interim report
january–march 2005

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IMPROVEMENT IN RESULT ACCORDING TO IFRS

- Profit before tax rose to SEK 386 million (186).
- Revenues rose 12%, to SEK 3,803 million (3,399).
- Expenses rose 6%, to SEK -3,417 million (-3,213).
- Profit for the period totalled SEK 423 million (1,211). Profit for the same period a year ago was favourably affected in the amount of SEK 834 million from the sale of the Japanese operation.
- Earnings per share before dilution were SEK 0.41 (1.19, of which 0.81 pertained to discontinued operations), and the return on shareholders' equity was 13% (11%).
- All comparison figures have been recalculated in accordance with International Financial Reporting Standards (IFRS), which took effect on 1 January 2005. Shareholders' equity as per 1 January 2005 has decreased by SEK 504 million due to an adjustment for own shares in certain funds which according to IFRS must be consolidated.

STRONGER EMBEDDED VALUE RESULT

- The group's result of operations (excluding financial effects) amounted to SEK 973 million (873).
- The present value of new business for unit linked assurance increased by 65% in local currency, to SEK 646 million (396).
- The calculated profit margin for new sales increased to 23.9% (16.5%). All divisions contributed to the improved profitability of new sales.
- Net asset value per share increased to SEK 30.88, compared with SEK 29.44 at year-end.

OPERATIONS SHOWED GOOD GROWTH AND IMPROVED PROFITABILITY

- Premiums and deposits rose 9% in local currency, to SEK 27,022 million (25,315). New sales rose 15% in local currency.
- The UK showed continued growth, despite an exceptionally strong first quarter in 2004.
- Premiums and deposits in Sweden were stable. The market share decreased, but the sales trend shows a slight recovery.
- Other countries in Europe are characterised by strong growth and very good profitability.
- Funds under management grew by 8% in local currency, to SEK 424,055 million, thanks to a larger inflow and favourable growth in value.
- Cash flow from operating activities (excluding changes in deposits and lending in the banking operation) amounted to SEK 0.4 billion (-1.1).

*) Livförsäkringsaktiebolaget Skandia is not consolidated and is therefore not included in the interim report. All comparison figures pertain to the corresponding period in 2004, unless indicated otherwise.

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Financial calendar for Skandia:
22 August 2005, interim report January–June 2005
18 November 2005, interim report January–September 2005
22 February 2006, Year-end results 2005
19 April 2006, Annual General Meeting

Skandia's published financial reports are available on Skandia's website: www.skandia.com. Skandia's website also provides links to a live broadcast of the press and analyst meeting on Skandia's interim report and to the teleconference on Tuesday, 31 May 2005. In addition to the interim report, Skandia has also published the document *Financial Supplement Q1 2005* on www.skandia.com under Investor Relations/Reports and Events/Interim Reports. This document can also be ordered by phone.

Comments by Hans-Erik Andersson, President and CEO:

During the first quarter, for the first time we are presenting more detailed descriptions of the developments within our divisions, including a divisional breakdown of capital employed. This also marks the first time that we are presenting a report prepared in accordance with the new International Financial Reporting Standards (IFRS). We hope and believe that this will contribute to greater transparency and thus a better understanding of our business.

The year began well for Skandia. The result improved both according to IFRS and the embedded value method. Sales have continued to rise at the same time that the negative cash flow has decreased. Our financial position has strengthened.

Skandia's performance is a clear sign that the ongoing work on striking a balance between, on the one hand, effective governance and control and the utilisation of resources, and the other, the local initiative that drives our business in each market, is beginning to generate results. Creating long-term value is our goal. In recent years we have had good growth in the present value of new business, and the first quarter of 2005 is no exception.

As an example of our ability to create value added, I want to point in particular to the performance of the Europe & Latin America division. The division's operations are spread across a number of countries and by traditional industry standards can be considered as very young. In a short time Skandia has established a presence in these markets as a successful and respected niche player. As a case in point is Germany, which during its relatively short lifetime to date has achieved a volume of funds under management worth approximately EUR 1 billion.

Our successes in the UK, Asia Pacific & Offshore division also continue. The UK operation has grown its market share gradually over a longer period of time. This success is an expression of the long experience Skandia has in the rapidly growing unit linked multi-manager segment, where we are the market leader. Our development of the product offering, especially in unit linked bonds, and the introduction of a number of new pension products, have strongly contributed to an increase in market share and growth. This is gratifying, especially in view of the coming changes in the UK pensions market in 2006.

Despite a decline in market share (measures in terms of new business) in the Swedish operation, the sales trend indicates a slight recovery. New sales of unit linked assurance have now increased for the second quarter running on a quarter-on-quarter basis. The year got off to a weak start, but thereafter we have seen rising sales figures. Interest in our products is keen.

Our banking operation also continues to develop favourably in terms of customer numbers as well as in deposits, lending volume and profit. If we look at all savings segments in the Swedish market, measured in terms of total savings, Skandia's combined market share has increased during the last twelve-month period from 12.1% to 12.4%. We are very grateful for the continued confidence our customers have shown in us during what has without question been a turbulent period.

On the whole we can say that business is performing well and that we are achieving the financial targets that we have set. I want to express my gratitude to Skandia's employees, who have continued to deliver outstanding performance and contributed to our success under often difficult circumstances.

In view of recent speculation about Skandia's future structure, we continue to refer to our press release of 13 May.

This interim report is presented in four sections. All sections pertain to the period January–March:

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

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A. GROUP OVERVIEW

Results per business segment

SEK million	According to IFRS		According to embedded value method			
	Profit before tax		Result of operations [1]		Operating result [1]	
	2005	2004	2005	2004	2005	2004
	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.
Unit linked assurance	582	283	1,170	974	1,513	1,455
Mutual funds	-16	-31	-16	-31	-16	-31
Life assurance	1	30	0	26	-5	26
Banking	96	41	96	41	96	41
Other businesses	24	5	24	5	24	5
Joint functions [2]	-301	-142	-301	-142	-301	-142
Total	**386**	**186**	**973**	**873**	**1,311**	**1,354**

Results per division

SEK million	According to IFRS		According to embedded value method			
	Profit before tax		Result of operations [1]		Operating result [1]	
	2005	2004	2005	2004	2005	2004
	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.
UK, Asia Pacific & Offshore	291	137	501	526	522	575
Europe & Latin America	174	36	511	169	554	247
Nordic	236	131	276	296	550	650
Group functions [3]	-315	-118	-315	-118	-315	-118
Total	**386**	**186**	**973**	**873**	**1,311**	**1,354**

[1] For definitions, see page 21.
[2] Joint functions consist of joint-group expenses, costs for the divisions that are not distributed among the business segments, and the joint-group financial result.
[3] Group functions include joint-group expenses, the joint-group financial result, and undistributed results from the business segments.

Profit before tax according to IFRS amounted to SEK 386 million (186). Profit improved mainly in unit linked assurance, but also in banking.

Revenues

Total revenues rose 12%, to SEK 3,803 million (3,399). Of this total, fees from customers accounted for SEK 2,675 million (2,139), corresponding to an increase of 25%. A strong inflow of funds under management, together with the growth in value of funds, led to higher fund-based fees from both unit linked assurance and mutual funds. Premium-based fee revenue also grew, mainly in Germany, which has experienced strong growth in sales of products with multi-year contracts. Premium-based fees already paid in are deferred in their entirety and amortised over the life of the respective contracts. This also resulted in a slight increase in deferred fee income (DFI). During periods of growth, this has a dampening effect on profit development. Premiums attributable to risk insurance rose 7% to SEK 699 million (648), mainly due to premium rate increases. Net investment income amounted to SEK 360 million (489). The decrease is due to lower changes in value in the bond portfolio and currency effects. Net interest income in the banking operation improved due to greater volumes and amounted to SEK 257 million (226).

Expenses

Total expenses rose 6% to SEK -3,417 million (-3,213). Claims incurred for risk insurance and life assurance decreased by 19%. Insurance commissions paid rose 13%, to SEK -1,373 million (-1,213) as a result of higher sales. The change in deferred acquisition costs (DAC) has been positively affected by the deferral of acquisition costs attributable to the strong sales growth in Germany during the fourth quarter of 2004. This impact was of a one-time character and amounted to approximately SEK 80 million.

Administrative expenses rose 15%. Administrative expenses include a provision of SEK -46 million for the adjustment of fees from in-force contracts. As previously announced, the effect of restructuring in Sweden is expected to bear full effect starting in 2006. The National Tax Board has questioned the Skandia group's handling of Value Added Taxes on services pertaining to operation of the group's IT environment. For reasons of prudence, a provision of SEK -105 million has been made. See further under the section "Disputes".

Profit for the period

Profit for the period amounted to SEK 423 million (1,211). Profit for the preceding year was favourably affected in the amount of SEK 834 million by the sale of the Japanese operation. The return on shareholders' equity improved to 13% (11%). The 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 -599 million (-392).

Balance sheet and shareholders' equity

Total assets increased to SEK 438.0 billion, compared with SEK 407.8 billion at the start of the year, mainly due to an increase in unit linked assets and growth in volume in the banking business.

Shareholders' equity amounted to SEK 12,975 million, compared with SEK 12,348 million at the start of the year. Borrowings amounted to SEK 4.0 billion, compared with SEK 4.1 billion at the start of the year. The debt-equity ratio has decreased to 21%, compared with 22% at the start of the year. According to IFRS, certain fund holdings may need 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 are to be eliminated against shareholders' equity. This adjustment has reduced shareholders' equity as per 31 March 2005 by SEK 488 million, even though no economic exposure exists. Skandia continues to monitor the development of industry practice with regard to this matter.

Cash flow

Cash flow from operating activities, excluding changes in deposits and lending in the banking operation, amounted to SEK 0.4 billion (-1.1). Cash flow in the preceding year was negatively affected in the amount of SEK -0.8 billion by the cash settlement of a distribution agreement with Skandia Liv. Cash flow from investing activities amounted to SEK 0.2 billion (1.7). 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. Cash flow from financing activities in the preceding year was affected in the amount of SEK 0.4 billion in loan repayment.

Disputes

The National Tax Board has questioned the Skandia group's handling of Value Added Taxes on services pertaining to the operation of the group's IT environment. Consequently, the National Tax Board has assessed VAT and an additional tax penalty for the 2002 and 2003 financial years to a subsidiary of Skandia Insurance Company Ltd (publ.) for such services that the subsidiary performed for other members of the so-called VAT group. Skandia has filed an appeal of the National Tax Board's decision, and a respite from payment has been granted. Further, in an advance ruling pertaining to 2004 and afterward, the Council on Advance Tax Rulings has ruled that the subsidiary must charge VAT. The advance ruling will be appealed. For reasons of prudence, a provision of SEK 105 million has been made.

The status of other disputes is discussed in the 2004 Annual Report and 2004 year-end report. No material changes have taken place which give rise to any changes in these descriptions.

Premiums and deposits

Premiums and deposits increased to SEK 27,022 million, compared with SEK 25,315 million for a very strong first quarter in 2004. This is an increase of 7% in Swedish kronor and 9% in local currency. For unit linked assurance, premiums and deposits rose 15% in local currency, to SEK 19,127 million (16,992). New sales of unit linked assurance increased by 15%, to SEK 2,702 million (2,399). Mutual fund deposits decreased slightly, to SEK 7,478 million (7,905).The performance by division is commented on in a separate section.

Funds under management

Unit linked funds under management increased by 8%, to SEK 319,584 million, compared with SEK 295,473 million at the start of the year. Deposits, together with changes in value, amounted to SEK 26,764 million. Payments to unit linked policyholders amounted to 9.9% of funds under management on a yearly basis. Surrenders accounted for 7.6% of this total, compared with 7.2% a year earlier. Funds under management for mutual fund business also increased, to SEK 104,471 million, compared with SEK 95,495 million at the start of the year. Deposits, together with changes in the value of mutual funds, amounted to SEK 7,832 million.

Consolidated Income Statement

SEK million	Note	2005 3 mos.	2004 3 mos.	2004 12 mos.
REVENUE				
Fee income		2,675	2,139	9,182
Change in deferred fee income (DFI) and fee income receivable (FIR)		-324	-233	-869
Net premiums earned		699	648	2,978
Net investment income		360	489	1,424
Net interest income, banking		257	226	1,021
Share of profit/loss of associates		2	-2	-3
Other income		134	132	693
Total revenue		**3,803**	**3,399**	**14,426**
EXPENSES				
Net claims incurred		-585	-723	-3,138
Commission expenses		-1,373	-1,213	-5,707
Change in deferred acquisition costs (DAC)				
and accrued commission expense (ACE)		534	485	2,416
Administrative expenses	1	-1,800	-1,569	-7,352
Other expenses		-111	-92	-1,459
Interest expenses		-82	-101	-373
Total expenses		**-3,417**	**-3,213**	**-15,613**
Profit/loss before tax		**386**	**186**	**-1,187**
Policyholder tax charge		636	583	1,409
Taxes	2	-599	-392	-859
Profit for the period from continuing operations		**423**	**377**	**-637**
Profit for the period from discontinued operations		-	834	834
Profit for the period		**423**	**1,211**	**197**
Attributable to:				
Equity holders of the parent company		421	1,219	249
Minority interest		2	-8	-52
Earnings per share *):				
Continuing and discontinued operations				
Basic		0.41	1.19	0.24
Diluted		0.41	1.18	0.24
Continuing operations				
Basic		0.41	0.38	-0.57
Diluted		0.41	0.37	-0.57
Discontinued operations				
Basic		0.00	0.81	0.81
Diluted		0.00	0.81	0.81
Weighted number of shares, thousands*)				
Basic		1,024,322	1,023,809	1,024,052
Diluted		1,029,732	1,029,195	1,028,636
Number of shares, end of period, thousands*)				
Basic		1,024,393	1,024,026	1,024,250
Diluted		1,029,804	1,029,411	1,028,835

*) For definitions please see page 21.

1) Administrative expenses			
Personnel expenses	-941	-906	-3,775
Other administrative expenses	-940	-714	-3,751
Depreciation	-97	-63	-310
Expense recharges	178	114	484
Total	**-1,800**	**-1,569**	**-7,352**

2) Includes current, deferred tax and policyholder tax.

Per-share data [1)]

	2005 3 mos.	2004 3 mos.	2004 12 mos.	Moving 12-month figures 2005 Mar.
Result of operations per share (EV) before dilution, SEK	0.94	0.86	1.11	1.19
Earnings per share before dilution (IFRS), SEK [2)]	0.41	0.38	-0.57	-0.53
Earnings per share after dilution (IFRS), SEK [2)]	0.41	0.37	-0.57	-0.53
Shareholders' equity per share (IFRS), SEK	13.07	14.01	12.51	-
Net asset value per share (EV), SEK	30.88	30.71	29.44	-
Average share price, SEK	35.35	31.46	29.77	30.70
Closing share price, SEK	35.90	29.80	33.10	-

Key ratios, IFRS [1)]

	2005 3 mos.	2004 3 mos.	2004 12 mos.	Moving 12-month figures 2005 Mar.
Return on shareholders' equity (IFRS), % [3)]	13	11	-4	-4
Return on capital employed (IFRS), % [3)]	11	9	-3	-2
Debt-equity ratio, %	21	25	22	-
Fixed charge cover, %	8	4	1	1
Equity ratio, %	13	14	13	-

Key ratios, embedded value method [1)]

	2005 3 mos.	2004 3 mos.	2004 12 mos.	Moving 12-month figures 2005 Mar.
Present value of new business, unit linked, SEK million	646	396	1,870	-
Growth in present value of new business unit linked, % [4)]	63	N/A	11	N/A
Profit margin new sales, unit linked, %	23.9	16.5	18.8	-
Operational return on capital employed (EV), % [3)]	8	7	3	3
Operational return on net asset value (EV), % [3)]	9	8	3	3
Return on net asset value (EV), % [3)]	13	14	3	3

Solvency [1)]

	Parent company	
SEK million	2005 31 Mar.	2004 31 Dec.
Capital base	8,682	7,651
Solvency margin	624	604

[1)] For definitions please see page 21.
[2)] The key ratios are calculated excluding discontinued operations.
[3)] These 3-month key ratios for 2005 and 2004 have been recalculated on a full-year basis.
[4)] Growth in the present value of new business for 3 months 2005 includes a positive one-time effect of SEK 200 million.

B. RESULT PER BUSINESS SEGMENT

Result according to IFRS

Unit linked assurance

Profit before tax increased to SEK 582 million (283). Revenues in the form of fees rose 26%, to SEK 1,970 million (1,566). The improvement is primarily attributable to a rise in both premium- and fund-based revenues in the UK and the rest of Europe. In Sweden, premium-based fees were done away with in 2004, however, this loss of revenue has been compensated by an increase in fund-based revenues.

Commissions paid increased by 15%, to SEK -1,212 million (-1,059) as a result of higher sales. In Germany, profit for the first quarter was favourably affected by strong sales at the end of 2004. These one-time increases have affected the change in deferred acquisition costs (DAC).

Administrative expenses rose 10%, to SEK -734 million (-670).

Profit was favourably affected by an improved result for risk components of unit linked assurance, stemming primarily from improvements in Sweden and the Protect product area in the UK.

Mutual funds

A continued result improvement was reported for mutual fund business. The result before tax was SEK -16 million (-31). Funds under management have increased compared with a year ago, resulting in higher revenues, which are primarily fund-based. Revenues rose 20%, to SEK 506 million (420). Commissions and administrative expenses have also risen, but not to the same extent as revenues. Commissions rose 6%, to SEK -175 million (-165). Administrative expenses rose 10%, to SEK -243 million (-221). The operations of Skandia Fonder, which were previously included in the Banking segment, are showing a favourable result. Comparison figures have been recalculated in view of this.

In Australia, sales of mutual funds decreased slightly compared with a year ago on account of extraordinarily high sales in March 2004. In pace with the increase in funds under management, the result before tax improved to SEK -11 million (-19). The result also improved in the UK and is now near break-even.

Life assurance

Life assurance premiums, primarily in Spain, decreased slightly to SEK 214 million (239). Profit before tax was SEK 1 million (30). Assets in the life operations were essentially unchanged, at SEK 11,713 million (11,699).

Banking

Profit before tax for the banking operation improved to SEK 96 million (41). Profit for the first quarter of 2004 was hurt in the amount of SEK -46 million by a change in the value of derivative instruments. Starting with the third quarter of 2004, hedge accounting is used, which entails that similar changes in value this year are offset by a change in the value of the hedged instruments.

Net interest income improved from SEK 226 million to SEK 257 million as a result of higher lending volume. The business is developing well in Sweden and Norway as well as in Denmark. Lending by the banking operation increased by 4%, to SEK 36.7 billion, compared with SEK 35.4 billion at the start of the year. The largest increase pertained to mortgage lending in Norway. Deposits increased by 4%, to SEK 42.3 billion, compared with SEK 40.5 billion at the start of the year. The increase in deposits is attributable primarily to Norway and Sweden. Despite greater volumes, administrative expenses were at the same level as a year earlier. The number of customers has risen by 2% since the start of the year, to 858,000.

Other businesses

The “Other businesses” segment includes Bankhall and the Healthcare business in the Nordic division. Bankhall’s profit was unchanged at SEK 3 million (3). For further commentary on Bankhall, see the UK, Asia Pacific & Offshore section.

Profit for Skandia's Healthcare business improved to SEK 21 million (4). This can be credited primarily to an increase in premium income and lower claim costs. Premium income grew as a result of rate increases. The number of policies has decreased, and measures are being taken to reverse this trend.

Joint functions

Joint functions include joint-group expenses, costs for the divisions that are not distributed among the business segments, and the joint-group financial result. The group’s administrative expenses, excluding a provision for VAT, decreased to SEK -104 million, compared with SEK -154 million a year ago. For comments on the VAT provision, see page 5.

Profit before tax - Joint functions

SEK million	2005 3 mos.	2004 3 mos.
Joint-group management expenses	-209	-154
of which provision for VAT	*-105*	-
Structural costs	-40	-27
Joint functions in Sweden	-7	-21
Joint-group financial result	-45	60
Total	**-301**	**-142**

Income Statement – Business Segments

	SEK million	Unit linked assurance 2005 3 mos.	Unit linked assurance 2004 3 mos.	Mutual funds 2005 3 mos.	Mutual funds 2004 3 mos.	Life assurance 2005 3 mos.	Life assurance 2004 3 mos.	Banking 2005 3 mos.	Banking 2004 3 mos.	Other businesses 2005 3 mos.	Other businesses 2004 3 mos.	Joint functions 2005 3 mos.	Joint functions 2004 3 mos.	Eliminations 2005 3 mos.	Eliminations 2004 3 mos.	Total 2005 3 mos.	Total 2004 3 mos.
According to IFRS	**REVENUE**																
	Fee income	1,970	1,566	476	405	14	15	93	103			181	103	-59	-53	2,675	2,139
	Change in deferred fee income and fee income receivable	-322	-224	-4	-18	2	9									-324	-233
	Net premiums earned	344	286			214	239			141	123					699	648
	Net investment income	216	160	28	21	114	234	-8	-53	14	17	87	193	-91	-83	360	489
	Net interest income, banking							257	226							257	226
	Share of profit/loss of associates					1	-1			1	-1					2	-2
	Other income	3	2	6	12	1		1	3	117	109	6	6			134	132
	Total revenue	**2,211**	**1,790**	**506**	**420**	**346**	**496**	**343**	**279**	**273**	**248**	**274**	**302**	**-150**	**-136**	**3,803**	**3,399**
	EXPENSES																
	Net claims incurred	-175	-197			-320	-439			-90	-87					-585	-723
	Commission expenses	-1,212	-1,059	-175	-165	-12	-11	-21	-19	-11	-12		1	58	52	-1,373	-1,213
	Change in deferred acquisition costs (DAC) and accrued commission expense	533	465	-2	18					3	2					534	485
	Administrative expenses	-734	-670	-243	-221	-14	-15	-210	-204	-149	-144	-420	-316	-30	1	-1,800	-1,569
	Other expenses	-7	-7	-99	-81	1		-6	-3				-1			-111	-92
	Interest expenses	-34	-39	-3	-2	0	-1	-10	-12	-2	-2	-155	-128	122	83	-82	-101
	Total expenses	**-1,629**	**-1,507**	**-522**	**-451**	**-345**	**-466**	**-247**	**-238**	**-249**	**-243**	**-575**	**-444**	**150**	**136**	**-3,417**	**-3,213**
	Profit/loss before tax	**582**	**283**	**-16**	**-31**	**1**	**30**	**96**	**41**	**24**	**5**	**-301**	**-142**	**0**	**0**	**386**	**186**
According to embedded value method	Change in surplus values of business in force, including financial effects	931	1,172			-6	-4									925	1,168
	Operating result	**1,513**	**1,455**	**-16**	**-31**	**-5**	**26**	**96**	**41**	**24**	**5**	**-301**	**-142**	**0**	**0**	**1,311**	**1,354**
	Financial effects	-343	-481			5										-338	-481
	Result of operations	**1,170**	**974**	**-16**	**-31**	**0**	**26**	**96**	**41**	**24**	**5**	**-301**	**-142**	**0**	**0**	**973**	**873**

Result according to embedded value method

The group's operating result, which includes financial effects, was SEK 1,311 million (1,354) million. 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 changes in financial assumptions.

The group's result of operations (operating result excluding financial effects) was SEK 973 million (873). The result of operations for unit linked assurance improved slightly, to SEK 1,170 million (974). The improvement is mainly due to higher profitability for new business in all divisions.

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

SEK million	2005 3 mos.	2004 3 mos.	2004 12 mos.
Total annualised new sales [1]	2,702	2,399	9,951
Present value of new business for the year	646	396	1,870
Return on value of contracts in force from previous years [2]	550	515	2,114
Outcome compared with operative assumptions	-2	-103	-382
Change in operative assumptions	-7	184	-295
Value-added from operations	**1,187**	**992**	**3,307**
Business start-ups and other overheads [3]	-18	-19	-80
Restructuring costs	1	1	-47
Result of operations, unit linked assurance	**1,170**	**974**	**3,180**
Financial effects [4]	343	481	700
Operating result, unit linked assurance	**1,513**	**1,455**	**3,880**
Profit margin, new sales [5]	**23.9%**	**16.5%**	**18.8%**

1) Periodic premiums recalculated to full-year figures plus 1/10 of single premiums during the period.
2) Of which, financing costs SEK -15 million as per Mar. 2005, SEK -5 million as per Mar. 2004 and SEK -41 million as per Dec. 2004.
3) Value of business in force (VBIF) is not calculated on Business start-ups and other overheads.
4) 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.
5) 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 1,513 million (1,455). Financial effects during the period had a favourable impact on the operating result in the amount of SEK 343 million (481).

Result of operations
The result of operations, which consists of the operating result excluding financial effects for unit linked assurance, increased to SEK 1,170 million (974). The result was favourably affected by an increase in the present value of new business during the period, which is partly a one-time effect caused by a high level of new sales in Germany. The outcome compared with operative assumptions improved, but was still negative, mainly due to a rise in surrenders in Sweden. The result a year ago was favourably affected in a net amount of SEK 81 million due to to changed assumptions on retrocessions from fund companies.

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 646 million (396). The increase is mainly attributable to the UK and the rest of Europe.

In Germany, VNB experienced a positive one-time effect of approximately SEK 200 million from strong new sales at the start of the year ahead of changes in tax legislation. In Italy the product offering has been adapted, which led to a sharp rise in VNB compared with the same quarter a year ago. In France, new sales continued to grow at a rapid pace, with a favourable result. During the second quarter of 2004 France was included in the embedded value calculations for the first time.

In Sweden, VNB rose despite a slight drop in new sales. The actions taken in the Swedish operations have offset the effect of the sales decline. Premium rate increases for existing customer contracts, together with higher retrocessions from fund companies, cost-cutting and a slight increase in fixed fees per contract, had a positive impact on VNB. The present value of new business was negatively affected by the changed assumptions on the conversion of policies to paid-up status and the elimination of premium-based fees at the end of 2004.

Profit margin, new sales
The profit margin increased to 23.9% (16.5%). The profit margin improved sharply, above all in the Europe & Latin America division, but also in the Nordic division. The profit margin also improved in the UK, Asia Pacific & Offshore division as a result of economies of scale, good cost control and higher retrocessions from fund companies.

The strong improvement in the profit margin in Europe can be credited to improvements in the product offering and sales successes combined with good cost control. The added sales during the quarter in Germany had a favourable impact on the group's profit margin. Excluding these added sales, the group's profit margin is estimated to be level with the full year 2004.

The actions taken during the third and fourth quarters of 2004 have had a positive impact on the profit margin in Sweden. During the first quarter, a favourable product mix also made a positive contribution to the profit margin due to a slight inflow from collective occupational pension products.

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, together with the return on investments pertaining to unit linked assurance, was at the same level as a year earlier and amounted to SEK 550 million (515).

Outcome compared with operative assumptions
The outcome compared with operative assumptions improved to SEK -2 million (-103).

Change in operative assumptions
Changes in assumptions were small and amounted to SEK -7 million (184). Changes in assumptions during the first quarter of 2004 were mainly attributable to greater retrocessions from fund companies.

Life assurance
The result of operations according to the embedded value method was SEK 0 million (26).

C. RESULTS PER DIVISION

UK, Asia Pacific & Offshore division

The UK, Asia Pacific & Offshore division includes the operations in the UK, Royal Skandia, Ireland, Switzerland, Liechtenstein and China. The unit linked businesses in Norway and Finland are conducted as branches of Skandia UK.

Results – UK, Asia Pacific & Offshore

	According to IFRS		According to the embedded value method			
	Profit before tax		Result of operations 1)		Operating result 1)	
	2005	2004	2005	2004	2005	2004
SEK million	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.	3 mos.
Unit linked assurance	299	165	509	554	530	603
Mutual funds	-11	-31	-11	-31	-11	-31
Life assurance						
Banking						
Other businesses	3	3	3	3	3	3
Joint functions						
Total	**291**	**137**	**501**	**526**	**522**	**575**

1) For definitions please see page 21.

Key ratios 1) – UK, Asia Pacific & Offshore

	2005	2004	2004	Moving 12-month figures 2005
	3 mos.	3 mos.	12 mos.	Mar.
Premiums and deposits, SEK million	17,058	15,724	65,087	66,421
New sales, unit linked, SEK million	1,604	1,437	5,982	6,149
Present value of new business, unit linked, SEK million	193	170	684	707
Growth in present value of new business, unit linked, %	14	N/A	39	N/A
Profit margin new sales, unit linked, %	12.0	11.8	11.4	-
Capital employed (IFRS), SEK million	8,827	N/A	8,060	-
Return on capital employed (IFRS), % 2)	17	N/A	-14	-
Capital employed (EV), SEK million	16,137	N/A	15,043	-
Oper. return on capital employed (EV), % 2)	9	N/A	13	-
Assets under management, SEK billion	303	248	276	-

1) For definitions please see page 21.

2) These 3-month key ratios for 2005 have been recalculated on a full-year basis.

Products and markets

Premiums and deposits increased to SEK 17,058 million (15,724), an increase of 12% in local currency. Of this total, unit linked assurance accounted for SEK 13,160 million (11,363) and mutual funds for SEK 3,898 million (4,361). New sales of unit linked assurance rose 15% in local currency.

In the UK, the development of unit linked bond products spurred continued growth. Unit linked bonds are currently the dominant product in the UK market. Skandia's Enhanced Allocation Bond product continues to attract assets from companies that have stopped writing with-profits business. New sales of unit linked bonds rose 27% in local currency. New sales also increased in the Pensions product area, by 11% in local currency, as new pension products are being developed ahead of announced changes in the UK pensions market in April 2006. Early in the year a new product, Skandia SIPP (Self Invested Pension Plan), was introduced.

New sales for Royal Skandia rose 14% in local currency. Royal Skandia has a highly diversified geographic spread of business. New inheritance tax solutions have been introduced for the UK market. In May 2005 the company was named the "Best International Life Company" at the International Investment Awards. In March, Skandia UK received the distinctions "Best Investment Service" at the Moneyfacts Life & Pensions Awards and "Best Multi-Manager Provider" at the Money Marketing Awards.

Premiums and deposits in Switzerland rose 74% in local currency. Sales were driven by continued interest in guaranteed products and the new "Kapitalpension" product.

Premiums and deposits for mutual funds in the UK decreased to SEK 2,355 million (2,633). In Australia, deposits were down 6% in local currency, mainly due to exceptionally high sales in March 2004.

Result according to IFRS

Profit before tax improved to SEK 291 million (137), mainly due to higher profits from unit linked assurance. An increase in funds under management contributed to a 40% rise in fund-based revenues from both unit linked assurance and mutual funds. Interest in the market for Skandia's Protect line of products has decreased. However, the result for risk business has improved following premium rate increases. The result improvement contributed to an increase in the return on capital employed for the division, to 17%.

Bankhall's profit was unchanged at SEK 3 million (3). However, revenues increased by 16% in local currency. Cost-cutting measures are planned with the intention of lowering costs by 20%. New services for advisers are being developed, and Bankhall's multi-tie platform is expected to be up and running during the second half of 2005. The business plan is now being focused on delivering services to external Independent Financial Advisers (IFAs). Bankhall's own distribution network is being phased out. Goodwill attributable to Bankhall amounts to SEK 1,464 million. The business plan is being overhauled, and its economic outcome will form the basis for assessment of goodwill. It is still important for Skandia in the UK to be allied with Bankhall, which is the leading provider of services to the IFA market, especially now as new rules are being established.

Result according to embedded value method

The operating result for unit linked assurance decreased to SEK 530 million (603), of which financial effects accounted for SEK 21 million (49). The result of operations decreased to SEK 509 million (554). Assumptions during the first quarter of 2004 were positive in the amount of SEK 117 million. The profit margin for new business increased to SEK 12.0% (11.8%). The sales growth has resulted in economies of scale which, together with good cost control, is resulting in lower costs per contract at the same time that retrocessions from fund companies have increased. Together this is countering the press on margins in the market. The outcome compared with operative assumptions was slightly positive following a provision for retroactive adjustment of fees on in-force contracts. The operational return on capital employed according to the embedded value method was 9%.

Europe & Latin America division

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

Results – Europe & Latin America

	According to IFRS		According to the embedded value-method			
	Profit before tax		Result of operations [1]		Operating result [1]	
SEK million	2005 3 mos.	2004 3 mos.	2005 3 mos.	2004 3 mos.	2005 3 mos.	2004 3 mos.
Unit linked assurance	185	22	527	159	575	237
Mutual funds	-11	-15	-15	-15	-15	-15
Life assurance	0	29	-1	25	-6	25
Banking						
Other businesses						
Joint functions						
Total	**174**	**36**	**511**	**169**	**554**	**247**

1) For definitions please see page 21.

Key ratios[1] – Europe & Latin America

	2005 3 mos.	2004 3 mos.	2004 12 mos.	Moving 12-month figures 2005 Mar.
Premiums and deposits, SEK million	5,779	5,616	21,291	21,454
New sales, unit linked, SEK million	611	433	2,212	2,390
Present value of new business, unit linked, SEK million	318	99	795	1,014
Growth in present value of new business unit linked, % [2]	221	N/A	31	N/A
Profit margin new sales, unit linked, %	52.0	22.9	35.9	-
Capital employed (IFRS), SEK million	3,375	N/A	3,190	-
Return on capital employed (IFRS), % [3]	18	N/A	-4	-
Capital employed (EV), SEK million	6,653	N/A	6,206	-
Oper. return on capital employed (EV), % [3]	23	N/A	10	-
Assets under management, SEK billion	74	64	70	-

1) For definitions please see page 21.
2) Growth in the present value of new business for 3 months 2005 includes a positive one-time effect of SEK 200 million..
3) The 3-month key ratios for 2005 have been recalculated on a full-year basis.

Products and markets

Premiums and deposits increased to SEK 5,779 million (5,616). The first quarter of 2004 included approximately SEK 800 million in one-time premiums and deposits in Spain and Italy. Unit linked premiums and deposits rose 7% in local currency, to SEK 3,114 million (2,923). New sales of unit linked assurance increased by 43% in local currency, mainly due to increases in Germany and France.

During the fourth quarter of 2004, new sales rose sharply in Germany due to changes in tax legislation. This inflow of new business also had a favourable impact on new sales during the first quarter of 2005. Following the tax reform, the company is focusing on the occupational pensions market. During the first quarter of 2005, occupational pensions business accounted for a greater share of premiums and deposits. Distribution agreements for occupational pension insurance have been signed with AWD, MLP and Funk Gruppe.

In France, capacity in distribution and sales has been strengthened, resulting in a 105% increase in new sales in local currency.

Deposits in mutual funds were at the same level as a year ago, despite approximately SEK 450 million in one-time deposits in Spain a year earlier. Colombia is showing major increases, while deposits were down in Austria and Germany. The lower volumes in Germany and Austria are associated with a conscious change in the product range toward more long-term savings.

Result according to IFRS

Profit before tax showed a clear improvement, to SEK 174 million (36). This is mainly attributable to strong performance for unit linked assurance in Germany, where the result was favourably affected by a deferral of acquisition costs attributable to the sales increase at year-end 2004/early 2005. In Austria, the result improved as a result of changes in the products' fee structure.

The return on capital employed was 18%.

Result according to the embedded value method

The operating result for unit linked assurance increased to SEK 575 million (237), of which financial effects accounted for SEK 48 million (78). The result of operations for unit linked assurance showed a sharp improvement to SEK 527 million (159). The value of new business is increasing in most countries, which has resulted in an increase in the profit margin to 52%, compared with 23% for the corresponding period a year ago. The main explanation for the increase is the above-mentioned sales increase in Germany. Italy is also making a positive contribution to the improved profit margin.

The operational return on capital employed according to the embedded value method was 23%.

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

	According to IFRS		According to the embedded value-method			
	Profit before tax		Result of operations 1)		Operating result 1)	
SEK million	2005 3 mos.	2004 3 mos.	2005 3 mos.	2004 3 mos.	2005 3 mos.	2004 3 mos.
Unit linked assurance	117	90	156	255	430	609
Mutual funds	10	15	10	15	10	15
Life assurance	1	1	1	1	1	1
Banking	96	41	96	41	96	41
Other businesses	21	5	21	5	21	5
Joint functions	-9	-21	-8	-21	-8	-21
Total	**236**	**131**	**276**	**296**	**550**	**650**

1) For definitions please see page 21.

Key ratios 1) – Nordic

	2005 3 mos.	2004 3 mos.	2004 12 mos.	Moving 12-month figures 2005 Mar.
Premiums and deposits, SEK million	4,185	3,975	11,653	11,863
New sales, unit linked, SEK million	487	529	1,757	1,715
Present value of new business, unit linked, SEK million	135	127	391	399
Growth in present value of new business unit linked, %	6	N/A	-35	N/A
Profit margin new sales, unit linked, %	27.7	24.0	22.3	-
Capital employed (IFRS), SEK million	5,073	N/A	4,698	-
Return on capital employed (IFRS), % 2)	16	N/A	8	-
Capital employed (EV), SEK million	12,730	N/A	12,040	-
Oper. return on capital employed (EV), % 2)	6	N/A	2	-
Assets under management, SEK billion 3)	375	358	366	-

1) For definitions please see page 21.

2) The 3-month key ratios for 2005 have been recalculated on a full-year basis.

3) Includes Skandia Liv in the amount of SEK 260 billion (257).

Products and markets

In 2004 the operations in Sweden, Norway and Denmark were co-ordinated in a single division. This is creating conditions for a strengthening of Skandia's market position.

The Swedish unit linked assurance market underwent significant changes during the first quarter. After slightly more than ten years on the market, unit linked assurance is a relatively young form of saving. Measured in terms of assets, traditional savings in mutual funds without an insurance element are more than three times larger than savings in unit linked assurance. This market is dominated by the banks, with approximately 70% of the total fund value.

One factor that affected the market during the first quarter was the abolishment of inheritance and gift taxes in 2004. Another is the introduction of the new "kapitalpension" product. These two factors together have given rise to substantial transfers of assets from one savings form to another – from mutual funds to unit linked assurance and within unit linked assurance from inheritance- and gift tax-related endowment insurance plans to "kapitalpension" solutions. These reallocations are leading to relatively large inflows to unit linked assurance, which count as new sales. Skandia does not have the opportunity to make shifts between different savings forms to the same extent as the other players in the market. Partly as a result of this, the market share for Skandia Unit Linked Assurance decreased to 17.3% during the first quarter of 2005, compared with 18.0% in the preceding quarter. Another contributing factor is the strong growth during the first quarter in the collective occupational pensions market. Skandia's market share in this product area has traditionally been low and remains so. However, in the total Swedish savings market, measured in assets, Skandia's market share (including Skandia Liv) increased during the last twelve-month period from 12.1% to 12.4% as per the end of March 2005.

Premiums and deposits for the Nordic division increased by 5%, to SEK 4,185 million (3,975). In unit linked assurance, premiums and deposits rose 6% in local currency. Unit linked premiums and deposits in Sweden increased by 4%, to SEK 2,695 million (2,597). New sales of unit linked assurance in Sweden decreased by 9%. However, compared with the preceding quarter, new sales increased by 4% for Sweden and 6% for the Nordic division. New sales were weak in January and February, while March and April showed higher volumes. The trend was also positive in May. The market has shown keen interest in the new "kapitalpension" product. Sales of this new product in Sweden amounted to approximately SEK 300 million during the first quarter. In Sweden, new sales of this product are giving rise to a reallocation from existing contracts, which is indicated by an increase in surrenders among private customers. This effect is expected to continue throughout the remainder of 2005.

Result according to IFRS

Profit before tax improved to SEK 236 million (131), mainly due to improved profits in unit linked assurance and the banking operation. Costs for joint functions have been distributed among the business segments to a greater extent than in previous years.

Unit linked assurance revenues have grown due to an increase in fund-based fees. Cost-cutting has resulted in a decrease in administrative expenses. Profit also improved for the risk portion of unit linked assurance, i.e., mortality risks and waiver of premium protection.

The operational return on capital employed was 16%.

For comments on the results for Banking and Other businesses (Healthcare), see the respective sections.

Result according to embedded value method

The operating result for unit linked assurance was SEK 430 million (609), of which financial effects accounted for SEK 274 million (354). The result of operations for unit linked assurance decreased to SEK 156 million (255). Changes in assumptions – mainly retrocessions from fund companies – made a positive contribution during the first quarter of 2004 in the amount of SEK 45 million. During the first quarter of 2005, changes in assumptions were small and amounted to SEK 16 million.

The present value of new business for the period has increased and is at its highest level since March 2002. The actions taken in the Swedish operations have countered the effect of the sales decline. Premium rate increases on customers' existing contracts, together with higher retrocessions from fund companies, cost reductions and a slight increase in fixed fees per contract, had a positive result impact.

The result was also negatively affected by an increase in surrenders attributable to the change in inheritance and gift taxation, in connection with a reallocation of savings to "kapitalpension" products. The conversion of policies to paid-up status also hurt the outcome compared with assumptions in the embedded value calculation. Taken together, the outcome compared with operative assumptions was SEK -132 million (-82).

The operational return on capital employed according to the embedded value method was 6%.

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 -104 million, compared with SEK -154 million a year ago. For comments on the VAT provision, see page 5.

Profit before tax - Group functions

SEK million	2005 3 mos.	2004 3 mos.
Joint-group management expenses	-209	-154
of which provision for VAT	*-105*	-
Structural costs	-40	-27
Unallocated result, business segment	-21	3
Joint-group financial result	-45	60
Total	**-315**	**-118**

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Stockholm, 31 May 2005
Hans-Erik Andersson
President and CEO

Auditors' review report

We have reviewed this interim report for the period January–March 2005 in accordance with the recommendation issued by FAR. A review is considerably limited in scope compared with an audit. Nothing has come to our attention that causes us to believe that the interim report does not comply with the requirements of the Swedish Securities and Clearing Operations Act and the instructions and general guidelines of the Swedish Financial Supervisory Authority on annual accounts for insurance companies and IAS 34.

Stockholm, Sweden, 31 May 2005

Svante Forsberg
Authorised Public Accountant

Göran Engquist
Authorised Public Accountant

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

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CONSOLIDATED BALANCE SHEET

SEK billion	Note	2005 31 Mar.	2004 31 Dec.
ASSETS			
Intangible assets			
Goodwill		1.7	1.6
Other intangible assets		0.2	0.2
Reinsurers' share of insurance provisions		0.7	0.7
Deposits held with cedents	2	3.5	3.5
Deferred acquisition costs	1	17.4	16.3
Deferred tax asset		0.8	1.0
Surplus in defined benefit pension plans		0.5	0.5
Property and equipment		0.5	0.5
Investment properties	2	0.0	0.0
Loans and advances	2	47.8	45.5
Investments in associates	2	0.1	0.1
Other investments	2	22.5	21.4
Investments for the benefit of policyholders		319.6	295.5
Assets, consolidated mutual funds	3	10.7	10.0
Current tax asset		0.4	0.4
Other receivables		4.2	3.7
Other prepayments and accrued income		5.1	4.9
Cash and cash equivalents		2.3	2.0
Total assets		**438.0**	**407.8**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of parent		12.9	12.3
Minority interest		0.1	0.1
Total equity		**13.0**	**12.4**
Liabilities			
Subordinated loans	4	0.8	0.8
Insurance provisions	5	15.8	15.5
Liability for linked investment contracts		322.0	296.8
Liabilities consolidated mutual funds	3	11.2	10.5
Deposits received from reinsurers		0.2	0.1
Provisions for pensions		0.3	0.3
Deferred tax liability		1.8	1.9
Deferred fee income	6	15.6	14.7
Other provisions		1.3	1.3
Deposits and borrowings from the public		42.3	40.5
Other interest bearing liabilities	4	3.9	3.9
Current tax liabilities		0.7	0.4
Derivative liability		0.4	0.3
Other payables		6.0	5.8
Other accruals and deferred income		2.7	2.6
Total equity and liabilities		**438.0**	**407.8**

NOTES TO THE BALANCE SHEET

Note	SEK billion	2005 31 Mar.	2004 31 Dec.
1	**Deferred acquisition costs (DAC)**		
	Opening balance	**16.3**	**14.3**
	Capitalisation of acquisition costs	1.2	4.9
	Amortisation of deferred acquisition costs	-0.6	-2.3
	Deferred acquisition costs in divested companies	-	-0.5
	Impairment of deferred acquisition costs	0.0	0.0
	Exchange differences	0.5	-0.1
	Closing balances	**17.4**	**16.3**
	Of which, unit linked assurance	16.8	15.7
	Of which, mutual funds	0.6	0.6
2	**Investments**		
	Unit linked assurance	11.9	10.4
	Mutual funds	0.3	0.3
	Life assurance	11.5	11.1
	Banking	46.7	44.5
	Other businesses and group functions	3.5	4.2
	Total	**73.9**	**70.5**
3	Pertains to consolidation of funds in which the ownership exceeds 50%. For additional explanation, please refer to the accounting policies.		
4	**Subordinated loans and other interest-bearing liabilities**		
	Subordinated loans	0.8	0.8
	Bonds, non-banking	2.4	2.2
	Financial reinsurance	0.9	1.0
	Financing	*4.1*	*4.0*
	Bonds in bank	0.0	0.0
	Other financial liabilities	0.6	0.7
	Total	**4.7**	**4.7**
	Change in bonds		
	Opening balance	**2.2**	**3.1**
	New debt issued	0.3	0.9
	Repurchases and maturities	-0.1	-1.8
	Currency conversion	0.0	0.0
	Closing balances	**2.4**	**2.2**
5	**Insurance provisions**		
	Unit linked assurance	3.2	3.1
	Life assurance	11.6	11.5
	Other businesses	1.0	0.9
	Total	**15.8**	**15.5**
6	**Deferred fee income (DFI)**		
	Opening balance	**14.7**	**13.0**
	Capitalisation of fees	1.1	4.2
	Amortisation of deferred fees	-0.6	-2.4
	Exchange differences	0.4	-0.1
	Closing balances	**15.6**	**14.7**
	Of which, unit linked assurance	14.9	14.1
	Of which, mutual funds	0.7	0.6
7	**Restructuring reserves (SEK million)**		
	Balance per 31 December 2003	**311**	
	Provision for restructuring costs	308	
	Utilisation of restructuring reserve	-228	
	Balance per 31 December 2004	**391**	
	Utilisation of restructuring reserve	-57	
	Reclassification	-54	
	Balance per 31 March 2005	**280**	

CHANGE IN EQUITY

SEK million	2005 31 Mar.	2004 31 Dec.	2004 31 Mar.
Opening shareholders' equity according to Swedish GAAP	**15,958**	**15,381**	**15,381**
Opening minority interest according to Swedish GAAP	73	122	122
Change in accounting policies [1)	-3,688	-2,811	-2,811
Translation differences relating to these changes	41	-	-
Opening shareholders' equity according to IFRS	**12,384**	**12,692**	**12,692**
Dividend	-	-307	-
New issue [2)]	1	13	9
Change in surplus value of owner-occupied properties	-3	-8	-
Share-based payments	1	8	2
Change in cash-flow hedges	-	57	-
Recognition of actuarial gains and losses from post-employment defined benefit plans	-	-30	-
Sales and purchases of treasury shares held to cover investment contracts [3)]	25	-248	-142
Translation differences	144	10	293
Profit for the period	423	197	1,211
Closing balance	**12,975**	**12,384**	**14,065**

[1)] See also section on IFRS transition.

[2)] New share issue in connection with stock option programme.

[3)] 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.

CAPITAL EMPLOYED

SEK million	2005 31 Mar.	2004 31 Dec.	2004 31 Mar.
Equity	12,975	12,384	14,065
Treasury shares held to cover investment contracts [1)]	488	504	409
Subordinated loans	849	849	849
Other financing [2)]	3,323	3,357	3,957
Capital employed IFRS	**17,635**	**17,094**	**19,280**
Surplus value of business in force after deferred tax	18,245	17,339	17,098
Capital employed embedded value	**35,880**	**34,433**	**36,378**

[1)] Number of repurchased shares for the benefit of policyholders, thousands	*13,603*	*15,231*	*13,727*

[2)] Including financial reinsurance, excluding deposits from public

NET ASSET VALUE

SEK million	Unit linked 2005 31 Mar.	Unit linked 2004 31 Dec.	Life assurance 2005 31 Mar.	Life assurance 2004 31 Dec.	Total 2005 31 Mar.	Total 2004 31 Dec.
Equity	8,015	7,308	545	533	8,560	7,841
Surplus value of business in force after deferred tax	18,318	17,407	-73	-68	18,245	17,339
Less: minority interests			-43	-43	-43	-43
Embedded value	**26,333**	**24,715**	**429**	**422**	**26,762**	**25,137**
Equity, mutual funds					445	374
Less: minority interests mutual funds					-34	-33
Equity, banking					2,198	2,120
Equity, other businesses					-208	-325
Equity, group functions					1,980	2,374
Treasury shares held to cover investment contracts					488	504
Net asset value					**31,631**	**30,151**

RECONCILIATION OF NET ASSET VALUE [1)]

	According to embedded value method				According to IFRS			
	Unit linked		Life assurance		Other segments		Total	
SEK million	2005 31 Mar.	2004 31 Dec.	2005 31 Mar.	2004 31 Dec.	2005 31 Mar.	2004 31 Dec.	2005 31 Mar.	2004 31 Dec.
Opening balance	**24,715**	**22,418**	**422**	**352**	**5,014**	**6,339**	**30,151**	**29,109**
Profit/loss for the period from continuing operations	527	1,119	0	-5	-104	-1,751	**423**	**-637**
Profit for the period from discontinued operations		834			0	0	**0**	**834**
Change in surplus value of business in force after deferred tax	575	1,553	-4	-24	0	0	**571**	**1,529**
Change in surplus value of business in force in discontinued operations		-405			0	0	**0**	**-405**
Transfer of proceeds from discontinued operations		-1,222				1,222		
Capital contributions/New issue	-32	548	0	101	33	-636	**1**	**13**
Dividend					0	-307	**0**	**-307**
Change in surplus value of owner-occupied properties	-1	1		-11	-2	2	**-3**	**-8**
Share-based payments					1	8	**1**	**8**
Change in cash-flow hedges					0	57	**0**	**57**
Recognition of actuarial gains and losses from post-employment defined benefit plans					0	-30	**0**	**-30**
Translation differences	549	-131	11	6	-71	61	**489**	**-64**
Less: minority interests			0	3	-2	49	**-2**	**52**
Closing balance	**26,333**	**24,715**	**429**	**422**	**4,869**	**5,014**	**31,631**	**30,151**

1) Distributable earnings in April 2005 will decrease by a total of SEK 358 million as a result of the approved dividend.

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

SEK million	Annualised new sales 2005 3 mos.	2004 3 mos.	2004 12 mos.	Present value of new business for the year 2005 3 mos.	2004 3 mos.	2004 12 mos.	Profit margin, new sales 2005 3 mos.	2004 3 mos.	2004 12 mos.
UK, Asia Pacific & Offshore [1]	1,604	1,437	5,982	193	170	684	12.0%	11.8%	11.4%
Europe & Latin America	611	433	2,212	318	99	795	52.0%	22.9%	35.9%
Nordic [2]	487	529	1,757	135	127	391	27.7%	24.0%	22.3%
Total	**2,702**	**2,399**	**9,951**	**646**	**396**	**1,870**	23.9%	16.5%	18.8%
[1] Of which, UK	1,518	1,394	5,786	182	164	662	12.0%	11.8%	11.4%
[2] Of which, Sweden	460	506	1,668	127	124	377	27.6%	24.5%	22.6%

STATEMENT OF CASH FLOWS

SEK billion	2005 3 mos.	2004 3 mos.	2004 12 mos.
Cash flow from operating activities before changes in lending/deposits to and from the public and investments, Banking	0.4	-1.1	-2.2
Change in lending/deposits to and from the public and investments, Banking	-0.4	-0.2	-0.7
Cash flow from operating activities	0.0	-1.3	-2.9
Cash flow from investing activities	0.2	1.7	3.7
Cash flow from financing activities	0.0	-0.5	-1.3
Net cash flow for the period [1]	**0.2**	**-0.1**	**-0.5**
Cash and cash equivalents at the start of the period	**2.0**	**2.5**	**2.5**
Exchange rate differences in cash and cash equivalents	**0.1**	**0.1**	**0.0**
Cash and cash equivalents at the end of the period	**2.3**	**2.5**	**2.0**
[1] Net cash flow from discontinued operations:	-	-0.2	-0.3

STOCK OPTIONS

In March 2005, 42,500 B options from the 2003 programme were subscribed by Skandia employees.
The subscription price was SEK 20.33 per share, and Skandia thus received SEK 864 thousand.

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

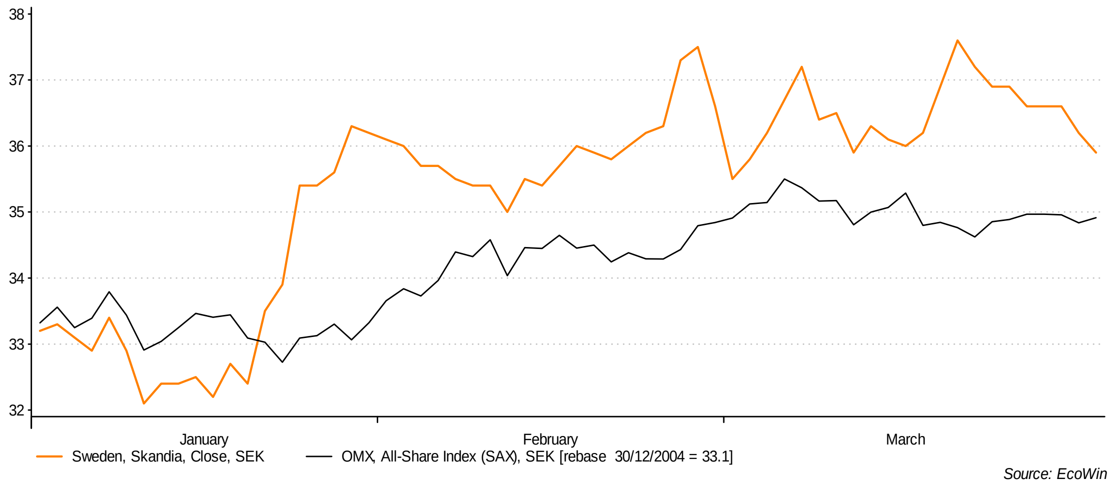
EXCHANGE RATES

SEK	2005 31 Mar.	2004 31 Dec.	2004 30 Sep.	2004 30 Jun.	2004 31 Mar.
EUR Closing rate	9.15	9.03	9.04	9.16	9.27
EUR Average rate	9.09	9.13	9.16	9.18	9.20
GBP Closing rate	13.31	12.76	13.17	13.66	13.86
GBP Average rate	13.10	13.40	13.56	13.56	13.51
USD Closing rate	7.04	6.65	7.28	7.53	7.54
USD Average rate	6.87	7.32	7.47	7.46	7.40

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 35.90 on 31 March 2005, compared with SEK 33.10 at the end of December 2004. This corresponds to an increase of 8.5% during the first quarter of 2005. During the same period, the Stockholm Stock Exchange's SAX index gained 5.5%. The highest and lowest prices paid during the first quarter were SEK 38.00 and SEK 31.80, respectively. Skandia's shares are listed on the Stockholm Stock Exchange and London Stock Exchange. Trading volume in Skandia's shares during the first quarter was 788 million shares, and the market capitalisation was SEK 36.8 billion on 31 March 2005.



Skandia's largest shareholders as per 29 April 2005

Name	Share capital and voting rights, %	Number of shares
Fidelity mutual funds	5.0	51,525,466
Robur mutual funds	3.7	37,524,179
Cevian Capital LP	3.4	34,466,568
Second National Swedish Pension Fund	2.9	29,668,918
SHP/SPP mutual funds	2.5	25,991,342
Kaupthing Bank HF	2.4	24,937,500
SEB mutual funds	1.9	19,683,980
SEB-Trygg Försäkring	1.7	17,133,000
Nordea mutual funds	1.7	17,080,818
Burdaras HF	1.4	14,633,500
Total, 10 largest shareholders	26.6	272,645,271
Total, others	73.4	751,827,874
Total shares	**100.0**	**1,024,473,145**

Glossary

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

Assets under management: The sum of customers' invested assets and the group's own investment assets, including investment assets in Skandia Liv.

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 tax.

Change in operative assumptions: 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.

Change in surplus value of business in force (EV), including financial effects: The change in surplus value of business in force before tax, including revenues and expenses pertaining to the policyholder tax.

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.

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 shares 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): Profit before tax (IFRS) adjusted to include the change in surplus value of business in force (VBIF) including financial effects (EV).

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.

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.

Profit before tax (IFRS): Profit/loss before company tax, revenues and expenses related to the policyholder tax, and profit/loss 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): 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 transfer.

Key ratios

Earnings per share (IFRS): Profit/loss for the period attributable to the parent company's shareholders, divided by the average number of shares outstanding during the period.

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 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 and financial reinsurance, less intangible assets.

Fixed charge cover (IFRS): Profit before tax (IFRS) for the period, including reversal of interest expenses for borrowings, subordinated loans and financial reinsurance, 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, recalculated on a full-year basis, in relation to the present value of new business for the preceding full year, calculated using the latter year's assumptions.

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): Profit/loss 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): Profit/loss for the period attributable to the parent company's shareholders, excluding profit/loss from discontinued businesses, in relation to average shareholders' equity, excluding minority interests during the period.

RECONCILIATION OF EQUITY FROM SWEDISH GAAP TO IFRS

SEK million	2004 31 Dec.	2004 30 Sep.	2004 30 June	2004 31 Mar.	2003 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	11	-	-	-	-
Other adjustments	15	15	1	8	6
Total changes before tax	**-4,615**	**-4,297**	**-4,387**	**-4,178**	**-3,821**
Tax effect of the above	927	1,097	1,090	1,089	1,010
Adjustment to equity	**-3,688**	**-3,200**	**-3,297**	**-3,089**	**-2,811**
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
Total equity under Swedish GAAP	**16,031**	**17,187**	**17,138**	**17,333**	**15,503**
Adjustment to equity	-3,688	-3,200	-3,297	-3,089	-2,811
Translation differences	41	-46	-138	-179	-
Total equity under IFRS	**12,384**	**13,941**	**13,703**	**14,065**	**12,692**

RECONCILIATION OF PROFIT/ LOSS FROM SWEDISH GAAP TO IFRS

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

RECONCILIATION OF CASH FLOW FROM SWEDISH GAAP TO IFRS

SEK billion	2004 12 mos.	2004 9 mos.	2004 6 mos.	2004 3 mos.
Total cash flow under previous GAAP	**-0.2**	**-0.6**	**-0.6**	**-0.1**
Adjustments[1)]	-0.3	0.0	-0.1	0.0
Total cash flow under IFRS	**-0.5**	**-0.6**	**-0.7**	**-0.1**

[1)] Adjustments arise on account of the fact that according to IFRS the banking operation is consolidated line by line and there 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 will be prepared in accordance with International Financial Reporting Standards (IFRS) endorsed by the European Commission. This interim report is the first report published by Skandia in accordance with IFRS. 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, section 7, and the guidelines of the Swedish Financial Supervisory Authority FFFS 2004:21, sections 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.

EC Regulation 1606/2002 requires companies incorporated in a member state with securities admitted to a regulated market to prepare their accounts in accordance with IFRS as adopted by the Commission. The Commission has adopted almost all extant standards. However, in preparing these accounts, Skandia has made the following assumptions about future adoption:

- Although not yet considered by the Commission, that it will adopt the amendments issued by the IASB in December 2004 to IAS 19 Employee Benefits, in due course; and
- The Commission has adopted a modified version of IAS 39 which differs from that issued by the IASB. The so-called 'carve-out' makes two changes:
  - it broadens the range of situations in which hedge accounting is permitted. Skandia has not taken advantage of these provisions; and
  - it removes the option to measure financial liabilities at fair value in situations not already allowed by the EC's own accounting directives. In the case of Skandia, however, the only liabilities that have been measured at fair value are those permitted by Swedish law and the Insurance Accounts Directive.
- The IASB issued a preliminary draft of the new approach of the fair value option during the first quarter 2005. Skandia is monitoring the development of these changes, as they are expected to be implemented and endorsed by the EU in autumn 2005, with potential effect as from 1 January 2006. In Skandia's opinion, the proposal from IASB pertaining to the restricted fair value option in IAS 39 will not change the valuation of Skandia's financial instruments compared with what is presented in this report.

The transition to IFRS will be 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 22. The main changes in accounting policies as a consequence of the transition from Swedish GAAP to IFRS are described below in section 2. A full set of accounting policies is available at www.skandia.se. The explanations and reconciliations in this report relate to the consolidated accounts for Skandia.

Outstanding issues

One issue for the industry as a whole, including Skandia, concerns the reporting of certain fund holdings. A consequence of IAS 27 is that funds controlled by Skandia are to be consolidated, even though all of the assets belong to the owners of the fund units. Policyholders choose to invest in various funds; in practice this is done in such way that Skandia's unit linked company buys units in the fund chosen by the customer. Skandia can thereby – on behalf of its customers – be classified as the owner of a majority stake in the fund. Even though Skandia does not have any controlling influence over these investments, Skandia can be forced to consolidate the funds in which its ownership stake exceeds 50%. If this takes place, the fund's holdings of stock in Skandia Insurance Company Ltd can be considered as repurchased equity capital instruments (treasury shares). In such case, these are to be eliminated against shareholders' equity. Such an adjustment would give rise to a reduction of equity in the accounting, even though there is no economic exposure. In this interim report, Skandia has chosen to consolidate these funds. Consequently, shares held by the funds in Skandia are considered to be treasury shares and are eliminated against equity. The amounts are disclosed in the Swedish GAAP - IFRS reconciliations on page 22.

Changes in the value of unit linked funds and the corresponding change in unit linked liabilities are offset on the face of the income statement. The substance of the transaction is that the changes in value belong solely to the policyholders. Therefore Skandia believes that including these changes in value separately on the face of the income statement would detract from users' ability to understand the transactions and assess Skandia's performance and future cash flows. Skandia believes that that offsetting is the best presentation.

Skandia is monitoring developments within the industry with the intention of taking a conclusive stance on these outstanding issues in 2005.

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 will 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.

e) IAS 39 Financial Instruments: Recognition and Measurement

Certain assets will be designated as "fair value through profit and loss" at the date of transition as allowed by IFRS 1.

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 payments

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

As stated in section 1, 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 heading "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".