

Leases

The rental costs of properties and other assets acquired under operating leases are charged directly to the profit and loss account on a straight line basis over the life of the lease. Benefits received as an incentive to sign a lease, whatever form they may take, are credited to the profit and loss account on a straight line basis over the lease term or, if shorter than the full lease term, over the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate.

The cost of assets held under finance leases is included under tangible fixed assets and depreciation is provided in accordance with the policy for the class of asset concerned. The corresponding obligations under these leases are shown as creditors. The finance charge element of rentals is charged to the profit and loss account to produce, or approximate to, a constant periodic rate of charge on the remaining balance of the outstanding obligations.

Deferred taxation

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, by the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet date. This is in accordance with FRS 19.

No provision is made for any potential liability to corporation tax on capital gains arising on disposals of assets where any liability is expected to be deferred indefinitely.

2. Operating costs	2003 £000	2002 £000
Selling, distribution and store costs	944	948
Administrative expenses	717	1,080
Operating costs	1,661	2,028

Operating profit shown on page 6 is after charging:

Operating lease rentals:		
- Property rents	35	39
Depreciation of tangible fixed assets		
- Owned assets	13	17
- Assets held under finance leases	1	7
Auditors' remuneration - Audit fees	2	2

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

3. Net Interest	2003	2002
	£000	£000

Interest Payable and similar charges:

Finance lease interest	<u>-</u>	<u>2</u>
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4. Tax on profit on ordinary activities	2003	2002
	£000	£000

The charge on the profit for the year consists of:

Current taxation

UK corporation tax	765	517
Adjustment in respect of prior years	<u>(1)</u>	<u>1</u>
Total current tax	<u>764</u>	<u>518</u>

Deferred taxation

Origination and reversal of timing differences	16	(21)
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Tax on profits on ordinary activities	<u>780</u>	<u>497</u>
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Reconciliation of current tax charge

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 30% (2002: 30%). The actual tax charge for the current year is below (2002 - exceeds) the standard rate for the reasons set out in the following reconciliation.

	2003	2002
	£000	£000
Profit on ordinary activities before tax	<u>2,599</u>	<u>1,641</u>
UK corporation tax at standard rate of 30.0%	780	492
Factors affecting charge for the year:		
Changes in accelerated capital allowances	(16)	21
Disallowable expenses	1	4
Adjustments in respect of prior years	<u>(1)</u>	<u>1</u>
Total current tax charge for the year	<u>764</u>	<u>518</u>

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

5. Tangible fixed assets	Plant and machinery £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost			
At 1st April 2002	12	152	164
Disposals	(12)	(38)	(50)
At 31st March 2003	-	114	114
Depreciation			
At 1st April 2002	2	64	66
Depreciation for period	1	13	14
Disposals	(3)	(29)	(32)
At 31st March 2003	-	48	48
Net book value at 31st March 2002	10	88	98
Net book value at 31st March 2003	-	66	66

The cost of plant and machinery includes £nil (2002: £12,264) in respect of assets held under finance leases on which accumulated depreciation at the end of the year was £nil (2002: £2,407) and the depreciation charge in the year was £1,136 (2002: £6,531).

6. Debtors	2003 £000	2002 £000
Amounts falling due within one year:		
Trade debtors	429	358
	429	358
Amounts falling due after more than one year:		
Amounts owed by group undertakings	1,893	1,529
Deferred tax (see below)	49	65
	1,942	1,594
Total debtors	2,371	1,952
Analysis of deferred tax asset:		
Capital allowances ahead of depreciation (see note 9)	49	65

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

7. Creditors: Amounts falling due within one year	2003 £000	2002 £000
Trade creditors	-	(92)
Corporation tax	383	290
Other taxation and social security	20	2
Accruals and deferred income	387	213
Obligations under finance leases	-	3
	<u>790</u>	<u>416</u>

8. Creditors: Amounts falling due after more than one year	2003 £000	2002 £000
Amounts due to group undertakings	2,516	3,790
Obligations under finance leases:		
- Within one to two years	-	3
- Within two to five years	-	4
	<u>2,516</u>	<u>3,797</u>

9. Provisions for liabilities and charges	Deferred taxation £000
At 1st April 2002 (transferred to debtors - see note 6)	(65)
Profit and loss account	<u>16</u>
	(49)
Transferred to debtors (see note 6)	49
At 31st March 2003	<u>-</u>

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

10. Called up share capital	2003	2002
	£	£

Authorised:

1,000 ordinary shares of £1 each

1,000

1,000

Allotted, called up and fully paid:

2 ordinary shares of £1 each

2

2

11. Capital and reserves	Called up share capital £000	Profit and loss account £000	Total £000
At 1st April 2002	-	(2,079)	(2,079)
Profit retained	-	1,819	1,819
At 31st March 2003	-	(260)	(260)

12. Staff numbers and costs	2003	2002
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The average number of full time equivalents employed by the company during the period was as follows:

13

13

The aggregated payroll cost was as follows:	2003	2002
	£000	£000

Wages and salaries

306

402

Social security costs

27

34

Other pension costs

18

3

351

439

13. Director's remuneration

The director received no remuneration for his services to the company during the year (2002: £Nil).

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

14. Director's shareholdings and share options

The beneficial interests of the director, who is not a director of the ultimate holding company, and his family in the share capital of the ultimate holding company at 31st March 2003 are shown below. The director holds no loan capital in the ultimate holding company. The share interests of the directors of the ultimate holding company are included within those group financial statements.

		Ordinary shares under executive and SAYE options							
Ordinary shares 2003	Ordinary shares 2002	Ordinary shares under options 2003	Average option price 2003	Exercised during the year	Exercise price	Market price at date of exercise	Granted during the year	Ordinary Shares under options 2002	
J S Sinclair	7,546	5,261	25,140	£6.319	-	-	-	12,913	12,227

The market price of the ultimate holding company's shares at 31st March 2003 was 530.5p. The range of market prices during the year was 492p to 725p. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 2003 represents the weighted average price for options outstanding at 31st March 2003.

Under a savings related scheme options may be granted to qualifying employees to subscribe for ordinary shares at approximately 80% of market price.

Under the executive share option plan 2001 certain directors were granted options to subscribe for ordinary shares in Boots Group PLC. These options become exercisable 3 years after grant if the performance target is met. If the target is not met, the performance period is extended but if the target is still not met by the end of the sixth year of the performance period, the options lapse. Once the performance target is met, such options are exercisable up to 10 years from grant at option prices of 630p and 594p.

The table below shows the number of shares in Boots Group PLC (the ultimate holding company) over which the director has been granted conditional rights under the Long Term Bonus scheme. Under the Long Term Bonus scheme, at the end of a four year performance cycle, (three years for the schemes commenced in 2002) half the bonus earned is paid in cash and half is paid as a share award.

Ordinary shares conditional awards					
	31st March 2003	Exercised during the year	Lapsed during the year	Granted during the year	31st March 2002
Long Term Bonus scheme					
J S Sinclair	3,415	(3,329)	-	1,100	5,644

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

14. Director's shareholdings and share options (continued)

The table below shows the number of shares in Boots Group PLC (the ultimate holding company) that have been conditionally awarded to the director under the All Employee Share Ownership Plan. The employee will normally become unconditionally entitled to these shares after remaining employed for three years from the date the award is made.

	Conditional entitlement award under the All Employee Share Ownership Plan 2000		
	31st March 2003	Awarded during the year	31st March 2002
J S Sinclair	81	39	42

As a potential beneficiary, the director is deemed to have an interest in a total of 16,848,663 ordinary shares of the company held by the following employee trusts, namely, Boots ESOP Trust Limited (established to facilitate the operation of the company's executive bonus schemes), Boots (QUEST) Trustee Limited (established in connection with the company's UK all-employee SAYE Share Option Scheme) and Boots Share Plan Trustee Limited (established in connection with the All Employee Share Ownership Plan).

15. Pensions

The company participates in a funded group wide pension scheme providing benefits based on final pensionable pay, contributions being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. Since 1st October 2000, new employees have been offered membership of Boots Stakeholder Pension Plan, a defined contribution pension arrangement. After five years' membership of this plan, employees have the opportunity to join Boots Pension Scheme.

Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme will be accounted for by the company when the accounting standard is fully adopted by the company as if the scheme was a defined contribution scheme. At 31st March 2003 the scheme had a surplus on an FRS 17 basis of £154m before tax.

Details of the most recent actuarial valuation and FRS 17 disclosures at 31st March 2003 can be found in the financial statements of Boots Group PLC.

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Year ended 31st March 2003

16. Contingent liability

The company has given its bankers the right to set-off credit balances on its current accounts against amounts owed to the bank on current accounts by its parent and fellow UK subsidiaries. At 31st March 2003 the contingent liability was £609,000 (2002: £84,000).

17. Ultimate Holding Company

The company's immediate holding company (which is also the immediate controlling party) is Boots Investments Limited and its ultimate holding company (which is also the ultimate controlling party) is Boots Group PLC, a company incorporated in Great Britain and registered in England and Wales. The results of the company are included in the group financial statements of Boots Group PLC.

Copies of the group financial statements may be obtained from 1 Thane Road West, Nottingham, NG2 3AA.

The company is exempt from disclosing transactions with other group undertakings and investees of the group qualifying as related parties as permitted by paragraph 3 of Financial Reporting Standard 8.