



THE BOOTS COMPANY

Registration
Number
3467418

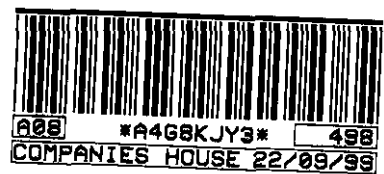
BOOTS INSURANCE SERVICES LIMITED

DIRECTORS' REPORT

and

FINANCIAL STATEMENTS

PERIOD ENDED 31ST MARCH 1999



Registration
No: 3467418

BOOTS INSURANCE SERVICES LIMITED

Directors' Report

Period ended 31st March 1999

<u>Directors</u>	<u>Secretary</u>	<u>Registered Office</u>
S G Russell D A Stead	S Fennell	1 Thane Road West Nottingham, NG2 3AA

The directors present their annual report together with the audited financial statements for the period ended 31st March 1999.

Principal activities

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

Review of the business

In April 1998 Boots Insurance Services Limited, launched a range of nine off-the-shelf insurance products, providing instant health and travel cover. Products are underwritten by Royal & Sunalliance, which also provides claims services. It has taken some time to build customer acceptance for health insurance, but travel insurance has been an immediate success. Boots Insurance Services Limited has become the UK's second largest direct provider of travel insurance.

Results, retentions and dividends

The results and retentions for the year are shown in the profit and loss account on page 4.

Fixed Assets

Details of fixed asset are detailed in note 4 on page 9 .

Directors

The details of directors in office on 31st March 1999 are shown above. There have been the following changes to the board of directors during the period and up to the date of signing the financial statements:

<u>Appointments</u>	<u>Date</u>
S G Russell	23rd January 1998
D A Stead	23rd January 1998
J C P Walsh	23rd January 1998

<u>Resignations</u>	<u>Date</u>
J C P Walsh	31st December 1998

Remuneration of directors and directors' shareholding

Details of the remuneration and shareholdings of the directors are included in notes 11 and 12 on pages 11 to 13.

BOOTS INSURANCE SERVICES LIMITED

Directors' Report

Period ended 31st March 1999

Directors' report (continued)

Year 2000

During the period we have made good progress against our plans for achieving Year 2000 compliance. We adopted a combination of modifying existing systems where they continue to meet our requirements and replacing others where there was an opportunity to enhance business process. We have now developed and tested compliant software for our key business processes and the large majority of systems are already in operation.

Contingency planning has been an area for consideration within our business and will be monitored on an ongoing basis. We have a high degree of confidence that our key suppliers have, or will achieve, compliance and pose no risk of disruption. We will continue to liaise, however, with our supplier base throughout the calendar year to confirm any appropriate contingency actions.

It is not possible to estimate, with a reasonable degree of accuracy, the incremental costs attributable to Year 2000 systems compliance for individual subsidiaries. However the costs for the group as a whole have been disclosed in the group financial statements of The Boots Company PLC.

Overall, we believe that we have taken the appropriate steps to ensure that the business operations continue throughout the Millennium change with minimal disruption. It is not possible to guarantee that no unforeseen problems will arise and we will continue to invest management attention to monitor our supplier preparedness and refine and rehearse contingency plans.

Auditors

KPMG Audit PLC were appointed as auditors with effect from 23rd January 1998

By order of the board



A W Stride

Assistant Secretary

29 JUL 1999

Date

BOOTS INSURANCE SERVICES LIMITED

Period ended 31st March 1999

Directors' responsibilities statement

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the profit or loss for the financial year and of the state of affairs of the company at the end of that year. The directors are of the opinion that suitable accounting policies have been used and applied consistently, applicable accounting standards have been followed, and reasonable and prudent judgements and estimates have been made. The financial statements have been prepared on a going concern basis. The directors have a responsibility to ensure that the company has suitable internal controls for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibilities for taking such steps that are reasonably open to them for safeguarding the assets of the company, and for preventing and detecting fraud and other irregularities.

Auditors' report

Report of the Auditors to the members of Boots Insurance Services Limited.

We have audited the financial statements on pages 4 to 13.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

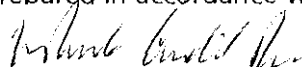
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors 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 1999 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc

Chartered Accountants
Registered Auditor
Birmingham

20.8.1999

Date

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

Period ended 31st March 1999

		1999 £000
Turnover	1	1,844
Cost of sales		-
Gross profit		1,844
Operating costs	2	(7,659)
Loss on ordinary activities before taxation		(5,815)
Tax on profit on ordinary activities	3	1,770
Loss on ordinary activities after taxation and loss for the financial period		(4,045)

The results for the period are wholly attributable to the continuing operations of the company and there have been no recognised gains or losses other than the loss for the period as stated above.

There are no differences between the loss as stated above and the loss stated on an unmodified historical cost basis.

BOOTS INSURANCE SERVICES LIMITED
Reconciliation of Movements in Shareholders' Funds
Period ended 31st March 1999

	1999
	£000
Loss for the financial period	(4,045)
Net decrease in shareholders' funds	(4,045)
Opening shareholders' funds	-
Closing shareholders' funds	(4,045)

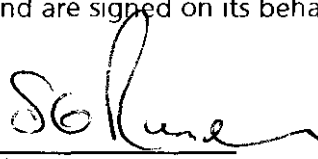
BOOTS INSURANCE SERVICES LIMITED

Balance Sheet

31st March 1999

	Notes	1999 £000
Fixed assets		
Tangible assets	4	<u>204</u>
Current assets		
Debtors falling due after more than one year	5	2,209
Cash at bank and in hand		<u>1</u>
		2,210
Creditors: Amounts falling due within one year	6	<u>(6,423)</u>
Net current liabilities		<u>(4,213)</u>
Total assets less current liabilities		<u>(4,009)</u>
Creditors: Amounts falling due after more than one year	7	(36)
Net liabilities		<u>(4,045)</u>
Capital and reserves		
Called up share capital	8,9	-
Profit and loss account	9	<u>(4,045)</u>
Equity shareholders' funds		<u>(4,045)</u>

The financial statements were approved by the Board of Directors on 20th August 1999 and are signed on its behalf by:


 Director
 S.G. RUSSELL

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

1 Accounting policies

The following accounting policies have been used in dealing with items which are considered material in relation to the financial statements.

Basis of accounting

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

A cash flow statement has not been presented in the financial statements of the company as permitted by paragraph 5a of the revised Financial Reporting Standard 1.

Depreciation

No depreciation is provided on assets in the course of construction. Other tangible fixed assets are written off to residual value by equal instalments over their expected normal lives, as follows:

Computer equipment	3 to 5 years
Fixtures and fittings	4 to 5 years

Any impairment in the value of such fixed assets is charged to the profit and loss account as it arises.

Turnover

Turnover comprises commission on sales of insurance policies.

Pension funding

The holding company and its UK subsidiaries operate pension schemes under which contributions by employees and by the companies are held in trust funds separated from the companies' finances. Actuarial valuations of the schemes are conducted at three year intervals and include a review of contributions.

The costs of providing pensions is spread over the employee's working lives with the company. The cost charged to the profit and loss account in any year may not always equal the employer contributions to the pension schemes

Finance Leases

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 is 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.

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

2	Operating costs	1999 £000
	Selling, distribution and store costs	4,227
	Research and development costs	363
	Administrative expenses	3,069
	Operating costs	<u>7,659</u>

Operating profit shown on page 5 is after charging:

Operating lease rentals:	
- Property rents	7
Depreciation of tangible fixed assets	31
Auditors' remuneration - Audit fees	2

3	Tax on profit on ordinary activities	1999 £000
	The credit based on the profit for the period consists of:	
	UK corporation tax at 31%	<u>1,770</u>

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

4 Tangible fixed assets	Plant and machinery £000	Fixtures fittings tools and equipment £000	Total £000
Cost			
Additions	28	139	167
Disposals	(65)	-	(65)
Reclassification and group transfers	108	51	159
At 31st March 1999	71	190	261
Depreciation			
Depreciation for period	18	13	31
Disposals	(9)	-	(9)
Reclassification and group transfers	33	2	35
At 31st March 1999	42	15	57
Net book value at 31st March 1999	29	175	204

The cost of tangible fixed assets includes £ 53,414 in respect of assets held under finance leases on which accumulated depreciation at the end of the year and the depreciation charge in the year was £16,015.

5 Debtors	1999 £000
Falling due within one year:	
Trade debtors	316
Amounts owed by group undertakings	123
Corporation tax	1,770
At 31st March 1999	2,209

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

6	Creditors: Amounts falling due within one year	1999
		£000
	Amounts due to group undertakings	5,918
	Other taxation and social security	438
	Accruals and deferred income	50
	Finance lease creditor	17
		6,423
7	Creditors: Amounts falling due after more than one year	1999
		£000
	Finance lease creditor:	
	- Within one to two years	18
	- Within two to five years	18
		36
8	Called up share capital	1999
		£
	Ordinary shares of £1 each:	
	Authorised	1,000
	Allotted, called up and fully paid:	2
9	Capital and reserves	Called up share capital
		£000
	Loss retained	(4,045)
	Issue of share capital	-
	At 31st March 1999	(4,045)

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

10 Staff numbers and costs	1999
	£000

The average number of persons employed by the company during the period was as follows:

16

The aggregate payroll cost was as follows:

1999
£000

Wages and salaries
Social security costs
Other pension costs

781
75
4

860

11 Directors' remuneration

No director received any remuneration for his services to the company during the period

BOOTS INSURANCE SERVICES LIMITED

Notes to the Financial Statements

Period ended 31st March 1999

12 Directors' shareholdings

The beneficial interests of the directors, who are not directors of the ultimate holding company, and their families, in the share capital of the ultimate holding company at 31st March 1999 are shown below. No director holds any loan capital in the ultimate holding company.

	Ordinary shares under executive and SAYE options								
	Ordinary shares 1999	Ordinary shares 1998	Ordinary shares under options 1999	Average option price 1999	Exercised during the period	Exercise price	Market price at date of exercise	Granted during the period	Ordinary shares under options 1998
D A Stead	400	400 *	9,992	420p	-	-	-	-	9,992 *

*At the date of appointment

The market price of the ultimate holding company's shares at 31st March 1999 was 895p. The range of market prices during the year was 836p to 1070p. No options lapsed during the year. Prices shown for options exercised during the year represent the weighted average of prices. The average option price for 1999 represents the weighted average price for options outstanding at 31st March 1999.

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

The table on the next page shows the number of shares in The Boots Company PLC (the ultimate holding company) over which certain directors have been granted conditional rights under the Long Term Bonus scheme operated by The Boots Company PLC. At the end of a four year performance cycle, half the bonus earned is paid in cash and half is converted into an equivalent number of shares. The individual will normally become entitled to receive those shares only after remaining employed for a further three years.

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Notes to the Financial Statements

Period ended 31st March 1999

12 Directors' shareholdings (continued)

	Conditional entitlement award under the Long Term Bonus Scheme			
	31st March 1999	Exercised during the period	Lapsed during the period	Granted during the period
Long Term Bonus scheme				
D A Stead	1,128	-	-	1,128

*At the date of appointment

As a beneficiary of The Boots ESOP Trust, each participant in the scheme is deemed technically to be interested in 1,641,829 ordinary shares held by Morgan Grenfell Nominees (Jersey) Limited on behalf of the Trust.

As a potential beneficiary of The Boots Qualifying Employee Share Trust, each director is deemed to have an interest in 16,862,912 ordinary shares held by Boots (Quest) Trustee Limited on behalf of the Trust.

13 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 The Boots Company 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 The Boots Company 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 the Financial Reporting Standard 8.