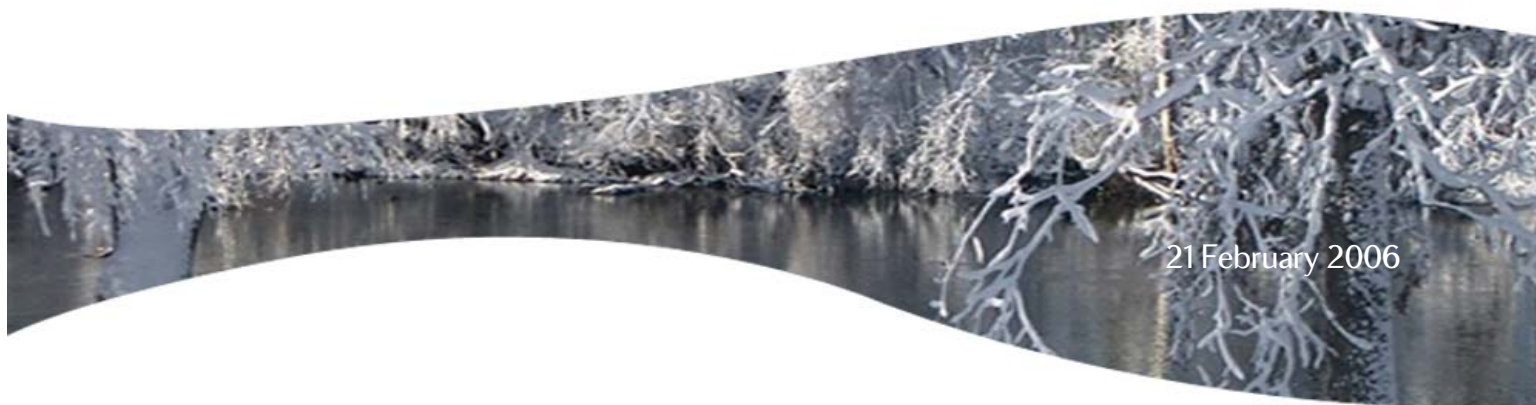




# year-end report

## january–december

## 2005



21 February 2006

## FOURTH QUARTER:

### Good growth in all divisions

- The underlying result before tax improved, to SEK 586 million (-399).
- The result for the period according to IFRS, including the result for discontinued operations, was SEK -50 million (-1,406).
- Revenues rose 19%, and expenses included in the underlying result decreased by 6%.
- Earnings per share before dilution were SEK -0.06 (-1.34).
- Cash flow from operating activities, excluding changes in lending/deposits to and from the public in banking operations, was SEK 0.3 billion (-0.4).
- The calculated profit margin for unit linked assurance increase to 18.7%, compared with 17.3% during the preceding quarter, and the present value of new business amounted to SEK 544 million, compared with SEK 505 million during the preceding quarter.
- The operating result according to the embedded value method increased to SEK 2,824 million (-830). Of this improvement, changes in operative assumptions for unit linked accounted for SEK 1,061 million (-504) and financial effects for SEK 853 million (515).
- Net asset value per share increased during the quarter by SEK 2.38, to SEK 34.92
- The Board of Directors proposes an increased dividend of SEK 0.40 (0.35) per share. The Annual General Meeting will be held on 27 April 2006. See also page 22.

### Underlying result

| SEK million                            | According to IFRS               |               | According to embedded value method |               |                                |              |
|--|---------------------------------|---------------|------------------------------------|---------------|--------------------------------|--------------|
|  | Result before tax <sup>1)</sup> |               | Result of operations <sup>2)</sup> |               | Operating result <sup>2)</sup> |              |
|  | 2005                            | 2004          | 2005                               | 2004          | 2005                           | 2004         |
|  | Q4                              | Q4            | Q4                                 | Q4            | Q4                             | Q4           |
| Unit linked assurance                  | 502                             | 50            | 1,116                              | 1,174         | 1,969                          | 1,689        |
| Mutual funds                           | 17                              | -34           | 17                                 | -34           | 17                             | -34          |
| Life assurance                         | 10                              | -22           | 64                                 | -51           | 63                             | -82          |
| Banking                                | 54                              | 14            | 54                                 | 14            | 54                             | 14           |
| Other businesses                       | -9                              | -102          | -9                                 | -102          | -9                             | -102         |
| Joint functions <sup>3)</sup>          | 12                              | -305          | 12                                 | -305          | 12                             | -305         |
| <b>Total underlying result</b>         | <b>586</b>                      | <b>-399</b>   | <b>1,254</b>                       | <b>696</b>    | <b>2,106</b>                   | <b>1,180</b> |
| Write-down of goodwill and restructur- | -5                              | -1,072        | -5                                 | -1,072        | -5                             | -1,072       |
| ing costs for Bankhall                 |                                 |               |                                    |               |                                |              |
| Structural costs <sup>4)</sup>         | -268                            | 24            | -268                               | 24            | -268                           | 24           |
| Provision for restructuring costs      | -1                              | -308          | -1                                 | -308          | -1                             | -308         |
| Outcome compared with operative        |                                 |               | -69                                | -150          | -69                            | -150         |
| assumptions                            |                                 |               |                                    |               |                                |              |
| Change in operative assumptions        |                                 |               | 1,061                              | -504          | 1,061                          | -504         |
| <b>Total</b>                           | <b>312</b>                      | <b>-1,755</b> | <b>1,972</b>                       | <b>-1,314</b> | <b>2,824</b>                   | <b>-830</b>  |

<sup>1)</sup> Excluding result from discontinued operations, totalling SEK -645 million as per Dec. 2005, SEK 834 million as per Dec. 2004, SEK -160 million as per Q4 2005 and SEK 0 million as per Q4 2004.

<sup>2)</sup> For definitions, see page 30.

<sup>3)</sup> Joint functions include joint-group expenses, costs for the divisions that are not distributed among the business segments, and joint-group financial result..

<sup>4)</sup> Structural costs in 2005 are mainly related to the bid process.

## JANUARY–DECEMBER:

### Improvement in underlying IFRS result

- The underlying result before tax improved to SEK 2,008 million (247).
- The result for the year according to IFRS, including the result for discontinued operations and goodwill amortisation, was SEK -765 million (197), see table on page 9.
- Revenues rose 16% to SEK 16,758 million (14,419). Expenses included in the underlying result increased by 4% to SEK -14,750 million (-14,172).
- Earnings per share before dilution were SEK -0.76 (0.24), of which SEK -0.63 (0.81) pertains to discontinued operations and SEK -1.11 (-1.05) to the write-down of goodwill in Bankhall. The return on shareholders' equity was -1% (-4%).
- Cash flow from operating activities, excluding changes in lending/deposits to and from the public in banking operations, was SEK 0.5 billion (-2.0).

<sup>\*)</sup> Livförsäkringsaktiebolaget Skandia is not consolidated and is therefore not included in the year-end report. All comparison figures pertain to the corresponding period in 2004, unless indicated otherwise.

#### For information on this report, please contact:

Jan Erik Back, Chief Financial Officer, tel. +46-8-788 37 20  
Harry Vos, Head of Investor Relations, tel. +46-8-788 36 43  
Eva Groth, Assistant Head of Investor Relations, tel. +46-8-788 16 90

#### For information on historical disputes, please contact:

Björn Björnsson, Vice Chairman, tel. +46-8-788 25 00

Skandia's published financial reports are available on Skandia's website: [www.skandia.com](http://www.skandia.com). Skandia's website also provides links to a live webcast of the press and analyst meeting on Skandia's year-end report on Tuesday, 21 February 2006. In addition to the year-end report, Skandia has also published the document *Financial Supplement Q4 2005* on [www.skandia.com](http://www.skandia.com) under Investor Relations/Reports and Events/Interim Reports. This document can also be ordered by phone, +46-8-788 2500.

## Underlying result

| SEK million   | According to IFRS               |               | According to embedded value method |              |                                |              |
|---|---------------------------------|---------------|------------------------------------|--------------|--------------------------------|--------------|
|   | Result before tax <sup>1)</sup> |               | Result of operations <sup>2)</sup> |              | Operating result <sup>2)</sup> |              |
|   | 2005                            | 2004          | 2005                               | 2004         | 2005                           | 2004         |
|   | 12 mos.                         | 12 mos.       | 12 mos.                            | 12 mos.      | 12 mos.                        | 12 mos.      |
| Unit linked assurance                                       | 1,919                           | 911           | 4,354                              | 3,908        | 7,832                          | 4,608        |
| Mutual funds  | 8                               | -122          | 8                                  | -122         | 8                              | -122         |
| Life assurance  | 3                               | -17           | 55                                 | -57          | 48                             | -88          |
| Banking   | 351                             | 330           | 351                                | 330          | 351                            | 330          |
| Other businesses  | 5                               | -103          | 5                                  | -103         | 5                              | -103         |
| Joint functions <sup>3)</sup>                               | -278                            | -752          | -278                               | -752         | -278                           | -752         |
| <b>Total underlying result</b>                              | <b>2,008</b>                    | <b>247</b>    | <b>4,495</b>                       | <b>3,204</b> | <b>7,966</b>                   | <b>3,873</b> |
| <i>Result according to plan 2005</i>                        | <i>1,028</i>                    |               | <i>3,795</i>                       |              | <i>3,795</i>                   |              |
| Write-down of goodwill and restructuring costs for Bankhall | -1,232                          | -1,072        | -1,232                             | -1,072       | -1,232                         | -1,072       |
| Structural costs <sup>4)</sup>                              | -489                            | -54           | -489                               | -54          | -489                           | -54          |
| Provision for restructuring expenses                        | 2                               | -308          | 2                                  | -308         | 2                              | -308         |
| VAT provisions  | -151                            | 0             | -151                               | 0            | -151                           | 0            |
| Outcome compared with operative assumptions                 |                                 |               | -178                               | -382         | -178                           | -382         |
| Change in operative assumptions                             | ,                               | ,             | 1,312                              | -295         | 1,312                          | -295         |
| <b>Total</b>  | <b>138</b>                      | <b>-1,187</b> | <b>3,759</b>                       | <b>1,093</b> | <b>7,230</b>                   | <b>1,762</b> |

<sup>1)</sup> Excluding result from discontinued operations, totalling SEK -645 million as per Dec. 2005, SEK 834 million as per Dec. 2004, SEK -160 million as per Q4 2005 and SEK 0 million as per Q4 2004.

<sup>2)</sup> For definitions, see page 30.

<sup>3)</sup> Joint functions include joint-group expenses, costs for the divisions that are not distributed among the business segments, and joint-group financial result.

<sup>4)</sup> Structural costs in 2005 are mainly related to the bid process.

## Improvement in embedded value result

- The present value of new business, unit linked (VNB) increased by 13% in local currency, to SEK 2,131 million (1,870).
- The calculated profit margin for new business was level with the preceding year, at 18.6%.
- The operating result according to the embedded value method increased to SEK 7,230 million (1,762). Of this improvement, changes in operative assumptions for unit linked accounted for SEK 1,312 million (-295) and financial effects for SEK 3,478 million (700).

## Growth in all divisions

- Premiums and deposits increased by 28% during the year in local currency. New sales of unit linked assurance rose 14% in local currency.
- Growth in the UK was favourable during the year, and Skandia's UK market share increased to 5.6% during the third quarter.
- New sales of unit linked assurance in Sweden rose 18% during the year. Skandia's market share (unit linked) in Sweden was 18.7% on a moving twelve-month basis.
- Several countries in the Europe & Latin America division are showing favourable performance. Premiums and deposits rose by over 40% compared with a year ago.
- Funds under management rose 36% in local currency, to SEK 566,049 million as per 31 December 2005, thanks to a net inflow of SEK 69,973 million and good growth in value.

## Comments by Hans-Erik Andersson, President and CEO:

Skandia has presented a very strong report for 2005. All divisions and virtually all business segments have delivered significant result improvements. Our results exceeded the forecasts published last autumn by a wide margin, no matter which measurement is used.

My view when I took over as CEO of Skandia was that Skandia's business model is indeed sound. You must keep in mind that only a few years ago, Skandia was questioned as both a company and a business model. Following several years of rapid growth with a relatively high level of risk, the dramatic stock market decline in the opening years of this decade put a great strain on both our profitability and balance sheet.

However, in my view there was major intrinsic potential to create substantial value. I was convinced that with a clearer business and customer focus, Skandia could achieve very good results with its current business model. In addition, I saw – and still see – major improvement potential by trimming and by better co-ordinating the large and somewhat sprawling geographic organisation that had developed during the most expansive years.

It is with this conviction as a landmark that the management and entire group have worked towards since then. During the past two years, together we have taken major steps forward. Through a clearer business focus, combined with cost-cutting and efficiency improvement, we have improved the profitability of all three of our divisions. During the same time, we strengthened our market positions and, especially in the Swedish organisation, we improved and simplified our way of working with our customers. We also drew up guidelines for integrating and co-ordinating the overlapping functions that exist within the group. However, most of the work on implementing these plans still remains.

As I now leave my assignment as CEO of Skandia in connection with the Extraordinary General Meeting, with slightly more than two years of results in hand I can affirm that Skandia's business model is truly sound and that Skandia is once again the successful company it deserves to be.

The confidence that our customers show for Skandia is the main proof of our success. It is also in this light that I feel we should look at Old Mutual's acquisition of Skandia. Its keen interest in acquiring Skandia is a testimony to our success.

In other words, Skandia is a group with a very bright future that has obtained a new, principal shareholder, a new board and a new CEO. As I proudly hand over the baton to my successor, Julian Roberts, I wish him all the best, as he will now have the privilege of leading a company like Skandia.

For me, this has been a highly stimulating and edifying time which has certainly not been without challenges. Finally, to Skandia's employees, I would like to thank all of you for your know-how and great commitment to Skandia. It has been an honour to work together with you, and I wish you the best of success in the future and thanks for the tremendous co-operation we have had during this time.

This year-end report is presented in four sections:

- A. Group overview
- B. Results per business segment
- C. Results per division
- D. Other tables

## A. GROUP OVERVIEW

### Results per business segment

| SEK million                    | According to IFRS<br>Result before tax <sup>1)</sup> |               | According to embedded value method |               |                                |             |
|--------------------------------|--|---------------|------------------------------------|---------------|--------------------------------|-------------|
|                                | 2005   |               | Result of operations <sup>2)</sup> |               | Operating result <sup>2)</sup> |             |
|                                | 2005   | 2004          | 2005                               | 2004          | 2005                           | 2004        |
|                                | Q4   | Q4            | Q4                                 | Q4            | Q4                             | Q4          |
| Unit linked assurance          | 488  | -1            | 2,094                              | 469           | 2,947                          | 984         |
| Mutual funds                   | 17   | -34           | 17                                 | -34           | 17                             | -34         |
| Life assurance                 | 10   | -22           | 64                                 | -51           | 63                             | -82         |
| Banking                        | 54   | 14            | 54                                 | 14            | 54                             | 14          |
| Other businesses <sup>3)</sup> | -14  | -1,174        | -14                                | -1,174        | -14                            | -1,174      |
| Joint functions <sup>4)</sup>  | -243   | -538          | -243                               | -538          | -243                           | -538        |
| <b>Total</b>                   | <b>312</b>   | <b>-1,755</b> | <b>1,972</b>                       | <b>-1,314</b> | <b>2,824</b>                   | <b>-830</b> |

| SEK million                       | According to IFRS<br>Result before tax <sup>1)</sup> |               | According to embedded value method |              |                                |              |
|-----------------------------------|--|---------------|------------------------------------|--------------|--------------------------------|--------------|
|                                   | 2005   |               | Result of operations <sup>2)</sup> |              | Operating result <sup>2)</sup> |              |
|                                   | 2005   | 2004          | 2005                               | 2004         | 2005                           | 2004         |
|                                   | 12 mos.  | 12 mos.       | 12 mos.                            | 12 mos.      | 12 mos.                        | 12 mos.      |
| Unit linked assurance             | 1,894  | 860           | 5,463                              | 3,180        | 8,941                          | 3,880        |
| Mutual funds                      | 8  | -122          | 8                                  | -122         | 8                              | -122         |
| Life assurance                    | 3  | -17           | 55                                 | -57          | 48                             | -88          |
| Banking                           | 351  | 330           | 351                                | 330          | 351                            | 330          |
| Other businesses <sup>3) 5)</sup> | -1,227   | -1,175        | -1,227                             | -1,175       | -1,227                         | -1,175       |
| Joint functions <sup>4)</sup>     | -891   | -1,063        | -891                               | -1,063       | -891                           | -1,063       |
| <b>Total</b>                      | <b>138</b>   | <b>-1,187</b> | <b>3,759</b>                       | <b>1,093</b> | <b>7,230</b>                   | <b>1,762</b> |

### Results per division

| SEK million                               | According to IFRS<br>Result before tax <sup>1)</sup> |               | According to embedded value method |               |                                |             |
|---|--|---------------|------------------------------------|---------------|--------------------------------|-------------|
|   | 2005   |               | Result of operations <sup>2)</sup> |               | Operating result <sup>2)</sup> |             |
|   | 2005   | 2004          | 2005                               | 2004          | 2005                           | 2004        |
|   | Q4   | Q4            | Q4                                 | Q4            | Q4                             | Q4          |
| UK, Asia Pacific & Offshore <sup>3)</sup> | 247  | -1,076        | 374                                | -557          | 948                            | -279        |
| Europe & Latin America                    | 47   | -180          | 675                                | 200           | 699                            | 223         |
| Nordic                                    | 336  | -113          | 1,241                              | -571          | 1,495                          | -388        |
| Group functions <sup>6)</sup>             | -318   | -386          | -318                               | -386          | -318                           | -386        |
| <b>Total</b>                              | <b>312</b>   | <b>-1,755</b> | <b>1,972</b>                       | <b>-1,314</b> | <b>2,824</b>                   | <b>-830</b> |

| SEK million                                  | According to IFRS<br>Result before tax <sup>1)</sup> |               | According to embedded value method |              |                                |              |
|--|--|---------------|------------------------------------|--------------|--------------------------------|--------------|
|  | 2005   |               | Result of operations <sup>2)</sup> |              | Operating result <sup>2)</sup> |              |
|  | 2005   | 2004          | 2005                               | 2004         | 2005                           | 2004         |
|  | 12 mos.  | 12 mos.       | 12 mos.                            | 12 mos.      | 12 mos.                        | 12 mos.      |
| UK, Asia Pacific & Offshore <sup>3) 5)</sup> | -390   | -734          | 537                                | 668          | 2,046                          | 1,058        |
| Europe & Latin America                       | 344  | -149          | 1,750                              | 850          | 1,998                          | 871          |
| Nordic                                       | 1,244  | 495           | 2,532                              | 374          | 4,246                          | 632          |
| Group functions <sup>6)</sup>                | -1,060   | -799          | -1,060                             | -799         | -1,060                         | -799         |
| <b>Total</b>                                 | <b>138</b>   | <b>-1,187</b> | <b>3,759</b>                       | <b>1,093</b> | <b>7,230</b>                   | <b>1,762</b> |

<sup>1)</sup> Excluding result from discontinued operations, totalling SEK -645 million as per Dec. 2005, SEK 834 million as per Dec. 2004, SEK -160 million as per Q4 2005 and SEK 0 million as per Q4 2004.

<sup>2)</sup> For definitions, see page 30.

<sup>3)</sup> Including restructuring costs for Bankhall, totalling SEK -97 million as per Dec. 2005, SEK 0 million as per Dec. 2004, SEK -5 million as per Q4 2005 and SEK 0 million as per Q4 2004.

<sup>4)</sup> Joint functions include joint-group expenses, costs for the divisions that are not distributed among the business segments, and joint-group financial result.

<sup>5)</sup> Includes write-down of goodwill in Bankhall, totalling SEK -1,135 million (-1 072 ) as per December 2005.

<sup>6)</sup> Group functions include joint-group expenses, joint-group financial result and unallocated result for business segments.

## FOURTH QUARTER ALONE

### Result according to IFRS

The result for the period (excluding discontinued operations) was SEK -50 million (-1,406), and the result before tax was SEK 312 million (-1,755). The result during the fourth quarter of 2004 was charged with SEK -1,072 million in goodwill write-downs for Bankhall. The underlying result before tax has improved and amounted to SEK 586 million (-399). The result improvement can be credited to a continued strong inflow, which contributed to an increase in funds under management. The earnings base, which consists largely of fees from customers, thereby improved, entailing a 19% increase in revenues to SEK 4,691 million (3,953).

Total expenses included in the underlying result decreased by 6%. Despite higher structural costs during the fourth quarter, administrative expenses fell by 6%, to SEK -2,167 million (-2,299). This is attributable to a provision for a restructuring reserve last year and greater cost control in all operations.

Result improvements were achieved in all business segments. The result improved considerably for unit linked assurance, while the positive trend from the third quarter continued for mutual fund business, which generated a positive result of SEK 17 million (-34).

Joint-group expenses were charged with higher structural costs, totalling SEK -268 million (24), mainly associated with the bid process for Skandia. The result for joint functions were positively affected during the fourth quarter in the amount of approximately SEK 60 million related to the distribution agreement with Skandia Liv. Earnings per share before dilution were SEK -0.06 (-1.34).

### Result according to embedded value method

The operating result was SEK 2,824 million (-830). Financial effects in unit linked assurance made a positive contribution of SEK 853 million (515), which was associated with fund growth that exceeded underlying assumptions due to continued strong equity markets. The result of operations improved to SEK 1,972 million (-1,314). The underlying result of operations was SEK 1,254 million (696). The underlying result of operations for unit linked assurance decreased slightly; this was because the result for the fourth quarter of 2004 was strongly affected by exceptionally high new sales in Germany. Other business segments are showing improvements.

The calculated profit margin for new sales of unit linked assurance was 18.7%, compared with 21.8% for the same period a year ago. However, the profit margin improved after the third quarter of 2005, when it was 17.3%. The profit margin improved for both the Nordic and UK, Asia Pacific & Offshore divisions compared with the fourth quarter of 2004. The profit margin for the Europe & Latin America division narrowed slightly due to changed market conditions and a related drop in new sales in Germany. The value of new business, new sales and the profit margin for the fourth quarter of 2004 were favourably affected to a strong degree by the exceptionally high sales in Germany.

Skandia's total premiums and deposits rose 31% in local currency during the fourth quarter, to SEK 35,250 million, compared with SEK 25,169 million during the same period a year ago. All divisions are contributing to the increase, including a 22% rise in premiums and deposits for the UK, Asia Pacific & Offshore division, a 48% rise for the Europe & Latin America division, and a 50% rise for the Nordic division (all in local currency). Unit linked assurance premiums written rose 31% in local currency, to SEK 23,727 million (17,151). New sales of unit linked assurance were roughly level with the preceding year on account of the above-mentioned new sales in Germany during the fourth quarter of 2004.

## TWELVE-MONTH SUMMARY

### Result according to IFRS

The result before tax was SEK 138 million (-1,187), including the SEK -1,135 million (-1,072) write-down of Bankhall goodwill. The underlying result before tax was SEK 2,008 million (247). Result improvements were achieved primarily in the unit linked assurance business segment, where the result before tax more than doubled during the year. For mutual fund business, the result moved from a loss of SEK -122 million in 2004 to a profit of SEK 8 million in 2005.

### Revenues

Total revenues rose 16% to SEK 16,758 million (14,419). Of this total, fees from customers accounted for SEK 11,992 million (9,121), which entails an increase of 31%. The trend from the previous quarters continued, and a steadily rising net inflow of funds under management, together with growth in the value of funds, led to higher fund-based fees from both unit linked assurance and mutual fund savings products. Premium-based fees in unit linked assurance rose 26%. Premium-based fees, and in certain countries also fund-based fees, are sometimes charged during the initial years of a contract's term. These fees are deferred and recognised over the life of the respective contracts.

The increase primarily in premium-based fee revenue also entailed an increase in deferred fee income. Premiums attributable to risk insurance rose 4%, to SEK 3,154 million (3,039). Net investment income increased slightly to SEK 1,463 million (1,422). Revenues in the banking operation also rose slightly.



## Expenses

Total expenses rose 6%. Expenses included in the underlying result rose 4% to SEK -14,750 million (-14,172).

Claims incurred in life assurance and risk insurance decreased by 6% compared with a year ago. Due to higher new sales of unit linked assurance and an increase in mutual fund deposits, commissions rose 11% to SEK -6,278 million (-5,648). The change in deferred acquisition costs and accrued commission expense remained at about the same level as a year earlier, at SEK 2,395 million (2,416).

Administrative expenses rose by 4%. Administrative expenses a year ago included a SEK 308 million provision to a restructuring reserve. Administrative expenses in 2005 include a provision of SEK -151 million (-) for Value Added Tax. They also include structural costs, totalling SEK -489 million (-54). The increase is mainly attributable to costs associated with the bid process, and restructuring costs in Bankhall, totalling SEK -97 million (-). Excluding these costs, administrative expenses were unchanged, which can be credited to strict cost control in all divisions.

## Result for the year

The result for the year was SEK -765 million (197). This figure includes SEK -645 million (834) pertaining to discontinued operations, and SEK -1,135 million (-1,072) pertaining to the write-down of Bankhall goodwill. The amount pertaining to discontinued operations includes a net charge of SEK -681 million for market timing sanctions in the USA and supplemental proceeds of SEK 36 million from the sale of Skandia Asset Management. In addition to this, it includes legal and other expenses related to the sale of American Skandia. Profit for the preceding year was favourably affected in the amount of SEK 834 million from the sale of the Japanese operation. The underlying return on shareholders' equity increased to 11% (5%). The return on shareholders' equity was -1% (-4%). A policyholder tax is charged to policyholders in the form of fees. In the company's income statement this is reported under "Policyholder tax charge". The group's combined tax charge, including the policyholder tax, increased to SEK -2,760 million (-859). The increase is mainly attributable to an increase in policyholder taxes in the UK.

## Balance sheet and shareholders' equity

Total assets increased to SEK 550.6 billion, compared with SEK 407.8 billion a year earlier, mainly due to an increase in unit linked assets, growth in the value of other investments, and continued volume growth in the banking operation. Currency effects affected total assets favourably in the amount of SEK 29 billion (-3).

Shareholders' equity amounted to SEK 12.1 billion, compared with SEK 12.4 billion a year earlier. Borrowings, including financial reinsurance, decreased from SEK 4.0 billion at 31 December 2004 to SEK 3.7 billion at 31 December 2005. The debt-equity ratio, including financial reinsurance, improved to 18%, compared with 21% a year ago. In accordance with IFRS, certain fund holdings are to be consolidated, even though all assets belong to the holders of the fund units. On account of this, the funds' holdings of shares in Skandia Insurance Company Ltd (publ.) are reported as treasury shares, which have been eliminated against shareholders' equity. This adjustment reduced shareholders' equity as per 31 December 2005 by SEK 247 million, even though no economic exposure exists. The corresponding adjustment on 31 December 2004 was SEK 504 million.

## Cash flow

Cash flow from operating activities, excluding changes in deposits and lending in the banking operation, amounted to SEK 0.5 billion (-2.0). Cash flow from operating activities in 2004 was negatively affected in the amount of SEK -0.8 billion by the cash settlement of a distribution agreement with Skandia Liv. Other improvements are mainly because funds under management have now attained such size that fees from customers are rising at a faster pace than expenses. Cash flow from investing activities amounted to SEK 1.6 billion (3.8). Cash flow from investing activities in the preceding year was favourably affected in the amount of SEK 1.2 billion by the sale of the Japanese operation, and in the amount of SEK 4.5 billion from the sale of If. Payments related to American Skandia and structural costs are expected to be made during 2006.

## Premiums and deposits

Skandia's total premiums and deposits increased to SEK 127,557 million (98,031) during the year. This represents an increase of 28% in local currency. For unit linked assurance, premiums and deposits rose 30% in local currency, to SEK 88,013 million (66,863). New sales of unit linked assurance increased by 14% in local currency, to SEK 11,460 million (9,951). Mutual fund deposits increased to SEK 36,847 million (28,780).

A divisional breakdown of performance is commented on in a separate section.

## Funds under management

Unit linked funds under management continued to develop favourably and increased by 43%, to SEK 422,770 million, compared with SEK 295,473 million a year ago. The net inflow of unit linked assurance business was SEK 50,580 million (42,746). Changes in value amounted to SEK 69,508 million (24,641), representing an average increase of 23.5% (10.2%) during the year. Currency effects amounted to SEK 17,389 million (-4,808). Payments to unit linked policyholders amounted to 12.7% of funds under management on a yearly basis. Surrenders accounted for 11.2% of this total, compared with 7.3% a year ago. The increase in surrenders is mainly associated with new products as a result of changes in legislation, which has spurred customers to reallocate their savings.

Funds under management for mutual fund business also increased, to SEK 143,279 million, compared with SEK 98,344 million a year ago. The net inflow (excluding the flow in directly distributed funds) amounted to SEK 17,126 million (15,455). Changes in value amounted to SEK 17,480 million (9,345), corresponding to an average of 19.7% (14.4%) during the year.

### Outcome compared with plan

On 19 October 2005, Skandia published shareholder information containing detailed information on the company's plans. This information was disclosed in order to give the stock market equal access to information provided in the due diligence process. It should be noted that in the future, Skandia does not intend to make public any forecasts regarding its business. The outcome for 2005 exceeded the plan in respect of sales, result and net asset value.

| SEK million  | 2005<br>12 mos.     | 2005<br>12 month<br>plan | Deviation |
|--|---------------------|--------------------------|-----------|
| New sales, unit linked                                       | 11,460              | 9,966                    | +15%      |
| Underlying result before tax (IFRS)                          | 2,008 <sup>1)</sup> | 1,028 <sup>3)</sup>      | +95%      |
| Underlying result of operations (EV)                         | 4,495 <sup>2)</sup> | 3,795 <sup>3)</sup>      | +18%      |
| Present value of new business for the year, unit linked (EV) | 2,131               | 2,095                    | +2%       |
| Funds under management, SEK billion                          | 566.0               | 453.3                    | +25%      |
| Net asset value (EV), SEK billion                            | 35.8                | 33.3                     | +7%       |

<sup>1)</sup> Excluding write-down of Bankhall goodwill (SEK -1,135 million), restructuring costs for Bankhall (SEK -97 million), VAT provision (SEK -151 million) and structural costs (SEK -489 million).

<sup>2)</sup> Excluding write-down of Bankhall goodwill (SEK -1,135 million), restructuring costs for Bankhall (SEK -97 million), VAT provision (SEK -151 million), structural costs (SEK -489 million), outcome compared with operative assumptions (SEK -178 million) and change in operative assumptions (SEK 1,312 million).

<sup>3)</sup> According to the group plan published on 19 October 2005, excluding the write-down of Bankhall goodwill (SEK -1,135 million) and structural costs (SEK -60 million).

### Disputes

As reported in the half-year report, Skandia has approved a settlement by American Skandia (now a wholly-owned subsidiary of Prudential Financial) with the US Securities Exchange Commission and the New York Attorney General's Office totalling USD 95 million for market timing. The parties are still awaiting the drafting of final agreement documentation and approval by the SEC's board. Skandia has made a provision of SEK 507 million, net after tax and currency hedging, with respect to this settlement.

In the first-quarter interim report for 2005, Skandia reported that the National Tax Board has questioned Skandia's treatment of Value Added Taxes on services pertaining to the operation of the group's IT environment. Skandia has now filed an appeal of the advance ruling by the Council on Advance Tax Rulings referred to in the report. A ruling is expected in 2006. As previously disclosed, a provision of SEK 151 million has been made for reasons of prudence.

The status of other disputes is discussed in the 2004 Annual Report. Aside from what has been already indicated, no material changes have taken place that give rise to any changes in these descriptions. The handling of disputes stemming from historical events is being co-ordinated by Björn Björnsson, Vice Chairman of Skandia, on behalf of Skandia's board.

### Post-balance sheet events

On 15 February 2006, Old Mutual plc announced that acceptances of its public offer had been received for 89.54% of the shares in Skandia. In view of this, an extraordinary general meeting will be held at 4.30 p.m. on 21 February 2006 to elect a new board of directors.



## Consolidated Income Statement

| SEK million   | Note | 2005<br>12 mos. | 2004<br>12 mos. <sup>*)</sup> |
|---|------|-----------------|-------------------------------|
| <b>REVENUE</b>  |      |                 |                               |
| Fee income  |      | 11,992          | 9,121                         |
| Change in deferred fee income (DFI) and fee income receivable (FIR)             |      | -1,424          | -903                          |
| Net premiums earned   |      | 3,154           | 3,039                         |
| Net investment income   |      | 1,463           | 1,422                         |
| Net interest income, banking  |      | 1,055           | 1,017                         |
| Share of profit/loss of associates  |      | 3               | -3                            |
| Other income  |      | 515             | 726                           |
| <b>Total revenue</b>  |      | <b>16,758</b>   | <b>14,419</b>                 |
| <b>EXPENSES</b>   |      |                 |                               |
| Net claims incurred   |      | -2,943          | -3,138                        |
| Commission expenses   |      | -6,278          | -5,648                        |
| Change in deferred acquisition costs (DAC) and accrued commission expense (ACE) |      | 2,395           | 2,416                         |
| Administrative expenses   | 1    | -7,723          | -7,410                        |
| Other expenses  |      | -551            | -361                          |
| Write-down of goodwill  | 2    | -1,135          | -1,092                        |
| Financing costs   |      | -385            | -373                          |
| <b>Total expenses</b>   |      | <b>-16,620</b>  | <b>-15,606</b>                |
| <b>Result before tax</b>  |      | <b>138</b>      | <b>-1,187</b>                 |
| Policyholder tax charge   |      | 2,502           | 1,409                         |
| Taxes   | 3    | -2,760          | -859                          |
| <b>Result from continuing operations</b>  |      | <b>-120</b>     | <b>-637</b>                   |
| Result from discontinued operations   | 4    | -645            | 834                           |
| <b>Result for the year</b>  |      | <b>-765</b>     | <b>197</b>                    |
| <b>Attributable to:</b>   |      |                 |                               |
| Equity holders of the parent company  |      | -775            | 250                           |
| Minority interest   |      | 10              | -53                           |
| <b>Earnings per share:<sup>**) </sup></b>                                       |      |                 |                               |
| Continuing and discontinued operations  |      |                 |                               |
| Basic   |      | -0.76           | 0.24                          |
| Diluted   |      | -0.76           | 0.24                          |
| Continuing operations   |      |                 |                               |
| Basic   |      | -0.13           | -0.57                         |
| Diluted   |      | -0.13           | -0.57                         |
| Discontinued operations   |      |                 |                               |
| Basic   |      | -0.63           | 0.81                          |
| Diluted   |      | -0.63           | 0.81                          |
| Weighted number of shares, thousands <sup>**) </sup>                            |      |                 |                               |
| Basic   |      | 1,024,722       | 1,024,052                     |
| Diluted   |      | 1,030,619       | 1,028,636                     |
| Number of shares, end of period, thousands <sup>**) </sup>                      |      |                 |                               |
| Basic   |      | 1,025,154       | 1,024,250                     |
| Diluted   |      | 1,031,050       | 1,028,835                     |

<sup>\*)</sup> Certain reclassifications of the comparison period were done during the fourth quarter of 2005. The largest reclassifications pertain to transaction costs for card transactions in SkandiaBanken and risk charges. The reclassifications have affected the following lines: fee income, change in deferred fee income and fee income receivable, net premiums earned, other income, commission expenses and administrative expenses.

<sup>\*\*)</sup>  For definitions please see page 30.

### 1) Administrative expenses

|                                   |               |               |
|-----------------------------------|---------------|---------------|
| Personnel expenses                | -4,067        | -3,775        |
| Other administrative expenses     | -4,155        | -3,501        |
| Provision for restructuring costs | 2             | -308          |
| Depreciation                      | -269          | -310          |
| Expense recharges                 | 766           | 484           |
| <b>Total</b>                      | <b>-7,723</b> | <b>-7,410</b> |

2) Includes a write-down of goodwill in Bankhall, totalling SEK -1,135 million as per Dec. 2005 and SEK -1,072 million as per Dec. 2004.

3) Includes current tax, deferred tax and policyholder tax.

### 4) Result for the period from discontinued operations

|   |             |            |
|---|-------------|------------|
| American Skandia market timing *                            | -681        | -          |
| Skandia Asset Management (SAM) supplementary purchase price | 36          | -          |
| Skandia Japan   | -           | 834        |
| <b>Total</b>  | <b>-645</b> | <b>834</b> |

\* Of which: Settlement of market timing investigation

Legal and other costs pertaining to the sale of American Skandia

|  |             |  |
|--|-------------|--|
| <b>Result before tax</b>                 | <b>-869</b> |  |
| Deferred tax pertaining to market timing | 188         |  |
| <b>Result after tax</b>                  | <b>-681</b> |  |

## Consolidated Income Statement – quarterly analysis

| SEK million  | 2005<br>Q4    | 2005<br>Q3 <sup>a)</sup> | 2005<br>Q2 <sup>a)</sup> | 2005<br>Q1 <sup>a)</sup> | 2004<br>Q4 <sup>a)</sup> |
|--|---------------|--------------------------|--------------------------|--------------------------|--------------------------|
| <b>REVENUE</b>   |               |                          |                          |                          |                          |
| Fee income   | 3,435         | 3,221                    | 2,708                    | 2,628                    | 2,410                    |
| Change in deferred fee income (DFI) and fee income receivable (FIR)                | -347          | -414                     | -339                     | -324                     | -275                     |
| Net premiums earned  | 951           | 729                      | 775                      | 699                      | 942                      |
| Net investment income  | 279           | 314                      | 510                      | 360                      | 426                      |
| Net interest income, banking   | 257           | 237                      | 304                      | 257                      | 267                      |
| Share of profit/loss of associates   | 6             | -4                       | -1                       | 2                        | 0                        |
| Other income   | 110           | 155                      | 116                      | 134                      | 183                      |
| <b>Total revenue</b>   | <b>4,691</b>  | <b>4,238</b>             | <b>4,073</b>             | <b>3,756</b>             | <b>3,953</b>             |
| <b>EXPENSES</b>  |               |                          |                          |                          |                          |
| Net claims incurred  | -845          | -626                     | -887                     | -585                     | -1,180                   |
| Commission expenses  | -1,794        | -1,607                   | -1,515                   | -1,362                   | -1,833                   |
| Change in deferred acquisition costs (DAC)<br>and accrued commission expense (ACE) | 719           | 564                      | 578                      | 534                      | 885                      |
| Administrative expenses  | -2,167        | -1,937                   | -1,855                   | -1,764                   | -2,299                   |
| Other expenses   | -174          | -142                     | -124                     | -111                     | -89                      |
| Write-down of goodwill   | 0             | 0                        | -1,135                   | 0                        | -1,092                   |
| Interest expenses  | -118          | -92                      | -93                      | -82                      | -100                     |
| <b>Total expenses</b>  | <b>-4,379</b> | <b>-3,840</b>            | <b>-5,031</b>            | <b>-3,370</b>            | <b>-5,708</b>            |
| <b>Result before tax</b>   | <b>312</b>    | <b>398</b>               | <b>-958</b>              | <b>386</b>               | <b>-1,755</b>            |
| Policyholder tax charge  | 723           | 787                      | 356                      | 636                      | 615                      |
| Taxes  | -925          | -839                     | -397                     | -599                     | -266                     |
| <b>Result for the period from continuing operations</b>                            | <b>110</b>    | <b>346</b>               | <b>-999</b>              | <b>423</b>               | <b>-1,406</b>            |
| Result for the period from discontinued operations                                 | -160          | -14                      | -471                     | -                        | 0                        |
| <b>Result for the period</b>   | <b>-50</b>    | <b>332</b>               | <b>-1,470</b>            | <b>423</b>               | <b>-1,406</b>            |
| <b>Attributable to:</b>  |               |                          |                          |                          |                          |
| Equity holders of the parent   | -53           | 329                      | -1,472                   | 421                      | -1,369                   |
| Minority interest  | 3             | 3                        | 2                        | 2                        | -37                      |
| <b>Earnings per share:</b>   |               |                          |                          |                          |                          |
| Continuing and discontinued operations   |               |                          |                          |                          |                          |
| Basic  | -0.06         | 0.33                     | -1.44                    | 0.41                     | -1.34                    |
| Diluted  | -0.06         | 0.32                     | -1.44                    | 0.41                     | -1.34                    |
| Continuing operations  |               |                          |                          |                          |                          |
| Basic  | 0.10          | 0.34                     | -0.98                    | 0.41                     | -1.34                    |
| Diluted  | 0.10          | 0.33                     | -0.98                    | 0.41                     | -1.34                    |

<sup>a)</sup> Certain reclassifications of the comparison periods were done during the fourth quarter of 2005. The largest reclassifications pertain to transaction costs for card transactions in SkandiaBanken and risk charges. The reclassifications have affected the following lines: fee income, change in deferred fee income and fee income receivable, net premiums earned, other income, commission expenses and administrative expenses.

## Per-share data <sup>1)</sup>

|  | 2005    | 2004    |
|--|---------|---------|
|  | 12 mos. | 12 mos. |
| Result of operations per share (EV) before dilution, SEK     | 3.64    | 1.11    |
| Earnings per share before dilution (IFRS), SEK <sup>2)</sup> | -0.13   | -0.57   |
| Earnings per share after dilution (IFRS), SEK <sup>2)</sup>  | -0.13   | -0.57   |
| Shareholders' equity per share (IFRS), SEK                   | 11.98   | 12.51   |
| Net asset value per share (EV), SEK                          | 34.92   | 29.44   |
| Average share price, SEK                                     | 39.84   | 29.77   |
| Closing share price, SEK                                     | 47.60   | 33.10   |

## Key ratios, IFRS <sup>1)</sup>

|   | 2005    | 2004    |
|---|---------|---------|
|   | 12 mos. | 12 mos. |
| Return on shareholders' equity (IFRS), %            | -1      | -4      |
| Return on capital employed (IFRS), %                | 0       | -3      |
| Debt-equity ratio, %                                | 18      | 21      |
| Fixed charge cover, %                               | 7       | 1       |
| Equity ratio, %                                     | 11      | 13      |
| Underlying return on shareholders' equity (IFRS), % | 11      | 5       |
| Underlying return on capital employed (IFRS), %     | 9       | 4       |

## Key ratios, embedded value method <sup>1)</sup>

|   | 2005    | 2004    |
|---|---------|---------|
|   | 12 mos. | 12 mos. |
| Present value of new business, unit linked, SEK million               | 2,131   | 1,870   |
| Growth in present value of new business, unit linked, % <sup>3)</sup> | 14      | 11      |
| Profit margin new sales, unit linked, %                               | 18.6    | 18.8    |
| Operational return on capital employed (EV), %                        | 8       | 3       |
| Operational return on net asset value (EV), %                         | 8       | 3       |
| Return on net asset value (EV), %                                     | 16      | 3       |
| Underlying operational return on capital employed (EV), %             | 9       | 7       |
| Underlying operational return on net asset value (EV), %              | 9       | 7       |
| Underlying return on net asset value (EV), %                          | 18      | 9       |

## Solvency <sup>1)</sup>

|                 | Parent company |         | Group   |         |
|-----------------|----------------|---------|---------|---------|
|                 | 2005           | 2004    | 2005    | 2004    |
| SEK billion     | 31 Dec.        | 31 Dec. | 31 Dec. | 31 Dec. |
| Capital base    | 12.0           | 7.7     | 12.8    | 20.5    |
| Solvency margin | 1.0            | 0.6     | 3.3     | 3.5     |

<sup>1)</sup> For definitions, see page 30.

<sup>2)</sup> Key ratios are calculated excluding discontinued operations.

<sup>3)</sup> Growth in the present value of new business for 12 months 2005 includes a positive one-time effect of SEK 200 million from the German operation.

## B. RESULTS PER BUSINESS SEGMENT

---

### Result according to IFRS

#### Unit linked assurance

Profit before tax increased to SEK 1,894 million (860). The improvement can be credited to continued large gains in the most important revenue stream – customer fees, at the same time that administrative expenses have been kept under control. Revenues in the form of fees – both premium- and fund-based – rose 26%, to SEK 8,666 million (6,881). All divisions are contributing to the increase in both premium- and fund-based revenues. The largest rise in fee revenue, 40%, was noted in the Europe & Latin America division.

In association with the 15% rise in new sales, commission expenses also rose. These amounted to SEK -5,517 million (-5,029), an increase of 10%. Administrative expenses rose 7%, to SEK -3,301 million (-3,094). In relation to average funds under management, administrative expenses decreased to 0.9% (1.2%).

An improved result for the risk component of unit linked assurance business also contributed to the result improvement.

#### Mutual funds

A continued result improvement was reported for mutual fund business compared with a year earlier. The result before tax was SEK 8 million (-122). Revenues – mainly in the form of fund-based fees – increased by slightly more than 50%, to SEK 2,324 million (1,532). Funds under management, which make up the revenue base, increased. Commission expenses rose 22%, to SEK -859 million (-701). Administrative expenses rose at a slower pace, by 13%, to SEK -1,071 million (-950). In relation to average funds under management for mutual fund business, administrative expenses decreased to 0.9% (1.2%).

The result improved in most businesses in pace with growth in the value of funds under management and the achievement of critical mass.

#### Life assurance

Life assurance premium revenue decreased to SEK 1,042 million (1,168). The decrease is mainly attributable to a major one-time business deal in Colombia during the fourth quarter of 2004. Investment income amounted to SEK 584 million (649). The decrease is mainly due to a drop in the value of bonds. The result before tax improved to SEK 3 million (-17). The preceding year's result was affected by reserve strengthening in Spain necessitated by changed assumptions. Assets under management rose slightly, to SEK 11,778 million (11,682).

#### Banking

Profit before tax was SEK 351 million (330). Excluding one-time items, profit improved by 51%, to SEK 318 million (210).

Profit for the preceding year was favourably affected in the amount of approximately SEK 120 million by a number of one-time items, consisting mainly of capitalisation of compensation for vehicle financing contracts of SEK 63 million and repayment of Value Added Tax in the amount of SEK 33 million. The result for 2005 was also affected by one-time items, consisting mainly of a capital gain of SEK 23 million from the sale of 49% of the shares in Lärarfonder AB.

Operating revenues in the banking operation amounted to SEK 1,547 million (1,466). Excluding one-time items, operating revenues improved by 29%. The increase can be credited primarily to higher net interest income stemming from higher business volumes.

Costs excluding loan losses rose 4%, to SEK -1,175 million (-1,125). The increase is mainly attributable to higher costs for IT and marketing. Loan losses totalled SEK -21 million (-11). Adjusted for one-time effects in 2004, the increase was SEK 2 million. The share of net doubtful debts in relation to lending volume was 0.07%, compared with 0.08% as per 31 December 2004.

Lending to the general public totalled SEK 41.3 billion, which is an increase of SEK 6.0 billion over the preceding year (17%). Deposits amounted to SEK 45.5 billion, an increase of SEK 5.0 billion compared with the preceding year (12%). SkandiaBanken's customer base increased by 7% during the year, to 867,000.

#### Other businesses

The "Other businesses" segment includes Bankhall and the Private Healthcare & Group business in the Nordic division. Bankhall reported an operating loss of SEK -149 million (-58), mainly due to restructuring costs. In addition, the result was affected by the SEK -1,135 million (-1,072) write-down of goodwill. For further commentary on Bankhall, see the UK, Asia Pacific & Offshore section.

Profit for Skandia's Private Healthcare & Group business improved to SEK 56 million (-34). For comments, see the Nordic section.

## Joint functions

Joint functions include joint-group expenses, costs for the divisions that are not distributed among the product segments, and the joint-group financial result. The group's administrative expenses, excluding a provision for Value Added Tax, decreased to SEK -382 million (-591). During the fourth quarter, the reserve for special payroll tax was dissolved in the amount of SEK 40 million, which is associated with the recognition of actuarial gains on defined benefit pension plans. This dissolution had a positive effect on the group's management costs. Structural costs increased to SEK -489 million (-54), mainly due to costs associated with the bid process. The result for joint functions were positively affected during the year in the amount of approximately SEK 150 million, related to the distribution agreement with Skandia Liv. Currency effects had a negative result impact.

### Result before tax – Joint functions

|   | 2005        | 2004          | 2005        | 2004        |
|---|-------------|---------------|-------------|-------------|
| SEK million   | 12 mos.     | 12 mos.       | Q4          | Q4          |
| Joint-group management expenses                             | -533        | -591          | -39         | -145        |
| <i>of which provision for VAT</i>                           | <i>-151</i> | <i>-</i>      | <i>7</i>    | <i>-</i>    |
| Provision for restructuring costs joint-group               | 22          | -190          | 14          | -190        |
| Structural costs  | -489        | -54           | -268        | 24          |
| Joint functions in Sweden                                   | 194         | -190          | 100         | -89         |
| Provision for restructuring costs joint functions in Sweden | 5           | -67           | -1          | -67         |
| Joint-group financial result                                | -90         | 29            | -49         | -71         |
| <b>Total</b>  | <b>-891</b> | <b>-1 063</b> | <b>-243</b> | <b>-538</b> |

## Income Statement – business segments

|  | SEK million   | Unit linked<br>assurance |                 | Mutual funds    |                 | Life assurance  |                 | Banking         |                 | Other<br>businesses |                 | Joint functions |                 | Eliminations    |                 | Total           |                 |
|--|---|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
|  |   | 2005<br>12 mos.          | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. | 2005<br>12 mos.     | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. | 2005<br>12 mos. | 2004<br>12 mos. |
| According to IFRS                          | <b>REVENUE</b>  |                          |                 |                 |                 |                 |                 |                 |                 |                     |                 |                 |                 |                 |                 |                 |                 |
|  | Fee income  | 8,666                    | 6,881           | 2,324           | 1,532           | 54              | 54              | 419             | 376             |                     |                 | 780             | 479             | -251            | -201            | 11,992          | 9,121           |
|  | Change in deferred fee income and fee<br>income receivable                    | -1,350                   | -863            | -74             | -40             |                 |                 |                 |                 |                     |                 |                 |                 |                 |                 | -1,424          | -903            |
|  | Net premiums earned   | 1,533                    | 1,337           |                 |                 | 1,042           | 1,168           |                 |                 | 579                 | 534             |                 |                 |                 |                 | 3,154           | 3,039           |
|  | Net investment income   | 708                      | 589             | 112             | 78              | 584             | 649             | 31              | 8               | 48                  | 51              | 660             | 1,699           | -680            | -1,652          | 1,463           | 1,422           |
|  | Net interest income, banking  |                          |                 |                 |                 |                 |                 | 1,055           | 1,017           |                     |                 |                 |                 |                 |                 | 1,055           | 1,017           |
|  | Share of profit/loss of associates  |                          |                 |                 |                 | 3               | 0               |                 |                 |                     | -3              |                 |                 |                 |                 | 3               | -3              |
|  | Other income  | 13                       | 28              | 6               | 65              | 2               | 34              | 42              | 65              | 414                 | 461             | 38              | 73              |                 |                 | 515             | 726             |
|  | <b>Total revenue</b>  | <b>9,570</b>             | <b>7,972</b>    | <b>2,368</b>    | <b>1,635</b>    | <b>1,685</b>    | <b>1,905</b>    | <b>1,547</b>    | <b>1,466</b>    | <b>1,041</b>        | <b>1,043</b>    | <b>1,478</b>    | <b>2,251</b>    | <b>-931</b>     | <b>-1,853</b>   | <b>16,758</b>   | <b>14,419</b>   |
|  | <b>EXPENSES</b>   |                          |                 |                 |                 |                 |                 |                 |                 |                     |                 |                 |                 |                 |                 |                 |                 |
|  | Net claims incurred   | -981                     | -910            |                 |                 | -1,592          | -1,823          |                 |                 | -370                | -405            |                 |                 |                 |                 | -2,943          | -3,138          |
|  | Commission expenses   | -5,517                   | -5,029          | -859            | -701            | -43             | -43             | -76             | -46             | -35                 | -38             | 2               | 4               | 250             | 205             | -6,278          | -5,648          |
|  | Change in deferred acquisition costs (DAC)<br>and accrued commission expense  | 2,325                    | 2,378           | 69              | 38              |                 |                 |                 |                 | 1                   | 0               |                 |                 |                 |                 | 2,395           | 2,416           |
|  | Administrative expenses   | -3,301                   | -3,094          | -1,071          | -950            | -41             | -52             | -985            | -963            | -711                | -677            | -1,489          | -1,674          | -125            |                 | -7,723          | -7,410          |
|  | Other expenses  | -38                      | -211            | -488            | -136            | -4              | -2              | -21             | -11             |                     |                 |                 | -1              |                 |                 | -551            | -361            |
|  | Write-down of goodwill  |                          |                 |                 |                 |                 |                 |                 |                 | -1,135              | -1,092          |                 |                 |                 |                 | -1,135          | -1,092          |
|  | Interest expenses   | -164                     | -246            | -11             | -8              | -2              | -2              | -114            | -116            | -18                 | -6              | -882            | -1,643          | 806             | 1,648           | -385            | -373            |
|  | <b>Total expenses</b>   | <b>-7,676</b>            | <b>-7,112</b>   | <b>-2,360</b>   | <b>-1,757</b>   | <b>-1,682</b>   | <b>-1,922</b>   | <b>-1,196</b>   | <b>-1,136</b>   | <b>-2,268</b>       | <b>-2,218</b>   | <b>-2,369</b>   | <b>-3,314</b>   | <b>931</b>      | <b>1,853</b>    | <b>-16,620</b>  | <b>-15,606</b>  |
|  | <b>Result before tax <sup>1)</sup></b>  | <b>1,894</b>             | <b>860</b>      | <b>8</b>        | <b>-122</b>     | <b>3</b>        | <b>-17</b>      | <b>351</b>      | <b>330</b>      | <b>-1,227</b>       | <b>-1,175</b>   | <b>-891</b>     | <b>-1,063</b>   | <b>0</b>        | <b>0</b>        | <b>138</b>      | <b>-1,187</b>   |
| According to em-<br>bedded value<br>method | Change in surplus values of business in<br>force, including financial effects | 7,047                    | 3,020           |                 |                 | 45              | -71             |                 |                 |                     |                 |                 |                 |                 |                 | 7,092           | 2,949           |
|  | <b>Operating result</b>   | <b>8,941</b>             | <b>3,880</b>    | <b>8</b>        | <b>-122</b>     | <b>48</b>       | <b>-88</b>      | <b>351</b>      | <b>330</b>      | <b>-1,227</b>       | <b>-1,175</b>   | <b>-891</b>     | <b>-1,063</b>   | <b>0</b>        | <b>0</b>        | <b>7,230</b>    | <b>1,762</b>    |
|  | Financial effects   | -3,478                   | -700            |                 |                 | 7               | 31              |                 |                 |                     |                 |                 |                 |                 |                 | -3,471          | -669            |
|  | <b>Result of operations</b>   | <b>5,463</b>             | <b>3,180</b>    | <b>8</b>        | <b>-122</b>     | <b>55</b>       | <b>-57</b>      | <b>351</b>      | <b>330</b>      | <b>-1,227</b>       | <b>-1,175</b>   | <b>-891</b>     | <b>-1,063</b>   | <b>0</b>        | <b>0</b>        | <b>3,759</b>    | <b>1,093</b>    |

<sup>1)</sup> Excluding the result of discontinued operations, totalling SEK -645 million (834).



## Result according to embedded value method

The group's operating result (including the goodwill write-down) increased to SEK 7,230 million (1,762). Financial effects – mainly attributable to the Swedish operation, but also to the UK – had a favourable result impact in the amount of SEK 3,471 million (669). Financial effects refer to the effect on embedded value caused by the fact that changes in the financial markets differ from the underlying assumptions on fund growth and interest rates, and to changes in financial assumptions.

The group's result of operations (operating result excluding financial effects) was SEK 3,759 million (1,093). The underlying result of operations was SEK 4,495 million (3,204). The result of operations for unit linked assurance improved to SEK 5,463 million (3,180). The underlying operational return on net asset value was 9% (7%).

Trading analysis, unit linked assurance, according to the embedded value method

| SEK million   | 2005         | 2004         |
|---|--------------|--------------|
|   | 12 mos.      | 12 mos.      |
| Total annualised new sales <sup>1)</sup>                                | 11,460       | 9,951        |
| Present value of new business for the year                              | 2,131        | 1,870        |
| Return on value of contracts in force from previous years <sup>2)</sup> | 2,267        | 2,114        |
| Outcome compared with operative assumptions                             | -178         | -382         |
| Change in operative assumptions   | 1,312        | -295         |
| <b>Value-added from operations</b>                                      | <b>5,532</b> | <b>3,307</b> |
| Business start-ups and other overheads <sup>3)</sup>                    | -77          | -80          |
| Restructuring costs   | 8            | -47          |
| <b>Result of operations, unit linked assurance</b>                      | <b>5,463</b> | <b>3,180</b> |
| Financial effects <sup>4)</sup>   | 3,478        | 700          |
| <b>Operating result, unit linked assurance</b>                          | <b>8,941</b> | <b>3,880</b> |
| <b>Profit margin, new sales <sup>5)</sup></b>                           | <b>18.6%</b> | <b>18.8%</b> |

<sup>1)</sup> Periodic premiums recalculated to full-year figures plus 1/10 of single premiums during the period.

<sup>2)</sup> Of which, financing costs SEK -61 million as per Dec. 2005 and SEK -41 million as per Dec. 2004.

<sup>3)</sup> Value of business in force (VBIF) is not calculated on Business start-ups and other overheads.

<sup>4)</sup> The effect on embedded value attributable to the fact that the change in the financial markets differs from the assumptions on fund growth and interest rate levels.

<sup>5)</sup> Present value of new business for the year in relation to total annualised new sales.

## Trading analysis, unit linked assurance

### Operating result

The operating result was SEK 8,941 million (3,880). The stock market trend – primarily in Sweden and the UK – contributed to a strong increase in financial effects during the year, which totalled SEK 3,478 million (700).

### Result of operations

The result of operations, which consists of the operating result excluding financial effects for unit linked assurance, increased to SEK 5,463 million (3,180). The Nordic division and Europe & Latin America division contributed to the increase, while the result of operations for the UK, Asia Pacific & Offshore division decreased slightly compared with the preceding year.

The result of operations for the fourth quarter amounted to SEK 2,094 million, compared with SEK 469 million in the same quarter a year ago.

The result of operations consists primarily of the following components:

### Present value of new business for the period

The present value of new business (VNB) increased to SEK 2,131 million (1,870). VNB for the fourth quarter was SEK 544 million, compared with SEK 642 million in the same quarter a year ago. As previously disclosed, the value of new business and the profit margin in the fourth quarter of 2004 were strongly affected by the exceptional demand in Germany.

VNB for the first quarter of 2005 also experienced a positive one-time effect, totalling approximately SEK 200 million, from strong new sales in Germany in late 2004/early 2005. Changed market conditions in Germany led to a sharp decline in VNB during the second quarter in Germany. A recovery took place during the third and fourth quarters in Germany. The increase in Germany during the fourth quarter is partly attributable to premium increases on previously sold regular-premium contracts. This recovery, together with favourable development in other European countries, led to an increase in VNB for the Europe & Latin America division during the fourth quarter compared with the third quarter.

VNB for the Nordic division increased by 45%, to SEK 565 million, compared with SEK 391 million a year ago. This was due in part to the increase in new sales. In the UK, Asia Pacific & Offshore division, Royal Skandia made the largest contribution to VNB, which rose by a total of 37%, to SEK 935 million (684).

### Profit margin, new sales

The calculated profit margin was 18.6%, compared with 18.8% for the preceding year. The narrowing is attributable to a decline for the Europe & Latin America division, stemming from the exceptional demand in Germany. The profit margin compared with last year improved, notably in the Nordic division but also in the UK, Asia Pacific & Offshore division. The profit margin for the Nordic division was down during the fourth quarter compared with previous quarters, mainly due to a changed product mix and slightly higher costs.

The profit margin recalculated to new assumptions as per 31 December 2005 was 18.0%. In this calculation, an adjustment of SEK 61 million has been made for VNB in the UK, pertaining to premium increases on regular-premium contracts. Previously this was included in both the present value of new business and the surplus value of business in force.

During the fourth quarter, the profit margin for the group narrowed to 18.7%, compared with 21.8% for the same quarter a year ago. The profit margin for the Europe & Latin America division was affected by a sharp change in market conditions in Germany, which had an adverse effect on VNB in 2005. This sharp market decline was not fully anticipated in the planning process that was updated in May 2005. Thus the profit margin of 21% according to plan for 2005, which was published on 19 October, was over-estimated.

### Return on value of contracts in force from previous years

The surplus value of unit linked assurance consists of discounted values of anticipated future cash flows from in-force contracts. The present value of in-force contracts thereby increases by one year's interest. This amount also includes the return on investments pertaining to unit linked assurance, which increased compared with a year ago. The total return increased to SEK 2,267 million (2,114).

### Outcome compared with operative assumptions

The outcome compared with operative assumptions was negative, but improved to SEK -178 million (-382). Policy lapses to paid-up status in the Swedish market slowed significantly during the year. A new product offering, including the "kapitalpension" product in Sweden and new pension products in the UK, has partly offset the negative effect of surrenders stemming from changed market conditions or changes in legislation. Higher retrocessions from fund companies also helped offset the effect of surrenders.

### Change in operative assumptions

As usual, adjustments of operative assumptions have been made in connection with the year-end book-closing. Changes made in assumptions are based on best-estimate in accordance with guidelines for European Embedded Value (EEV). Best estimate assumptions are intended to be set such that the probability of better performance is the same as the probability of worse performance. In a press release on 15 September 2005, Skandia's board published "Non-public information provided to Old Mutual in the due diligence process". The report indicated a number of potential value sources worth SEK 2.8 billion in the aggregate, in addition to amounts already included in Skandia's embedded value reporting. These consisted of: increased retrocessions from fund companies, SEK 1.4 billion; lower surrender rate, SEK 0.7 billion; positive effects from contract longevity after initiated disbursements upon retirement, SEK 0.6 billion; and other, SEK 0.1 billion.

The changes in assumptions for 2005 amounted to a combined total of SEK 1,312 million (-295). These adjustments are mainly attributable to the Nordic division, in the amount of SEK 825 million, and the Europe & Latin America division, in the amount of SEK 520 million. Adjustments in the UK, Asia Pacific & Offshore division amounted to SEK -33 million. In the UK, assumptions pertaining to retrocessions and surrenders were more conservative than "best estimates".

Retrocessions from fund companies have increased. This has resulted in changed assumptions totalling SEK 1,196 million, primarily in Sweden, but also in the UK, Germany and Austria.

Changed assumptions pertaining to surrenders and paid-ups amounted to SEK 14 million. Changed assumptions on surrenders in the UK and Royal Skandia were negative in the amount of SEK -444 million, mainly due to an increase in surrenders in connection with the changed pension legislation in the UK. In Germany and Austria, model improvements have been made with respect to assumptions on paid-up policies and repurchases, giving rise to a positive effect of SEK 468 million.

Changed assumptions on mortality risks, mainly in the UK, Asia Pacific & Offshore division, made a positive contribution of SEK 269 million.

Other changes in assumptions, mainly pertaining to the fee structure, had a negative effect in the amount of SEK -178 million. These include changes in assumptions on contract longevity after disbursements have commenced upon retirement and the opportunity to keep contracts active with Skandia after retirement. These changes affected the result for Sweden positively in the amount of SEK 535 million. This change corresponds to the effect of SEK 0.6 billion that was disclosed on 15 September 2005. In addition, the result was charged with a net cost of SEK -780 million mainly pertaining to a change in the fee structure in Sweden and Germany.

### Change in operative assumptions, per business segment

|                         | 2005         | 2004                 | 2005         | 2004                 |
|-------------------------|--------------|----------------------|--------------|----------------------|
| SEK million             | 12 mos.      | 12 mos.              | Q4           | Q4                   |
| Surrenders and paid-ups | 14           | -688                 | -150         | -650                 |
| Mortality               | 269          | 222                  | 269          | 222                  |
| Maintenance expenses    | 11           | 148                  | 11           | 175                  |
| Retrocessions           | 1 196        | 1 108                | 1,074        | 866                  |
| Other                   | -178         | -1,085 <sup>1)</sup> | -143         | -1,117 <sup>1)</sup> |
| <b>Total</b>            | <b>1,312</b> | <b>-295</b>          | <b>1,061</b> | <b>-504</b>          |

<sup>1)</sup> Of which the majority pertains to changes in fee structure, premium reductions and a new administration agreement with Skandia Liv in the Nordic division.

### Change in operative assumptions, per division

|                             | 2005         | 2004        | 2005         | 2004        |
|-----------------------------|--------------|-------------|--------------|-------------|
| SEK million                 | 12 mos.      | 12 mos.     | Q4           | Q4          |
| UK, Asia Pacific & Offshore | -33          | 165         | -28          | 67          |
| Europe & Latin America      | 520          | -34         | 338          | -98         |
| Nordic                      | 825          | -426        | 751          | -473        |
| <b>Total</b>                | <b>1,312</b> | <b>-295</b> | <b>1,061</b> | <b>-504</b> |

### Life assurance

The result of operations according to the embedded value method was SEK 55 million (-57).

## C. RESULTS PER DIVISION

### UK, Asia Pacific & Offshore division

The UK, Asia Pacific & Offshore division includes Skandia's operations in the UK, Royal Skandia, Ireland, Switzerland<sup>1</sup>, Liechtenstein<sup>1</sup>, Australia and China. The unit linked businesses in Norway and Finland are conducted as branches of Skandia UK.

#### Results – UK, Asia Pacific & Offshore

| SEK million                    | According to IFRS |                 | According to the embedded value method |                 |                                |                 |
|--------------------------------|-------------------|-----------------|--|-----------------|--------------------------------|-----------------|
|                                | Result before tax |                 | Result of operations <sup>1)</sup>     |                 | Operating result <sup>1)</sup> |                 |
|                                | 2005<br>12 mos.   | 2004<br>12 mos. | 2005<br>12 mos.                        | 2004<br>12 mos. | 2005<br>12 mos.                | 2004<br>12 mos. |
| Unit linked assurance          | 889               | 489             | 1,816                                  | 1,891           | 3,325                          | 2,281           |
| Mutual funds                   | 5                 | -93             | 5                                      | -93             | 5                              | -93             |
| Life assurance                 |                   |                 |  |                 |                                |                 |
| Banking                        |                   |                 |  |                 |                                |                 |
| Other businesses <sup>2)</sup> | -1,284            | -1,130          | -1,284                                 | -1,130          | -1,284                         | -1,130          |
| Joint functions                |                   |                 |  |                 |                                |                 |
| <b>Total</b>                   | <b>-390</b>       | <b>-734</b>     | <b>537</b>                             | <b>668</b>      | <b>2,046</b>                   | <b>1,058</b>    |

1) For definitions, see page 30.

2) Includes a write-down of goodwill in Bankhall, totalling SEK -1,135 million (-1,072) as per Dec. 2005.

#### Key ratios <sup>1)</sup> – UK, Asia Pacific & Offshore

|   | 2005<br>12 mos. | 2004<br>12 mos. |
|---|-----------------|-----------------|
| Premiums and deposits, SEK million                      | 81,275          | 65,087          |
| New sales, unit linked, SEK million                     | 7,358           | 5,981           |
| Present value of new business, unit linked, SEK million | 935             | 684             |
| Growth in present value of new business, unit linked, % | 37              | 39              |
| Profit margin new sales, unit linked, %                 | 12.7            | 11.4            |
| Capital employed (IFRS), SEK million                    | 8,861           | 8,060           |
| Return on capital employed (IFRS), %                    | -4              | -4              |
| Capital employed (EV), SEK million                      | 17,827          | 15,043          |
| Operational return on capital employed (EV), %          | 3               | 3               |
| Funds under management, SEK billion                     | 392             | 270             |

1) For definitions, see page 30.

#### Products and markets

Premiums and deposits amounted to SEK 81,275 million (65,087) in 2005, an increase of 23% in local currency. Of this, unit linked assurance accounted for SEK 62,321 million (47,853) and mutual funds for SEK 18,954 million (17,234).

New sales of unit linked assurance rose 22% in local currency in 2005, to SEK 7,358 million (5,981). Skandia's new sales continued to outperform the industry, and the market share in the UK during the third quarter of 2005 reached 5.6%.

In the UK, 2005 was characterised by strong sales of pension products that had been developed ahead of forthcoming reforms in the pensions market in 2006. New sales of pension products rose 36% in local currency compared with a year ago.

The UK Group's offshore arm, Royal Skandia, raised its new sales by 31% in local currency in 2005. This growth was driven by strong sales of single-premium investments, particularly in the UK, where they are used for tax planning. Sales were also bolstered by strong support from private client banks, especially in the UK and the Middle East. However, compared with the third quarter, sales during the fourth quarter declined due to the uneven pattern of sales through private banking channels, coupled with price refinements of certain regular-premium contracts designed to improve margins and the use of capital.

New sales in Switzerland, which received a boost from sales of the "kapitalpension" product, rose 77% in local currency.

Mutual fund deposits in the UK rose 15% in local currency. The greater inflow of mutual fund business in the UK can be credited to rising demand for multi-manager solutions and the recent upturn in equity markets, which have raised investor confidence. In Australia, deposits decreased slightly in local currency.

#### Result according to IFRS

Profit before tax, excluding the goodwill write-down of Bankhall in 2005 and 2004, improved to SEK 745 million (338), despite restructuring costs for Bankhall. The result improvement is mainly attributable to a rise in fund-based fees, as assets under management increased as a result of rising inflows and strong equity markets. At the same time, administrative expenses rose by 12%. The return on capital employed for the division was 9% (9%) excluding the write-down of Bankhall goodwill and -4% (-4%) including the write-down of Bankhall goodwill.

Bankhall's result was SEK -149 million (-58) before the goodwill write-down. Bankhall's result for the year was charged with SEK -97 million in restructuring costs from the third quarter. The result for continuing operations is developing according to plan for the valuation that formed the base of goodwill on the balance sheet.

The result for mutual fund businesses changed from a loss of SEK -93 million in 2004 to a profit of SEK 5 million. The greatest improvement took place in the UK, where Skandia's offering of funds from several fund companies, along with the company's own fund selection – some with tax advantages – was successful in 2005. The result for mutual fund business in Australia is still negative, although it has improved.

<sup>1</sup> Switzerland and Liechtenstein are included in the 2005 and 2004 result for the division. They are a part of the Europe & Latin America division with financial impact starting on 1 January 2006.

### Result according to the embedded value method

The operating result for unit linked assurance increased to SEK 3,325 million (2,281), of which financial effects accounted for SEK 1,509 million (390). The result of operations decreased slightly, to SEK 1,816 million (1,891), while the profit margin increased to 12.7% (11.4%). VNB increased by SEK 251 million, and the return on the value of in-force contracts increased by SEK 129 million. These positive effects were offset by negative effects compared with operative assumptions and changes in operative assumptions. This is mainly related to costs for retroactive corrections of policyholder fees and surrenders costs, notably in the pension area. The regulatory changes in the UK are leading to reallocations of policyholder savings. The operational return on capital employed according to the embedded value method was 7% (8%) excluding the goodwill write-down and 3% (3%) including the write-down of goodwill.

## Europe & Latin America division

The Europe & Latin America division includes the operations in Spain, Italy, Germany, Austria, France, Portugal, Poland, Mexico, Colombia, Chile and Global Funds.

### Results – Europe & Latin America

| SEK million           | According to IFRS |                 | According to the embedded value-method |                 |                                |                 |
|-----------------------|-------------------|-----------------|--|-----------------|--------------------------------|-----------------|
|                       | Result before tax |                 | Result of operations <sup>1)</sup>     |                 | Operating result <sup>1)</sup> |                 |
|                       | 2005<br>12 mos.   | 2004<br>12 mos. | 2005<br>12 mos.                        | 2004<br>12 mos. | 2005<br>12 mos.                | 2004<br>12 mos. |
| Unit linked assurance | 383               | -34             | 1,737                                  | 1,005           | 1,992                          | 1,057           |
| Mutual funds          | -38               | -96             | -38                                    | -96             | -38                            | -96             |
| Life assurance        | -1                | -19             | 51                                     | -59             | 44                             | -90             |
| Banking               |                   |                 |  |                 |                                |                 |
| Other businesses      |                   |                 |  |                 |                                |                 |
| Joint functions       |                   |                 |  |                 |                                |                 |
| <b>Total</b>          | <b>344</b>        | <b>-149</b>     | <b>1,750</b>                           | <b>850</b>      | <b>1,998</b>                   | <b>871</b>      |

1) For definitions, see page 30.

### Key ratios <sup>1)</sup> – Europe & Latin America

|   | 2005<br>12 mos. | 2004<br>12 mos. |
|---|-----------------|-----------------|
| Premiums and deposits, SEK million                                    | 31,582          | 21,291          |
| New sales, unit linked, SEK million                                   | 2,025           | 2,213           |
| Present value of new business, unit linked, SEK million               | 631             | 795             |
| Growth in present value of new business, unit linked, % <sup>2)</sup> | -21             | 31              |
| Profit margin new sales, unit linked, %                               | 31.2            | 35.9            |
| Capital employed (IFRS), SEK million                                  | 2,848           | 3,190           |
| Return on capital employed (IFRS), %                                  | 6               | -4              |
| Capital employed (EV), SEK million                                    | 7,074           | 6,206           |
| Operational return on capital employed (EV), %                        | 19              | 10              |
| Funds under management, SEK billion                                   | 83              | 56              |

1) For definitions, see page 30.

2) Growth in the present value of new business for 12 months 2005 includes a positive one-time effect of SEK 200 million.

### Products and markets

Premiums and deposits totalled SEK 31,582 million (21,291), an increase of 42% in local currency compared with a year ago. Unit linked premiums and deposits rose 37% in local currency, to SEK 14,358 million (10,264). New sales of unit linked assurance amounted to SEK 2,025 million (2,213). The decrease is attributable to the previously mentioned exceptional demand in Germany in December 2004. New sales excluding Germany rose 33% in Swedish kronor compared with a year ago.

In France, the successes in unit linked assurance continued, and new sales more than doubled compared with a year ago. In Germany, the trend from the third quarter continued, with the company showing a continued recovery in new sales. Part of this increase in new sales is due to annual premium increases for previously sold contracts with regular-premium payments. Also, unit linked premiums in Germany continued to develop favourably and rose 29% in local currency during the year. New sales of unit linked assurance in Italy rose 29% in local currency. Poland also showed favourable development, and new sales rose 53% in local currency.

Mutual fund deposits rose 54% in local currency during the year, to SEK 15,166 million (9,236), which was largely attributable to Spain and Colombia. Mutual fund deposits in Spain increased by 87% in local currency during the year, thanks to new distributors. The anticipated slowdown in Spain during the fourth quarter did not materialise, however, the outlook is still that the exceptional growth in recent quarters will level off.

### Result according to IFRS

Profit before tax amounted to SEK 344 million (-149), which is a substantial improvement compared with a year earlier. The strong performance in 2005 can be credited to the division's control of administrative expenses, which increased by only 1% in 2005, combined with a significant rise in premiums and deposits. The German operation improved its result considerably, partly due to a positive effect from a deferral of acquisition costs attributable to the high level of new sales in late

2004/early 2005. Several other markets, such as Italy, Austria, Spain and Poland also showed significant improvements compared with 2004. Skandia Global Funds also improved its result during the year, which was positive during the fourth quarter.

During the year, the division showed a positive cash flow, which was used to reduce capital employed, mainly through the repayment of loans. This, combined with the favourable result performance, led to an increase in the return on capital employed, from -4% in 2004 to 6% in 2005.

### Result according to the embedded value method

The result of operations amounted to SEK 1,750 million (850), an increase of 106%. Changes in operative assumptions and the operative outcome compared with assumptions affected the result favourably in the amount of SEK 702 million (-140). Roughly half of this positive effect is attributable to changes in operative assumptions that were made in Germany during the fourth quarter. These changes consist primarily of reduced cost assumptions per contract and model improvements pertaining to calculations of surrenders and paid-up policies. As previously reported, significant changes were made in assumptions, with positive effects in Austria during the second quarter. The operating result for unit linked assurance in 2005 rose 89% to SEK 1,992 million (1,057), of which financial effects accounted for SEK 255 million (52).

The value of new business was exceptionally strong during the first quarter due to strong new sales in Germany in late 2004/early 2005 in connection with the German pension reform. The German market thereafter entered into a transitional phase, which had a negative impact on Skandia's new sales while at the same time resulting in a sharply lower contribution of value of new business. The division's value of new business for unit linked assurance decreased by 21% for the full year 2005. However, excluding Germany, the division instead showed a significant increase, which explains the strong growth in the division's other markets, especially Italy,

France and Poland. After hitting a low point during the second quarter, the division's value of new business developed in a positive direction. This is due in large part to the recovery in Germany, but also to the positive trend in other markets. The profit margin for the German unit linked assurance operation performed well also during the final quarter of the year and more than doubled compared with the third quarter. Continued good cost control and an increase in new business volume were the main factors behind the improvement. At the divisional level, the profit margin for unit linked assurance business improved to 30% during the fourth quarter, compared with 25% in the third quarter. The division's profit margin for unit linked assurance was 31% for the full year 2005.

The operational return on capital employed after tax according to the embedded value method was 19% in 2005, compared with 10% in 2004. The higher return is mainly attributable to positive changes in assumptions and the effect of the exceptional demand in Germany.



## Nordic division

The Nordic division includes the operations in Sweden and Denmark, as well as SkandiaBanken's operations in Sweden, Norway and Denmark.

### Results – Nordic

| SEK million           | According to IFRS |                 | According to the embedded value-method |                 |                                |                 |
|-----------------------|-------------------|-----------------|--|-----------------|--------------------------------|-----------------|
|                       | Result before tax |                 | Result of operations <sup>1)</sup>     |                 | Operating result <sup>1)</sup> |                 |
|                       | 2005<br>12 mos.   | 2004<br>12 mos. | 2005<br>12 mos.                        | 2004<br>12 mos. | 2005<br>12 mos.                | 2004<br>12 mos. |
| Unit linked assurance | 593               | 385             | 1 881                                  | 264             | 3 595                          | 522             |
| Mutual funds          | 41                | 67              | 41                                     | 67              | 41                             | 67              |
| Life assurance        | 1                 | 2               | 1                                      | 2               | 1                              | 2               |
| Banking               | 351               | 330             | 351                                    | 330             | 351                            | 330             |
| Other businesses      | 59                | -32             | 59                                     | -32             | 59                             | -32             |
| Joint functions       | 199               | -257            | 199                                    | -257            | 199                            | -257            |
| <b>Total</b>          | <b>1 244</b>      | <b>495</b>      | <b>2 532</b>                           | <b>374</b>      | <b>4 246</b>                   | <b>632</b>      |

<sup>1)</sup> For definitions, see page 30.

### Products and markets

Premiums and deposits for the Nordic division (excluding Skandia Liv) amounted to SEK 14,700 million (11,653), an increase of 26% in local currency. Unit linked premiums increased by 29% in local currency, to SEK 11,334 million (8,746).

In Sweden, new sales of unit linked assurance rose 18% during the year compared with 2004. New sales in Sweden during the fourth quarter alone totalled SEK 560 million (443), an increase of 26% compared with the corresponding period in 2004. New sales in the Corporate clients segment rose 6% during the fourth quarter compared with the same quarter a year ago, and in the Private clients segment the increase was 107%. New sales of "kapitalpension" products totalled SEK 327 million for the year.

Unit linked assurance continued to strengthen its position in the market. The market share increased for the third consecutive quarter on a moving twelve-month basis.

In Denmark, a newly introduced unit linked assurance product, "Skandia Match", was well received by the market.

Mutual fund deposits increased by 18% during the year.

In the Nordic Private Healthcare & Group business unit (included in Other businesses), premiums totalled SEK 589 million (552), an increase of 7%.

SkandiaBanken showed continued growth in new credits compared with a year earlier. For comments on SkandiaBanken, see page 12.

### Result according to IFRS

Profit before tax improved strongly to SEK 1,244 million (495). Unit linked assurance and Private Healthcare & Group insurance accounted for the largest result improvements.

The result for unit linked assurance increased by over 50%, to SEK 593 million (385). Fund-based revenues rose in pace with good growth in the underlying funds. The risk result for unit linked assurance business in Swe-

### Key ratios <sup>1)</sup> – Nordic

|   | 2005<br>12 mos. | 2004<br>12 mos. |
|---|-----------------|-----------------|
| Premiums and deposits, SEK million                      | 14 700          | 11 653          |
| New sales, unit linked, SEK million                     | 2 077           | 1 757           |
| Present value of new business, unit linked, SEK million | 565             | 391             |
| Growth in present value of new business, unit linked, % | 45              | -35             |
| Profit margin new sales, unit linked, %                 | 27,2            | 22,3            |
| Capital employed (IFRS), SEK million                    | 5 698           | 4 698           |
| Return on capital employed (IFRS), %                    | 19              | 8               |
| Capital employed (EV), SEK million                      | 16 019          | 12 040          |
| Oper. return on capital employed (EV), %                | 13              | 2               |
| Funds under management, SEK billion                     | 91              | 67              |

<sup>1)</sup> For definitions, see page 30.

den also improved, to SEK 122 million (8), in pace with fewer disability claims.

The result for Private Healthcare & Group business improved to SEK 56 million (-34) as a result of higher private healthcare premium income, an improved investment result and the partial dissolution of a reserve for group insurance business attributable to the Tsunami disaster. This dissolution amounted to SEK 22 million.

The division's return on capital employed improved to 19% (8%).

The result for joint functions were positively affected during the fourth quarter in the amount of approximately SEK 150 million, related to the distribution agreement with Skandia Liv.

### Result according to embedded value method

The operating result for unit linked assurance was SEK 3,595 million (522), of which financial effects accounted for SEK 1,714 million (258). The result of operations for unit linked assurance increased to SEK 1,881 million (264). Changes in operative assumptions made a positive contribution of SEK 825 million in 2005 and SEK -426 million in 2004.

The present value of new business for the period rose as result of higher new sales and the profitability-improvement measures that were taken in the Swedish operation. The present value of new business thereby increased from SEK 391 million in 2004, to SEK 565 million in 2005. The profit margin rose sharply between the two years, to 27% (22%).

The result was adversely affected during the year by an increase in surrenders attributable to the change in inheritance and gift taxation, but most of all by a shift in savings to "kapitalpension" products. Policy lapses to paid-up status also affected the outcome compared with assumptions in the embedded value calculation; however, paid-ups and surrenders decreased during the second half of the year, leading to an outcome that was clearly under the rather conservative assumptions that were made for 2005.

## Group functions

Group functions include joint-group expenses, the joint-group financial result and undistributed results from the business segments. The group's administrative expenses, excluding the provision for VAT, decreased to SEK -382 million, compared with SEK -591 million a year ago. For comments on structural costs and the joint-group financial result, see page 13.

## Result before tax – Group functions

|   | 2005          | 2004        | 2005        | 2004        |
|---|---------------|-------------|-------------|-------------|
| SEK million                                   | 12 mos.       | 12 mos.     | Q4          | Q4          |
| Joint-group management expenses               | -533          | -591        | -39         | -145        |
| <i>of which provision for VAT</i>             | -151          | -           | 7           | -           |
| Provision for joint-group restructuring costs | 22            | -190        | 14          | -190        |
| Structural costs                              | -489          | -54         | -268        | 24          |
| Unallocated result, business segments         | 30            | 7           | 24          | -4          |
| Joint-group financial result                  | -90           | 29          | -49         | -71         |
| <b>Total</b>                                  | <b>-1,060</b> | <b>-799</b> | <b>-318</b> | <b>-386</b> |

\*\*\*\*\*

Stockholm, 21 February 2006  
Hans-Erik Andersson  
President and CEO

\*\*\*\*\*

The Board of Directors proposes a dividend of SEK 0.40 (0.35) for the 2005 financial year, and 3 May 2006 as the record date for payment of the dividend. Provided that the Annual General Meeting votes in favour of the proposal, dividends are expected to be sent from VPC AB on 8 May 2006.

The Annual General Meeting of Skandia Insurance Company Ltd (publ.) will be held on Thursday, 27 April 2006, in Stockholm.

An Extraordinary General Meeting of Skandia Insurance Company Ltd (publ.) will be held at 4.30 p.m. on Tuesday 21 February 2006 with the purpose of electing a new Board.

The Annual Report is expected to be distributed by post to shareholders at the end of March/early April and will be available upon request from Skandia, tel. +46-8-788 1000, fax +46-8-788 3080, or from Skandia's website at: <http://www.skandia.com>.

## Review Report (direct translation of the Swedish Review Report)

We have reviewed the year-end report of Skandia Insurance Company Ltd (publ.) for the period January-December 2005. The year-end report is the responsibility of the Company's board of directors and president. Our responsibility is to issue a report on the year-end report based on our review.

Our review has been conducted in accordance with the recommendation issued by FAR (the institute for the accounting profession in Sweden). This recommendation requires that we plan and perform the review to obtain moderate assurance as to whether the year-end report is free from material misstatement. A review is limited primarily to inquiries of the company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the year-end report does not comply with the requirements of the Swedish Securities and Clearing Operations Act, the instructions and general guidelines of the Swedish Financial Supervisory Authority on annual accounts for insurance companies and IAS 34.

Stockholm, 21 February 2006

Svante Forsberg  
Authorised Public Accountant

Göran Engquist  
Authorised Public Accountant

Anders Engström  
Authorised Public Accountant  
Appointed by the Swedish  
Financial Supervisory Authority

**Skandia Insurance Company Ltd (publ)**  
Sveavägen 44  
SE-103 50 Stockholm  
Tel. +46-8-788 10 00  
[www.skandia.com](http://www.skandia.com)  
Public company (publ.), reg. no. 502017-3083

## D. OTHER TABLES

### CONSOLIDATED BALANCE SHEET

| SEK billion                                      | Note | 2005<br>31 Dec. | 2004<br>31 Dec. |
|--|------|-----------------|-----------------|
| <b>ASSETS</b>                                    |      |                 |                 |
| Intangible assets                                |      |                 |                 |
| Goodwill   |      | 0.6             | 1.6             |
| Other intangible assets                          |      | 0.1             | 0.2             |
| Reinsurers' share of insurance provisions        |      | 0.9             | 0.7             |
| Reinsurers' share of linked investment contracts |      | 0.2             | -               |
| Deposits held with cedents                       | 2    | 3.7             | 3.5             |
| Deferred acquisition costs                       | 1    | 19.3            | 16.3            |
| Deferred tax asset                               |      | 0.5             | 1.0             |
| Surplus in defined benefit pension plans         |      | 0.7             | 0.5             |
| Property and equipment                           |      | 0.5             | 0.5             |
| Investment properties                            | 2    | 0.0             | 0.0             |
| Loans and advances                               | 2    | 51.4            | 45.5            |
| Investments in associates                        | 2    | 0.1             | 0.1             |
| Other investments                                | 2    | 22.9            | 21.4            |
| Investments for the benefit of policyholders     |      | 422.8           | 295.5           |
| Assets, consolidated mutual funds                | 3    | 15.8            | 10.0            |
| Current tax asset                                |      | 0.4             | 0.4             |
| Other receivables                                |      | 4.0             | 3.7             |
| Other prepayments and accrued income             |      | 4.6             | 4.9             |
| Cash and bank                                    |      | 2.1             | 2.0             |
| <b>TOTAL ASSETS</b>                              |      | <b>550.6</b>    | <b>407.8</b>    |
| <b>EQUITY AND LIABILITIES</b>                    |      |                 |                 |
| Equity attributable to equity holders of parent  |      | 12.0            | 12.3            |
| Minority interest                                |      | 0.1             | 0.1             |
| <b>Total equity</b>                              |      | <b>12.1</b>     | <b>12.4</b>     |
| <b>Liabilities</b>                               |      |                 |                 |
| Subordinated loans                               | 4    | 0.8             | 0.8             |
| Insurance provisions                             | 5    | 16.6            | 15.5            |
| Liability for linked investment contracts        |      | 423.0           | 296.8           |
| Liabilities consolidated mutual funds            | 3    | 16.0            | 10.5            |
| Deposits received from reinsurers                |      | 0.1             | 0.1             |
| Provisions for pensions                          |      | 0.3             | 0.3             |
| Deferred tax liability                           |      | 3.0             | 1.9             |
| Deferred fee income                              | 6    | 16.6            | 14.7            |
| Other provisions                                 |      | 1.1             | 1.3             |
| Deposits and borrowings from the public          |      | 45.5            | 40.5            |
| Other interest bearing liabilities               | 4    | 3.3             | 3.9             |
| Current tax liabilities                          |      | 0.8             | 0.4             |
| Derivative liability                             |      | 0.2             | 0.3             |
| Other payables                                   |      | 7.8             | 5.8             |
| Other accruals and deferred income               |      | 3.4             | 2.6             |
| <b>TOTAL EQUITY AND LIABILITIES</b>              |      | <b>550.6</b>    | <b>407.8</b>    |

## NOTES TO THE BALANCE SHEET

| Note | SEK billion   | 2005<br>31 Dec. | 2004<br>31 Dec. |
|------|---|-----------------|-----------------|
| 1    | <b>Deferred acquisition costs (DAC)</b>   |                 |                 |
|      | <b>Opening balance</b>  | <b>16.3</b>     | <b>14.3</b>     |
|      | Capitalisation of acquisition costs   | 4.7             | 4.9             |
|      | Amortisation of deferred acquisition costs  | -2.6            | -2.3            |
|      | Deferred acquisition costs in divested companies  | -               | -0.5            |
|      | Impairment of deferred acquisition costs  | 0.0             | 0.0             |
|      | Exchange differences  | 0.9             | -0.1            |
|      | <b>Closing balances</b>   | <b>19.3</b>     | <b>16.3</b>     |
|      | Of which, unit linked assurance   | 18.6            | 15.7            |
|      | Of which, mutual funds  | 0.7             | 0.6             |
| 2    | <b>Investments</b>  |                 |                 |
|      | Unit linked assurance   | 13.0            | 10.4            |
|      | Mutual funds  | 0.4             | 0.3             |
|      | Life assurance  | 11.8            | 11.1            |
|      | Banking   | 50.2            | 44.5            |
|      | Other businesses and group functions  | 2.7             | 4.2             |
|      | <b>Total</b>  | <b>78.1</b>     | <b>70.5</b>     |
| 3    | Pertains to consolidation of funds in which the ownership exceeds 50%. For additional explanation, please refer to the accounting policies according to IFRS. |                 |                 |
| 4    | <b>Subordinated loans and other interest-bearing liabilities</b>  |                 |                 |
|      | Subordinated loans  | 0.8             | 0.8             |
|      | Bonds, non-banking  | 2.3             | 2.2             |
|      | Financial reinsurance   | 0.6             | 1.0             |
|      | <i>Financing</i>  | 3.7             | 4.0             |
|      | Bonds in bank   | 0.0             | 0.0             |
|      | Other financial liabilities   | 0.4             | 0.7             |
|      | <b>Total</b>  | <b>4.1</b>      | <b>4.7</b>      |
|      | <b>Change in bonds</b>  |                 |                 |
|      | <b>Opening balance</b>  | <b>2.2</b>      | <b>3.1</b>      |
|      | New debt issued   | 0.5             | 0.9             |
|      | Repurchases and maturities  | -0.4            | -1.8            |
|      | Currency conversion   | 0.0             | 0.0             |
|      | <b>Closing balances</b>   | <b>2.3</b>      | <b>2.2</b>      |
| 5    | <b>Insurance provisions</b>   |                 |                 |
|      | Unit linked assurance   | 4.0             | 3.1             |
|      | Life assurance  | 11.8            | 11.5            |
|      | Other businesses  | 0.8             | 0.9             |
|      | <b>Total</b>  | <b>16.6</b>     | <b>15.5</b>     |
| 6    | <b>Deferred fee income (DFI)</b>  |                 |                 |
|      | <b>Opening balance</b>  | <b>14.7</b>     | <b>13.0</b>     |
|      | Capitalisation of fees  | 3.6             | 4.2             |
|      | Amortisation of deferred fees   | -2.6            | -2.4            |
|      | Exchange differences  | 0.8             | -0.1            |
|      | <b>Closing balances</b>   | <b>16.6</b>     | <b>14.7</b>     |
|      | Of which, unit linked assurance   | 15.8            | 14.1            |
|      | Of which, mutual funds  | 0.8             | 0.6             |
| 7    | <b>Restructuring reserves (SEK million)</b>   |                 |                 |
|      | <b>Balance per 31 December 2003</b>   | <b>311</b>      |                 |
|      | Provision for restructuring costs   | 308             |                 |
|      | Utilisation of restructuring reserve  | -228            |                 |
|      | <b>Balance per 31 December 2004</b>   | <b>391</b>      |                 |
|      | Utilisation of restructuring reserve  | -203            |                 |
|      | Reversed provision  | -2              |                 |
|      | Reclassification  | -54             |                 |
|      | Exchange differences  | 4               |                 |
|      | <b>Balance per 31 December 2005</b>   | <b>136</b>      |                 |

| <b>CHANGE IN EQUITY</b>   |                |                |
|---|----------------|----------------|
|   | <b>2005</b>    | <b>2004</b>    |
| <b>SEK million</b>  | <b>31 Dec.</b> | <b>31 Dec.</b> |
| <b>Opening shareholders' equity according to Swedish GAAP</b>                           | <b>15,958</b>  | <b>15,381</b>  |
| Opening minority interest according to Swedish GAAP                                     | 73             | 122            |
| Change in accounting policies <sup>1)</sup>   | -3,688         | -2,811         |
| Translation differences relating to these changes                                       | 41             | -              |
| <b>Opening shareholders' equity according to IFRS</b>                                   | <b>12,384</b>  | <b>12,692</b>  |
| Dividend <sup>2)</sup>  | -362           | -307           |
| New issue <sup>3)</sup>   | 18             | 13             |
| Change in surplus value of owner-occupied properties                                    | 7              | -8             |
| Share-based payments  | 7              | 8              |
| Change in cash-flow hedges  | -              | 57             |
| Recognition of actuarial gains and losses from post-employment defined benefit plans    | 129            | -30            |
| Sales and purchases of treasury shares held to cover investment contracts <sup>4)</sup> | 277            | -248           |
| Change in minority in discontinued operations   | 4              | -              |
| Translation differences   | 433            | 10             |
| Result for the year   | -765           | 197            |
| <b>Closing balance</b>  | <b>12,132</b>  | <b>12,384</b>  |

<sup>1)</sup> See also table on transition to IFRS.

<sup>2)</sup> Including dividend to minority of SEK 3 million as at 31 December 2005.

<sup>3)</sup> New share issue in connection with stock option programme.

<sup>4)</sup> Certain funds in which Skandia has invested for the benefit of policyholders are consolidated. These funds may have invested in Skandia shares. In such case, these are to be eliminated against shareholders' equity. The effect of purchases and sales of shares in Skandia that have taken place during the period, together with the changes in the share price, makes up an explanatory item in the change in shareholders' equity.

| <b>CAPITAL EMPLOYED</b>   |                |                |
|---|----------------|----------------|
|   | <b>2005</b>    | <b>2004</b>    |
| <b>SEK million</b>  | <b>31 Dec.</b> | <b>31 Dec.</b> |
| Equity  | 12,132         | 12,384         |
| Treasury shares held to cover investment contracts <sup>1)</sup>                        | 247            | 504            |
| Subordinated loans  | 849            | 849            |
| Other financing <sup>2)</sup>   | 2,889          | 3,357          |
| <b>Capital employed IFRS</b>  | <b>16,117</b>  | <b>17,094</b>  |
| Surplus value of business in force after deferred tax                                   | 23,514         | 17,339         |
| <b>Capital employed embedded value</b>  | <b>39,631</b>  | <b>34,433</b>  |
| <sup>1)</sup> Number of repurchased shares for the benefit of policyholders, thousands. | 5,204          | 15,231         |

<sup>2)</sup> Including financial reinsurance, excluding deposits from public.

## NET ASSET VALUE

| SEK million   | Unit linked   |               | Life assurance |            | Total         |               |
|---|---------------|---------------|----------------|------------|---------------|---------------|
|   | 2005          | 2004          | 2005           | 2004       | 2005          | 2004          |
|   | 31 Dec.       | 31 Dec.       | 31 Dec.        | 31 Dec.    | 31 Dec.       | 31 Dec.       |
| Equity  | 9,575         | 7,285         | 541            | 532        | 10,116        | 7,817         |
| Surplus value of business in force after deferred tax | 23,570        | 17,407        | -56            | -68        | 23,514        | 17,339        |
| Less: minority interests                              | -1            | 0             | -22            | -23        | -23           | -23           |
| <b>Embedded value</b>                                 | <b>33,144</b> | <b>24,692</b> | <b>463</b>     | <b>441</b> | <b>33,607</b> | <b>25,133</b> |
| Equity, mutual funds                                  |               |               |                |            | 586           | 399           |
| Less: minority interests mutual funds                 |               |               |                |            | -54           | -33           |
| Equity, banking                                       |               |               |                |            | 2,395         | 2,039         |
| Equity, other businesses                              |               |               |                |            | -1,473        | -379          |
| Equity, group functions, eliminations                 |               |               |                |            | 508           | 2,507         |
| Less: minority interests group functions              |               |               |                |            | -20           | -19           |
| Treasury shares held to cover investment contracts    |               |               |                |            | 247           | 504           |
| <b>Net asset value</b>                                |               |               |                |            | <b>35,796</b> | <b>30,151</b> |

## RECONCILIATION OF NET ASSET VALUE

| SEK million  | According to embedded value method |               |                |            | According to IFRS |              | Total         |               |
|--|------------------------------------|---------------|----------------|------------|-------------------|--------------|---------------|---------------|
|  | Unit linked                        |               | Life assurance |            | Other segments    |              | Total         |               |
|  | 2005                               | 2004          | 2005           | 2004       | 2005              | 2004         | 2005          | 2004          |
|  | 31 Dec.                            | 31 Dec.       | 31 Dec.        | 31 Dec.    | 31 Dec.           | 31 Dec.      | 31 Dec.       | 31 Dec.       |
| <b>Opening balance</b>   | <b>24,692</b>                      | <b>22,418</b> | <b>441</b>     | <b>375</b> | <b>5,018</b>      | <b>6,316</b> | <b>30,151</b> | <b>29,109</b> |
| Result from continuing operations  | 1,516                              | 1,119         | 5              | -4         | -1,641            | -1,752       | -120          | -637          |
| Result from discontinued operations  | -681                               | 834           |                |            | 36                |              | -645          | 834           |
| Change in surplus value of business in force after deferred tax                      | 5,518                              | 1,553         | 15             | -24        |                   |              | 5,533         | 1,529         |
| Change in surplus value of business in force in discontinued operations              |                                    | -405          |                |            |                   |              |               | -405          |
| Transfer of proceeds from discontinued operations                                    | 681                                | -1,222        |                |            | -681              | 1,222        |               |               |
| Capital contributions/New issue  | 323                                | 548           | -7             | 102        | -298              | -637         | 18            | 13            |
| Dividend   |                                    |               | -26            |            | -333              | -307         | -359          | -307          |
| Change in surplus value of owner-occupied properties                                 |                                    | 1             | 7              | -11        |                   | 2            | 7             | -8            |
| Share-based payments   |                                    |               |                |            | 7                 | 8            | 7             | 8             |
| Change in cash-flow hedges   |                                    |               |                |            |                   | 57           |               | 57            |
| Recognition of actuarial gains and losses from post-employment defined benefit plans |                                    |               |                |            | 129               | -30          | 129           | -30           |
| Translation differences  | 1,096                              | -154          | 28             | 3          | -39               | 87           | 1,085         | -64           |
| Less: minority interests   | -1                                 | 0             | 0              | 0          | -9                | 52           | -10           | 52            |
| <b>Closing balance</b>   | <b>33,144</b>                      | <b>24,692</b> | <b>463</b>     | <b>441</b> | <b>2,189</b>      | <b>5,018</b> | <b>35,796</b> | <b>30,151</b> |



## NEW SALES AND PROFIT MARGIN, UNIT LINKED ASSURANCE PER GEOGRAPHIC SEGMENT

| SEK million                               | Annualised new sales |              | Present value of new business for the year |              | Profit margin, new sales |              |
|---|----------------------|--------------|--|--------------|--------------------------|--------------|
|   | 2005                 | 2004         | 2005                                       | 2004         | 2005                     | 2004         |
|   | 12 mos.              | 12 mos.      | 12 mos.                                    | 12 mos.      | 12 mos.                  | 12 mos.      |
| UK, Asia Pacific & Offshore <sup>1)</sup> | 7,358                | 5,981        | 935  | 684          | 12.7%                    | 11.4%        |
| Europe & Latin America                    | 2,025                | 2,213        | 631  | 795          | 31.2%                    | 35.9%        |
| Nordic <sup>2)</sup>                      | 2,077                | 1,757        | 565  | 391          | 27.2%                    | 22.3%        |
| <b>Total</b>                              | <b>11,460</b>        | <b>9,951</b> | <b>2,131</b>                               | <b>1,870</b> | <b>18.6%</b>             | <b>18.8%</b> |
| <sup>1)</sup> Of which, UK                | 6,987                | 5,786        | 879  | 662          | 12.6%                    | 11.4%        |
| <sup>2)</sup> Of which, Sweden            | 1,967                | 1,668        | 538  | 377          | 27.4%                    | 22.6%        |

## STATEMENT OF CASH FLOWS

| SEK billion  | 2005<br>12 mos. | 2004<br>12 mos. |
|--|-----------------|-----------------|
| Cash flow from operating activities before changes in lending/deposits to and from the public and investments in banking operations <sup>1) 3)</sup> | 0.5             | -2.0            |
| Change in lending/deposits to and from the public and investments in banking operations  | -0.7            | -0.8            |
| Cash flow from operating activities <sup>1)</sup>  | -0.2            | -2.8            |
| Cash flow from investing activities <sup>4)</sup>  | 1.6             | 3.8             |
| Cash flow from financing activities <sup>1)</sup>  | -1.4            | -1.5            |
| <b>Net cash flow for the period <sup>2)</sup></b>  | <b>0.0</b>      | <b>-0.5</b>     |
| <b>Cash and cash equivalents at the start of the period</b>  | <b>2.0</b>      | <b>2.5</b>      |
| <b>Exchange rate differences in cash and cash equivalents</b>  | <b>0.1</b>      | <b>0.0</b>      |
| <b>Cash and cash equivalents at the end of the period</b>  | <b>2.1</b>      | <b>2.0</b>      |

<sup>1)</sup> The group's financing includes financial reinsurance. The decrease/increase of the financial reinsurance liability was previously included in the cash flow from operating activities, but is now included in cash flow from financing activities.

Net cash flow relating to financial reinsurance liabilities:

-0.5 -0.1

<sup>2)</sup> Net cash flow from discontinued operations:

0.0 -0.2

<sup>3)</sup> During the first quarter of 2004, as previously reported, a contractually regulated distribution agreement was settled in cash, which affected cash flow from operating activities negatively in the amount of SEK -0.8 billion.

<sup>4)</sup> During 2004, cash flow from investing activities includes the proceeds from the sale of If, totalling SEK 4.5 billion, and from the Japanese operation, totalling SEK 1.2 billion, net, after deducting for costs.

## STOCK OPTIONS

In March 2005, 129,600 A options and 42,500 B options from the 2003 programme were subscribed by Skandia employees. In connection with this, Skandia Umbrella Trust subscribed for 10,650 A options to cover social security costs. The subscription price was SEK 20.33 per share, and Skandia thus received SEK 3,715 thousand.

In June 2005, 151,200 A options and 100,000 B options from the 2003 programme were subscribed by Skandia employees. In connection with this, Skandia Umbrella Trust subscribed for 49,031 A options to cover social security costs. The subscription price was SEK 20.33 per share, and Skandia thus received SEK 6,104 thousand.

In September 2005, 86,400 A options and 160,000 B options from the 2003 programme were subscribed by Skandia employees. In connection with this, Skandia Umbrella Trust subscribed for 26,703 A options and 34,199 B options to cover social security costs. The subscription price was SEK 20.33 per share, and Skandia thus received SEK 6,247 thousand.

In December 2005, 84,200 A options and 12,500 B options from the 2003 programme were subscribed by Skandia employees. In connection with this, Skandia Umbrella Trust subscribed for 15,922 A options and 500 B options to cover social security costs. The subscription price was SEK 20.33 per share, and Skandia thus received SEK 2,300 thousand.

In May 2005, all of the 984,150 outstanding A options in the 2002 programme expired. At the same time, the remaining 170,700 A options in the 2000 programme and the remaining 182,100 A options in the 2001 programme expired.

Old Mutual acquired a majority of the shares in Skandia on 26 January 2006. From this day, all outstanding stock options are possible to use for subscription of Skandia shares. All options lapse at the latest 6 months from this date.

For further information on the stock option programmes for the years 2000–2003, please refer to the 2004 Annual Report.

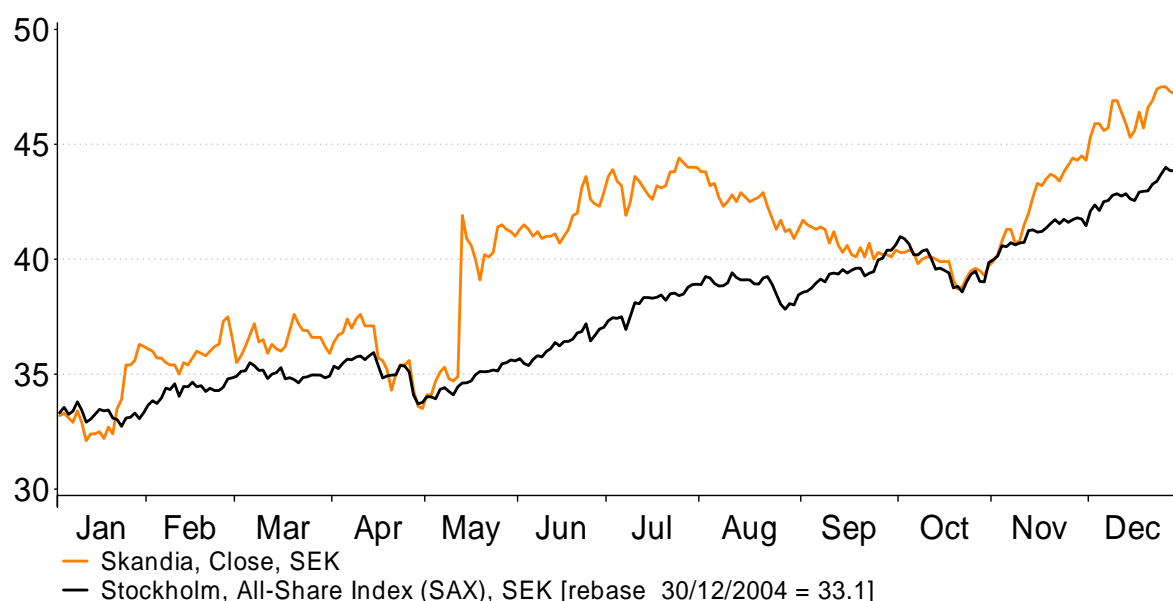
## EXCHANGE RATES

| SEK              | 2005<br>31 Dec. | 2005<br>30 Sept. | 2005<br>30 Jun. | 2005<br>31 Mar. | 2004<br>31 Dec. |
|------------------|-----------------|------------------|-----------------|-----------------|-----------------|
| EUR Closing rate | 9.39            | 9.32             | 9.45            | 9.15            | 9.03            |
| EUR Average rate | 9.28            | 9.22             | 9.16            | 9.09            | 9.13            |
| GBP Closing rate | 13.66           | 13.67            | 14.00           | 13.31           | 12.76           |
| GBP Average rate | 13.56           | 13.45            | 13.36           | 13.10           | 13.40           |

Average rates indicate the average rates for the period 1 January through the respective book-closing dates in 2005 and 2004.

# Skandia share data

Skandia's share price closed at SEK 47.60 on 31 December 2005, compared with SEK 40.40 at the end of September 2005. This corresponds to an increase of 17.8% during the fourth quarter of 2005. During the same period, the Stockholm Stock Exchange's SAX index gained 8.0%. The highest and lowest prices paid during the fourth quarter were SEK 48.20 and SEK 38.40, respectively. Skandia's shares are listed on the Stockholm Stock Exchange and London Stock Exchange. Trading volume in Skandia's shares during the fourth quarter was 764 million shares, and the market capitalisation was SEK 48.8 billion on 31 December 2005.



Source: EcoWin

## Skandia's largest shareholders per 10 February 2006

These VPC statistics only show owners that are directly registered with VPC or whose shares are held in trust with a Swedish custodian. VPC's statistics do not include shareholders who are registered via a foreign custodian bank. Foreign holdings registered via a foreign custodian bank are included to the extent these shareholders have disclosed a specific holding.

**Please note that Old Mutual on 15 February 2006 announced that shareholders corresponding to 89.54% of Skandia's shares had accepted Old Mutual's offer, which expires on 14 Mars 2006.**

| Name                                  | Number of shares | Share capital and voting rights, % |
|---------------------------------------|------------------|------------------------------------|
| Old Mutual Plc                        | 72.5             | 743,555,248                        |
| Second National Swedish Pension Fund  | 3.5              | 36,116,877                         |
| Robur mutual funds                    | 2.6              | 27,110,103                         |
| SHB/SPP mutual funds                  | 2.2              | 22,632,443                         |
| First National Swedish Pension Fund   | 1.3              | 12,919,834                         |
| Fourth National Swedish Pension Fund  | 1.0              | 10,161,808                         |
| Nordea mutual funds                   | 0.9              | 9,107,992                          |
| SEB                                   | 0.9              | 8,733,539                          |
| Seventh National Swedish Pension Fund | 0.5              | 5,517,685                          |
| Folksam mutual funds                  | 0.3              | 2,567,978                          |
| Total, top 10 shareholders            | 85.6             | 878,423,507                        |
| Total, others                         | 14.4             | 147,339,175                        |
| <b>Total shares</b>                   | <b>100.0</b>     | <b>1,025,762,682</b>               |

Source: SIS Ägarservice AB as of 10 February 2006

## Breakdown of Skandia's shares as per 10 February 2006

| Ownership breakdown      | Share capital and voting rights, % |
|--------------------------|------------------------------------|
| Owners outside Sweden    | 81.0%                              |
| Owners in Sweden         | 19.0%                              |
| - of which, institutions | 8.8%                               |
| - of which, funds        | 6.6%                               |
| - of which, individuals  | 3.6%                               |

| Geographic breakdown   | Share capital and voting rights, % |
|------------------------|------------------------------------|
| Sweden                 | 19.0%                              |
| USA                    | 3.3%                               |
| UK                     | 75.3%                              |
| Other Nordic countries | 0.7%                               |
| Total others           | 1.7%                               |

| Number of shares                         | Owners, %     | Share capital and voting rights, % |
|--|---------------|------------------------------------|
| 1 – 1,000                                | 81.3%         | 1.0%                               |
| 1,001 – 1,000,000                        | 18.6%         | 7.2%                               |
| 1,000,001 – 100,000,000                  | 0.1%          | 91.8%                              |
| <b>Total</b>                             | <b>100.0</b>  | <b>100.0</b>                       |
| <b>Total number of owners and shares</b> | <b>41,878</b> | <b>1,025,762,682</b>               |

Source: SIS Ägarservice AB as of 10 February 2006

## Glossary

**Annualised new sales:** Periodic premiums recalculated to full-year figures, plus 1/10 of single premiums during the period.

**Acquisition costs:** Acquisition costs include all costs, internal as well as external, that arise in connection with the sale of unit linked assurance and mutual fund savings products. Acquisition costs are to be capitalised (deferred acquisition costs) and amortised according to a schedule that corresponds to the product's economic life.

**Assets under management:** The sum of customers' invested assets and the group's own investment assets.

**Capital base:** For a life assurance operation, the capital base consists of shareholders' equity, untaxed reserves and certain subordinated loans, less goodwill and other intangible assets.

**Capital employed (IFRS):** Equity, reversal of eliminations of treasury shares held for the benefit of policyholders, borrowings, subordinated loans and financial reinsurance.

**Capital employed (EV):** Capital employed (IFRS) plus surplus values of business in force after deducting deferred tax.

**Change in surplus values of business in force, including financial effects:** Change in surplus values of business in force, before tax, including revenues and expenses pertaining to policyholder tax.

**Change in operative assumptions (EV):** Assumptions that have been made are compared regularly with actual experience and adjusted when necessary. A positive result entails that previous assumptions have been conservative.

**Embedded value (EV):** Embedded value is an alternative method for reporting the value development of long-term savings contracts. For further information, please see Skandia's 2004 Annual Report, pp. 108-111.

**Fee income:** Revenues derived from the policyholders are charged in the form of fees over the entire lifetime of contracts in force. These fees are charged in various forms – usually based on the value of the underlying funds in the contract (fund-based fees), or initially during the early years of a contract based on the size of the premiums paid in (premium-based fees). Fees paid in to Skandia initially upon the sale of a contract are distributed over a period of time. Such fees are treated as deferred income which is dissolved and recognised as revenue over the life of the contract.

**Financial effects (EV):** Refers to the deviation of the present value of future revenues from assumptions on fund growth and interest rates, caused by changes in the financial markets.

**Funds under management:** Customers' invested assets in unit linked assurance and mutual funds.

**Net asset value (EV):** Equity less minority share as per the balance sheet, reversal of eliminations of treasury shares held for the benefit of policyholders and surplus values of business in force after deducting deferred tax.

**Net effect of policyholder tax:** The net sum of income and expenses in the income statement attributable to policyholder tax.

**Number of shares outstanding:** In calculations of key ratios and information on the number of shares, consideration has not been given to shares that can be considered to have been repurchased due to consolidation of certain fund holdings. As stated in the accounting policies, Skandia consolidates funds in which the company's ownership stake is more than 50%. The shares in Skandia owned by these funds are formally to be considered as treasury shares.

Skandia does not treat these shares as treasury shares, since they make up part of the investment assets for which the policyholders bear the investment risk. A technical reduction of the number of shares would not give a true and fair view of the key ratios per share in Skandia. They have therefore not reduced the number of shares outstanding in calculations of key ratios per share. Information on the number of shares in funds that are consolidated is provided in connection with the table showing capital employed. The change in the number of shares outstanding is due to the fact that Skandia issues new shares when employees exercise their stock options to subscribe for new shares.

**Operating result (EV):** Result before tax (IFRS) adjusted to include the change in surplus value of business in force (VBIF) including financial effects, and revenues and expenses related to the policyholder tax.

**Outcome compared with operative assumptions (EV):** Assumptions that have been made are compared regularly with actual experience. A positive result entails that the actual outcome for the period was better compared with previous assumptions for new as well as existing business.

**Paid-up policy:** Insurance contract with terminated premium contributions but no repurchase of fund value.

**Premiums and deposits:** Inflows from customers. Pertains to premiums for insurance contracts and deposits toward financial contracts (unit linked assurance and mutual fund savings products), but not deposits in bank accounts. Corresponds to the previously reported sales figures.

**Premiums earned:** Written premium attributable to the period, i.e., premiums written less outward reinsurance premiums, adjusted for the unearned portion of premiums.

**Present value of new business for the year (EV):** Discounted value of revenues and expenses in unit linked assurance during the term of an insurance policy for contracts written during the period.

**Result before tax (IFRS):** Result before company tax, revenues and expenses related to the policyholder tax, and result from discontinued operations.

**Result of operations (EV):** The operating result (EV) excluding financial effects.

**Solvency margin:** The solvency margin is the minimum permissible level of the capital base by law. The solvency margin is calculated based on the nature and scope of business.

**Surplus value of business in force (VBIF) (EV):** The present value of calculated future surpluses from the annual fees paid by policyholders according to contracts in force. The group's operating result includes the change in these surplus values for the period.

**Surrenders:** Premature termination of savings due to full repurchase, partial repurchase, premium reduction, conversion to paid-up policy status or transferinkluderar periodens förändring av dessa övervärden.

**Underlying profit before tax (IFRS):** Profit before tax excluding the write-downs of Bankhall goodwill, structural costs, restructuring costs and provision for VAT.

**Underlying result of operations (EV):** The result of operations excluding the write-downs of Bankhall goodwill, structural costs, restructuring costs, provision for VAT, outcome compared with operative assumptions and changes in operative assumptions.

## Key ratios

**Earnings per share (IFRS):** Result for the period attributable to the parent company's shareholders, divided by the average number of shares outstanding during the period. The dilutive effect is only calculated if the key ratio deteriorates.

**Equity ratio (IFRS):** Equity in relation to total assets, excluding investments where the policyholders bear the investment risk, liabilities on consolidated funds, and reinsurance assets in unit linked assurance.

**Debt-equity ratio (IFRS):** Borrowings (excluding bank borrowings) and financial reinsurance in relation to the sum of equity, reversal of eliminations of treasury shares held for the benefit of customers, subordinated loans, borrowings (excluding bank borrowings) and financial reinsurance, less intangible assets.

**Fixed charge cover (IFRS):** Result before tax (IFRS) for the period, including reversal of interest expenses for borrowings, subordinated loans, financial reinsurance and write-down of goodwill, in relation to interest expenses for borrowings, subordinated loans and financial reinsurance for the period.

**Growth in present value of new business (EV):** The present value of new business for the period in relation to the present value of new business for the comparison period.

**Operational return on capital employed (EV):** The result of operations for the period excluding interest expenses for loans, less standard tax (30%), in relation to average capital employed during the period.

**Operational return on net asset value (EV):** The result of operations for the period excluding minority share, less standard tax (30%), in relation to average net asset value during the period.

**Operational return per share (EV):** Result of operations for the period excluding minority share, divided by the average number of shares outstanding during the period.

**Profit margin, new sales (EV):** The present value of new business for the period in relation to annualised new sales for the period.

**Return on capital employed (IFRS):** Result for the period excluding profit/loss from discontinued operations and interest expenses after standard tax (30%) for borrowings, subordinated loans and financial reinsurance, in relation to average capital employed (IFRS) during the period.

**Return on net asset value (EV):** Operating result for the period excluding minority share, less current and deferred tax, in relation to average net asset value during the period.

**Return on shareholders' equity (IFRS):** Result for the period attributable to the parent company's shareholders, excluding profit/loss from discontinued operations, in relation to average shareholders' equity, excluding minority interests during the period.

## Transition to IFRS

### RECONCILIATION OF EQUITY FROM SWEDISH GAAP TO IFRS

| SEK million  | 2004<br>31 Dec. | 2004<br>30 Sep. | 2004<br>30 June | 2004<br>31 Mar. | 2003<br>31 Dec. |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Restatement of deferred acquisition costs                        | 6,560           | 6,280           | 6,139           | 6,026           | 5,911           |
| Restatement of accrued commission expenses                       | -1,052          | -869            | -873            | -868            | -880            |
| Deferral of fee income   | -14,701         | -13,842         | -13,555         | -13,296         | -13,022         |
| Restatement of fee income receivable                             | 3,821           | 3,237           | 3,140           | 3,076           | 3,044           |
| Change in insurance provisions due to more realistic assumptions | 695             | 741             | 792             | 751             | 681             |
| Restatement of investments to fair value                         | 500             | 388             | 340             | 481             | 382             |
| Treasury shares held to cover investment contracts               | -504            | -436            | -459            | -400            | -258            |
| Goodwill amortisation discontinued                               | 12              | 131             | 88              | 44              | -               |
| Surplus in defined-benefit pension plans                         | -30             | -               | -               | -               | 315             |
| Cash-flow hedge accounting                                       | 58              | 58              | -               | -               | -               |
| Fair value hedge accounting for borrowings                       | 11              | -               | -               | -               | -               |
| Other adjustments  | 15              | 15              | 1               | 8               | 6               |
| <b>Total changes before tax</b>                                  | <b>-4,615</b>   | <b>-4,297</b>   | <b>-4,387</b>   | <b>-4,178</b>   | <b>-3,821</b>   |
| Tax effect of the above  | 927             | 1,097           | 1,090           | 1,089           | 1,010           |
| <b>Adjustment to equity</b>                                      | <b>-3,688</b>   | <b>-3,200</b>   | <b>-3,297</b>   | <b>-3,089</b>   | <b>-2,811</b>   |
| Shareholders' equity under Swedish GAAP                          | 15,958          | 17,099          | 17,041          | 17,222          | 15,381          |
| Minority interest under Swedish GAAP                             | 73              | 88              | 97              | 111             | 122             |
| <b>Total equity under Swedish GAAP</b>                           | <b>16,031</b>   | <b>17,187</b>   | <b>17,138</b>   | <b>17,333</b>   | <b>15,503</b>   |
| Adjustment to equity   | -3,688          | -3,200          | -3,297          | -3,089          | -2,811          |
| Translation differences  | 41              | -46             | -138            | -179            | -               |
| <b>Total equity under IFRS</b>                                   | <b>12,384</b>   | <b>13,941</b>   | <b>13,703</b>   | <b>14,065</b>   | <b>12,692</b>   |

### RECONCILIATION OF RESULT FROM SWEDISH GAAP TO IFRS

| SEK million   | 2004<br>12 mos. | 2004<br>9 mos. | 2004<br>6 mos. | 2004<br>3 mos. | 2004<br>Q4    |
|---|-----------------|----------------|----------------|----------------|---------------|
| Restatement of deferred acquisition costs                               | 649             | 369            | 227            | 115            | 280           |
| Restatement of accrued commission expenses                              | -172            | 11             | 7              | 12             | -183          |
| Deferral of fee income  | -1,679          | -820           | -533           | -274           | -859          |
| Restatement of fee income receivable                                    | 776             | 193            | 96             | 31             | 583           |
| Change in technical provisions due to more realistic assumptions        | 13              | 60             | 111            | 70             | -47           |
| Restatement of investments to fair value                                | 118             | 6              | -42            | 99             | 112           |
| Goodwill amortisation discontinued                                      | 12              | 131            | 88             | 44             | -119          |
| Expensing of share-based payments                                       | -8              | -7             | -5             | -2             | -1            |
| Fair value hedge accounting   | 11              | -              | -              | -              | 11            |
| Policyholder tax  | -361            | -98            | -41            | -46            | -263          |
| Other adjustments   | 0               | -4             | -7             | 3              | 4             |
| <b>Total changes before tax</b>   | <b>-641</b>     | <b>-159</b>    | <b>-99</b>     | <b>52</b>      | <b>-482</b>   |
| Shareholder tax effects on the above                                    | 213             | 100            | 32             | 36             | 113           |
| <b>Total adjustment of profit/loss</b>                                  | <b>-428</b>     | <b>-59</b>     | <b>-67</b>     | <b>88</b>      | <b>-369</b>   |
| Result attributable to parent company's shareholders under Swedish GAAP | 674             | 1,695          | 1,384          | 1,137          | -1,021        |
| Result attributable to minority interests under Swedish GAAP            | -49             | -33            | -27            | -14            | -16           |
| <b>Result under Swedish GAAP</b>  | <b>625</b>      | <b>1,662</b>   | <b>1,357</b>   | <b>1,123</b>   | <b>-1,037</b> |
| Total adjustment of profit/loss   | -428            | -59            | -67            | 88             | -369          |
| <b>Result under IFRS</b>  | <b>197</b>      | <b>1,603</b>   | <b>1,290</b>   | <b>1,211</b>   | <b>-1,406</b> |

### RECONCILIATION OF CASH FLOW FROM SWEDISH GAAP TO IFRS

| SEK billion                               | 2004<br>12 mos. | 2004<br>9 mos. | 2004<br>6 mos. | 2004<br>3 mos. | 2004<br>Q4 |
|---|-----------------|----------------|----------------|----------------|------------|
| <b>Total cash flow under Swedish GAAP</b> | <b>-0.2</b>     | <b>-0.6</b>    | <b>-0.6</b>    | <b>-0.1</b>    | <b>0.4</b> |
| Adjustments <sup>1)</sup>                 | -0.3            | 0.0            | -0.1           | 0.0            | 0.3        |
| <b>Total cash flow under IFRS</b>         | <b>-0.5</b>     | <b>-0.6</b>    | <b>-0.7</b>    | <b>-0.1</b>    | <b>0.7</b> |

<sup>1)</sup> Adjustments arise on account of the fact that according to IFRS the banking operation is consolidated line by line and is thereby fully included in the group's cash flow.

# Accounting policies (IFRS)

## 1. Basis of preparation

Up to and including 31 December 2004, Skandia has prepared its primary financial statements in conformity with the Swedish Annual Accounts Act for Insurance companies, the guidelines of the Swedish Financial Supervisory Authority, and to the extent that no conflict has arisen in this context, also in accordance with the recommendations from the Swedish Financial Accounting Standards Council (SFASC).

From 1 January 2005, the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The report has been prepared in conformity with the guidelines in IFRS 34 Interim Financial Reporting. The consolidated financial statements have also been prepared in accordance with the Swedish Annual Accounts Act for Insurance Companies, chapter 7, and the guidelines of the Swedish Financial Supervisory Authority FFFS 2004:21, chapters 7 and 8. In addition to this, SFASC recommendations RR 30 – "Complementary reporting standards for groups" and RR 31 – "Interim financial reporting for groups" have been applied in preparation of the consolidated financial statements.

The transition to IFRS is accounted for in accordance with IFRS 1 First-Time Adoption of International Financial Reporting Standards, with 1 January 2004 as the date of transition. The disclosures required by IFRS 1 concerning the transition from Swedish GAAP to IFRS are given on page 31. The main changes in accounting policies as a consequence of the transition from Swedish GAAP to IFRS are described below.

In other respects, Skandia's year-end report has been prepared in accordance with the same accounting principles and calculation methods used in the 2004 book-closing, as described in the 2004 Annual Report. The explanations and reconciliations in this report relate to the consolidated accounts for Skandia.

## 2. Significant changes in Skandia's accounting policies

### 2.1 Transitional arrangements

The rules for first time application of IFRS are set out in IFRS 1 First Time Adoption of International Financial Reporting Standards. In general, a company is required to determine its accounting policies in accordance with IFRS and apply these retrospectively to determine its opening balance sheet under IFRS. The standard allows several optional exemptions to the requirements for retrospective implementation. Skandia has opted to take advantage of the following exemptions:

#### a) IFRS 3 Business Combinations

Skandia has chosen not to apply IFRS 3 retrospectively to its past business combinations. Instead the standard will be applied prospectively from 1 January 2004. The consequences of this will be as follows:

- the classification of former business combinations will be maintained;
- there will be no re-measurement of original "fair values" as determined at the time of the business combination; and
- the carrying amount of goodwill in the opening IFRS balance sheet will be equal to the carrying amount under previous GAAP. From the date of transition goodwill will no longer be amortised, but will be tested for impairment at the date of transition.

#### b) IAS 21 Effects of Changes in Foreign Exchange Rates

Any translation differences on translation of foreign operations that arise from 1 January 2004, the date of transition to IFRS, will be presented as a separate component of equity. According

to IFRS 1, translation differences that existed at the date of transition did not need to be reported separately. Skandia therefore is reporting only translation differences that arose after 1 January 2004 separately.

#### c) IFRS 2 Share-Based Payment

The exemption in IFRS 1 will be applied. Skandia will apply IFRS 2 to all stock options granted after 7 November 2002 and which were not vested as per 1 January 2005 (the effective date of IFRS 2).

#### d) IAS 19 Employee Benefits

With effect from 1 January 2004, Skandia will apply the Swedish Financial Accounting Standards Council's new recommendation RR 29, which is based on IAS 19. The key change relates to the recognition on the balance sheet of a defined benefit asset and liability which represents the difference between the defined benefit obligation and the fair value of plan assets. The calculation of the defined benefit obligation is based on the defined benefit structure as at 31 December 2003. The standard will not be used retrospectively. Instead, the exemption in IFRS 1 is applied. This means that all cumulative actuarial gains and losses at the date of transition 1 January 2004 are recognised. Actuarial gains and losses after this date are recognised in full in the period in which they occur, but not in the income statement. Instead, they are recognised directly in shareholders' equity and are presented in the statement of changes in shareholder equity.

#### e) IAS 39 Financial Instruments: Recognition and Measurement

In accordance with IFRS 1, certain assets are classified as assets available for sale and are stated at fair value through profit and loss in the transition to IFRS.

In addition, IFRS 1 has a number of mandatory exceptions to the requirement for retrospective application. The following exceptions will affect Skandia:

#### Hedge accounting

Hedging relationships that were designated as hedges under previous GAAP, but which did not qualify for hedge accounting under IAS 39, will be treated in accordance with the requirements of IAS 39 relating to the discontinuance of hedge accounting. The hedge and the underlying items are measured in accordance with these principles for financial instruments.

#### Accounting estimates

Accounting estimates recognised under IFRS that were made under previous GAAP are not adjusted except for changes in accounting policies or if there is objective evidence of an error.

### 2.2 Insurance and investment contracts

The main changes in Skandia's financial statements result from the consequences of application of IFRS 4, "Insurance contracts" to unit linked assurance (or savings) contracts and mutual funds. The most significant changes are set out below and relate to the unbundling of unit linked savings contracts into insurance contract components and investment components, where the latter comprise a financial instrument and an investment management service contract. Below is a further description of this unbundling of contracts and other effects arising from application of IFRS 4.

#### a) Classification of contracts and unbundling

According to IFRS 4, an insurer should classify all its contracts individually as either insurance contracts or investment contracts. Contracts with insignificant transfer of insurance risk from the policyholder to the company are classified as investment



contracts and should be accounted for as financial instruments under IAS 39 Financial Instruments: Recognition and Measurement and IAS 18 Revenue. Contracts that contain significant insurance risk are classified as insurance contracts.

The insurer has the option to unbundle certain contracts, if those contracts contain both insurance components and investment components, and the investment component can be measured independently from the insurance component. For its unit linked contracts, Skandia has decided to apply this approach. The unbundled components are separately classified and accounted for as insurance contracts and investment contracts. Under Swedish GAAP, all contracts are accounted for as insurance contracts, following the definition of an insurance contract under Swedish GAAP, and no unbundling is done.

#### *b) Insurance contracts*

Insurance contracts comprise the unbundled insurance component in unit linked contracts, health & protection business and traditional life business with or without discretionary participating features. In accordance with IFRS 4, current Swedish GAAP accounting will be used, with a few exceptions. These exceptions include:

- Excessively prudent provisions will be released, which will reduce the technical provisions.
- For traditional life contracts, the liability will be discounted using market interest rates. Under previous GAAP, the discount rate was established by the local regulator.
- Incremental costs directly attributable to securing the insurance contracts will be capitalised as a deferred acquisition cost asset (DAC) and will be amortised as an expense over the life of the contract. The same DAC methodology is used for the insurance contracts and for the investment contracts. More detail has been provided in section c) on DAC and DFI.
- Any embedded derivative that forms part of an insurance contract and is itself an insurance contract will not be separated from the host contract and will thus not be separately valued.

#### *c) Investment contracts*

As noted above, investment contracts are accounted for under IAS 39 and IAS 18. The accounting for these unbundled unit linked contracts is as follows:

On inception of such contracts, amounts received from and payable to the holders of the contracts are accounted for as deposits received under investments for the benefit of policyholders and as balances payable in respect of liability for linked investment contracts, and are not included in premiums and claims in the income statement. Upon disposal, amounts paid are accounted for as decrease of unit linked liabilities in the balance sheet.

Embedded derivatives in investment contracts will be separated and measured at fair value.

The pattern of recognising front-end fee income will differ to previous GAAP. Fees charged for managing investment contracts will be recognised as revenue as the investment management services are provided, following the explicit guidance in IAS 18. Front-end fees will be deferred through the creation of a new balance sheet item called deferred fee income (DFI), and this will be released to income as the services are provided. This means that fees and charges that are taken initially and in addition to regular fund charges are deferred.

Incremental costs directly attributable to securing contracts will be recognised as an asset, deferred acquisition costs (DAC). DAC exists under current GAAP, but only for insurance contracts and has a broader definition in terms of costs that can be deferred. In contrast to current GAAP, the definition of DAC under IFRS excludes non-incremental acquisition costs. Under IFRS, the asset is amortised as an expense as the services are provided. Skandia generally assumes equal service

provision over the lifetime of the contract and as such, DFI and DAC will be amortised linearly over the expected life of the contract. The previous practice followed by Skandia was to limit DAC amortisation period to maximum 10 years. The IFRS conversion will lead to an increase in DAC due to the longer amortisation period.

There will also be a change in the accounting for mutual funds. The accounting should be consistent with the method for the savings part of the unit linked contracts, which entails an increase of DFI and DAC on these contracts.

In cases where it is clear that for a certain portfolio of investment contracts, the expected future revenue is lower than the expected variable future costs of meeting the obligations under the contract, a provision for onerous contracts will be established as required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

### **2.3 Investments at fair value**

#### *a) Fair value of bonds*

Under previous GAAP, bonds were valued at amortised cost. Under IFRS, most bonds will be measured at fair value, leading to an increase in equity upon conversion. Skandia has chosen to classify some bonds in the banking business as "Held to maturity", and these will be valued at amortised cost.

#### *b) Fair value of derivatives*

In some cases, Skandia will not fulfil the requirements for hedge accounting under IFRS. The derivatives previously accounted for under hedge accounting will be valued at fair value and hedge accounting will be discontinued as required under IAS 39.

### **2.4 Goodwill**

Under IFRS, goodwill will no longer be amortised. Instead, goodwill will be tested for impairment annually. This change in policy has no impact on opening equity, as goodwill in the opening balance sheet is fixed at the amount recognised under previous GAAP, subject to a mandatory impairment test on first-time adoption.

### **2.5 Share-based payment**

Skandia offered stock option programmes to employees on four different occasions during 2000-2003. In accordance with IFRS 2 Share-Based Payment, only programmes issued after 7 November 2002 must be accounted for in accordance with IFRS, if they had not been vested before 1 January 2005. Skandia offered one programme in February 2003. This programme included two types of options, of which one type (B-options) had not been vested by 1 January 2005. These options are the only ones to be accounted for under IFRS 2.

Under previous GAAP, stock options were not expensed. Instead there were extensive disclosure requirements covering all effects of the stock options. In accordance with the requirements of IFRS 2, stock options will be expensed. The expense is calculated as the market value of the options at issue date. The expense will be recognised over the vesting period. The vesting period is the period that the employees have to remain in the service of Skandia in order to be allowed to exercise the options. The expense will be adjusted for the actual number of outstanding options.

IFRS 2 has no effect on opening equity since the expense is only an adjustment between net income and restricted equity.

### **2.6 Consolidated accounting**

Skandia consolidates funds in which the company's ownership stake is more than 50%. These fund holdings are consolidated like other investments for the benefit of policyholders on a separate line, called "Assets in consolidated mutual funds". The liability to minority interests in funds is reported under the head-

ing "Liabilities in consolidated mutual funds". The imbalance that arises between these two lines pertains to the elimination of the shares that the consolidated funds own Skandia, i.e., treasury shares.

As before, the consolidated accounts do not include the wholly owned company Livförsäkringsaktiebolaget Skandia (Skandia Liv) and its subsidiaries. Skandia Liv's operation is run on a mutual basis and its result is returned in its entirety to the policyholders of Skandia Liv. Skandia cannot exercise control over Skandia Liv due to restrictions in Swedish legislation. Consequently, Skandia Liv is not consolidated.

## 2.7 Cash flow

The banking operation is now consolidated line by line instead of on separate lines as previously. As a result of this consolidation, the definition of cash flow has changed. In connection with the transition to IFRS, changes in investments in the operations have also been classified as part of cash flow from operating activities instead of as a part of cash flow from investing activities as previously. Investments in investment assets are an integral part of operations, as inflows in both the insurance and banking operations must in large part be invested in accordance with the operating rules. Changes in investment assets in the group, which are not used directly in the group's operations, are reported under the heading "Cash flow from investing activities".

The group's financing includes financial reinsurance. The change in the liability for financial reinsurance was previously reported as part of cash flow from operating activities, but is now included in cash flow from financing activities.