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Annual Report & Accounts

1998



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COMPANY INFORMATION

Executive Directors

A A Wilson (Managing Director)
M J Evans
M J Gordon
S P L Gordon
N H Poyntz-Wright
B K Pudney
J Roberts
I Smith
W H West

Non-executive Directors

J R Carendi (Chairman)
M M Campbell
C H G Danckwardt
G J Moberg

Secretary

R Q Phillips

Actuary

N H Poyntz-Wright

Bankers

National Westminster Bank PLC
PO Box 315
High Street
Southampton
SO14 2BF

Auditors

Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Registered Office

Skandia House
Portland Terrace
Southampton
SO14 7EJ
Telephone: 01703 334411

Registered in England No. 1363932

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1998.

PRINCIPAL ACTIVITY

The company continued to write long term assurance business throughout the year and this will continue in 1999.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, was £19,961,000. The directors have declared an interim dividend of £8,000,000. The directors do not recommend the payment of a final dividend. This results in £11,961,000 being added to reserves.

OVERSEAS BRANCHES

The company has branches in Finland, France and Norway.

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and key business partners such as fund management groups. This could expose us to further risk in the event that there were a failure by other parties to remedy their own year 2000 issues.

The Skandia Group has a comprehensive Year 2000 programme which started in 1996.

The main part of this programme, which was to undertake Year 2000 correction work on our in-house systems, was completed by the end of August 1998, four months ahead of our target date. This means that all of our policies will have run on fully compliant systems for well over a year before the arrival of the year 2000.

We have now completed the testing of all our in-house critical systems and have also completed testing for the vast majority of our externally-provided systems. Completion of such extensive testing at this stage gives us much confidence in our systems for the transition into the year 2000.

Another part of the programme involves continual monitoring of our suppliers' and business partners' progress in their preparations for the year 2000. It is our intention to be thoroughly prepared, with contingency plans being made for unforeseen circumstances, as we aim for 'business as usual' in January 2000.

Much of the cost of implementing the remaining action plans will be subsumed into the recurring activities of the departments involved. Total costs are estimated at £4,142,000, most of which relate to modification of computer software. Of this total, expenditure of £2,009,000 has been incurred in 1998 and the remaining £419,000 will be incurred during 1999.

DIRECTORS' REPORT (continued)

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were as follows:

J R Carendi (Chairman)
A A Wilson (Managing Director)
M M Campbell
C H G Danckwardt
M J Evans
M J Gordon
S P L Gordon
G J Moberg
N H Poyntz-Wright
B K Pudney
J Roberts
I Smith
W H West

M J Gordon, G J Moberg and W H West retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of directors' interests are shown in note 7 to the accounts.

AUDITORS

Ernst & Young have expressed their willingness to continue in office as auditors and in accordance with section 385 of the Companies Act 1985 a resolution proposing their reappointment will be submitted at the Annual General Meeting.

By order of the Board

R Q Phillips
Secretary

11 May 1999

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that the accounts comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS

to the members of Skandia Life Assurance Company Limited

We have audited the accounts on pages 6 to 22, which have been prepared on the basis of the accounting policies set out on pages 10 and 11.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the 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 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 at 31 December 1998 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young
Registered Auditor
Southampton

12 May 1999

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
Earned premiums	2		
Gross premiums written		748,473	689,785
Outward reinsurance premiums		(16,072)	(9,497)
Earned premiums, net of reinsurance		732,401	680,288
 Investment income and realised gains	3	166,127	138,108
Unrealised gains on investments		182,393	169,560
Other technical income		12,487	9,326
TOTAL TECHNICAL INCOME		1,093,408	997,282
 Claims incurred	4		
Claims paid			
- gross amount		386,380	289,638
- reinsurers' share		(11,322)	(10,997)
- net of reinsurance		375,058	278,641
 Change in provision for claims			
- gross amount		4,886	3,483
- reinsurers' share		(2,001)	(833)
- net of reinsurance		2,885	2,650
Claims incurred, net of reinsurance		377,943	281,291
 Change in other technical provisions			
Long term business provision			
- gross amount		26,928	24,580
- reinsurers' share		(79)	31
- net of reinsurance		26,849	24,611
Technical provision for linked business, net of reinsurance		551,071	568,987
Net change in other technical provisions		577,920	593,598
 Other charges			
Net operating expenses	5	85,246	87,765
Interest payable		1,160	973
Investment administration charges		8,764	7,589
Other insurance costs		72	338
Tax attributable to the long term business	8	23,422	9,290
		118,664	105,955
TOTAL TECHNICAL CHARGES		1,074,527	980,844
 BALANCE ON THE TECHNICAL ACCOUNT			
- LONG TERM BUSINESS		18,881	16,438

All the above amounts derive from continuing activities.

PROFIT AND LOSS ACCOUNT
for the year ended 31 December 1998

	Notes	1998 £'000	1997 £'000
NON-TECHNICAL ACCOUNT			
Balance on the long term business technical account		18,881	16,438
Tax attributable to shareholders' profits on long term business	8	8,026	9,290
		26,907	25,728
Investment income	3	1,566	723
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		28,473	26,451
Tax on profit on ordinary activities	8	(8,512)	(9,518)
PROFIT FOR THE FINANCIAL YEAR		19,961	16,933
Dividends	21	(8,000)	(17,000)
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		11,961	(67)

All the above amounts derive from continuing activities.

There are no recognised gains or losses for 1998 or 1997 other than the profit on ordinary activities shown above. The inclusion of unrealised gains and losses in the profit and loss account to reflect the marking to market of investments in the balance sheet is not deemed to be a departure from the unmodified historical cost basis of accounting, and a separate note of historical cost profits and losses is therefore unnecessary.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £'000	1997 £'000
Profit for the financial year	19,961	16,933
Dividends	(8,000)	(17,000)
New share capital issued	-	10,000
Total movements during the year	11,961	9,933
Shareholders' funds at the beginning of the year	96,149	86,216
Shareholders' funds at the end of the year	108,110	96,149

BALANCE SHEET
at 31 December 1998

	Notes	1998 £'000	1997 £'000
ASSETS			
Investments	9		
Shares in subsidiary undertaking		10	10
Other financial investments		236,241	188,501
		<u>236,251</u>	<u>188,511</u>
Assets held to cover linked liabilities	10	3,919,754	3,362,779
Reinsurers' share of technical provisions			
Long term business provision	15	330	251
Claims outstanding		5,523	3,522
		<u>5,853</u>	<u>3,773</u>
Debtors	11		
Debtors arising out of direct insurance operations		3,890	5,519
Other debtors		3,699	663
		<u>7,589</u>	<u>6,182</u>
Other assets			
Cash at bank and in hand		6,607	4,988
Prepayments and accrued income			
Accrued interest and rent		5,961	9,295
Deferred acquisition costs		78,621	64,863
Other prepayments and accrued income		3,192	1,664
Tax recoverable		5,597	13,826
		<u>93,371</u>	<u>89,648</u>
TOTAL ASSETS		<u>4,269,425</u>	<u>3,655,881</u>

BALANCE SHEET
at 31 December 1998

	Notes	1998 £'000	1997 £'000
LIABILITIES			
Capital and reserves			
Called up share capital	12	26,456	26,456
Profit and loss account	13		
Non-distributable reserves		68,375	59,495
Distributable retained earnings		13,279	10,198
Shareholders' funds - equity interests		<u>108,110</u>	<u>96,149</u>
Technical provisions			
Long term business provision	15	142,148	115,220
Claims outstanding		20,766	15,880
		<u>162,914</u>	<u>131,100</u>
Technical provisions for linked liabilities	15	3,901,271	3,350,200
Provision for other risks and charges	16	21,914	19,897
Deposits received from reinsurers	17	9,528	2,150
Creditors			
Creditors arising out of direct insurance operations	18	33,782	25,836
Amounts owed to credit institutions		4,915	4,718
Other creditors including taxation and social security	19	26,991	25,831
		<u>65,688</u>	<u>56,385</u>
TOTAL LIABILITIES		<u>4,269,425</u>	<u>3,655,881</u>

Approved at a meeting of the Board of Directors on 11 May 1999 and signed on its behalf by:

A A Wilson
Managing Director

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Basis of presentation

The accounts are prepared on the basis of the accounting policies set out below and comply with the special provisions relating to insurance companies in section 255 of, and schedule 9A to, the Companies Act 1985. In implementing these requirements the company has adopted a modified statutory solvency basis ("MSSB") for determining technical provisions.

The accounts comply with applicable accounting standards. In addition, the company has adopted all material recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

Recognition of profits arising from long term insurance business

The statutory surplus arising in the period which is recognised in the long term business fund is required to be adjusted under the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 for certain items, including the deferral of acquisition costs and movements in certain reserves, to give the modified statutory result. The long term business result shown in the non-technical account is grossed up by an amount representing the overall effective rate of tax attributable to shareholders' profits.

Cash flow statement

As a wholly owned subsidiary of a group that produces publicly available consolidated accounts, the company does not prepare a cash flow statement by taking advantage of the exemption granted by Financial Reporting Standard No. 1 (Revised).

Premium income

Premium income reflects premiums received in respect of issued policies.

Investment income

Income from investments is included in the technical account or non-technical account, as appropriate. Account is taken of dividend income when the related investment goes "ex-dividend" and other investment income is included on an accruals basis.

Claims

Death claims are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the long term business provision and the technical provisions for linked liabilities. Where claims are payable and the contract remains in force, the claim or instalment is recorded when due for payment. Claims payable include the direct and indirect costs of settlement. Reinsurance recoveries are recorded in the same accounting period as the related claim.

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES (continued)

Acquisition costs

Acquisition costs comprise direct costs, such as acquisition commissions and indirect costs of obtaining and processing new business. They are allocated to particular categories of policies based on available management information. Such costs are deferred as an explicit deferred acquisition costs asset, gross of tax, which is amortised over the period in which the costs are expected to be recoverable out of margins in matching revenues from related policies and in accordance with the pattern of such margins.

At the end of each accounting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related policies in force at the balance sheet date.

Valuation of investments

Assets held to cover linked liabilities are valued at midday market prices on the last business day of the year, reflect the terms of the related policies and are valued on a basis consistent with the related liabilities.

- Freehold property is included at the latest independent valuation plus buying expenses.
- Fixed interest and index-linked securities are valued at quoted offer prices.
- Equities and investment trusts are valued at quoted offer prices plus buying expenses.
- Unit trusts are valued at quoted offer prices less discounts normally available to the company, or at creation price plus a mark up percentage.

The non unit-linked assets are valued as follows:

- Fixed interest and index-linked securities are valued at quoted middle market prices on the last business day of the year.
- Mortgages and policy loans are valued at cost less amounts written off.

Long term business provision

The long term business provision is determined by the company's Appointed Actuary following his annual investigation of the long term business.

The statutory solvency basis of valuation is adjusted by eliminating the undistributed surplus determined by that valuation together with certain reserves required under insurance companies regulations. This adjusted basis is referred to as the modified statutory solvency basis. The long term business provision includes the non-unit liabilities in respect of unit linked business. The consequent long term business provision is grossed up for the impact of reinsurance.

Taxation

The taxation charge in the non-technical account is based on the taxable profits for the year. In the technical account - long term business the taxation charge is based on the method of assessing taxation for long term funds.

Deferred taxation is provided on the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is estimated that tax will be payable.

Allowance is made in the long term business provision and technical provisions for linked liabilities for deferred taxation at appropriate rates in respect of the unrealised gains on investments.

Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

NOTES TO THE ACCOUNTS

at 31 December 1998

2. PREMIUM ANALYSIS**a) Premiums written**

	1998			1997		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£'000	£'000	£'000	£'000	£'000	£'000
(i) Direct						
Life insurance business						
Individual						
- periodic premium	119,912	15,454	104,458	116,489	12,382	104,107
- single premium	234,140	-	234,140	222,104	-	222,104
	<u>354,052</u>	<u>15,454</u>	<u>338,598</u>	<u>338,593</u>	<u>12,382</u>	<u>326,211</u>
Pension business						
Individual						
- periodic premium	88,386	618	87,768	59,819	518	59,301
- single premium	221,085	-	221,085	225,169	(3,403)	228,572
Group contracts						
- single premium	56,426	-	56,426	51,346	-	51,346
	<u>365,897</u>	<u>618</u>	<u>365,279</u>	<u>336,334</u>	<u>(2,885)</u>	<u>339,219</u>
(ii) Reinsurance receivable	28,524	-	28,524	14,858	-	14,858
Total premiums written	<u>748,473</u>	<u>16,072</u>	<u>732,401</u>	<u>689,785</u>	<u>9,497</u>	<u>680,288</u>

Premiums shown above are almost exclusively unit-linked. Non-linked premiums included within single premiums represent less than 10% of the total and therefore, in accordance with the Companies Act 1985, are not disclosed.

b) Geographical analysis of premiums

	1998			1997		
	Premiums written			Premiums written		
	UK	Other EU member states	Total	UK	Other EU member states	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Premiums arising in:						
UK	614,860	-	614,860	610,570	-	610,570
Scandinavia	27,474	72,412	99,886	27,379	45,779	73,158
Other	4,333	870	5,203	5,199	858	6,057
	<u>646,667</u>	<u>73,282</u>	<u>719,949</u>	<u>643,148</u>	<u>46,637</u>	<u>689,785</u>

NOTES TO THE ACCOUNTS

at 31 December 1998

2. PREMIUM ANALYSIS (continued)

c) Gross new annualised periodic premiums

	1998 £'000	1997 £'000
Life insurance business - individual	24,303	26,215
Pension business - individual	33,870	23,495
Total gross new annualised periodic premiums	<u>58,173</u>	<u>49,710</u>

New periodic premiums reflect the total premiums payable in a full year and include increments.

3. INVESTMENT INCOME AND REALISED GAINS

	1998 £'000	1997 £'000
Technical account: long term business		
Investment income:		
Income from land and buildings	1,845	1,149
Income from other investments	<u>89,183</u>	<u>83,501</u>
	91,028	84,650
Gains on the realisation of investments	<u>75,099</u>	<u>53,458</u>
	<u>166,127</u>	<u>138,108</u>
Non-technical account:		
Income from other investments	<u>1,566</u>	<u>723</u>

NOTES TO THE ACCOUNTS

at 31 December 1998

4. CLAIMS INCURRED

	1998			1997		
	Gross £'000	Reinsurance £'000	Net £'000	Gross £'000	Reinsurance £'000	Net £'000
Claims paid	385,872	11,322	374,550	289,155	10,997	278,158
Claims handling expenses	508	-	508	483	-	483
	386,380	11,322	375,058	289,638	10,997	278,641
Change in outstanding claims	4,886	2,001	2,885	3,483	833	2,650
	<u>391,266</u>	<u>13,323</u>	<u>377,943</u>	<u>293,121</u>	<u>11,830</u>	<u>281,291</u>

Analysed by type of benefit:

Death, disability and critical illness claims	38,637	13,262	25,375	35,594	11,747	23,847
Maturities	73,238	-	73,238	33,197	-	33,197
Surrenders	278,294	-	278,294	223,216	-	223,216
Annuities	589	61	528	631	83	548
Claims handling expenses	508	-	508	483	-	483
	<u>391,266</u>	<u>13,323</u>	<u>377,943</u>	<u>293,121</u>	<u>11,830</u>	<u>281,291</u>

5. NET OPERATING EXPENSES

	1998 £'000	1997 £'000
Technical account: long term business		
Acquisition costs incurred	79,104	79,848
Change in deferred acquisition costs	(13,759)	(6,906)
Administrative expenses	19,901	14,823
	<u>85,246</u>	<u>87,765</u>

The methodology for calculating the deferred acquisition cost (DAC) asset was changed during 1998. Using the new method of calculation, the amount of the DAC asset disclosed in the 1997 accounts would have been increased by £1.9million.

Operating expenses are stated after charging:

Commission payable	51,499	49,859
Of which:		
Commission payable to Ernst & Young Financial Management Limited	<u>110</u>	<u>141</u>
Management fees from fellow subsidiary undertaking	45,502	42,698
Of which: Auditors' remuneration - audit services	<u>153</u>	<u>140</u>

The administration of management expenses, employees and fixed assets is provided by Skandia Life Business Services Limited, a fellow subsidiary undertaking. Skandia Life Business Services Limited charges a management fee for costs incurred and services provided.

NOTES TO THE ACCOUNTS

at 31 December 1998

6. DIRECTORS' EMOLUMENTS

Directors' emoluments shown below are included in management fees from fellow subsidiary undertakings shown in note 5.

	1998 £'000	1997 £'000
Aggregate directors' emoluments:		
Aggregate emoluments excluding pension contributions	245	1,566
Company pension contribution to money purchase schemes	50	148

During the year, of the directors' emoluments disclosed within these accounts, 2 directors had money paid to money purchase schemes (1997: 5).

Two directors, including the highest paid director, were eligible for shares or share options under a long term incentive scheme.

Emoluments of the highest paid director:

Aggregate emoluments excluding pension contributions	124	345
Company pension contribution to money purchase schemes	26	31

The highest paid director had share options granted during the year.

Certain directors receive remuneration in respect of services to other group companies and accordingly their emoluments are disclosed in the accounts of those companies.

7. DIRECTORS' INTERESTS

Details of directors' options over the shares of Skandia Life Assurance (Holdings) Limited are shown below.

	Number of options:	
	Granted/ amended	Exercised 30 Apr 98
S P L Gordon	25,000	-
N H Poyntz-Wright	25,000	-

Certain non-executive directors also hold shares in Skandia Insurance Company Limited (publ.). The holdings shown below also reflect a five-for-one stock split during 1998.

	Number of shares at 31 December:	
	1998	1997
G Moberg	50	10

Options and shares granted to other directors are disclosed in the accounts of Skandia Life Assurance (Holdings) Limited. There are no other directors' interests requiring disclosure under the Companies Act 1985.

NOTES TO THE ACCOUNTS

at 31 December 1998

8. TAXATION

	1998 £'000	1997 £'000
Technical account:		
UK Corporation tax at 31% (1997: 31.5%)	15,150	378
Overseas tax	246	168
Tax on franked investment income	-	4,572
Group relief payable at rates between 31% and 100% (1997: rates between 31.5% and 100%)	7,377	1,743
Deferred tax	2,017	1,745
	<u>24,790</u>	<u>8,606</u>
Prior years:		
Income tax recoverable underprovided	(456)	-
Tax on franked investment income	1,265	-
Group relief payable (over) / underprovided	(2,177)	684
	<u>23,422</u>	<u>9,290</u>
Non-technical account:		
Group relief payable at 31% (1997: 31.5%)	486	228
Tax attributable to shareholders' long term business profits	8,026	9,290
	<u>8,512</u>	<u>9,518</u>

NOTES TO THE ACCOUNTS

at 31 December 1998

9. INVESTMENTS

	Current value		Historical cost	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Shares in subsidiary undertaking:	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>
Other financial investments:				
Variable yield securities	14,472	3,013	1,760	1,760
Debt securities and other fixed income securities	39,088	29,410	31,425	28,677
Loans secured by mortgages	9,014	20	9,014	20
Loans secured on policies	4,378	3,893	4,378	3,893
Deposits with credit institutions	169,289	147,171	169,289	147,171
Other	-	4,994	-	5,308
	<u>236,241</u>	<u>188,501</u>	<u>215,866</u>	<u>186,829</u>
	<u>236,251</u>	<u>188,511</u>	<u>215,876</u>	<u>186,839</u>

All variable yield securities, debt securities and other fixed income securities included within other financial investments above are listed investments.

10. ASSETS HELD TO COVER LINKED LIABILITIES

	Current value		Historical cost	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Assets held to cover linked liabilities	<u>3,919,754</u>	<u>3,362,779</u>	<u>3,098,142</u>	<u>2,707,611</u>

The assets held to cover linked liabilities and their equivalent technical provisions differ primarily due to "pipeline" assets purchased to match cash received where no technical provision has yet been established.

NOTES TO THE ACCOUNTS

at 31 December 1998

11. DEBTORS

	1998 £'000	1997 £'000
Arising out of direct insurance operations:		
- policyholders	229	298
- due from fellow subsidiary	-	906
- other	3,661	4,315
	<u>3,890</u>	<u>5,519</u>
Other debtors:		
- due from fellow subsidiary	2,094	36
- other	1,605	627
	<u>3,699</u>	<u>663</u>

12. SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
120,000,000 (1997: 70,000,000) ordinary shares of 25p each	30,000	30,000
103,500 deferred shares of 5p each	5	5
	<u>30,005</u>	<u>30,005</u>
Allotted, called up and fully paid:		
105,802,102 (1997: 105,802,102) ordinary shares of 25p each	26,451	26,451
103,250 deferred shares of 5p each	5	5
	<u>26,456</u>	<u>26,456</u>

Shareholders participate in profits in proportions of 69.4% to the ordinary shareholders and 30.6% to the deferred shareholders once dividends equating to the value of the amount subscribed for the ordinary shares plus compound interest at 10% have been paid to the ordinary shareholders.

On winding up, shareholders participate in surplus assets in proportions of 69.4% to the ordinary shareholders and 30.6% to the deferred shareholders once the nominal value of shares held and the value of the specific retained profits reserves have been paid to the ordinary and deferred shareholders respectively.

Voting rights for ordinary and deferred shareholders are proportionate to the nominal value of the shares held.

NOTES TO THE ACCOUNTS

at 31 December 1998

13. PROFIT AND LOSS ACCOUNT

	Distributable:	Non-distributable reserves:		
	Retained earnings £'000	Surplus retained £'000	Modified statutory £'000	Total £'000
Balance at 1 January 1997	14,003	13,598	42,159	69,760
Result for the year after taxation	495	12,170	4,268	16,933
Transfer to retained earnings	12,700	(12,700)		
Dividends	(17,000)			(17,000)
Balance at 31 December 1997	10,198	13,068	46,427	69,693
1998				
Result for the year after taxation	1,081	14,176	4,704	19,961
Transfer to retained earnings	10,000	(10,000)		
Dividends	(8,000)			(8,000)
Balance at 31 December 1998	13,279	17,244	51,131	81,654

14. FINANCIAL AND CAPITAL COMMITMENTS

There are no material financial or capital commitments.

NOTES TO THE ACCOUNTS

at 31 December 1998

15. TECHNICAL PROVISIONS

The long term business provision has been calculated on the basis of the following principal assumptions:

Class of business	Mortality experience	Interest rate %	
		1998	1997
Non-participating:			
- critical illness	135% of reinsurance rates	3.20	4.40
- single premium whole life	50% A67/70 ult	3.20	4.40
- regular premium whole life	90% A67/70 ult *	3.20	4.40
- endowment assurance	90% A67/70 ult	3.20	4.40
Pensions business - deferred annuity	90% A67/70 ult	4.00	5.50
Pension annuities in payment	100% PMA80 (C=2010) ult (with an age deduction of 5 years)	4.30	5.90
Offshore business	Relevant unadjusted local mortality table		

* adjusted where relevant to allow for extra mortality due to AIDS.

The technical provisions for linked liabilities are equal to the value of assets to which the contracts are linked. Additional technical provisions in respect of guaranteed benefits on linked policies, future expenses and mortality and morbidity risks are included in the long term business provision.

The total amount of net assets representing the long term fund, valued in accordance with the provisions of the Companies Act 1985, was £4,074,283,000 (1997: £3,481,846,000).

16. PROVISION FOR OTHER RISKS AND CHARGES

	1998 £'000	1997 £'000
Deferred taxation:		
Balance at the beginning of the year	19,897	18,152
Profit and loss account transfer	2,017	1,745
Balance at the end of the year	<u>21,914</u>	<u>19,897</u>
Analysed by component:		
Deferred acquisition costs	20,729	18,814
Other	1,185	1,083
	<u>21,914</u>	<u>19,897</u>

Deferred taxation has been provided in full.

NOTES TO THE ACCOUNTS

at 31 December 1998

17. FINANCIAL REINSURANCE

The company has entered into reinsurance arrangements to assist in both the financing of the acquisition costs of new long term business and for solvency purposes generally. The net amount of the financing outstanding of £9.5 million (1997: £2.1million) is included within "deposits received from reinsurers".

18. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

All creditors are payable within five years.

	1998 £'000	1997 £'000
Due to parent or fellow subsidiary undertaking	-	235
Other	33,782	25,601
	<u>33,782</u>	<u>25,836</u>

19. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	1998 £'000	1997 £'000
Other taxes and social security costs	12,077	78
Due to parent or fellow subsidiary undertaking	14,040	15,548
Other	874	10,205
	<u>26,991</u>	<u>25,831</u>

20. INVESTORS' COMPENSATION SCHEME AND CONTINGENT LIABILITIES

The directors have provided a total of £6.3million within the long term business provision for future payments under the Investors' Compensation Scheme in respect of the alleged mis-selling of pension products. Together with payments already made, the cumulative cost is in excess of £6.7million.

It is currently not possible to estimate with reasonable accuracy the amount or allocation of such a levy; however the directors consider the current provision to be prudent.

There are no additional contingent liabilities.

21. DIVIDENDS

	1998 £'000	1997 £'000
First interim dividend proposed (1997: paid)	8,000	10,000
Second interim dividend proposed	-	7,000
	<u>8,000</u>	<u>17,000</u>

NOTES TO THE ACCOUNTS

at 31 December 1998

22. SUBSIDIARY UNDERTAKING

Skandia Life (Pensions Trustee) Limited is a wholly owned subsidiary undertaking and is incorporated in England. Group accounts are not produced as the company operates only in a custodian capacity and does not trade.

23. RELATED PARTY TRANSACTIONS

The company has utilised exemptions under Financial Reporting Standard No. 8 as a wholly owned subsidiary not to disclose transactions with other group entities.

The company's life assurance and pension products are available to the directors and staff of the Skandia Life Assurance (Holdings) Limited group on preferential staff terms.

24. ULTIMATE HOLDING COMPANY

The company's accounts are consolidated within the accounts of Skandia Insurance Company Limited (publ), the ultimate holding company, incorporated in Sweden. The accounts are available from:

The Company Secretary
Skandia Insurance Company Limited (publ)
Sveavagen 44
S-103 50
Stockholm
Sweden

Skandia Insurance Company Limited (publ) accounts are prepared in accordance with Swedish accounting principles.

The smallest group within which the company's accounts are consolidated is Skandia Life Assurance (Holdings) Limited, a company registered in England. The accounts are available from:

The Company Secretary
Skandia Life Assurance (Holdings) Limited
Skandia House
Portland Terrace
Southampton
SO14 7EJ