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INVESTIGATION REPORT

FÖRSÄKRINGSAKTIEBOLAGET SKANDIA (PUBL)

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EXECUTIVE SUMMARY
REPORT TO THE BOARD OF DIRECTORS OF
FÖRSÄKRINGSAKTIEBOLAGET SKANDIA (PUBL)

1. INTRODUCTION

On 6 May 2003, the Board of Directors of Försäkringsaktiebolaget Skandia (publ) ("the Parent Company") resolved to appoint an independent investigative group, under the management of legal counsel, Otto Rydbeck, Setterwalls Adokatbyrå AB and Authorised Public Accountant, Göran Tidström, Öhrlings Pricewater-houseCoopers to review certain circumstances and matters within the Skandia Group ("Skandia"). The review addressed 1) the transactions between the Parent Company and Livförsäkringsaktiebolaget Skandia (publ) ("Skandia Liv"), 2) the principles applied for determination of embedded value and 3) compensation and benefits to members of the Board of Directors and senior members of management, including family members of these parties. The review report has been presented to the Board of Directors of the Parent Company.

2. TRANSACTIONS BETWEEN THE PARENT COMPANY AND SKANDIA LIV

The investigation has not shown that the reviewed transactions between the Parent Company and Skandia Liv have inflicted any direct damage on behalf of the Parent Company. Neither has there been found, with the exception of a smaller amount regarding certain financial instruments which Skandia Liv acquired from the Parent Company, any ground for or support to purport that the Parent Country has unduly gained from the transactions concerned, at the cost of Skandia Liv.

As regards the sale of Skandia Kapitalförvaltning AB ("SAM") by the Parent Company to Den Norske Bank ("DnB"), the conclusion of the investigation is that the Parent Company has made all of the investments and has been solely responsible for the establishment of the asset management operations of the company in question. The Parent Company had, therefore, full and unhindered right of ownership of Skandia Kapitalförvaltning AB. The monetary value of this ownership right has been awarded the Parent Company in that it has received the purchase price for the company. Skandia Liv has no right to any portion of the Parent Company's profit from this sale.

Concerning the assessment of the asset management agreement which Skandia Liv established in conjunction with the sale of SAM to DnB, the investigation has found that the terms and conditions, appraised overall, regarding the term of the agreement, level of fees and structure, as well as the right to renegotiation, are defendable both for the Parent Company and Skandia Liv. Furthermore, as regards the terms and conditions of the agreement, it is noted that the term of the agreement is twelve years. Skandia Liv has, however, the right to terminate the agreement after seven years if the asset management does not generate a reasonable return. The agreement also contains a mutual right to renegotiate the asset management fees on an ongoing basis. As regards the costs for asset management, the term of the agreement does not imply an increased risk exposure for Skandia Liv, compared with a shorter agreement.

Since the end of the 1950's Skandia has, except for employed sales personnel, insured its defined benefit collective agreement for pension commitments via insurance with Skandia Liv. These pension commitments comprise the so-called TJEP portfolio. The investigation has noted that the principle, which Skandia Liv applied in allocating the excess in the TJEP portfolio, implied that the Parent Company received 99 percent of the excess amount of MSEK 2,930, which was paid out. The principle applied can, according to the investigation, be motivated with regard to the circumstances in question and the order of decision-making within Skandia Liv, but it is noted that an allocation according to the principles applied by SPP (Alecta) and other insurance companies would have resulted in Skandia Liv retaining a considerably larger amount. The investigation has not found Skandia Liv's decision to repay the excess funds to constitute a prohibited distribution of profits.

In order to avoid the questioning of future transactions between the Parent Company and Skandia Liv, it is recommended that such transactions, as well as decisions regarding the allocation of costs concerning inter-group functions, be the object of thorough discussion and treatment by the boards of directors of both companies. Decisions regarding these types of issues should, according to the investigation, be delegated to individual members of management only as an exception. In case of such delegation, the details of any such decision should be reported to the respective boards of directors as soon as possible.

With the aim of strengthening the independent audit of Skandia Liv, it is recommended that one of Skandia Liv's auditors should come from an auditing firm other than the firms auditing the Parent Company.

3. PRINCIPLES OF EMBEDDED VALUE

Embedded value accounting implies, briefly described, that the present value of future cash flow from insurance contracts is reported as revenue when the contracts are made.

Skandia's financial information has previously been dominated by details based on the accounting of embedded value. The intention has been to present easily understood results and value concepts for investors and other users of the information. In spite of this praiseworthy intention, it is the conclusion of the investigation that Skandia's use of embedded value has led to the presentation of accounts for which it is difficult to obtain a clear overview. This depends primarily on the inherent complexity of insurance companies' accounting and on Skandia's changes in the underlying assumptions. In addition, the guidance for interpreting the result trends, which is provided in summary in the first pages of the annual report, is not presented in a consistent manner for the various years.

Whilst awaiting the presentation of new regulations for accounting and reporting from the International Accounting Standards Board (IASB), the investigation recommends the following for Skandia.

1. The reporting of the results and financial position according to current regulations should be given the same importance as the embedded value reporting.
2. An analysis of the differences between the different income measures should be provided in every report to the market.
3. The operative assumptions for the calculation of embedded value should be reported and changes in these assumptions between the years should be motivated and the sensitivity analysis should be supplemented with the most important operative assumptions.
4. The definition of the key ratios and the income measure, which provide the major message in financial reporting to the market, should not be changed over time.
5. In conjunction with the presentation of the annual report, the Board of Directors should obtain information regarding the reasons for any changed financial and operative assumptions.

4. SENIOR MANAGEMENT BENEFITS

In June 2003, Skandia adopted a new compensation policy, which includes detailed guidelines for the establishment of, amongst other things, salaries, bonuses, pensions, severance pay and incentive programs. The new compensation policy is, according to the investigation, balanced and reasonable. It is deemed to satisfactorily meet the requirements, which can and should, according to the opinion of the investigation, be placed on a company of Skandia's size.

4.1 Reviewed incentive programmes

The incentive programmes, which have been particularly investigated, are the benefits package, 1997-1999 ("Sharetracker"), Global Incentive Program for AFS 1998-1999 ("Wealthbuilder"), the Stock Option Program, 2000-2002 and the Stock Option Program, 2003. It has been noted that Sharetracker and Wealth-builder were extended to also include four and a half months of 2000.

Both Sharetracker and Wealthbuilder were synthetic options programs in which the participants received, every year, the right to cash payments based on the increase in value of the Skandia share, respective Skandia AFS (that is, the business area for long-term savings). Wealthbuilder was intended for key employees within Skandia AFS in the US and Great Britain. Sharetracker and Wealthbuilder resulted in significant amounts for the participants.

When the Board of Directors decided, in 1997, to introduce Sharetracker, the total amount of compensation and benefits which individual members of management could receive was capped. The cap was taken away on the basis of decisions made by certain individuals.

These actions can be criticised, but as these decisions were taken during 1997 it can be concluded that any possible claim for damages under the Swedish Insurance Business Act against the Board of Directors and the Managing Director is barred.

The investigation has noted that the agreements established with the members of management regarding the outcome of Sharetracker have not been entirely presented to, nor approved by, the Board of Directors. Lars-Eric Petersson (then Managing Director of the Parent Company) has, for example, entered into supplementary agreements through which the Parent Company has been obliged to pay himself and Ulf Spång (then Finance Director in the Parent Company) approximately MSEK 70 more than the amount approved by the Board of Directors. The investigation recommends that the Parent Company does not honour these supplementary agreements.

The total compensation, which could be paid under Wealthbuilder for the years 1998-1999, was, according to the decision of the Board of Directors, capped at MSEK 300. The Board of Directors resolved, however, to extend the programme on the basis of unchanged terms and conditions for a further four and a half months. Hereby, the cap for the programme was increased to MSEK 356 for the entire period. The investigation concludes that this cap was not applied and, instead, the total compensation amounted to MSEK 903.

The investigation criticises the Parent Company's auditors who, in spite of being aware of the fact that the outcome for Wealthbuilder was in excess of the cap determined by the Board of Directors, did not take up the issue with the Board of Directors nor with the Audit Committee. Criticism is addressed also towards Lars Ramqvist in his role as Chairman of the Board and as a member of the Audit Committee as he did not, on any occasion, take up the question of the application of the cap in the Wealthbuilder programme. Serious criticism is also addressed towards Lars-Eric Petersson as he, without the approval of the Board of Directors, decided to remove the cap and, thereby, caused financial damage to Skandia in an amount of approximately MSEK 550.

The investigation concludes that the outcomes of the incentive programmes have been accounted for in a misleading manner in Skandia's annual reports and that the actual outcome of the programmes was slightly more than MSEK 600 greater than the amounts stated in the annual reports. Furthermore, it is noted that local incentive programmes were not described or mentioned in the annual reports even though these programmes also have involved significant amounts. The investigation also concludes that the reported amounts regarding renumeration to senior management did not include expenses or costs for the global and local incentive programmes. According to the investigation, Ulf Spång and Lars-Eric Petersson, in their respective roles of Finance Director and Managing Director, are responsible for this. The investigation also concludes that Jan Birgersson (auditor of the Parent Company), who was at least partially aware of these deficiencies, should have brought these matters to the attention of the Board of Directors and/or the Audit Committee.

4.2 Granting of contracts for apartments

The investigation believes that the regulations currently applied by Skandia for the granting of rental apartments to senior members of management is in line with what can be reasonably required.

As regards the previous granting of apartments, the investigation criticises Lars Ramqvist's request to receive an apartment for himself or for his son. Criticism is also addressed towards Lars-Eric Petersson and Ola Ramstedt (at that time Human Resources Management Director in the Parent Company) who complied with Lars Ramqvist's request and offered Lars Ramqvist's son a contract for a rental apartment. This is deemed as particularly reprehensible as Lars Ramqvist's son, due to a low level of rent for the apartment and the acquisition of interior furnishings for the apartment, has been provided financial benefits at the cost of the Parent Company.

The investigation has found that Lars-Eric Petersson, Ulf Spång and Ola Ramstedt and family members of these three individuals have been granted apartments from Skandia Liv's portfolio of apartments and that the apartments, in several cases, have been the object of extensive renovation, which is deemed to have been far beyond the normal standards of maintenance and renovation. The investigation concludes that these renovations should have been paid for by Lars-Eric Petersson, Ulf Spång and Ola Ramstedt, but that this has not taken place. The investigation has found that the expenses have, instead, been incorrectly accounted for as reconstruction of Skandia's head office.

It is noted that Ulf Spång, in conjunction with the acquisition of an apartment, has received a loan of approximately SEK 600,000 from the Parent Company. The investigation observes that this was probably a violation of the loan prohibition in the Swedish Insurance Business Act.

5. OTHER EVENTS WHICH HAVE BEEN REVIEWED

The investigation notes that Ulf Spång executed an unauthorised withdrawal amounting to MSEK 20 from the Parent Company's endowment insurance in Skandia Leben AG, which, amongst other things, has resulted in extra expenses for the Parent Company in the form of social insurance contributions.

The investigation has also reviewed an agreement which Ulf Spång signed on behalf of the Parent Company with Anders Kvist, then Managing Director of Skandia Kapitalförvaltning AB. The investigation deems that this agreement has seriously damaged the Parent Company.

6. CONCLUDING OBSERVATIONS

As regards the review of relevant guidelines, decision-making processes and principles, it is concluded that the issues of renumeration will now be handled according to generally accepted practices. As regards the future, the investigation presumes that Skandia will continue to observe what is considered to be, at any given point in time, generally accepted practice for listed companies. The investigation further notes that Skandia has taken a decision to implement a more explicit and surveyable financial reporting whilst waiting for the adoption of the new international accounting standards for insurance companies. The investigation recommends an increased transparency, in certain aspects, and an increased comparison between accounting according to Swedish law and accounting according to the embedded value method.

The established breaches of power of decision and power of authorisation by Lars-Eric Petersson, Ulf Spång and Ola Ramstedt should, according to the investigation, result in the Board of Directors of the Parent Company further investigating, on the basis of this report, the possibilities of claiming damages from the individuals concerned.

As regards payments made to the beneficiaries of the unapproved portions of the incentive programmes, who were aware of the fact that such payments were not duly authorised, efforts should be made, according to the investigation, to determine if such payments can be recovered.

The investigation believes that criticism can be addressed towards Skandia Liv's board of directors in their deficient preparation and consideration of certain transactions, towards the then Chairman of the Board of the Parent Company for his handling of the compensation issues and towards the auditors, and primarily Jan Birgersson, as regards the reporting to the Parent Company's Board of Directors and Audit Committee.

It can be concluded that the work of the Board of Directors and auditors has been made difficult by the fact that a small number of individuals in Skandia's top management, who have all now left Skandia, have behaved extremely unethically and possibly even criminally. Due to the positions held by these individuals and the deficient and misleading manner in which they have handled certain issues, the investigation concludes that it has been difficult for the Board of Directors and other members of management to establish a correct view of what was taking place. The investigation notes that the actions of the individuals in question have resulted in a crisis of confidence for Skandia with resulting indirect damages.

The investigation observes that the Parent Company's current Board of Directors and management have already taken and plan to take further measures to remedy the unsatisfactory state of affairs which has been observed. Against this background, the investigation sees no reason that Skandia will not be able, in the future, to live up to the high ethical standards which have been established for the company and the fulfilment of which have previously been hindered only by actions attributable to certain individuals.

The office of the public prosecutor has advised that it intends to study the report of the investigation for further investigative measures to determine if any of the circumstances described above are criminal. Furthermore, it is noted that the tax authorities will probably investigate a number of the events addressed in the report.

In order to terminate the current speculations and threats of legal measures from external parties, the investigation is of the opinion that the boards of directors of both the Parent Company and Skandia Liv should make public, as soon as possible after having studied the conclusions of this investigation and the independent review carried out on behalf of the board of directors of Skandia Liv, that they find no grounds for the Parent Company to compensate Skandia Liv for the transactions reviewed by the investigations. It is recommended that the companies, instead, work together with the aim of taking legal actions as regards the individuals who have damaged the companies. Furthermore, it is recommended that the companies' boards of directors and management members work together to recreate confidence in Skandia.