THE STANDARD LIFE ASSURANCE COMPANY

REPORT AND ACCOUNTS
FOR THE YEAR ENDED
15 NOVEMBER 1998

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Registered in Scotland Number SZ4

THE STANDARD LIFE ASSURANCE COMPANY

REPORT BY THE DIRECTORS

Directors' Report for the year ended 15 November 1998 to be presented to the 173rd Annual General Meeting of the Company to be held at Standard Life House, 30 Lothian Road, Edinburgh, on 27 April 1999 at 2.30 pm.

Principal activities and business review

The Group transacts life assurance, pensions, health insurance and banking business. Management services for pension funds are provided in the UK and the Republic of Ireland by Standard Life Pension Funds Limited and in Canada by Standard Life Portfolio Management Limited. Standard Life Trust Management Limited and Standard Life Investments (Mutual Funds) Limited (formerly Standard Life Fund Management Limited) act as manager for a range of authorised unit trusts and as the Authorised Corporate Director of an open ended investment company respectively.

The operations of the Group are described in the Chairman's Statement and the Group Managing Director's Review.

Employees

The Group is committed to an equal opportunities policy. The sole criterion for selection or promotion is the suitability of any applicant for the job regardless of ethnic origin, religion, sex, marital status or disablement. The Group will continue to employ, arrange for retraining, or retire on disability pension, any member of staff who becomes disabled, as may be appropriate.

Employee involvement

The Group keeps staff informed of progress and policies through line management channels, training courses, conferences and an Internal Communication Programme, which covers various house publications and briefing seminars with staff. In addition, staff representatives are elected to a number of Area LINK Committees and to the National LINK Committee, which meet twice a year with management to discuss formally matters of general staff interest or concern. Minutes of these meetings are made available to staff.

Since the Company is mutual, there is no employees' share scheme.

Charitable and other donations

The Group supports charitable and other appropriate bodies through its Community Involvement Programme. Additionally, cash donations to charities in the UK amounted to £25,833. No contributions were made for political purposes.

Use of voting rights

As an institutional investor the Group has a policy of always voting on resolutions at General Meetings of UK companies. If the Group intends to vote against such resolutions this will be made known to the company concerned beforehand.

Directors

The names of the current directors are listed on page 2.

Messrs King, Kuenssberg and Sutherland have indicated their intention to retire with effect from the conclusion of the Annual General Meeting. The directors who retire by rotation are Messrs Lessels and Shedden and their re-election will be proposed.

Corporate governance

Principles of Good Governance and Code of Best Practice

The directors consider that the Group complies with all recommendations contained in the Principles of Good Governance and Code of Best Practice ('the Combined Code') prepared by the Committee on Corporate Governance.

Internal controls
The key procedures designed to provide effective internal control are set out in a Group Internal Control Policy which:

(a) identifies the main business risks and the procedures to be followed in controlling and monitoring those risks;

(b) clearly defines Group investment and lending policies;

(c) requires regular monitoring and reporting of actual performance compared with the annual operating plan; and

(d) clearly defines management responsibilities, authorities and certification requirements.

The effectiveness of the internal controls is regularly reviewed by Group Audit & Compliance and reported to the Audit Committee. The business areas perform a process of control self assessment through which they are required to confirm compliance with their control objectives. The process is supervised by Group Audit & Compliance.

The directors acknowledge their overall responsibility for, and place a high degree of importance on, the Group's system of internal control. The Board has reviewed the Group's controls during the period covered by this report and believes that they are effective. Any system can, however, provide only reasonable and not absolute assurance against material misstatement or loss.

Going concern
The directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

Audit Committee
The Audit Committee is composed entirely of non-executive directors. The Committee's remit is to consider at its discretion any matters relating to the Group's financial affairs, internal controls, internal and external audit arrangements or regulatory compliance arrangements. The Committee normally meets four times a year and at least once a year the Committee meets with the external auditors without management being present.

Directors' remuneration

Remuneration and Appointments Committee

The Remuneration and Appointments Committee is a formal committee of the Board. Its members, who are all non-executive directors, are listed on page 2.

Remuneration Policy

The remuneration of each executive director is determined by the Board after taking advice from the Remuneration and Appointments Committee and taking into account the remuneration paid by comparable companies within the insurance and other sectors.

The remuneration includes a salary with pension entitlement and a non-pensionable annual bonus of up to a maximum set individually for each executive director, varying between 25% and 35% of salary, based on the Board's assessment of the attainment of corporate and personal objectives.

A long-term bonus plan was introduced for executive directors in the year ended 15 November 1998. Bonus awards under this plan will be payable in 2001 if the Group's performance, assessed against peer groups on a range of criteria, is above average over the 3 year period. The main criteria are investment performance, unit costs and growth in business, and have been chosen to reflect the best interests of customers. The maximum bonus is again set individually for each executive director, varying between 50% and 70% of salary, and will be payable only for upper quartile performance or better on all criteria. It is expected that similar plans will be introduced in the current and future years.

The remuneration of non-executive directors is determined by the Board after taking advice from the Group Managing Director and taking into account the remuneration paid by comparable companies within the insurance and other sectors. No bonuses are payable to non-executive directors including the Chairman and Deputy Chairman.

Executive directors are members of the UK Staff Pension Scheme which provides pensions on a final salary basis. Certain of the UK non-executive directors are members of the Retirement Benefits Scheme for Directors which provides pensions based on final remuneration. A similar pension entitlement is provided to certain of the Canadian non-executive directors on a non-funded basis. Non-executive directors appointed after 16 November 1995 are not entitled to pension benefits.

The details of the remuneration, including accrued pension entitlements, for each director are shown in Note 7 to the accounts.

There are no directors' service contracts with a notice period in excess of one year or with provisions for pre-determined compensation on termination. Executive directors cannot take up any material outside appointment without the prior approval of the Board.

Year 2000 systems conversion

A project team has been in place since 1996 addressing the risk that computers and other electronic systems may fail to function correctly through an inability to recognise or interpret properly dates beyond 31 December 1999. A comprehensive series of procedures is in place to test thoroughly all systems and minimise any risk of failure. Work on the business critical aspects of the project has been substantially completed. The impact on the Group of year 2000 related failures by other parties has also been considered. In appropriate cases formal assurance is being sought from these other parties. The overall cost of the programme to the Group is expected to be £25.0m, of which £11.2m has been incurred in the current financial year (1997 - £3.9m). All such costs incurred have been included in net operating expenses.

Economic and Monetary Union

The Group has carried out extensive analysis of the implications of Economic and Monetary Union (EMU) on the Group's activities. A project team is currently identifying the necessary system changes required. The costs incurred to date have not been material and have been included in net operating expenses.

Supplier payment policy

It is the Group's policy to negotiate payment terms with principal suppliers and to pay in accordance with the terms agreed. For other suppliers, where goods and services have been supplied to specification, payment is made in accordance with the terms offered by the supplier. The average duration of amounts owing to suppliers at 15 November 1998 was 15 days.

Derivative instruments

It is the Group's policy to permit the use of derivatives for the purpose of matching contractual liabilities and for the purpose of efficient portfolio management. Derivatives are not used for speculative purposes. The Group Internal Control Policy prescribes the extent to which derivatives may be used and the individuals authorised to effect transactions.

Auditors

Following the merger of Price Waterhouse and Coopers & Lybrand from 1 July 1998, Price Waterhouse resigned as auditors in favour of the new firm, PricewaterhouseCoopers, and the directors appointed PricewaterhouseCoopers to fill the casual vacancy created by the resignation. Under the provisions of the Standard Life Assurance Company Act 1991, the re-appointment of the retiring auditors, PricewaterhouseCoopers, will be proposed at the Annual General Meeting. Authority will be sought for the directors to fix the remuneration of the auditors for the year to 15 November 1999.

Actuarial investigation

A summary of the Declaration of Bonuses by the directors is appended. The principal assumptions underlying the calculation of the long term business provision are set out in Note 16 to the accounts.

On behalf of the Board of Directors

Marcia Campbell

Marcia Campbell *Secretary*
Edinburgh, 23 February 1999

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DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare accounts for each financial year which comply with the Companies Act 1985 and give a true and fair view of the state of affairs of the Group and the Company and of the results of the Group and the Company for that period. In addition, the directors should take all reasonable steps to ensure that adequate accounting records are maintained, that the assets of the Group are safeguarded and that fraud and other irregularities are prevented or detected.

The directors confirm that suitable accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, have been used in the preparation of the accounts of the Group for the year ended 15 November 1998. The directors also confirm that the accounts have been appropriately prepared on a going concern basis and that applicable accounting standards have been followed as described in the Accounting Policies.

THE STANDARD LIFE ASSURANCE COMPANY

PROFIT AND LOSS ACCOUNT
for the year ended 15 November 1998

TECHNICAL ACCOUNT - LONG TERM BUSINESS

	Notes	GROUP 1998 £m	GROUP 1997 £m	COMPANY 1998 £m	COMPANY 1997 £m
Earned premiums, net of reinsurance					
Gross premiums written	1	4,959.3	4,831.1	4,750.7	4,631.6
Outward reinsurance premiums		(28.8)	(25.7)	(1,577.8)	(1,235.2)
		4,930.5	4,805.4	3,172.9	3,396.4
Investment income	2	3,712.5	3,779.9	3,165.5	2,945.7
Unrealised gains on investments	2	4,211.2	3,330.4	3,496.3	3,278.7
Other technical income, net of reinsurance	3	309.4	276.7	292.2	248.5
		13,163.6	12,192.4	10,126.9	9,869.3
Claims incurred, net of reinsurance					
Claims paid - gross amount		4,390.2	3,751.8	4,254.2	3,729.2
- reinsurers' share		(15.5)	(23.4)	(839.9)	(718.9)
		4,374.7	3,728.4	3,414.3	3,010.3
Change in provision for claims		17.3	14.9	17.0	14.8
	4	4,392.0	3,743.3	3,431.3	3,025.1
Changes in other technical provisions, net of reinsurance					
Long term business provision					
- gross amount		4,642.2	3,677.0	4,644.6	3,671.8
- reinsurers' share		(64.2)	7.0	(63.2)	-
		4,578.0	3,684.0	4,581.4	3,671.8
Technical provisions for linked liabilities					
- gross amount		2,532.5	1,937.7	2,469.5	1,738.1
- reinsurers' share		-	-	(1,676.4)	(1,137.4)
		2,532.5	1,937.7	793.1	600.7
Technical provisions for general business		18.8	22.0	4.6	4.0
		7,129.3	5,643.7	5,379.1	4,276.5
Net operating expenses	5	602.6	489.5	519.7	419.8
Investment expenses and charges	2	78.8	59.7	77.7	58.6
Other technical charges, net of reinsurance	3	222.8	170.7	63.6	58.2
Tax attributable to the long term business	9	421.2	324.0	338.6	269.6
Transfer to the fund for future appropriations	15	316.9	1,761.5	316.9	1,761.5
		1,642.3	2,805.4	1,316.5	2,567.7
		13,163.6	12,192.4	10,126.9	9,869.3
Balance on the technical account - long term business		-	-	-	-

All recognised gains and losses are dealt with in the Profit and Loss Account.
All of the amounts above are in respect of continuing operations.
The Accounting Policies and Notes on pages 26 to 43 form an integral part of these accounts.

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BALANCE SHEET
as at 15 November 1998

		GROUP		COMPANY	
	Notes	1998 £m	1997 £m	1998 £m	1997 £m
ASSETS					
Investments					
Land and buildings	10	4,585.4	3,801.1	4,182.7	3,546.6
Investments in group undertakings and participating interests	11	347.0	400.8	1,015.1	833.3
Other financial investments	10	43,522.7	38,201.7	41,538.2	37,882.1
		48,455.1	42,403.6	46,736.0	42,262.0
Assets held to cover linked liabilities	12	14,278.0	11,828.5	3,372.0	2,613.6
Reinsurers' share of technical provisions					
Long term business		449.1	384.9	456.0	392.8
Linked liabilities		-	-	10,238.7	8,562.3
		449.1	384.9	10,694.7	8,955.1
Debtors	13				
Direct insurance operations		164.5	91.9	119.3	48.3
Other debtors		457.1	161.3	434.9	157.8
		621.6	253.2	554.2	206.1
Other assets					
Tangible assets	14	74.4	76.9	64.4	72.3
Cash at bank and in hand		48.5	36.1	13.5	14.5
		122.9	113.0	77.9	86.8
Prepayments and accrued income					
Accrued interest and rent		472.7	426.7	464.2	421.9
Deferred acquisition costs		853.1	768.9	845.1	761.5
		1,325.8	1,195.6	1,309.3	1,183.4
Total assets		65,252.5	56,178.8	62,744.1	55,307.0

The Accounting Policies and Notes on pages 26 to 43 form an integral part of these accounts.

THE STANDARD LIFE ASSURANCE COMPANY

BALANCE SHEET
as at 15 November 1998

		GROUP		COMPANY	
	Notes	1998 £m	1997 £m	1998 £m	1997 £m
LIABILITIES					
Fund for future appropriations	15	10,435.0	10,154.9	10,435.0	10,154.9
Technical provisions	15				
Long term business	16	37,434.1	33,130.8	37,366.7	33,061.8
Claims outstanding		98.5	81.5	97.9	81.2
Linked liabilities		14,278.0	11,828.5	13,610.7	11,175.9
General business		171.2	159.8	96.3	99.1
		51,981.8	45,200.6	51,171.6	44,418.0
Deposits received from reinsurers		30.1	30.2	30.1	30.2
Provisions for other risks and charges	17	294.4	192.8	294.4	192.8
Creditors	18				
Direct insurance operations		155.0	150.7	149.4	143.8
Mortgages secured on investments	19	13.8	15.9	3.2	4.1
Amounts owed to credit institutions	19	66.1	57.7	63.3	56.0
Bank customer accounts		1,593.4	-	-	-
Other creditors including taxation and social security	18	626.0	347.6	563.0	280.9
		2,454.3	571.9	778.9	484.8
Accruals and deferred income		56.9	28.4	34.1	26.3
Total liabilities		65,252.5	56,178.8	62,744.1	55,307.0

On behalf of the Board of Directors

John Trott
John Trott Chairman

Iain Lumsden
Iain Lumsden Group Finance Director

Edinburgh, 23 February 1999

The Accounting Policies and Notes on pages 26 to 43 form an integral part of these accounts.

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ACCOUNTING POLICIES

(a) *Basis of presentation*
Except as detailed below, the accounts have been prepared in accordance with the provisions of Section 255A and Schedule 9A to the Companies Act 1985, which cover the disclosures applicable to insurance companies.

The accounts have been prepared in accordance with applicable accounting standards and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business issued in December 1998. However, there is conflict between the requirements of Statement of Standard Accounting Practice (SSAP)19 - Accounting for Investment Properties and the requirements of Schedule 9A in respect of the depreciation of investment properties. Explanation of departures of the Group's accounting policy from the requirements of the Companies Act 1985 is given in Accounting Policy (e).

(b) *Basis of consolidation*
The Group accounts consolidate the Profit and Loss Accounts and Balance Sheets of The Standard Life Assurance Company and its principal subsidiary undertakings.

(c) *Premiums*
Premiums are accounted for when due for payment. For unit-linked business the due date for payment is taken as the date when the liability is established.

(d) *Claims*
Maturity claims and annuities are accounted for when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified.

Claims payable include the direct costs of settlement. Reinsurance recoveries are accounted for in the same period as the related claim.

(e) *Investments*

(i) Investment valuations
Listed investments are included in the balance sheet at mid-market value, and unlisted investments, mortgages and loans at directors' valuation. Units in authorised unit trusts are valued at bid price. Shares in group undertakings are valued on a net assets basis. Land and buildings, other than those occupied by the Group, are valued at open market value as determined by qualified valuers employed by the Company. Land and buildings occupied by the Group are valued at market value based on vacant possession.

Under the Companies Act 1985 land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified. In respect of the freehold properties occupied by the Group, it is the Group's practice to maintain them in a continuous state of sound repair. Accordingly the directors consider that the lives of these assets and their residual values (based on prices prevailing at the time of acquisition or subsequent valuation) are such that their depreciation is insignificant and is thus not provided.

(ii) Investment income and expenses
Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and related expenses. Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest, rents and expenses are accounted for on an accruals basis.

(iii) Investment gains and losses
Realised gains and losses on investments are calculated as the difference between net sales proceeds and their original cost. Unrealised gains and losses are calculated as the difference between the current valuation of investments and their valuation at the last balance sheet date or subsequent acquisition. Realised and unrealised gains and losses are dealt with through the technical account.

ACCOUNTING POLICIES (CONTINUED)

(f) *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 calculation uses the net premium valuation method and, as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses by means of reductions in the valuation rate of interest.

(g) *Fund for future appropriations*
The fund for future appropriations incorporates amounts which have yet to be allocated to participating policyholders. Transfers to and from the fund reflect the excess or deficiency of income (including premiums and investment gains and losses) over expenses (including claims) and amounts required to be allocated to policyholders in each accounting period.

(h) *Deferred acquisition costs*
The costs of acquiring new insurance contracts and the renewal of existing insurance contracts which are incurred during a financial year but which relate to a subsequent financial year, are deferred to the extent that they are recoverable out of future margins. Such costs are determined for non-unitised business by means of a Zillmer adjustment applied to the net premium valuation of the long term business provision. Deferred acquisition costs for unitised business are determined explicitly.

The rate of amortisation of the deferred acquisition cost asset is consistent with a prudent assessment of the expected pattern of receipt of the future margins over the period the relevant contracts are expected to remain in force.

(i) *Tangible assets*
Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives which range from two to ten years.

(j) *Deferred taxation*
Deferred taxation is provided on all material timing differences unless the liability is unlikely to become payable in the foreseeable future. In addition, deferred taxation is provided on unrealised capital gains in the valuation of linked business and where, for taxation purposes, a realisation is deemed to occur.

(k) *Pension costs*
Charges in respect of employer's contributions are calculated on a basis which spreads the cost over the service lives of scheme members.

(l) *Foreign currencies*
Assets and liabilities in currencies other than sterling are translated at the rates of exchange ruling on the Balance Sheet date. Transactions of foreign branches and subsidiary undertakings are translated at the rates of exchange ruling on the Balance Sheet date. Other foreign currency transactions are translated at the rate of exchange ruling on the date on which the transaction occurred. Exchange differences arising from the retranslation of the opening net investment in foreign branches and subsidiary undertakings are taken directly to the fund for future appropriations.

THE STANDARD LIFE ASSURANCE COMPANY

NOTES ON THE ACCOUNTS

1. SEGMENTAL ANALYSIS

(a) *Gross premiums written*

	GROUP		COMPANY	
	1998 Gross £m	1997 Gross £m	1998 Gross £m	1997 Gross £m
Long term business				
Individual premiums	3,990.5	3,784.9	3,974.7	3,771.7
Premiums under group contracts	968.8	1,046.2	776.0	859.9
Total	4,959.3	4,831.1	4,750.7	4,631.6
Regular premiums	2,168.2	2,027.5	2,162.6	2,022.3
Single premiums	2,791.1	2,803.6	2,588.1	2,609.3
Total	4,959.3	4,831.1	4,750.7	4,631.6
Participating contracts	1,720.5	1,772.3	1,708.4	1,771.0
Non-participating contracts	927.0	1,204.8	927.0	1,195.9
Linked contracts	2,311.8	1,854.0	2,115.3	1,664.7
Total	4,959.3	4,831.1	4,750.7	4,631.6
Life and annuity business	2,370.5	2,502.4	2,161.9	2,302.9
Pension business	2,580.3	2,321.4	2,580.3	2,321.4
Permanent health insurance	8.5	7.3	8.5	7.3
Total	4,959.3	4,831.1	4,750.7	4,631.6
UK business	4,068.9	3,734.5	4,068.9	3,734.5
Other European business	252.7	243.2	236.7	229.8
Canadian business	637.7	853.4	445.1	667.3
Total	4,959.3	4,831.1	4,750.7	4,631.6

THE STANDARD LIFE ASSURANCE COMPANY

NOTES ON THE ACCOUNTS (CONTINUED)

1. SEGMENTAL ANALYSIS (CONTINUED)

(b) *New business*

	GROUP		COMPANY	
Long term business	1998 Gross £m	1997 Gross £m	1998 Gross £m	1997 Gross £m
Individual premiums	2,391.5	2,265.3	2,379.6	2,256.1
Premiums under group contracts	762.1	839.2	569.5	653.0
Total	3,153.6	3,104.5	2,949.1	2,909.1
Regular premiums	362.5	300.9	361.0	299.8
Single premiums	2,791.1	2,803.6	2,588.1	2,609.3
Total	3,153.6	3,104.5	2,949.1	2,909.1
Participating contracts	564.9	566.8	557.0	566.4
Non-participating contracts	835.9	1,083.2	835.9	1,077.5
Linked contracts	1,752.8	1,454.5	1,556.2	1,265.2
Total	3,153.6	3,104.5	2,949.1	2,909.1
Life and annuity business	1,226.0	1,335.5	1,021.5	1,140.1
Pension business	1,925.3	1,766.1	1,925.3	1,766.1
Permanent health insurance	2.3	2.9	2.3	2.9
Total	3,153.6	3,104.5	2,949.1	2,909.1
UK business	2,373.4	2,117.4	2,373.4	2,117.4
Other European business	183.3	179.5	171.4	170.2
Canadian business	596.9	807.6	404.3	621.5
Total	3,153.6	3,104.5	2,949.1	2,909.1
Total new business				
Long term business	3,153.6	3,104.5	2,949.1	2,909.1
Unit trusts, OEICs and mutual funds	209.4	175.5	-	-
Investment management contracts	192.9	65.5	-	-
General business	34.5	32.2	12.0	12.8
	3,590.4	3,377.7	2,961.1	2,921.9

The Company new business figures are shown gross of reinsurance to subsidiary undertakings.

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1. SEGMENTAL ANALYSIS (CONTINUED)

In classifying new business premiums the following basis of recognition is adopted:

(i) new recurrent single premium contracts are included in regular new business premiums to the extent that they are deemed likely to renew;

(ii) DSS rebates on certain pensions products are included as single premiums;

(iii) pensions vested into annuity contracts under existing group pension schemes are not included as new business;

(iv) products substituted due to the exercise of standard contract terms are not included in the new business statistics.

Regular new business premiums are included on an annualised basis where they are received other than annually.

It is considered inappropriate to analyse net assets and profits between different business segments.

2. INVESTMENT RETURN

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
(a) Investment income and gains				
Investment income				
Participating interests	15.6	15.0	15.6	15.0
Group undertakings	-	-	12.8	15.9
Other investments				
- land and buildings	265.4	247.9	226.8	213.5
- other	2,354.2	2,270.8	2,009.0	1,977.2
	2,635.2	2,533.7	2,264.2	2,221.6
Gains on realisation of investments	1,077.3	1,246.2	901.3	724.1
	3,712.5	3,779.9	3,165.5	2,945.7
Movement in unrealised gains	4,211.2	3,330.4	3,496.3	3,278.7
	7,923.7	7,110.3	6,661.8	6,224.4
(b) Investment expenses and charges				
Interest payable on bank loans and overdrafts	(1.3)	(1.9)	(0.4)	(0.8)
Interest payable on other loans	(10.6)	(8.9)	(10.6)	(8.9)
	(11.9)	(10.8)	(11.0)	(9.7)
Investment management expenses	(66.9)	(48.9)	(66.7)	(48.9)
	(78.8)	(59.7)	(77.7)	(58.6)
Total investment return	7,844.9	7,050.6	6,584.1	6,165.8

3. OTHER TECHNICAL INCOME AND CHARGES

Other technical income comprises general business income, management charges received and non-insurance subsidiary income, including banking business operating income of £4.7m (£Nil).

Other technical charges comprise general business payments to policyholders and overheads, along with non-insurance subsidiary expenses and taxation, including banking business expenses of £19.5m (£Nil).

The general business figures included within these headings are as follows:

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Premiums	154.2	141.5	53.2	51.7
Investment income	13.1	12.9	7.7	8.6
	167.3	154.4	60.9	60.3
Payments to policyholders	131.6	106.4	48.7	42.3
Other expenditure	16.9	26.0	7.7	14.0
	148.5	132.4	56.4	56.3
Movement in technical provision	18.8	22.0	4.5	4.0

4. CLAIMS INCURRED

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Claims by death	253.3	233.8	200.1	183.7
Claims by maturity	1,311.7	920.4	1,152.6	812.6
Surrenders	1,834.8	1,647.5	1,086.6	1,087.4
Annuities	960.9	913.0	960.7	912.8
	4,360.7	3,714.7	3,400.0	2,996.5
Claims handling expenses	31.3	28.6	31.3	28.6
	4,392.0	3,743.3	3,431.3	3,025.1

5. NET OPERATING EXPENSES

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Acquisition costs	482.3	428.2	479.3	424.5
Change in deferred acquisition costs	(83.5)	(135.4)	(83.5)	(135.4)
Administrative expenses	205.1	197.9	204.8	196.2
	603.9	490.7	600.6	485.3
Reinsurance commissions	(1.3)	(1.2)	(80.9)	(65.5)
	602.6	489.5	519.7	419.8

Comparative figures have been changed to reflect a revised basis of apportionment. The total commission accounted for during the year in respect of direct insurance, excluding payments to employees, was £259.4m (£225.0m) for the Group and £179.5m (£159.8m) for the Company.

Auditors' remuneration in relation to audit services was £610,243 (£521,747) for the Group and £346,825 (£321,578) for the Company.

Remuneration to the auditors of the Company in respect of non-audit services to the Company was £642,374 (£1,132,190) and in respect of non-audit services to UK subsidiaries was £138,407 (£93,055).

6. STAFF COSTS

The average number of persons employed by the Group during the year was:

	1998	1997
United Kingdom	8,216	7,214
Other European	505	463
Canada	2,295	2,308
	11,016	9,985

The aggregate remuneration payable in respect of those employees was:

	1998 £m	1997 £m
Wages and salaries	237.6	204.5
Social security costs	21.6	19.3
Other pension costs	26.2	20.4
	285.4	244.2

7. DIRECTORS' REMUNERATION

	1998 £000	1997 £000
Salaries and benefits	1,079.6	950.7
Performance related bonuses	292.3	255.2
	1,371.9	1,205.9
Unfunded pensions paid to former non-executive directors	4.0	4.0
Fees to non-executive directors	254.5	235.4
	1,630.4	1,445.3

The remuneration, excluding pension contributions, of the executive directors was as follows:

	Basic salary		Benefits		Performance related bonuses		Total	
	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000	1998 £000	1997 £000
Scott Bell	370.0	320.0	17.8	18.6	120.6	103.0	508.4	441.6
Jim Stretton	275.0	242.5	16.6	7.8	76.9	67.8	368.5	318.1
Iain Lumsden	225.0	197.5	15.7	14.9	62.9	54.6	303.6	267.0
Tom King	150.0	140.0	9.5	9.4	31.9	29.8	191.4	179.2
	1,020.0	900.0	59.6	50.7	292.3	255.2	1,371.9	1,205.9

The performance related bonuses are based on an appraisal of corporate and individual performance. The bonus figures shown were earned in respect of the stated year's performance.

Executive directors are members of the UK Staff Pension Scheme which provides pensions on a final salary basis (see Note 8 for additional details). Certain of the UK non-executive directors are members of the Retirement Benefits Scheme for Directors which provides pensions based on final remuneration. Both schemes are non-contributory for members. A similar pension entitlement is provided to certain of the Canadian non-executive directors on an unfunded basis.

7. DIRECTORS' REMUNERATION (CONTINUED)

For new entrants to the UK Staff Pension Scheme the normal retirement age is 60. Members are able to achieve the maximum pension of two-thirds of their salary at normal retirement age after 40 years' service. No additional lump sum is payable at retirement. For death during pensionable service, a lump sum equal to four times salary is payable together with a spouse's pension of one-third of the member's pensionable salary. For death in retirement, a spouse's pension of two-thirds of the member's pension is payable.

The normal retirement age under the Retirement Benefits Scheme for Directors is 65. Members are able to achieve the maximum pension of one-half of their pensionable earnings at normal retirement age after 25 years' service. Pensionable earnings are equal to the annual fees payable to an ordinary non-executive director, adjusted where appropriate to take into account the higher fees earned during periods served as Chairman or Deputy Chairman. At retirement a lump sum equal to three times the member's annual pension is payable. For death during pensionable service, a lump sum equal to three times pensionable earnings is payable together with a spouse's pension of one-third of the member's pensionable salary. For death in retirement, a spouse's pension of 8/9ths of the member's pension is payable.

In both schemes children's allowances are payable, usually up to the age of 18, and protection is offered in the event of disablement. Post-retirement pension increases are discretionary, but the practice has been generally to award annual increases in line with inflation.

	Age at 15 Nov 98	Years of pensionable service at 15 Nov 98	Additional pension earned during year ended 15 Nov 98 £000	Accrued entitlement at year end 15 Nov 98 £000	15 Nov 97 £000
Scott Bell	56	36	36.0	227.6	191.6
Jim Stretton	54	33	23.1	157.3	134.2
Iain Lumsden	52	31	18.1	119.7	101.6
Tom King	57	31	9.2	88.5	79.3
John Trott	60	6	1.0	4.3	3.3
Geoff Ball	55	11	0.4	4.5	4.1
Nick Kuenssberg	56	10	0.4	4.2	3.8
Norman Lessels	60	18	0.7	17.3	16.6
Brian Stewart	53	5	0.3	2.1	1.8
Donald Sutherland	58	8	0.3	3.1	2.8

The pension entitlement shown is that which would be paid annually on retirement based on service to 15 November 1998.

Members of the schemes have the option to pay additional voluntary contributions to secure additional years of pensionable service. These are not included in the above table.

The fees and expenses, excluding pension contributions, paid to non-executive directors by Group companies were as follows:

	1998 £000	1997 £000
John Trott (appointed Chairman 28 April 1998, previously Deputy Chairman)	58.0	41.2
Jean-Claude Delorme (appointed Deputy Chairman 28 April 1998)	31.4	23.7
Norman Lessels (Chairman until 28 April 1998)	40.4	53.5
Geoff Ball	16.0	16.0
Bob Beamish	20.0	20.0
Nick Kuenssberg	16.7	16.5
Sir Nicholas Monck (appointed 16 August 1997)	20.0	5.1
Fred Shedden	20.0	20.0
Brian Stewart	16.0	16.0
Donald Sutherland	16.0	16.2
John Zaozirny (resigned 22 April 1997)	-	7.2
	254.5	235.4

All directors have taken out insurance contracts with the Group on normal terms. During the year to 15 November 1998 the directors contributed £0.2m (£0.8m) to products sold by the Group.

8. PENSION COSTS

The Group operates pension schemes for its employees providing benefits based on final pensionable pay. The two main schemes operate for employees in the UK and Canada. The contributions to the schemes are determined by qualified actuaries employed by the Company using the projected unit credit method. With effect from 1 March 1998, employees in Canada have the option to have their current year of service credited on a defined contribution basis. The contributions for that option are equivalent to the amount that the Company would have otherwise determined under the defined benefit option, using the projected unit credit method. The valuations on which the 1998 charge was based were as at 15 November 1997 for the UK scheme and as at 15 November 1996 for the Canadian scheme. The Group's total pension cost for the year was £26.2m (£20.4m) of which £22.7m (£17.2m) related to the UK scheme and £2.8m (£2.7m) related to the Canadian scheme. In addition a provision of £15.2m (£14.9m) is included in creditors in respect of benefits not funded within the Canadian scheme.

The main schemes operate as follows:

United Kingdom
The scheme is valued on a triennial basis with the most recent valuation at 15 November 1997. On that date, the market value of the assets held in a separate trustee administered fund was £497.0m. For the purpose of the valuation it was assumed that the investment return would exceed the rate of increase in salaries by 1.5% per annum and would exceed the rate of increase in present and future pensions by 4% per annum. The actuarial value of the scheme's assets represented 104.9% of the benefits which had accrued to members, after allowing for expected future increases in earnings and pensions. The actuary recommended future contributions be increased from 14.6% to 16.4% of total pensionable pay.

Canada
The scheme is valued on a triennial basis with the most recent valuation at 15 November 1996. On that date, the market value of the assets held in a separate trustee administered fund was £59.0m. For the purpose of the valuation it was assumed that the investment return would exceed the rate of increase in salaries by 2% per annum and would exceed the rate of increase in present and future pensions by 4.75% per annum. The actuarial value of the scheme's assets represented 134.8% of the benefits which had accrued to members, after allowing for expected future increases in earnings and pensions. The actuary recommended future contributions be increased from 7.8% to 8.6% of total pensionable pay.

9. TAX CHARGE

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
UK corporation tax	139.0	122.8	121.2	109.7
Double tax relief	(0.9)	(1.2)	(0.8)	(1.1)
Tax on franked investment income	109.1	93.6	88.8	77.2
Overseas tax	32.6	34.0	30.0	32.0
Deferred tax	154.6	93.4	112.6	70.0
Over provision in respect of prior years	(13.2)	(18.6)	(13.2)	(18.2)
	421.2	324.0	338.6	269.6

10. INVESTMENTS

(a) LAND AND BUILDINGS

GROUP

	Market value		Cost	
	1998	1997	1998	1997
	£m	£m	£m	£m
Freehold	3,401.7	2,856.8	2,666.2	2,370.9
Long leasehold	1,111.8	868.1	729.3	564.7
Short leasehold	71.9	76.2	69.6	75.0
	4,585.4	3,801.1	3,465.1	3,010.6

The book value of land and buildings occupied by the Group amounted to £242.7m (£218.8m).

COMPANY

	Market value		Cost	
	1998	1997	1998	1997
	£m	£m	£m	£m
Freehold	3,000.7	2,603.4	2,310.6	2,130.1
Long leasehold	1,110.5	868.1	728.0	564.7
Short leasehold	71.5	75.1	66.3	71.4
	4,182.7	3,546.6	3,104.9	2,766.2

The book value of land and buildings occupied by the Company amounted to £242.7m (£218.8m).

Land and buildings are valued by the Company's own qualified valuers. Independent professional valuers carried out valuations of 21% in value of the Group's properties and 22% in value of the Company's properties at 15 November 1998. Their valuations did not differ materially from the value placed on these properties by the Company's own qualified valuers. The independent valuations were carried out by Montagu Evans (Chartered Surveyors) in the UK, Knight Frank (Chartered Surveyors) in France and appropriately qualified valuers in Canada.

10. INVESTMENTS (CONTINUED)

(b) OTHER FINANCIAL INVESTMENTS

GROUP

	Market value		Cost	
	1998 £m	1997 £m	1998 £m	1997 £m
Shares and other variable yield securities and units in unit trusts	23,959.2	21,079.8	12,279.3	11,541.2
Debt securities and other fixed income securities	16,084.2	13,666.3	14,206.9	12,614.5
Loans secured by mortgages	1,852.1	1,990.7	1,690.5	1,800.4
Loans secured on policies	118.3	115.1	118.3	115.1
Other loans	9.1	6.1	9.1	6.1
Deposits with credit institutions	1,499.8	1,343.7	1,499.8	1,343.7
	43,522.7	38,201.7	29,803.9	27,421.0

Included in the figures above are listed investments valued at £34,213.8m (£31,279.4m).

COMPANY

	Market value		Cost	
	1998 £m	1997 £m	1998 £m	1997 £m
Shares and other variable yield securities and units in unit trusts	23,861.8	20,986.4	12,210.8	11,485.6
Debt securities and other fixed income securities	14,313.7	13,520.7	12,451.4	12,481.1
Loans secured by mortgages	1,818.1	1,944.5	1,656.5	1,754.4
Loans secured on policies	118.3	115.1	118.3	115.1
Other loans	8.4	6.1	8.4	6.1
Deposits with credit institutions	1,417.9	1,309.3	1,417.9	1,309.3
	41,538.2	37,882.1	27,863.3	27,151.6

Included in the figures above are listed investments valued at £33,970.3m (£31,042.5m).

11. INVESTMENTS IN GROUP UNDERTAKINGS AND PARTICIPATING INTERESTS

GROUP

	Market value		Cost	
	1998	1997	1998	1997
	£m	£m	£m	£m
Participating interests	300.9	353.9	171.5	172.4
Debt securities issued by, and loans to, undertakings in which the Group has a participating interest	46.1	46.9	39.7	42.0
	347.0	400.8	211.2	214.4

COMPANY

	Market value 1998 £m	Market value 1997 £m	Cost 1998 £m	Cost 1997 £m
Shares in group undertakings	252.4	159.0	302.7	197.4
Debt securities issued by, and loans to, group undertakings	415.7	273.5	370.6	241.5
Participating interests	300.9	353.9	171.5	172.4
Debt securities issued by, and loans to, undertakings in which the Company has a participating interest	46.1	46.9	39.7	42.0
	1,015.1	833.3	884.5	653.3

Included in the Group and Company figures above are listed investments valued at £273.9m (£326.5m).

12. ASSETS HELD TO COVER LINKED LIABILITIES

The cost of assets held to cover linked liabilities was £11,161.0m (£9,672.5m) for the Group and £2,763.5m (£2,261.1m) for the Company.

13. DEBTORS

	GROUP		COMPANY	
	1998	1997	1998	1997
	£m	£m	£m	£m
Debtors arising out of direct insurance operations				
Amounts owed by policyholders	163.4	90.3	118.3	46.7
Due from reinsurers	1.1	1.6	1.0	1.6
Other debtors				
Outstanding sales of investments	307.2	34.2	307.2	34.2
Group undertakings	-	-	60.8	44.6
Taxation recoverable	4.1	3.7	-	-
Other debtors	145.8	123.4	66.9	79.0
	621.6	253.2	554.2	206.1

14. TANGIBLE ASSETS

GROUP	Motor vehicles £m	Computer equipment £m	Furniture and machinery £m	Total £m
Cost				
At 16 November 1997	13.3	147.2	65.9	226.4
Exchange revaluation	-	(2.7)	(0.2)	(2.9)
Additions	2.5	33.0	8.1	43.6
Disposals	(3.5)	(12.5)	(2.7)	(18.7)
At 15 November 1998	12.3	165.0	71.1	248.4
Depreciation				
At 16 November 1997	12.2	79.6	57.7	149.5
Exchange revaluation	-	(1.0)	(0.2)	(1.2)
Disposals	(3.4)	(12.5)	(2.6)	(18.5)
Charge for year	1.7	32.3	10.2	44.2
At 15 November 1998	10.5	98.4	65.1	174.0
Net book value				
At 15 November 1998	1.8	66.6	6.0	74.4
At 15 November 1997	1.1	67.6	8.2	76.9

The Group charge for depreciation for the year ended 15 November 1997 was £53.4m.

COMPANY	Motor vehicles £m	Computer equipment £m	Furniture and machinery £m	Total £m
Cost				
At 16 November 1997	12.4	140.0	64.5	216.9
Exchange revaluation	-	(2.7)	(0.2)	(2.9)
Additions	2.1	26.7	5.9	34.7
Disposals	(3.1)	(10.8)	(2.5)	(16.4)
At 15 November 1998	11.4	153.2	67.7	232.3
Depreciation				
At 16 November 1997	11.8	75.6	57.2	144.6
Exchange revaluation	-	(1.0)	(0.2)	(1.2)
Disposals	(3.1)	(10.8)	(2.5)	(16.4)
Charge for year	1.6	29.5	9.8	40.9
At 15 November 1998	10.3	93.3	64.3	167.9
Net book value				
At 15 November 1998	1.1	59.9	3.4	64.4
At 15 November 1997	0.6	64.4	7.3	72.3

The Company charge for depreciation for the year ended 15 November 1997 was £51.6m.

15. POLICYHOLDER LIABILITIES AND FUND FOR FUTURE APPROPRIATIONS

GROUP

	Long term business provision £m	Claims outstanding £m	Technical provision for linked liabilities £m	Technical provision for general business £m	Fund for future appropriations £m
At 16 November 1997	33,130.8	81.5	11,828.5	159.8	10,154.9
Exchange rate adjustment	(338.9)	(0.3)	(83.0)	(7.4)	(36.8)
Movement in technical provisions for the year	4,642.2	17.3	2,532.5	18.8	-
Transfer to the fund for future appropriations	-	-	-	-	316.9
At 15 November 1998	37,434.1	98.5	14,278.0	171.2	10,435.0

COMPANY

	Long term business provision £m	Claims outstanding £m	Technical provision for linked liabilities £m	Technical provision for general business £m	Fund for future appropriations £m
At 16 November 1997	33,061.8	81.2	11,175.9	99.1	10,154.9
Exchange rate adjustment	(339.7)	(0.3)	(34.7)	(7.4)	(36.8)
Movement in technical provisions for the year	4,644.6	17.0	2,469.5	4.6	-
Transfer to the fund for future appropriations	-	-	-	-	316.9
At 15 November 1998	37,366.7	97.9	13,610.7	96.3	10,435.0

The cost of bonuses for the year ended 15 November 1998 is included in the movement in the long term business provision and amounts to £1,160.4m (£1,120.3m) for both the Group and the Company.

16. LONG TERM BUSINESS PROVISION

The long term business provision was calculated by the Appointed Actuary using a net premium method. The principal assumptions used to calculate the long term business provision for UK contracts were as follows:

Rates of interest used

1. Assurances

	With Profit	Without Profit
(i) Individual pension	3.25%	4.50%
(ii) Other	2.50%	3.50%

2. Annuities

	Deferred		Immediate
	in deferment	after vesting	
(i) Individual with profit	3.25%	4.50%	-
(ii) Other individual	4.50%	4.50%	4.50%
(iii) Group money purchase	3.25%	3.25%	3.25%
(iv) Other group	4.50%	4.50%	4.50%

Mortality tables used

1. Assurances	AM80 ultimate
2. Annuities	
(i) Individual and group, in deferment	AM80 ultimate - 4 years
(ii) Individual, after vesting	75% IM80 (C=2010) ultimate (males)
	85% IF80 (C = 2010) ultimate (females)
(iii) Group, after vesting	80% PMA80 (C=2010) (males)
	100% PFA80 (C=2010) (females)

The long term business provision for overseas business was calculated on a basis consistent with the UK approach but using appropriate mortality and interest rates.

17. PROVISIONS FOR OTHER RISKS AND CHARGES

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Provision for deferred taxation	294.4	192.8	294.4	192.8

The potential liability for deferred tax provided in the accounts and the amounts not provided are as follows:

	GROUP 1998 £m	GROUP 1997 £m	COMPANY 1998 £m	COMPANY 1997 £m
Liability provided in the balance sheet				
Unrealised gains on investments	43.4	35.1	43.4	35.1
Deferred acquisition costs	78.3	72.7	78.3	72.7
Short term timing differences	172.7	85.0	172.7	85.0
	294.4	192.8	294.4	192.8
Potential liability not provided in the balance sheet				
Unrealised gains on investments	358.0	369.0	349.0	362.0

In addition, the potential liability not provided in respect of linked assets was £8m (£6m) for the Group and £Nil (£Nil) for the Company.

18. CREDITORS

Except as indicated in Note 19, all creditors are payable within a period of five years.

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Other creditors including taxation and social security				
Outstanding purchases of investments	329.4	94.2	329.4	93.9
Provision for current taxation	104.7	51.9	104.4	51.9
Guaranteed deposits	37.3	49.6	-	-
Other creditors	154.6	151.9	129.2	135.1
	626.0	347.6	563.0	280.9

19. BORROWINGS

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Bank borrowings and other loans are as follows:				
Amounts owed to credit institutions, repayable otherwise than by instalments within one year or on demand	66.1	57.7	63.3	56.0
Mortgages secured on property, repayable otherwise than by instalments				
Within one year on demand	-	2.1	-	2.1
Between two and five years	12.0	6.9	1.4	-
After five years	1.8	6.9	1.8	2.0
	13.8	15.9	3.2	4.1
	79.9	73.6	66.5	60.1

20. SUMMARY OF STANDARD LIFE BANK LIMITED BALANCE SHEET

	1998 £m
Loans and advances to banks	54.0
Debt securities	1,621.4
Customer accounts	(1,593.4)
Other net liabilities	(18.8)
Total shareholders' funds	63.2

21. SUBSIDIARY UNDERTAKINGS

The following are particulars of the Company's main subsidiaries which are wholly owned:

Name	Country of registration or incorporation	Share class	Year end	Nature of business
Standard Life Investment Funds Limited	Scotland	Ordinary Shares	15 Nov	Life assurance
Standard Life Pension Funds Limited	Scotland	Limited by guarantee	15 Nov	Life assurance
Standard Life Investments Limited	Scotland	Ordinary Shares	15 Nov	Investment management
Standard Life Investments (Mutual Funds) Limited * (formerly Standard Life Fund Management Limited)	Scotland	Ordinary Shares	15 Nov	OEIC and PEP management
Standard Life Trust Management Limited *	Scotland	Ordinary Shares	15 Nov	Unit trust management
Standard Life Bank Limited	Scotland	Ordinary Shares	15 Nov	Banking
Prime Health Limited	England	Ordinary Shares	15 Nov	General insurance
The Standard Life Assurance Company of Canada	Canada	Class 'A' Shares	31 Oct	Life assurance
Standard Life Portfolio Management Limited *	Canada	Common Shares	31 Dec	Investment management
Standard Life Trust Company (formerly Bonaventure Trust Incorporated)	Canada	Class 'A' Shares	31 Oct	Financial services
Performa Financial Group Limited	Canada	Common Shares	15 Nov	Financial services
Prosperity SA de Vida y Pensiones	Spain	Ordinary Shares	31 Dec	Life assurance
Prosperity SA de Seguros Generales	Spain	Ordinary Shares	31 Dec	General insurance

* owned by a subsidiary undertaking of the Company

To meet local conditions certain overseas subsidiaries have different financial year ends. For those subsidiary undertakings with 31 December year ends, management accounts to dates within two months of 15 November are used for consolidation purposes.

22. PARTICIPATING INTERESTS AND SIGNIFICANT SHAREHOLDINGS

At 15 November 1998, the Company held shares of one-fifth or more in nominal value of the allotted shares of at least one class of the equity capital of a number of undertakings, but to provide details of all of them would result in particulars of excessive length. Those holdings which principally affect the amount of the revenue or assets of the Company are as follows:

Name	Country of registration or incorporation	Share class and proportion held		Nature of business
Hammerson plc	England	Ordinary Shares	20.6%	Property investment
Holborn Links Limited	England	Ordinary Shares	34.8%	Property development
Monarch Development Corporation	Canada	Common Shares	22.0%	Property investment

None of the above are considered to be associated undertakings since the Company does not exercise significant influence over these undertakings.

23. CAPITAL COMMITMENTS

	GROUP		COMPANY	
	1998 £m	1997 £m	1998 £m	1997 £m
Capital expenditure contracted for but no provision made in the accounts	53.5	23.6	53.5	23.6

AUDITORS' REPORT
TO THE MEMBERS OF THE STANDARD LIFE ASSURANCE COMPANY

We have audited the accounts on pages 23 to 43.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report, including as described on page 22, the accounts. Our responsibilities, as independent auditors, are established primarily by statute, the Auditing Practices Board, 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 regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

We also, at the request of the directors (because the Company applies the Stock Exchange Listing Rules as if it is a listed company), review whether the statement on pages 19 and 20 reflects the Company's compliance with those provisions of the Combined Code specified by the Stock Exchange for review by auditors of listed companies and we report if it does not. We draw attention to the fact that the director's review of the system of internal control has been undertaken before formal guidance has been issued as to the scope of such a review and the procedures to be undertaken and may not, therefore, constitute a review for the purposes of the Combined Code as ultimately interpreted. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

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 judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, 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 Group and the Company as at 15 November 1998 and the results of the Group and the Company for the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
Chartered Accountants
and Registered Auditors
Edinburgh
23 February 1999

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