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skandia:

annual report 2007

A Member of the OLD MUTUAL Group

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board of directors' report 2007

The Board of Directors and Chief Executive of Skandia Insurance Company Ltd (publ) ("Skandia") hereby submit their annual report for the financial year 1 January–31 December 2007.

business activities

Skandia conducts insurance business with focus on unit linked assurance, private healthcare insurance and group insurance. In addition, the company also accepts some reinsurance business from group companies.

organisation

Skandia was acquired by Old Mutual plc in 2006. As a result of the acquisition, Skandia was delisted from the Stockholm Stock Exchange. The Chief Executive of Skandia is Julian Roberts. Skandia Link, which offers unit linked assurance, and Skandia Lifeline, which offers private healthcare insurance and group insurance, are operationally a part of Skandia's Nordic division, which includes operations in Sweden, Denmark and Norway. Bertil Hult took office as CEO of the Nordic division in August 2007.

Foreign branch offices

Skandia has four registered branches abroad:

- Skandia Forsikring, a branch of Försäkringsaktiebolaget Skandia (publ), Denmark
- Försäkringsaktiebolaget Skandia (publ), Finland branch, Finland
- Försäkringsaktiebolaget Skandia (nuf), Norway
- Skandia Insurance Company Ltd, Corporate office (UK)

New legal structure

A project is currently under way in which the goal is to transfer the companies that Skandia owns directly or indirectly and which are either a part of Skandia's former UK division or ELAM division. The aim is to streamline the legal structure and adapt it to the operative organisation that already applies for Old Mutual and Skandia. Skandia will thereby be the parent company for the business conducted by the Nordic division and the joint support functions that are currently conducted by the company and its subsidiaries.

The first step in this process was taken in December 2007, when Skandia sold Skandia Leben Holding GmbH to a subsidiary of the Old Mutual Group. Skandia Leben Holding GmbH owns the insurance businesses in Germany, Austria and Switzerland. The company was sold at book value, whereby there was no capital gain. The plan is to sell the rest of the companies in Skandia's former UK division and ELAM division in 2008 and 2009. Skandia does not expect the transactions to affect the company's result to any significant degree. Granted, Skandia will lose out on the right to dividends, but in return it will be able to amortise the loans the company has today and also invest some of the proceeds in assets that can generate more stable revenue streams.

The largest business outside the Nordic division is in the UK, which was owned via a British holding company in 2007. This holding company sold the operating companies in the UK in February 2008. This transaction does not affect Skandia directly. The assets in the British holding company, consisting of operating subsidiaries, were exchanged for receivables from companies in the Old Mutual Group.

significant events

New agreement between Skandia and Skandia Liv

Skandia and Skandia Liv have entered into a new outsourcing agreement, with effect from 1 January 2007, to provide administrative services within the joint occupational pensions concept. Under the new agreement, Skandia will handle acquisition of unit linked assurance business in the occupational pensions concept and will also handle administration of a larger share of this business than previously. The administration that Skandia Liv still performs on behalf of Skandia is done at cost price in accordance with the principles that apply for most outsourcing agreements between companies in the Skandia group. In connection with the new occupational pensions agreement, the parties agreed that Skandia would buy out its future obligations under the previous agreement. A one-time payment of SEK 2,360 million was made to Skandia Liv. Skandia has capitalised this compensation as an acquisition cost, and the asset is being amortised over the term of the underlying insurance contracts. The compensation was financed through a loan from the subsidiary Skandia Capital, which in turn financed the transaction through a loan from Skandia's parent company, Old Mutual. The loan is being amortised on a straight-line basis over a period of 10 years. The remaining liability in the year-end accounts is SEK 2,242 million.

Repayment of fees

In 2007 Skandia conducted a review of the fees that are charged on various pension products. With respect to unit linked occupational pension plans, the decision was made to retroactively rescind one of the two fixed fees on savings that was charged during the years 2001-2007. This rescinding resulted in a charge of SEK 120 million against the result.

Changed legislation in pensions market

A number of changes took place in the taxation and deduction rights for pension insurance during the year to adapt Swedish legislation to EU law. The most important of these changes were:

- *A stop to sales of new "Kapitalpension" products.* From 2 February 2007, new sales are no longer possible. Existing "Kapitalpension" plans are not affected.
- *Transfer rights for pension insurance.* From 2 February 2007, transfer rights were stopped for previously written pension insurance plans. According to a bill submitted in February 2008, transfer rights will be reintroduced for contracts written prior to 2 February 2007, starting in May 2008.
- *Deduction for foreign pension insurance.* From 2 February 2007 it is possible to purchase tax-deductible pension and occupational pension insurance also in other EEA countries
- *Reduced deduction for pension savings.* From 1 January 2008, the tax deduction right for private pension savings has been reduced to SEK 12,000 per year.

Disputes

Skandia is and has during the year been party to a number of legal disputes pertaining to Skandia Liv and the sale of American Skandia, among other things. Following is a status report on the most significant of these matters.

American Skandia

The agreement on Prudential Financial's acquisition of American Skandia contains representations and warranties that are customary for this type of transaction. The indemnity in respect of this is limited in time and can amount to a maximum of USD 1 billion.

The US Securities and Exchange Commission (SEC)and the New York Attorney General's Office has investigated market timing by certain owners of fund units offered by American Skandia within the framework of various variable annuity products.

Skandia has approved American Skandia's offer of USD 95 million to settle the market timing issue with the SEC and the New York Attorney General's office. The settlement fully resolves the market timing issue with these authorities. The ultimate financial responsibility for this matter is set forth in Skandia's indemnity obligations in the agreement on the acquisition of shares in American Skandia from Skandia by Prudential Financial. The parties are still waiting for preparation of the final agreement documentation and board approval by the SEC. American Skandia has been a party to a few class action lawsuits in the US. These are covered within the indemnity described above. Skandia's current opinion is that the outcome of these class action suits will not affect the group's financial position to any material extent. It is not possible to rule out any further class action suits related to market timing. It is currently not possible to judge whether such class action suits can affect Skandia to any material extent.

Due to shortcomings in administrative routines in the late 1990s and early 2000s, American Skandia did not annuitise certain annuity contracts at their designated annuitisation dates or contractual default dates. American Skandia brought this shortcoming to the attention of the relevant regulatory authorities. The outcome of this matter is covered by the indemnity described above.

Skandia has made a reserve provision of USD 95 million for settlement of the market timing issue. Additional reserve provisions of USD 124 million have also been made for the guarantees pertaining to American Skandia.

Skandia Liv

Skandia Liv has directed a claim of SEK 3.2 billion plus interest for damages against Skandia for alleged prohibited profit distribution in respect of the asset management agreement that Skandia Liv entered into with Skandia in connection with Skandia's sale in early 2002 of its asset management business to Den norske Bank. Skandia and Skandia Liv have agreed to resolve this dispute through arbitration. No reserve provision has been made. A ruling on this matter is expected in 2008.

Italy

In connection with Skandia's sale in 1998 of the Italian property & casualty insurance companies Uniass and Multiass, customary seller guarantees were made. The buyer brought arbitration proceedings in respect of claims for certain alleged guarantee shortfalls. The claims amounted to approximately EUR 22 million. During the year, a settlement was reached which entails that the matter is now conclusively settled. According to the agreement, Skandia was able to conclude the matter in line with the existing reserve provision of approximately EUR 6 million.

Value Added Taxes for IT operations

The Swedish Tax Authority has questioned the Skandia group's treatment of Value Added Taxes on services pertaining to the operation of the group's IT environment. Consequently, the Tax Authority has assessed outgoing Value Added Tax to a subsidiary of Skandia for a number of financial years, plus an additional tax charge for a number of financial years for such services that the subsidiary performed for other members of the so-called VAT group. Skandia has filed an appeal of the Tax Authority's ruling. Further, the National Tax Board stated in an advance ruling pertaining to subsequent financial years that outgoing Value Added Tax shall be charged by the subsidiary on the services that the subsidiary has performed for other members of the VAT group. The advance tax ruling has been upheld by the Supreme Administrative Court with respect to the matter in principle. The process regarding the payment obligation is continuing in the administrative court, and the county administrative court ruled to Skandia's detriment with the support of the Supreme Administrative Court's ruling. Skandia has appealed this ruling. During the year, Skandia paid the assessed Value Added Tax amount of SEK 240 million, which was covered by existing reserves. A respite has been granted for payment of the additional tax of SEK 24 million. A portion of the assessed amount was invoiced further to Skandia Liv.

Tax audit

In a decision in December 2007, the Tax Authority rejected Skandia's tax-loss carryforward of SEK 1,244 million pertaining to provisions for market timing and annuitisation (see above under American Skandia). Skandia will be appealing the Tax Authority's decision. Since Skandia has accumulated tax deficits in amounts higher than the disputed carryforwards, which have not been assigned any value on the balance sheet, the Tax Authority's decision does not affect Skandia's result.

Other

Apart from the disputes described above, Skandia is party to a number of other disputes of a scope which – in Skandia's opinion – is normal considering the business conducted by the group.

financial review

Following is a brief commentary on the income statement and balance sheet. For more detailed information, see the notes. The comments are written primarily in deviation form.

Result for the period

The result for the year was SEK 968 million (-657).

The technical result for property & casualty insurance business was SEK 43 million (53), which is not shown in the income statement, since all property & casualty insurance business is reinsured, and the technical amount thereby amounts to SEK 0 million. The result for property & casualty insurance business is specified further in note 49.

The technical result for life assurance business was SEK 954 million (839). Premiums written, totalling SEK 914 million (938), consist of premiums attributable to insurance components of investment contracts and fees from customers. Premiums in 2007 decreased by SEK 120 million as a result of a reduction in previously charged fees for occupational pensions business. The reduction was made after the company's decision to retroactively rescind one of the two fixed fees on savings that was charged from 2001 to 2007. Apart from this one-time effect, premiums increased, which is mainly attributable to high fees on fund values as a result of a positive value development in the market. Total premiums for life assurance, including both the insurance component of investment contracts and pure investment contracts, amounted to SEK 8,505 million (9,479). The main reduction in total premiums is attributable to the stop in the writing of "Kapitalpension" business. New sales of unit linked assurance, totalling SEK 1,706 million (1,721), decreased overall compared with the preceding year. This decrease is also due to the ban instituted on new "Kapitalpension" business. Apart from this product, other new sales, totalling SEK 1,690 million (1,556), rose 9% compared with a year ago.

Fund-based revenues, which for accounting purposes are broken down into premiums written and other technical income, rose 16% compared with a year ago, to SEK 1,483 million (1,282). This can be credited to favourable growth in value in 2007 and a higher net inflow of funds under management.

In 2006, the result was charged with an extra technical provision of SEK 300 million to cover guarantees made for a portfolio of occupational pensions business. This provision remained unchanged in 2007.

Operating expenses amounted to SEK 1,244 million (861) and include SEK 201 million for the dissolution of deferred acquisition costs attributable to the buy-out of future obligations under the old occupational pensions agreement between Skandia and Skandia Liv. The new occupational pensions agreement also gave rise to administrative expenses of SEK 47 million, which was offset by higher fee-based revenue.

Total investment income amounted to SEK 436 million (-1,310). Revenues consist primarily of dividends from group companies and reversals of previous years' write-downs of shares in group companies. Expenses include capital losses on sales of group companies. The change between the two years is attributable to a reversed write-down of SEK 2,473 million pertaining to A/S Nevi, which is reported as revenue in 2007. The corresponding amount in 2006 was reported as an impairment charge. The capital loss for the sale of the group company Skandia Global Investment AB amounted to SEK 1,726 million. An addition, a capital loss of SEK 1,805 million was incurred on the sale of the shares in A/S Nevi. However, this loss was offset by the reversed write-down, whereby a liquidation gain of SEK 668 million arose.

Balance sheet

Total assets amounted to SEK 118,201 million (116,697).

Investments in group companies and associated companies decreased to SEK 11,320 million (13,910). Skandia Global Investments AB SEK 1,866 million and Skandia Leben Holding GmbH SEK 1,452 million, were sold. Skandia Link Livsforsikring A/S SEK 712 million was acquired from the liquidated company A/S Nevi.

Loans to group companies increased to SEK 2,468 million (534). A subordinated loan of SEK 1,200 million was rendered to SkandiaBanken at the same time that lending to Skandia Capital increased by SEK 733 million.

Lending to credit institutions, totalling SEK 1,560 million (150), pertains to investments of excess liquidity at year-end.

The decrease in deposits with ceding undertakings, which totalled SEK 2,435 million (6,844), is attributable to the termination of the contract with Royal Skandia Life Assurance Ltd.

Investments for the benefit of life assurance policyholders who bear the investment risk amounted to SEK 91,867 million (86,077), an increase of 7%. Most of the net change, totalling SEK 5,790 million, is attributable to the positive trend in the financial market.

Amortisation of deferred acquisition costs, totalling SEK 3,185 million (1,066), increased as a result of the settlement of the old occupational pensions agreement between Skandia and Skandia Liv.

The change in other provisions, totalling SEK 1,550 million (1,037), consists in part of the provision for pensions, totalling SEK 416 million, and a provision of SEK 120 million pertaining to the reimbursement of fees charged on a portfolio of occupational pensions business. The pension provision, which includes payroll tax, pertains to an annually updated reserve for possible supplementary premiums for pensionable salary amounts, which can vary over time.

Cash flow

Cash flow from operating activities was SEK -1,493 million (-2,984), which was mainly attributable to the one-time payment of SEK 2,360 million to Skandia Liv in connection with the renegotiation of the Liv/Link agreement.

Cash flow from investing activities was SEK 3,088 million (3,378). Cash flow was favourably affected in the amount of SEK 2,530 million by a payment received in connection with the liquidation of A/S Nevi. Skandia Leben Holding GmbH was sold to OM Group (UK) Ltd for SEK 1,075 million. Group companies paid dividends totalling SEK 2,628 million, of which SEK 2,230 million from Global Investment AB was the largest item. This was offset by an increase in loans to group companies, totalling SEK 1,934 million, where the biggest change consisted of a loan to SkandiaBanken that was taken over, totalling SEK 1,200 million, in connection with the liquidation of A/S Nevi. An investment of SEK 1,410 million was made with surplus liquidity.

Cash flow from financing activities was SEK -1,805 million (-1,026) and pertained to a change in borrowings. A total of SEK 2,360 million was borrowed from Skandia Capital to pay deferred acquisition costs in connection with the new Liv/Link agreement. Subordinated loans were dissolved in the amount of SEK 850 million. A repayment of SEK 901 million was made to Skandia Link Livsforsikring A/S in connection with the liquidation of A/S Nevi. In addition, a change with respect to Skandia Capital AB resulted in a decrease in borrowings in the amount of SEK 2,283 million.

risks in the business activities

Skandia's business gives rise to various types of risks that can affect the company's result and financial position. Some of these risks are associated with the company's business strategy and are not limited to a specific business segment. Other risks are segment-specific, such as actuarial risk. The significant risks in Skandia's business can be broken down in the following categories:

- Strategic and political risks
- Financial market risks
- Actuarial risk
- Solvency risk
- Customer behaviour risk
- Operational risk
- Credit risk
- Liquidity risk
- Compliance risk

A more detailed discussion of these risks, how they affect Skandia, and how risks are managed and controlled is provided in note 2.

insurance contracts and investment contracts

According to IFRS 4, contracts are to be classified as either insurance contracts or investment contracts. For contracts that contain both an insurance component and a deposit component, and where it is possible to determine the value of the components separately, then there is an opportunity to use unbundling. Skandia issues both insurance and investment contracts. With respect to Skandia's unit linked assurance, which is initially classified as an investment contract, it is possible to determine the value of the deposit component separately from the insurance component in a reliable manner. To provide more relevant financial information, Skandia unbundles its unit linked assurance contracts and reports the deposit component and insurance component as if they were separate contracts. More detailed information on the handling of insurance contracts and investment contracts is provided in note 1, section 5.

our employees

Skandia is a knowledge-intensive company in which the employees' commitment, competence and performance are decisive for the company's success and competitive strength. With a good human resources policy, culture and values, and well-established processes in leader- and employeeship, Skandia will continue to be an attractive employer.

Skandia aims to operate as a values-steered company. As part of the Old Mutual and Skandia groups, the company adheres to five shared values. These five values are:

- Integrity – We act with integrity
- Respect – We show mutual respect for each other
- Accountability – We take responsibility for what we do
- Pushing beyond boundaries – We strive always to break new ground
- Passion – We have a passion for what we do

To support the business activities, it is crucial that these values are backed by substance. At Skandia work was begun in autumn 2007 on describing what these values mean in practice. This applies to our daily work with our customers and business partners as well as internally amongst ourselves. This work will be ongoing in the future in order to be a natural part of what Skandia wants to stand for, externally as well as internally. All leaders have a very important role in creating a values-steered Skandia.

environment

Skandia's CSR policy sets forth that the company's strategy shall lead to reducing the environmental impact of its business through continuous improvement. Skandia is also a signatory of the UN's Global Compact and the OECD's guidelines for multinational companies.

Skandia does not conduct any operations that require a permit or notification according to the Environmental Code.

future outlook

Market

The market in 2008 will continue to be characterised by greater transparency, price pressure from niche players, major central procurement processes and turbulence in the financial markets. To be able to meet these demands, Skandia will be stepping up the pace of development of new savings and insurance products as well as services that are cost-effective for customers as well as owners. Skandia today is a leading player in insurance savings. Banks and other insurance companies are our biggest competitors, however, in recent years niche players have also gained a foothold in the market and are competing with low fees and online sales. Apart from developments in the market, we are also affected by legislative changes. In 2007, wealth taxes were abolished in Sweden, and the trend is moving towards reduced tax incentives for insurance savings, which puts us in more direct competition with other savings forms. Among the legislative changes that will affect Skandia in 2008 are resumed transfer rights and the reduced tax deduction right for private pension savings.

proposed distribution of profit

SEK million	
The following amount is available for distribution by the Annual General Meeting:	
profit brought forward	7,583
net profit for the year	968
Total disposable profit	8,551
The Board of Directors and Chief Executive propose that this amount be distributed as follows:	
to be carried forward	8,551
If this proposal is adopted, the company's reported shareholders' equity will consist of:	
share capital	1,031
share premium reserve	139
profit carried forward	8,551
Total shareholders' equity	**9,721**

Stockholm, 26 May 2008

Lars Otterbeck
Chairman of the Board

Anne Andersson

Magnus Beer

Ingolf Lundin

Michael Newman

Julian Roberts
Chief Executive,
Company Director

Gert-Ove Zettergren

Indra Åsander

Our audit report was submitted on 27 May 2008.

KPMG Bohlins AB

Thomas Thiel
Authorised Public Accountant

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

income statement

SEK million	Note	2007	2006
TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS			
Premiums earned, net of reinsurance			
Premiums written	3	696	649
Premiums ceded	3	-696	-649
Change in provision for unearned premiums and unexpired risks		-21	-10
Reinsurers' share of change in provision for unearned premiums and unexpired risks		21	10
		0	**0**
Allocated investment return transferred from the non-technical account	4	**0**	**0**
Claims incurred, net of reinsurance	5		
Claims paid			
Gross		-448	-395
Reinsurers' share		448	395
Change in provision for claims outstanding			
Gross		13	2
Reinsurers' share		-13	-2
		0	**0**
Operating expenses	6	**0**	**0**
Technical result, property & casualty insurance business		**0**	**0**
TECHNICAL ACCOUNT, LIFE ASSURANCE BUSINESS			
Premiums written, net of reinsurance	7		
Premiums written		938	969
Premiums ceded		-24	-31
		914	**938**
Investment income		**0**	**3**
Other technical income, net of reinsurance		**1,447**	**1,202**
Claims incurred, net of reinsurance			
Claims paid	8		
Gross		-160	-152
Reinsurers' share		6	5
Change in provision for claims outstanding			
Gross		27	28
Reinsurers' share		1	3
		-126	**-116**
Change in other technical provisions, net of reinsurance	9		
Provision for unearned premiums and unexpired risks			
Gross		-35	-25
Life assurance provision			
Gross		—	-300
		-35	**-325**
Operating expenses	10	**-1,244**	**-861**
Investment charges		**-2**	**-2**
Technical result, life assurance business		**954**	**839**

SEK million	Note	2007	2006
NON-TECHNICAL ACCOUNT			
Technical result, property & casualty insurance business		**0**	**0**
Technical result, life assurance business		**954**	**839**
Investment income	11	5,556	3,192
Unrealised gains on investments	12	8	92
Investment charges	13	-5,098	-4,546
Unrealised losses on investments	14	-30	-48
	15	**436**	**-1,310**
Allocated investment return transferred to the technical account	4	0	0
Other revenues		83	64
Other expenses		-67	0
Result before taxes		**1,406**	**-407**
Tax on result for the year	16	89	166
Other taxes	16	-527	-416
Result for the year		**968**	**-657**

balance sheet

SEK million	Note	2007	2006
ASSETS			
Investments			
Investments in group and associated companies	17		
Shares and participations in group companies		11,320	13,910
Loans to group companies		2,468	534
Shares and participations in associated companies		152	116
Other financial investments	18		
Shares and participations		190	178
Bonds and other fixed-income securities		2,120	2,069
Other loans		0	0
Lending to credit institutions		1,560	150
Derivatives		4	53
Deposits held with ceding undertakings	19	2,435	6,844
		20,249	**23,854**
Investments for the benefit of life assurance policyholders who bear the investment risk			
Assets for conditional bonuses	20	103	110
Unit linked assets	21	91,764	85,967
		91,867	**86,077**
Reinsurers' share of technical provisions			
Provision for unearned premiums and unexpired risks	30	197	174
Provision for claims outstanding	32	787	795
		984	**969**
Debtors			
Debtors arising out of direct insurance operations	22	35	24
Debtors arising out of reinsurance operations		21	29
Other debtors	23	585	3,362
Deferred tax, net	24	565	462
		1,206	**3,877**
Other assets			
Tangible assets	25	41	42
Cash and bank balances		68	273
		109	**315**
Prepaid expenses and accrued income			
Accrued interest and rent		62	74
Deferred acquisition costs	26	3,185	1,066
Other prepayments and accrued income	27	539	465
		3,786	**1,605**
TOTAL ASSETS		**118,201**	**116,697**

SEK million	Note	2007	2006
SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES			
Shareholders' equity			
Share capital		1,031	1,031
Share premium reserve		139	139
Profit or loss brought forward		7,583	8,184
Result for the year		968	-657
		9,721	**8,697**
Untaxed reserves	28	**2,091**	**2,091**
Subordinated liabilities	29	**—**	**850**
Technical provisions, gross			
Unearned premiums and unexpired risks	30	257	199
Life assurance provision	31	300	300
Claims outstanding	32	1,410	1,445
		1,967	**1,944**
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross			
Conditional bonuses	33	103	110
Unit linked obligations	34	94,264	92,870
		94,367	**92,980**
Other provisions			
Pensions and similar obligations	35	287	284
Taxes		10	0
Other provisions	36	1,550	1,037
		1,847	**1,321**
Deposits received from reinsurers		**965**	**970**
Creditors			
Creditors arising out of direct insurance operations	37	270	279
Creditors arising out of reinsurance operations		21	43
Derivatives	38	32	22
Other creditors	39	5,602	6,157
		5,925	**6,501**
Accruals and deferred income			
Reinsurers' share of deferred acquisition costs	26	14	11
Other accruals and deferred income	40	1,304	1,332
		1,318	**1,343**
TOTAL SHAREHOLDERS' EQUITY, PROVISIONS AND LIABILITIES		**118,201**	**116,697**
Memorandum items			
Pledged assets and therewith comparable collateral for own liabilities and for reported commitments for provisions	42	3,617	8,014
Assets covered by policyholders' beneficiary rights	42	94,035	88,194
Contingent liabilities	43	1,049	1,069

statement of changes in shareholders' equity

SEK million	Restricted shareholders' equity: Share capital	Restricted shareholders' equity: Share premium reserve	Unrestricted shareholders' equity: Profit/loss brought forward	Total share-holders' equity
Shareholders' equity at the beginning of 2006	**1,025**	**31**	**7,788**	**8,844**
Translation differences for the year			4	4
Group contributions after deducted tax			360	360
Merger result[1)]			39	39
Total changes in net worth recognised directly in shareholders' equity, excluding transactions with owners	**1,025**	**31**	**8,191**	**9,247**
Result for the year			-657	-657
Total changes in net worth, excluding transactions with owners	**1,025**	**31**	**7,534**	**8,590**
New issue[2)]	6	108		114
Dividend, SEK 0.40 per share[3)]			-7	-7
Shareholders' equity at year-end 2006	**1,031**	**139**	**7,527**	**8,697**
Translation differences for the year			-4	-4
Group contributions after deducted tax			54	54
Share-based payments			6	6
Total changes in net worth recognised directly in shareholders' equity, excluding transactions with owners	**1,031**	**139**	**7,583**	**8,753**
Result for the year			968	968
Shareholders' equity at year-end 2007	**1,031**	**139**	**8,551**	**9,721**

Total number of shares outstanding	**2007**	**2006**
At 1 January	1,030,762,688	1,025,153,800
New issue associated with employee stock option programme	—	5,608,888
At 31 December	1,030,762,688	1,030,762,688
All shares have a par value of SEK 1 per share.		

1) Pertains to Skandia Rådgivning Aktiebolag, reg. no. 556628-6612.
2) New issue associated with employee stock option programme.
3) Since the principal owner, Old Mutual, waived its entitlement to the dividend, dividends were paid out only to the other shareholders, corresponding to 18,048,412 shares.

cash flow statement

SEK million	2007	2006
Operating activities		
Result before tax	1,406	-407
Policyholder tax	-527	-416
Adjustment for dividends from group companies	-2,628	-2,599
Adjustment for non-cash items[1)]	1,514	3,079
Paid tax	-35	13
Cash flow from operating activities before changes in assets and liabilities	**-270**	**-330**
Cash flow from change in investments/technical provisions, where the investment risk is borne by the policyholders, net[2)]	6	-8
Increase of other investments pertaining to operating activities	-81	-290
Change in other operating receivables and operating liabilities[3)]	-1,148	-2,356
Cash flow from operating activities	**-1,493**	**-2,984**
Investing activities		
Decrease of investments not used directly in the operations, net	-1,422	1,583
Dividends from group companies	2,628	2,599
Other[4)]	1,882	-804
Cash flow from investing activities	**3,088**	**3,378**
Financing activities		
Change in borrowings[5)]	-1,805	-1,133
New issue	—	114
Dividend	—	-7
Cash flow from financing activities	**-1,805**	**-1,026**
NET CASH FLOW FOR THE YEAR	**-210**	**-632**
Cash and cash equivalents at start of year	**273**	**913**
Exchange rate differences in cash and cash equivalents	**5**	**-8**
Cash and cash equivalents at end of year	**68**	**273**

1) Amortisation and write-downs	15	18
Change in value of investments	31	-52
Unrealised foreign exchange gains/losses	-46	-407
Change in deferred acquisition costs	228	148
Change in deferred fee income	-10	-12
Change in accrued commission expenses	—	-58
Change in technical provisions excluding savings in life and unit linked assurance	7	294
Share-based payments	9	—
Provisions for discontinued operation	—	338
Reversal of write-down of group companies	-2,473	—
Loss on sale of group companies	3,531	—
Write-down of group companies	154	2,848
Merger result	—	-39
Other	68	1
Adjustment for non-cash items	**1,514**	**3,079**
2) Increase in technical provisions where the investment risk is borne by the policyholders, net	5,420	11,566
Purchases and sales of investments where the investment risk is borne by the policyholders, net	-5,410	-11,574
Other	-4	—
Cash flow from change in investments/technical provisions where the investment risk is borne by the policyholders, net	**6**	**-8**

3) The item “Change in other operating receivables and operating liabilities” has been adjusted for group contributions that have been booked, but not received, in the amount of SEK 75 million (500) including tax on group contributions.

4) Acquisition of tangible fixed assets	-13	-10
Adjustment of payment from group companies	2,530	—
Shareholder contribution to associated companies	-37	—
Change in loans, group companies	-1,934	-255
Liquidation of group companies	694	1,036
Acquisitions of group companies	-712	-1,104
Sales of group companies	1,215	—
Repayment of shareholder contribution from group companies	378	60
Shareholder contribution to group companies	-197	-493
Other	-42	-38
Other	**1,882**	**-804**
5) Loans floated	20,185	26,030
Amortisation of loans	-22,013	-27,560
Realised foreign exchange gains/losses, hedging of foreign net assets	—	314
Other	23	83
Change in borrowings	**-1,805**	**-1,133**

performance analysis

PROPERTY & CASUALTY INSURANCE (PER LINE OF INSURANCE)

SEK million	TOTAL	Disability and accident	Direct foreign
Technical result, property & casualty insurance business			
Premiums earned, net of reinsurance	0	-171	171
Allocated investment return transferred from the non-technical account	0	0	0
Claims incurred, net of reinsurance	0	147	-147
Operating expenses	0	56	-56
Technical result, property & casualty insurance business	**0**	**32**	**-32**
Run-off result	**0**	**0**	**0**
Technical provisions, gross			
Unearned premiums and unexpired risks	197	147	50
Claims outstanding	741	649	92
Total technical provisions, gross	**938**	**796**	**142**
Reinsurers' share of technical provisions			
Unearned premiums and unexpired risks	197	197	—
Claims outstanding	741	741	—
Total reinsurers' share of technical provisions	**938**	**938**	**—**

Notes to the Performance analysis, property & casualty insurance business

Premiums earned, net of reinsurance			
Premiums written, gross	696	515	181
Premiums ceded	-696	-696	—
Change in provision for unearned premiums and unexpired risks	-21	-11	-10
Reinsurers' share of change in provision for unearned premiums and unexpired risks	21	21	—
	0	**-171**	**171**
Claims incurred, net of reinsurance			
Claims paid[1]			
— Gross	-448	-320	-128
— Reinsurers' share	448	448	—
Change in claims outstanding[2]			
— Gross	13	32	-19
— Reinsurers' share	-13	-13	—
	0	**147**	**-147**

[1] Including claims portfolios and claims settlement costs.
[2] Including change in claims settlement reserve.

LIFE ASSURANCE (PER LINE OF INSURANCE)

		Occupational pension insurance[1]			Other life assurance					
SEK million	**TOTAL**	Unit linked assurance	Waiver of premium insurance	**Total**	Life assurance	Unit linked assurance	Waiver of premium insurance	**Total**	**Life reassurance accepted**	**Unbundling**
Technical result, life assurance business										
Premiums written, net of reinsurance	**914**	5,956	142	6,098	4	2,861	10	2,875	113	-8,172
Investment income	**0**	—	—	—	—	—	—	—	252	-252
Increase in value of investment assets where the investment risk is borne by the policyholders	**0**	2,530	—	2,530	2	1,176	—	1,178	—	-3,708
Other technical income, net of reinsurance	**1,447**	934	—	934	1	512	—	513	0	—
Claims incurred, net of reinsurance	**-126**	-1,432	-54	-1,486	-9	-3,261	-3	-3,273	-619	5,252
Change in other technical provisions, net of reinsurance	**-35**	-6,708	-35	-6,743	5	-549	—	-544	382	6,870
Operating expenses	**-1,244**	-556	7	-549	0	-606	0	-606	-99	10
Investment charges	**-2**	0	-2	-2	—	0	0	0	0	0
Technical result, life assurance business	**954**	**724**	**58**	**782**	**3**	**133**	**7**	**143**	**29**	**0**
Run-off result	**104**	**—**	**96**	**96**	**—**	**—**	**8**	**8**	**—**	**—**
Technical provisions, gross										
Unearned premiums and unexpired risks	**60**	—	60	60	—	—	—	—	—	—
Life assurance provision	**300**	300	—	300	—	—	—	—	2,348	-2,348
Claims outstanding	**669**	—	597	597	—	0	72	72	—	—
Technical provisions, gross	**1,029**	**300**	**657**	**957**	**—**	**0**	**72**	**72**	**2,348**	**-2,348**
Technical provision for life assurance policies where the risk is borne by the policyholders, gross										
Conditional bonuses	**103**	0	—	0	103	0	—	103	—	—
Unit linked obligations	**94,264**	62,215	—	62,215	—	29,614	—	29,614	87	2,348
Technical provision for life assurance policies where the risk is borne by the policyholders, gross	**94,367**	**62,215**	**—**	**62,215**	**103**	**29,614**	**—**	**29,717**	**87**	**2,348**
Reinsurers' share of technical provisions	**46**	—	46	46	—	—	0	0	—	—
Claims outstanding	**46**	—	46	46	—	—	0	0	—	—

1) Occupational pension insurance is defined in accordance with the definition provided by the Swedish Financial Supervisory Authority.

Notes to the Performance analysis, life assurance business

Premiums written, net of reinsurance										
Premiums written, gross	**938**	5,956	166	6,122	4	2,861	10	2,875	113	-8,172
Premiums ceded	**-24**	0	-24	-24	0	0	—	0	—	—
	914	**5,956**	**142**	**6,098**	**4**	**2,861**	**10**	**2,875**	**113**	**-8,172**
Claims incurred, net of reinsurance										
Claims paid										
— Gross	**-141**	-1,427	-75	-1,502	-9	-3,251	-12	-3,272	-619	5,252
— Reinsurers' share	**6**	—	6	6	—	—	0	0	—	—
— Claims settlement costs	**-18**	-5	-3	-8	0	-10	0	-10	—	—
Change in claims outstanding										
— Gross	**26**	0	17	17	—	0	9	9	—	—
— Reinsurers' share	**1**	—	1	1	—	—	0	0	—	—
	-126	**-1,432**	**-54**	**-1,486**	**-9**	**-3,261**	**-3**	**-3,273**	**-619**	**5,252**

notes (SEK million)

Note 1 Significant accounting policies

1. General information
The Annual Report of Skandia Insurance Company Ltd (publ) pertains to the period 1 January–31 December 2007. Skandia is domiciled in Stockholm, Sweden, with head office at Sveavägen 44 and registered number 502017-3083. Skandia was established in 1855 and was listed on the Stockholm Stock Exchange between 1863 and 2006. As from 2006, Skandia is a subsidiary of Old Mutual plc, domiciled in London, UK.

The Annual Report for 2007 has been approved by the Board of Directors and Chief Executive for publication and will be presented at the Annual General Meeting in May 2008.

2. Basis of preparation
The Annual Report has been prepared in conformity with the Swedish Annual Accounts Act for Insurance Companies and Swedish Financial Supervisory Authority regulations and general guidelines on annual reports of insurance companies (FFFS 2006:17), as well as Swedish Financial Accounting Standards Council recommendation RR32:06 "Accounting for legal entities". In accordance with these regulations and general guidelines, Skandia applies so-called legally limited IFRS. By legally limited IFRS is meant application of IFRS and accompanying interpretations that have been adopted by the European Commission, along with the deviations prescribed by FFFS 2006:17 and RR32:06. These deviations entail that all EU-approved IFRSs and interpretations are to be applied as far as possible within the framework of Swedish legislation and taking into account the connection between accounting and taxation.

In reference to Ch. 7 of the Swedish Annual Accounts Act for Insurance Companies, no consolidated financial statements are prepared for Skandia. Skandia is a subsidiary of Old Mutual plc and is included in the consolidated financial statements prepared by Old Mutual. The Annual Report of Old Mutual plc is available at www.oldmutual.com and can be ordered from Old Mutual, 2 Lambeth Hill, London EC4V 4GG, UK.

The financial statements are presented in Swedish kronor (SEK), rounded off to the nearest million. They are based on historical cost, except for the following assets and liabilities, which are stated at fair value: financial derivative instruments, investments held for trading, and financial assets and liabilities pertaining to unit linked assurance.

The accounting policies stated below have been applied for all periods presented in this annual report.

3. Important estimations and assessments for accounting purposes
The accounting policy that has the most significant impact on the reported amounts in the financial statements is the unbundling of contracts into insurance components and deposit components, which is described in section 5. Skandia has chosen to apply this unbundling method because of the increased transparency it results in. It clarifies how Skandia's revenues and expenses arise, and it treats all unit linked contracts in a uniform manner.

The most important assumptions about the future and sources of uncertainty that can affect the reported amounts of assets and liabilities are related to the technical provisions that are described in note 32 and the other provisions that are described in note 36 and in the Disputes section in the Board of Directors' Report.

4. Foreign currencies
Transactions in foreign currency are recalculated to the functional currency at the exchange rate in effect on the transaction date. Skandia's functional currency is the Swedish krona. As an approximation of the exchange rate in effect on the date of transaction, ordinarily the average exchange rate for the period is used. Foreign currency–denominated assets and liabilities are translated to SEK at financial year-end rates of exchange. Non-monetary items denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate in effect on the date of the transaction, and non-monetary items in foreign currency that are measured at fair value are translated using the exchange rate in effect at the date when the fair value was determined.

Exchange rate differences are reported in the income statement as foreign exchange gains and losses, respectively.

Assets and liabilities in independent foreign branches are translated to SEK at financial year-end rates of exchange, while the income statements are translated at the average rate of exchange for the period. Translation differences that arise do not affect profit/loss, but are instead recognised directly in shareholders' equity.

5. Insurance and investment contracts – classification and unbundling
According to IFRS 4, contracts shall be classified as either insurance or investment contracts. Contracts that contain a significant insurance risk are classified as insurance contracts and are reported in accordance with IFRS 4. Contracts that do not transfer significant insurance risk from the policyholder to the company are classified as investment contracts and are reported as financial instruments in accordance with IAS 39. For contracts that contain both an insurance component and a deposit component, and where it is possible to determine the value of the components separately, according to IFRS 4 the company is permitted to use unbundling, which entails that the contract is broken down into an insurance component and a deposit component in the accounting.

Skandia issues insurance contracts and investment contracts. Insurance contracts are contracts under which Skandia accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract, as they do not transfer significant insurance risk from the policyholder to the company.

With respect to Skandia's unit linked assurance, which is initially classified as an investment contract, it is possible to determine the value of the deposit component separately from the insurance component in a reliable manner. To provide more relevant financial information, Skandia unbundles its unit linked assurance contracts and reports the deposit component and insurance component as if they were separate contracts.

The insurance component of unit linked assurance is classified as an insurance contract and is handled according to section 5.1 below. The deposit component, which includes the financial instrument and the related service process, is treated according to the principles that apply for investment contracts, see section 5.2 below. For the unbundled contracts, the fees and costs arising from the contract are split between the insurance and deposit components. Front-end fees and acquisition costs are split according to the expected future profitability within the components.

5.1 Insurance contracts

Insurance contracts comprise healthcare insurance contracts and the unbundled insurance component of unit linked contracts.

(a) Measurement

Skandia makes a provision for anticipated future claims that have been incurred but not yet paid. As a rule, such provisions are made in accordance with the principles for reserve provisions and calculation of guarantees set forth in the Skandia Group Corporate Manual, which is approved by the Board of Skandia. For long-term obligations, such as provisions for disability insurance business, the liability is discounted using a market interest rate, but taking into account regulatory guidelines and other rules on how discounting may be done. Such provision is reported in the balance sheet as “Claims outstanding”.

For contracts where insurance risk premiums in a period are intended to cover the claims in that period, the portion of premiums received that relates to unexpired risks on the balance sheet date is reported as an unearned premium liability. Such contracts include, for example, unit linked contracts and certain life assurance contracts. This provision is reported in the balance sheet as “Unearned premiums and unexpired risks”.

(b) Liability adequacy test

At each reporting date, Skandia carries out a liability adequacy test of its insurance contract liabilities to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. The carrying amount of a liability is the value of the liability less deferred acquisition costs. In performing these tests, current best estimates of future contractual cash flows as well as claims handling and administration expenses are used. These cash flows are discounted and compared to the carrying amount of the liability. Any deficiency is immediately charged to income.

(c) Recognition of revenue

Premiums for insurance contracts are recognised as revenue when they become payable by the contract holder. For contracts where insurance risk premiums in a period are intended to cover the claims in that period, those premiums are recognised as revenue proportionally over the period of coverage.

(d) Recognition of costs

Costs for insurance contracts are recognised as an expense when incurred, with the exception of commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts. These are capitalised as deferred acquisition costs. The principles for deferring acquisition costs of insurance contracts are the same as the principles for deferring acquisition costs of investment contracts, see section 8 (c).

The change in provisions for insurance contracts is reported under expenses in the income statement. Claims paid are recorded as an expense upon payment.

(f) Reinsurance

Contracts entered into by Skandia with reinsurers, under which the company is compensated for losses on contracts issued by the company and that meet the classification requirements for insurance contracts in section 5, are classified as ceded reinsurance. Contracts that do not meet these requirements are classified as financial assets and liabilities. Accepted reinsurance is treated similarly to other contracts (see section 5) and is reported according to that classification.

For ceded reinsurance, the benefits to which the group is entitled under its reinsurance contracts are reported as the reinsurers’ share of technical provisions and deposits held with cedants. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

Skandia assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises the impairment loss in the income statement.

The impairment loss is also calculated following the same method used for these financial assets. These processes are described in section 9.

5.2 Investment contracts

Investment contracts include the deposit component of unit linked assurance contracts.

(a) Measurement

Investment contracts are financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial instruments at fair value through profit or loss.

Valuation techniques are used to establish the fair value at inception and each reporting date. The company’s main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using the current unit values, which reflect the fair value of the financial assets contained within the funds linked to the financial liability, multiplied by the number of units attributed to the contract holder on the balance sheet date.

The initial and subsequent measurement amount of the financial liability is its fair value. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender.

If, for a certain portfolio, the expected future revenue is lower than the expected future variable costs, a provision for onerous contracts must to be established for this portfolio.

(b) Recognition of revenue

Amounts received from and paid to investment contract holders are accounted for in the balance sheet as deposits received or repaid, and are not included in premiums and claims in the income statement.

Fees charged for managing investment contracts are recognised as revenue in line with the provision of the investment management services to the contract holders by Skandia. The revenue is recognised in the income statement as premiums and among other technical income, respectively. These services are provided equally over the lifetime of a contract. Front-end fee income, such as the unallocated part of premiums, is therefore deferred through a deferred fee income (DFI) item. In practice, this entails a linear amortisation over the anticipated lifetime of the contracts. Amortisation is calculated for groups of contracts, but it is done in such a way that it reflects the pattern that a contract-for-contract method would have resulted in. The amortisation takes into account the fact that contracts are prematurely redeemed or cancelled upon death using a persistency factor. For a portfolio of contracts, amortisation is thus done according to a slightly exponential curve, with higher amounts early in the lifetime of the contracts and lower amounts toward the end of lifetime of the contracts, when fewer contracts remain in the respective portfolios.

(c) Recognition of costs
Incremental costs directly attributable to securing a new investment contract are deferred. In Skandia's case, these costs are mainly incremental acquisition costs paid to sales personnel, brokers and others. Deferred acquisition costs are amortised as Skandia recognises the related revenue, which means that they follow the pattern of the service provision. Just like with deferred fee income, deferred acquisition costs are amortised according to a persistency factor. The asset is tested for impairment every accounting period to ensure that the economic future benefits expected to arise from the contracts exceed its face amount.

All other costs, such as non-incremental acquisition costs or maintenance costs, are recognised in the accounting period in which they arise.

6. Subsidiaries, associates and jointly controlled entities
Subsidiaries are companies which are subject to the controlling interest of the parent company. Controlling interest entails, directly or indirectly, a right to determine a company's financial and operating strategies in order to receive economic benefit. When determining whether a controlling interest exists, consideration is given to potential shares with voting rights that can immediately be exercised or converted.

Associates are entities in which Skandia has significant influence, but not control, over the financial and operating strategies – usually a holding between 20% and 50% of the number of votes.

Joint ventures are entities in which Skandia exercises a joint controlling interest established by a contractual agreement.

Shares in these categories of company are stated at cost. The carrying amount is reviewed on each balance sheet date to determine if there is any indication of impairment. If such an indication exists, the asset's recoverable value is established. An impairment charge is made when the carrying amount of the asset or cash-generating unit exceeds the recoverable value. The impairment charge is recognised in the income statement.

7. Unit linked investment contracts
(a) Investments held to cover liabilities for linked investment contracts
These assets consist of investments for the benefit of life assurance policyholders who bear the investment risk and are reported on a separate line in the balance sheet. Investments for the benefit of policyholders who bear the investment risk are stated at fair value. The funds are classified as "fair value through profit or loss" and are stated at fair value, with any resulting gain or loss recognised in the income statement.

Changes in the value of unit linked funds and the corresponding change in unit linked liabilities are reported net in the income statement. The substance of the transaction is that the changes in value belong solely to the policyholders. Therefore, Skandia believes that net accounting makes it easier for policyholders and other interested parties to understand the transactions and assess the entity's performance and future cash flows. Unit linked funds are valued at the latest bid price.

(b) Liabilities for linked investment contracts
Policyholder deposits are invested in funds chosen by the policyholder, and the undertaking to the policyholders is reported as a liability. The size of the liability correlates directly to the value development of the funds and the amount of premiums paid in and benefits paid out. The liabilities are accounted for under the fair value option as fair value through profit or loss.

8. Other financial instruments
Financial instruments reported in the balance sheet include, on the assets side, trade accounts receivable, equities, loan receivables, fixed-income securities and derivatives. Among liabilities and shareholders' equity are trade accounts payable, loan receivables and derivatives.

Non-derivative financial instruments are initially carried at cost, corresponding to the instrument's fair value plus transaction costs for all financial instruments, except for those that belong to the category "financial assets" carried at fair value through profit or loss, which are stated at fair value excluding transaction costs. A financial instrument is classified upon initial accounting based on the purpose that the instrument was acquired for. Derivative instruments are carried initially and on a continuing basis at fair value.

Financial instruments are valued on a continuing basis according to the type of asset or liability in question (see below). Realised gains and losses are calculated as the difference between the book value and the sales price. Purchases and sales of securities and currencies are recognised on the transaction date, i.e., on the day the transaction was carried out. The counterparty's receivable/liability is reported net between the transaction date and the settlement date under the items "Other debtors" or "Other creditors" if clearing is done through a clearing organisation. If this is not the case, the payment is reported gross under the items "Other debtors" or "Other creditors". Valuation of the respective asset classes is described below. Assets are valued at bid price and liabilities at offer price.

(a) Loan receivables and trade accounts receivable
Loans used as investments are stated at amortised cost less a deduction for possible impairment. Each receivable is valued individually. Loans are initially recorded at cost including transaction costs and are recognised at the settlement date. The initial value at the settlement date represents the fair value of the loan.

Interest received on loans and changes in amortised cost are accounted for as interest income. Interest income is allocated to the period to which it pertains in accordance with the effective interest rate method. Loans are derecognised from the balance sheet when they are pre-paid or redeemed.

Trade receivables are reported in the amount in which they are expected to be received after deducting for bad debts, which are assessed individually. The anticipated duration of trade receivables is short, which is why the value is reported at nominal amount without discounting. Impairment of trade receivables is reported among operating expenses.

Cash and bank balances consist of cash balances and call deposits. The item also includes funds that constitute part of transactions between policyholders and fund companies. Cash and cash equivalents include cash and bank balances and bank lines of credit.

(b) Financial assets held for trading

Investments held for trading are stated at fair value, with resulting gains or losses recognised in the income statement. By fair value is meant the realisable value on the accounting date without deducting estimated sales costs. For stocks and bonds listed on an authorised stock exchange or marketplace, the realisable value normally refers to the bid/offer price on the accounting date. All changes in value are recognised in the income statement.

Unlisted equities are stated at fair value in accordance with the valuation principles used by industry organisations in Europe and the USA (EVCA). For unlisted shares where the fair value can not be determined with reliability, the shares are valued at cost.

All derivatives are stated at fair value. Derivatives are valued individually. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see below). Gains and losses on derivatives not classified as hedges are recognised in the income statement. The fair value of currency options is calculated using the Black & Scholes model, while the fair value of interest derivatives is calculated by discounting future cash flows. Fair value of FX-forwards are obtained from official market quotes.

(c) Other financial liabilities

Fixed-income liabilities are stated at amortised cost. Interest expenses are allocated to the period to which they belong.

Borrowing costs are expensed in the income statement in the period they pertain to. Skandia does not capitalise borrowing costs as a part of the asset's acquisition cost.

Trade accounts payable and other current liabilities with short durations are stated at nominal amount without discounting.

9. Impairment of assets

The carrying amount of tangible assets and investments in subsidiaries and associates is reviewed at each balance sheet date to determine if there is any indication of impairment. If any indication exists, the asset's recoverable amount is estimated, which is the greater of the net sales price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate which reflects current market assessments of the time-adjusted monetary values and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed if there is both evidence that the need to recognise impairment no longer exists and a change has been made in the assumptions that served as the basis for calculating the impaired amount. The reversal increases the asset's carrying amount. The carrying amount may not exceed the carrying amount, after depreciation, if the impairment loss had never been recognised.

Assets excluded from this principle include financial assets that are carried at fair value through profit or loss (see section 8 above) and deferred tax assets (see section 15).

10. Equipment

Items of equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is reported in the income statement on a straight-line basis over the estimated useful lives of the items. The estimated useful life varies between 3 to 5 years.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

11. Shareholders' equity

Restricted equity consists of share capital and the share premium reserve. Other equity is classified as unrestricted equity.

12. Appropriations and untaxed reserves

The tax code in Sweden allows companies to reduce their taxable income through appropriations to untaxed reserves. In accordance with Swedish practice, changes in these reserves are reported in the income statement of individual companies under the heading "Appropriations". The accumulated total of these appropriations is reported in the balance sheet under the heading "Untaxed reserves", of which 28% can be considered to be a deferred tax liability and 72% as restricted shareholders' equity. The deferred tax liability can be described as a noninterest-bearing liability with an unspecified maturity.

Where applicable, untaxed reserves are offset against tax-loss carryforwards or become subject to taxation when they are dissolved. In evaluating the company's financial strength, the total value of untaxed reserves can be regarded as risk capital, since losses generally can be covered through reversals of these untaxed reserves, without payment of taxes.

The Swedish tax code permits group contributions to be rendered and received by Swedish corporations, subject to special restrictions, with the contribution becoming taxable for the recipient and tax-deductible for the rendering entity. In accordance with pronouncements made by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council, group contributions are reported according to their economic significance.

13. Other provisions

Provisions are reported in the balance sheet when the group has an obligation (legal or constructive) due to an event that has occurred and when it is likely that an outflow of resources will be required to meet the obligation and that amount can be estimated in a reliable manner.

14. Revenue recognition

Skandia's accounting policies for revenues and expenses from insurance contracts are reported in section 5.1. The corresponding report for investment contracts can be found in section 5.2.

Revenue consists of the fair value of consideration received or receivables for services provided in the ordinary course of business. Revenue is recognised as follows:

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount. Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

15. Taxes

(a) Current tax

Current tax is the tax that is to be paid or received in the current year, based on the tax rates that apply as per the balance sheet date. Current tax also includes the tax on group contributions and adjustments of current tax pertaining to previous periods.

(b) Deferred tax

Deferred taxes are calculated according to the balance sheet method, based on temporary differences between reported and tax values of assets and liabilities. Loss carryforwards that can be used to reduce taxable profits in future years are only assigned such value that corresponds to the company's anticipated future taxable profits.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax liabilities and receivables are not discounted. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to shareholders' equity, in which case the deferred tax is also recognised in equity.

(c) Policyholder tax

Policyholder tax is not a tax on Skandia's result, but rather, is paid by the company on the behalf of its policyholders. In Sweden, life assurance companies pay a policyholder tax which is based on a standard calculation of the yield on the net assets managed for the benefit of policyholders. The expense is classified as a tax expense. The corresponding income received when debiting the policyholders is reported in the income statement in the item "Other technical income". There is a direct connection between the tax paid and the cost charged to the policyholders.

16. Pensions

Skandia applies the rules of the Pension Obligations Vesting Act and the Financial Supervisory Authority's guidelines for reporting of pensions. Compliance with the Pension Obligations Vesting Act is a prerequisite for obtaining the right to make tax deductions for premiums. Consequently, legal entities are not required to comply with the rules of IAS 19 pertaining to defined benefit pension plans. For further information on pensions, see note 45, "Pension disclosures".

17. Share-based payments

According to IFRS 2, share-based payments are to be expensed. The expense is calculated as the market value of the shares and options at the grant date. The fair value determined at the grant date of equity-settled, share-based payments is expensed on a straight-line basis over the vesting period, based on Old Mutual's estimate of shares that will eventually vest. The vesting period is the period that the employees have to remain in service at Skandia in order for their options to vest. Social security costs are also allocated over the vesting period, in accordance with pronouncement URA 46 issued by the Emerging Issues Task Force of the Swedish Financial Accounting Standards Council: "IFRS 2 and social security costs". The provision for social security costs is reassessed on each reporting occasion to ensure that the provision is based on the options' market value. For further disclosures on share-based payments, see note 44, Average number of employees, salaries and remuneration, section VI.

18. Leasing

In its capacity as a lessee, Skandia only has operating lease contracts and no finance leases. The charge to the income statement under an operating lease is the rental expense for the accounting period, recognised on a straight-line basis over the term of the relevant lease.

19. Cash flow statement

IAS 7 "Cash Flow Statements" is applied with the adaptations that are necessary in view of Skandia's business. In preparation of the cash flow statement, in cash flow from operating activities, net accounting has been done of changes in technical provisions, assumptions on unit linked assurance contracts and similar investments. Net accounting provides a better picture of the cash flows accruing to Skandia.

Investments in investment assets are an integral part of the business, as a large part of inflows in the insurance operations must be invested in accordance with the operating rules.

The change of investments in the group which are not used directly in the operations is reported under "Cash flow from investing activities".

Cash and cash equivalents include bank balances less bank overdrafts, which are reported in the balance sheet as loans. Cash and cash equivalents also include amounts that make up part of transactions between policyholders and fund companies. Short-term investments are not included in cash and cash equivalents, but are reported among investments.

Note 2 Risk analysis

Introduction

Skandia's activities give rise to a wide range of risks that have the potential to affect the group's results and financial position. Skandia's unit linked assurance business includes risk aspects, among other things in the form of insurance risk. In addition to these are operational risk – risks attributable to people, processes and systems. Certain risks in the operations are eliminated, others are limited, and certain risks are accepted. Regardless of which strategy that applies in the management of risks, it is of utmost importance that all risks in the operations are effectively managed and controlled.

The risk disclosures below follow IFRS 7 and IFRS 4.

Risk strategy

Skandia's risk strategy is based on consideration for two stakeholder groups: customers and shareholders. Through measures aimed at safeguarding the interests of Skandia's customers and shareholders, the interests of other stakeholders are also taken into account, such as Skandia's employees.

With respect to customer risk, Skandia's goal is to be able to guarantee the obligations it has made towards its customers with a high degree of certainty and to meet reasonable expectations made by customers. Customer risk is managed through technical provisions and by maintaining a sufficient capital base, and by maintaining a sound governance structure within the company. Skandia has a low tolerance for risk, particularly financial market risk, and therefore has a predominantly unit linked business model. However, Skandia has exposure to financial market risk through the unit linked assurance fee structure. Other risks are actively managed with the intention of reducing the expected negative outcome and keeping the unlikely potential outcomes within tolerance.

Skandia assumes that shareholders can independently manage the main financial risks such as market and currency volatility by, for example, hedging or diversification in order to achieve their own desired exposures.

Organisation of Skandia's internal control

Skandia's board of directors is responsible for the overall governance and control of all risks in Skandia – business risks as well as operational risks. This is done through principles and policies, among other things. The Audit Committee, which is a committee within Skandia's board, is responsible for reviewing the risk management and compliance within Skandia based on the detailed Instructions for the Audit Committee adopted by the Board.

Skandia's Chief Executive has a composite view of Skandia's risks and is responsible for ensuring that the risks in Skandia are reported, managed and escalated, as well as – where necessary – providing risk management support to the operations. Skandia's Chief Executive shall also co-ordinate all risk reporting done within Skandia. Skandia's Chief Executive has delegated the execution of these duties to a Chief Risk Officer ("CRO") in each division. The CRO's responsibility includes analysing risks and – where necessary – challenging the operative management's assessments and reporting on risks in the division to the division's CEO, the Chief Executive, and the Board of Directors (via the Board's Audit Committee). Each division has a business control unit that is responsible for quantitatively evaluating the risks that arise in the division (including calculations of economic capital and risk measurement), and a compliance function which is tasked with, among other things, monitoring compliance in the division. Further, each division has a risk committee which is tasked with monitoring and analysing risks in the operations. Skandia's Chief Actuary is responsible for controlling Skandia's insurance risks.

Internal control (the risk control and compliance function) is reviewed and evaluated by Skandia's Internal Audit unit. Internal Audit is an independent and objective guarantee and advisory function tasked with adding value to and improving Skandia's operations. Internal Audit reports directly to the Board of Directors and is organisationally entirely separated from Skandia's operations.

Risk management at Skandia

Skandia uses Old Mutual's decentralised Enterprise Risk Management methodology for managing and controlling risks. According to this methodology, formal governance structures are complemented by a risk governance model based on "three lines of defence". This model distinguishes between the functions that own and manage risks (the first line), the functions that oversee risks (the second line), and the functions for independent review that provide independent assurance (the third line). Skandia applies Old Mutual's risk model, as illustrated in the chart below:

	Executive		Non-executive
	First line	*Second line*	*Third line*
What it covers	• Strategy • Tone at the top • Code of conduct/risk tolerance • Risk prediction and avoidance • Risk management and reporting • Compliant and risk-aware operating practices • Performance management	• Clear and well communicated risk policies • Effective control and monitoring systems • Risk oversight and challenge	• Independent assurance and oversight
Responsibility	The business head or person who, according to internal/external rules, job description or work duties, owns and manages the risk, such as: • Skandia's board of directors • Skandia's Chief Executive • Divisional CEOs • Divisional management • Business management • All management levels • All employees	The person who, according to internal/external rules, job description or work duties, is responsible for controlling risk, such as: • Skandia's Chief Executive, divisional management, business management, all management levels • Specialist functions, such as CFO, CRO, Chief Actuary, General Counsel, Head of HR	• Internal Audit • External Audit • Board sub-committees for audit and risk

- As the first line of defence, the Board sets the company's risk tolerance, approves the strategy for managing risk and is responsible for the company's system of internal control. The Chief Executive, supported by Executive Management, has overall responsibility for the management of risks facing the company and is supported in the management of these risks by the divisional CEOs. Management and staff within each division have the primary responsibility for managing risk. They are required to take responsibility for the identification, assessment, management, monitoring and reporting of enterprise risks arising within their respective area.
- The second line of defence is responsible for risk control and risk oversight and consists of management (the Chief Executive, divisional CEOs, management teams and all other managers), and of divisional CROs and specialist functions in each division. The second line of defence is also responsible for ensuring that routines, methods and tools for risk management and risks control are on hand.
- The functions in the third line of defence shall provide independent, objective assurance to the Board of the effectiveness of the company's risk management, risk control and compliance. This is handled by Skandia's Internal Audit unit and the external auditors.

In 2008 a review will be conducted of Skandia's risk management in an effort to further develop the work on identifying, managing and analysing risks arising in the company.

Skandia's risk tolerance
Skandia's risk tolerance, i.e., how much risk the group is willing to take, and is set out in the Skandia Corporate Manual. Any risks or events falling outside the agreed levels are identified for immediate remedial action and subjected to Executive Management and Audit Committee oversight.

Risk measurement
Skandia calculates aggregate sensitivities on a quarterly basis. These evaluate the impact of changes in assumptions on the value of in-force business and the present value of new business. These tests show the sensitivity of value to key parameters regarding risks related to financial markets, insurance and customer behaviours, which are an integral part of Skandia's business.

Economic capital
Skandia measures customer risk using an Economic Capital calculation that uses the following key concepts:
- Required Economic Capital: the amount required to secure promises made to customers with the desired high degree of certainty.
- Actual Economic Capital: the amount available to secure promises made to customers – basically the economic value of the company.

Skandia assesses the adequacy of its available economic capital biannually by carrying out an analysis of its main risk exposures and resulting required capital levels according to a standard set by Old Mutual.

Significant risks in Skandia's business
At present Skandia conducts unit linked assurance business including supplementary insurance such as waiver of premium insurance, some property & casualty insurance (private healthcare and accident insurance), and advisory business. In addition, the company conducts support services associated with insurance and advisory activities. Skandia also provides such support services to other companies in the Skandia group. Skandia's activities give rise to a wide range of risks that have the potential to affect the company's results and financial position. Some of these are a natural consequence of the company's business strategy and are not limited to a specific business segment. Other risks, such as insurance risks, are segment-specific.

The most significant risks in Skandia's business are described below. For the purpose of this report, this categorisation groups together risks that are analysed similarly and for which similar types of mitigation can be applied within Skandia.

Strategic and political risks
Strategic risk is the risk that Skandia's strategy is insufficient for maintaining Skandia's position in the market or inappropriate for the operating environment or the available resources. Strategic and political risks commonly include market conduct and misselling risks, changes in tax codes and other legislation, loss of rating and reputation, and similar other risks.

Strategic risk is coupled to the Skandia group's strategy, and this risk is therefore primarily a group risk. However, to the extent that Skandia or its divisions adopt own strategies, this risk is acknowledged and managed also at the group and divisional levels. This risk is addressed through regular reconsideration of the strategy and through processes for reviewing, following up and assessing the objectives and risks of Skandia's strategy. While some mitigating actions are possible, often this risk cannot be avoided and is an integral part of doing business.

Financial markets risk
Financial markets risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, thereby affecting Skandia's results. The term embodies both the potential for loss and the potential for gain.

Financial markets risk includes three main types of risk:
- exchange rate risk, which reflects changes in foreign currency exchange rates
- interest rate risk, which reflects changes in market interest rates
- equity risk, which reflects changes in the market value of shares and other equity instruments (such as mutual funds)

Skandia's future revenues consist largely of fees on assets under management. These fees, which are based on fund values, are affected by the development of these fund values. The value of fixed-income funds is affected by interest rate movements, and so there is interest rate risk in Skandia's future cash flows. The value of equity funds is affected by the stock market's performance, and so there is share price risk in future cash flows. These cash flows are part of the distributable profits that form the basis for the calculation of embedded value. Skandia does not hedge cash flow risks arising from the volatility of customers' holdings or the volatility that arises from fluctuations in exchange rates.

Skandia is exposed to market risks associated with purchases and sales of fund units that are made in connection with policyholders' trading in unit linked insurance. The exchange rate risk that arises from this is hedged. Interest rate and equity risks are limited.

Market risks exist in the form of options and guarantees embedded in unit linked contracts, but to a small extent. Due to the nature of Skandia's business, these risks are not substantial to shareholders and thus they are not managed actively.

Management of market risks is laid out in Skandia's investment policy. Market risks are also managed by a special committee within Skandia.

Insurance risks
Pure insurance risks are related to factors such as accidents, mortality, longevity and morbidity, transferred from policyholders to the company. These risks can arise for various reasons, from natural statistical variations and misestimations, to political or socioeconomic factors that can not be foreseen.

The risks for the company consist of a development that is different than what the company assumed in its calculations.

This is managed through regular follow-up of claims experience and, where necessary, reconsideration of applied assumptions when setting premiums and calculating provisions for incurred claims. Morbidity risks are, for example, partly dependent on the economy, i.e., factors in the operating environment, such as the Swedish Social Insurance Office's practices, have an impact on claims experience. The trend in mortality in society and in insured portfolios is also studied on a continuing basis.

Insurance contracts are written so as to allow future changes in applicable assumptions, even if the change may lead to changes in premiums.

Skandia has a restrictive stance to insurance risks, and Skandia's Corporate Manual contains a set of rules aimed at limiting the group's net insurance risk. Both morbidity risks and mortality risks are reinsured when the risk in a single contract exceeds the limit stated in the rules. This limit is reviewed yearly. The risk insurance business that is written today consists primarily of waiver disability and healthcare insurance. Contracts are written for individual customers in connection with occupational pensions business in Sweden. Adverse selection risk associated with the writing of contracts containing insurance risk is small, since the risk element cannot be chosen without corresponding savings.

The table below shows the extent to which Skandia has covered its insurance risks through reinsurance.

RISK REINSURANCE

Insurance obligations	2007	2006
Total exposure	1,967	1,944
Reinsured exposure	- 984	- 969
Non-reinsured exposure	983	975

When a death has occurred, as a rule the insurance case is finally settled within one or a couple of months after the death. For waiver of premium claims, which are settled with periodic payment of benefits during the entire time of the disability, the uncertainty is initially greater with respect to the exact size of the claim. Provisions are based on experience-based assumptions, and a new, individual calculation for each claim is made for each book-closing. After approximately two years' time, it is easy to predict a claim's remaining total claim cost.

The assumptions are managed through a duration-matched bond portfolio and are reviewed by a special committee, which continuously monitors changes in the development pattern. The duration of claims is shown in the table below.

DURATION

	< 1 yr	1-5 yrs	>5 yrs	Total
Claims reserves	13%	43%	44%	100%

Management of credit risk, market risk and liquidity risk in connection with insurance risk follows the descriptions under these headings.

Sensitivity of embedded value and the value of new business to changes in mortality is shown in the Sensitivity analysis section below.

Solvency risk

Solvency risk is the risk of the company not being able to meet its obligations to the policyholders. Skandia manages solvency risk by maintaining a low risk tolerance, i.e., by having a business model that is primarily based on unit linked assurance, by taking solvency costs into account in economic calculations, by performing regular measurements, and by developing a risk-based view of its business activities.

Customer behaviour risk

Customer behaviour risk is the risk that customers surrender or transfer their insurance contracts, or prepay or cease premium payments for their contracts with Skandia in a volume that has not been expected. In general, transfers, surrenders, prepayments or premium cessation can give rise to liquidity problems and the loss of future revenues or interest. The risk for insufficient liquidity is explained in the section on liquidity risk below.

Customer behaviour risk is primarily managed through product design. In addition, activities are undertaken to persuade customers to continue their contracts with Skandia.

Many insurance contracts can be surrendered in full or in part before maturity for a cash surrender value. This risk for loss of future revenues is managed according to local market conditions, including the use of a surrender fee (for unit linked business) that is charged to contract holders and/or distributors who cancel contracts early.

Like mortality and liquidity risks, customer behaviour risks are geographically diversified. There seems to be some covariance in the risk for surrenders with developments in the financial markets and labour markets.

Sensitivity of embedded value and the value of new business to changes in customer behaviour is shown in the Sensitivity analysis section below.

Operational risks

Operational risks arise from failure of people, processes and systems, and from external events in many areas including management, handling of complaints, standards of service for policyholders, brand management and marketing, product pricing, solvency, capital and liquidity management, improper handling of confidential information, containment of costs, risks not addressed and managed, accounting systems and controls (including their documentation), management of major internal changes, the use of information technology in the day-to-day businesses, information technology infrastructure and security, internal and external fraud, physical security and others.

Skandia manages operational risks through various forms of preventive measures and security arrangements as well as through preparedness planning aimed at handling situations that may arise as effectively as possible. Operational risks shall be identified on a yearly basis and measured through self assessment. In 2008 a system for capturing "hits and near misses" will be implemented at Skandia, chiefly for operational risks, in order to learn from experience and thereby avoid similar events in the future.

A discussion of all current disputes is given in the Board of Directors' Report.

The impact of operational risks is usually recognised through expenses. The sensitivity of embedded value and the value of new business to changes in expense levels is shown in the Sensitivity analysis section below.

Credit risk

Credit risk (counterparty risk) is the risk that a counterparty will be unable to pay amounts in full when due, thereby causing Skandia a loss. Skandia is exposed to credit risk in connection with reinsurance. The main form of credit risk management is the assessment of the counterparty's ability to fulfil its commitment. Credit risk is managed in general through guidelines with clearly set limits.

For its investments in bonds and derivatives, Skandia has adopted a conservative investment strategy that is limited in concentration and credit rating. Similarly, wherever possible, Skandia only uses reinsurers with at least a single A rating from Standard & Poor's or its equivalent. Skandia has credit exposure to intermediaries. These are also well diversified with local limits on maximum individual exposures.

Skandia is exposed to the following credit risks:

CREDIT RISK EXPOSURES[1)2)]

	2007	2006
Loans to companies		
Other	2,468	534
Loans to credit institutions		
Bank	1,560	150
Bonds		
Government bonds, credit rating AAA	2,120	2,069
Derivatives		
Counterparties with AA credit rating	4	36
Counterparties with single-A credit rating	—	17
Reinsurers		
Reinsurers with single-A credit rating	1,002	45
Reinsurers with undetermined credit rating	3	953
Banks		
Counterparties with AA credit rating	9	6
Counterparties with single-A credit rating	56	263
Counterparties with undetermined credit rating	3	4
Total	**7,225**	**4,077**

1) Credit exposure is indicated as the book value after provision for doubtful debts.

2) There are no pledged assets.

Liquidity risk

Liquidity risk is the risk that Skandia will encounter difficulty in meeting commitments associated with financial liabilities when they are called. Skandia is exposed to liquidity risk in several areas, including:

- funding unexpectedly large volumes of new business
- in unit linked assurance in connection with fund switches
- derivatives

Skandia manages liquidity risk by assigning each business area to draw up liquidity strategies for the daily management of liquidity in the business, by setting – where applicable – and continuously monitoring liquidity limits, and by drawing up continuity plans for liquidity risks.

These risks are managed on a day to day basis through forecasting and maintaining back-up credit facilities, which put Skandia in a better position to handle unforeseen liquidity flows. The credit facilities are summarised in the following table, which refers to the Standard & Poor's credit rating system:

AVAILABLE CREDIT OPPORTUNITIES

Lender's credit rating	2007	2006
A	1,650	650

For derivatives, liquidity risk arises due to cash flow effects in relation to roll-overs. Again, this is managed by Treasury in the manner described above.

The following table shows a term structure of Skandia's financial liabilities that are subject to liquidity risk. The table is based on contractual maturity dates.

MATURITY ANALYSIS
CONTRACTUAL RESET DATES FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK 2007

	<1 yr	1-5 yrs	>5 yrs	Total
Derivatives	—	32	—	**32**
Provisions for life assurance policies where the risk is borne by the policyholders	38,241	8,730	47,396	**94,367**
Technical provisions	537	638	792	**1,967**
Creditors arising out of direct insurance operations	270	—	—	**270**
Creditors arising out of reinsurance operations	21	—	—	**21**
Loans	618	218	2,242	**3,078**
Other creditors	2,524	—	—	**2,524**
Total	**42,211**	**9,618**	**50,430**	**102,259**

MATURITY ANALYSIS
CONTRACTUAL RESET DATES FOR FINANCIAL AND INSURANCE LIABILITIES EXPOSED TO LIQUIDITY RISK 2006

	<1 yr	1-5 yrs	>5 yrs	Total
Subordinated loans	850	—	—	**850**
Derivatives	3	19	—	**22**
Provisions for life assurance policies where the risk is borne by the policyholders	41,299	7,549	44,132	**92,980**
Technical provisions	105	360	1,479	**1,944**
Creditors arising out of direct insurance operations	279	—	—	**279**
Creditors arising out of reinsurance operations	43	—	—	**43**
Loans	3,846	210	—	**4,056**
Other creditors	2,101	—	—	**2,101**
Total	**48,526**	**8,138**	**45,611**	**102,275**

Compliance risks

Compliance risk is the risk of Skandia not complying with laws, regulations and internal rules that govern how Skandia's business is to be conducted, which can lead to various types of sanctions or financial loss. Management of this risk is conducted within the individual units at Skandia.

Sensitivity analysis

Embedded value reporting is used internally as the principal method for measuring the performance of the business. Embedded value is also the base for the sensitivity tests that are performed. For a more detailed description of the Embedded value method, please refer to the Old Mutual plc 2007 Annual Report.

Embedded value consists of expenses and revenues that have already been recognised in the form of adjusted shareholders' equity (the Adjusted Net Worth or "ANW") and of the discounted expected future cash flows (the value of business in force or "VBIF"). VBIF thus represents the present value of expected future cash flows from in-force contracts that cannot be included in reported shareholders' equity.

The anticipated flows in VBIF are based on – among other things – assumptions with respect to fees, fund management and other costs, commissions to be paid to distributors, mortality, the surrender rates of contracts, inflation, the discount rate and the return on policyholders' investments.

New business is defined as new contracts sold during the reporting period. The value of new business ("VNB") includes the value of expected future premiums and renewals and expected future contractual alterations to the extent that they can reasonably be predicted. VNB also includes recurring single premiums and changes to existing contracts where these are not variations already anticipated in VBIF.

The results of sensitivity tests pertaining to both VBIF and the VNB are shown below. The sensitivity tests for the financial assumptions sequentially test the effect of an increase first in the risk discount rate, and thereafter in the return on equities, bonds and inflation.

- **Test A**. This shows the effect of an increase in the discount rate by 1 percentage point, compared with that used for the VBIF and VNB calculations.
- **Test B**. This test shows the effect of a 1 percentage point increase in the assumed rate of equity returns (the portion of policyholders' underlying fund holdings consisting of equities), compared with the return used for calculating VBIF and VNB. This assumption is used in projecting future fund growth in order to derive the level of future expected distributable cash flows. Assumed future bond returns are not affected by this test.

- **Test C**. This test shows the effect of a 1 percentage point increase in the yield on bonds (the portion of policyholders' underlying fund holdings consisting of bonds), compared with the yield used for calculating VBIF and VNB. This assumption is used in projecting future fund growth in order to derive the level of future expected distributable cash flows.
- **Test D** This test shows the effect of a 1 percentage point increase in expense inflation. It should be noted that external commissions are typically fixed, for example as a proportion of premiums, and are therefore not subject to changes in expense inflation. This test does not anticipate an increase in premium indexation.

The following sensitivity tests are independent from each other and from tests A–D:

- **Tests E and F**. These tests show the effect of a one-time decline (E) and one-time rise (F) in the equity markets as per 31 December 2007. This effect arises mainly through the level of fund fees obtained in the future. The tests do not include any corresponding fall or rise in the bond market and thus show only the effect on VBIF, since they are not relevant for VNB.
- **Test G** shows the effect of a 10% increase in internal maintenance expenses. If the continuing future maintenance expense is assumed to be 50 per year for a product (and increasing with inflation), Test G entails that the cost will be assumed to be 55. As mentioned above, external commissions are fixed and thus not included in this test.
- **Test H** shows the effect of the surrender ratio being 10% higher than assumed, i.e., an assumption of 10% per year is changed to 11% per year in this test.
- **Test I** shows the effect of a 5 basis point per annum increase in fund retrocessions.
- **Test J** shows the total effect on the VNB of moving from the year-end 2006 assumption set discussed above to the year-end 2007 assumptions.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

SEK million	Value of business in force (VBIF)	Present value of new business for the year (VNB), unit linked and traditional life
A: Discount rate	-988	-46
B. Equity return	702	31
C. Bond return	55	8
D. Expense inflation	-214	-7
E. One-time effect of a 1% decrease in stock markets	-83	–
F. One-time effect of a 1% increase in stock markets	83	–
G. 10% increase in internal administration costs	-291	-10
H. 10% increase in surrender rates	-247	-29
I. Increase of 5 bps in retrocessions	525	19
J. Effect on VNB at point of sale of using assumptions at year-end	–	-90

Capital requirement

The focus, control and mandate of asset management are governed by Skandia's investment policy, which is a section of the Skandia Group Corporate Manual. Monitoring of debt coverage, outcomes and risks are handled by a special Skandia committee. Follow-up, including sensitivity analyses, is conducted and reported on a quarterly basis. On the whole, the investment strategy is characterised by Skandia's general low risk appetite and risk tolerance, which is why the assets are invested carefully and taking into account the anticipated future cash flow of technical provisions.

The Financial Supervisory Authority's oversight of insurance companies includes a quarterly reporting requirement for minimum solvency capital and capital base. The calculation model for the solvency requirement for unit linked obligations is simple – the requirement is 1% of unit linked assets under management. An additional requirement is made for products that include insurance risk, depending on the risk content and type of insurance risk. However, in terms of amount, products containing insurance risk constitute a small portion of Skandia's insurance portfolio.

The solvency requirement according to the table is low compared to available capital. Alternative calculations are performed to reflect future requirements in a new solvency system, among other things in the form of the Financial Supervisory Authority's traffic light system. However, in 2007 Skandia Liv was granted a dispensation from traffic light reporting due to its low risk appetite and exposure.

CAPITAL BASE AND SOLVENCY REQUIREMENT

	2007	2006	Change
Capital base	9,283	9,159	124
Solvency requirement	867	841	26
Surplus	**8,416**	**8,318**	**98**

NOTES ON THE TECHNICAL ACCOUNT, PROPERTY & CASUALTY INSURANCE BUSINESS

Note 3 Premiums written

	2007	2006
Direct insurance in Sweden	515	497
Direct insurance in other EEA countries	181	152
Premiums for ceded reinsurance with group companies	-696	-649
Paid-in and recognised premiums	**0**	**0**

Note 4 Allocated investment return transferred from the non-technical account

In the property & casualty insurance operations, the allocated investment return is transferred from the non-technical to the technical account based on average technical provisions less outstanding net receivables in the insurance operations. The interest rates mainly follow the yield of medium-term government bonds with consideration given to the insurance operations' cash flow over time. The entire insurance risk has been reinsured, and no investment income was transferred to the non-technical account in 2006 or 2007.

Note 5 Claims incurred

	2007			2006		
	Gross	Ceded[1]	Net	Gross	Ceded[1]	Net
Claims paid	-433	448	15	-380	395	15
Change in provision for incurred and reported claims	-212	212	0	-67	67	0
Change in provision for incurred but not reported (IBNR) claims	225	-225	0	69	-69	0
Operating expenses for claims settlement	-15	—	-15	-15	—	-15
Total	**-435**	**435**	**0**	**-393**	**393**	**0**

[1] Pertains to reinsurance with group companies.

Of claims incurred, SEK 0 million (0) consists of net run-off result.

Note 6 Operating expenses

	2007	2006
Internal acquisition costs	-49	-49
External acquisition costs[1]	-8	3
Change in deferred acquisition costs, gross	4	-2
Administrative expenses	-144	-144
Reinsurance commissions and profit participations	201	190
Change in deferred acquisition costs, ceded reinsurance	-4	2
Total	**0**	**0**

[1] Pertains to provisions for direct insurance.

For breakdown of total operating expenses, see note 46.

NOTES ON THE TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS

Note 7 Premiums written

	2007			2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Periodic premiums[1]	221	-24	197	217	-31	186
Fees	717	—	717	752	—	752
Total	**938**	**-24**	**914**	**969**	**-31**	**938**

[1] Pertains to premiums for the insurance element of life assurance business where the investment risk is borne by the life assurance policyholders. All insurance contracts have been written in Sweden.

Note 8 Claims paid

	2007			2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Death	-55	—	-55	-46	—	-46
Disability	-87	6	-81	-87	5	-82
Claims settlement costs	-18	—	-18	-19	—	-19
Claims paid	**-160**	**6**	**-154**	**-152**	**5**	**-147**

Note 9 Change in other technical provisions

Pertains to provisions for guarantees for unit linked assurance contracts. See also description in the Board of Directors' Report.

Note 10 Operating expenses

	2007	2006
Internal acquisition costs	-453	-352
External acquisition costs	-336	-207
Change in accrued commissions, gross	—	58
Change in deferred acquisition costs, gross	-218	-136
Administrative expenses	-250	-231
Reinsurance commissions and profit participations	13	7
Total	**-1,244**	**-861**

For breakdown of total operating expenses, see note 46.

NOTES ON THE NON-TECHNICAL ACCOUNT

Note 11 Investment income

	2007	2006
Dividends from shares and participations		
Shares and participations in group companies	2,628	2,599
Other shares and participations	92	84
Interest income, etc.		
Bonds and other fixed-income securities	77	101
Group companies	125	84
Other interest income	105	27
Foreign exchange gains, net	56	269
Reversed write-downs		
Shares and participations in group companies	2,473	—
Capital gains, net		
Shares and participations	—	28
Total	**5,556**	**3,192**

Note 12 Unrealised gains on investments

	2007	2006
Shares and participations	8	92

Note 13 Investment charges

	2007	2006
Asset management charges	-1,072	-1,292
Interest expenses, etc.		
Group companies	-246	-280
Other interest expenses	-86	-104
Foreign exchange losses, net	—	—
Depreciation and write-downs		
Write-down of shares in group companies	-154	-2,849
Capital losses, net		
Shares and participations in group companies	-3,531	—
Other shares and participations	-9	—
Fixed-income securities	—	-21
Total	**-5,098**	**-4,546**

Note 14 Unrealised losses on investments

	2007	2006
Fixed-income securities	-30	-48

Note 15 Investment income, net, per category of financial instrument

	Asset/liability stated at fair value through profit or loss[1]		Loan receivables and trade receivables		Other asset/liability not stated at fair value		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
Capital gains/losses								
Asset management charges	–	–	–	–	-1,072	-1,292	-1,072	-1,292
Dividends on shares and participations	92	84	–	–	2,628	2,599	2,720	2,683
Interest income	166	101	140	109	1	2	307	212
Interest expenses	-64	-30	–	–	-268	-354	-332	-384
Foreign exchange gains	1	314	71	362	5	0	77	676
Foreign exchange losses	-14	-221	0	0	-7	-186	-21	-407
Reversed write-downs on shares in group companies	–	–	–	–	2,473	–	2,473	–
Write-down of shares in group companies	–	–	–	–	-154	-2,849	-154	-2,849
Capital gains/losses on equities	-9	28	–	–	-3,531	0	-3,540	28
Capital gains/losses on fixed-income securities	0	-21	–	–	–	–	0	-21
	172	**255**	**211**	**471**	**75**	**-2,080**	**458**	**-1,354**
Unrealised gains/losses								
Equities	8	92	–	–	–	–	8	92
Fixed-income securities	-30	-48	–	–	–	–	-30	-48
	-22	**44**	**–**	**–**	**–**	**–**	**-22**	**44**
Investment income	**150**	**299**	**211**	**471**	**75**	**-2,080**	**436**	**-1,310**

[1] Pertains to securities held for trading.

Note 16 Taxes

	2007	2006
Current tax pertaining to current year[1]	21	152
Current tax pertaining to previous years	-35	–
Deferred tax	103	14
Tax on result for the year	**89**	**166**
Policyholder tax	-527	-416
Tax charge	**-438**	**-250**
Difference between company's tax charge and tax charge based on applicable Swedish tax rate:		
Pre-tax result	882	-819
Less: Policyholder tax	524	412
Pre-tax result based on income taxation	**1,406**	**-407**
Tax based on applicable tax rate, 28%	**-394**	**114**
Tax pertaining to previous years	-35	18
Losses for which deferred tax asset has not been taken into account	-155	-127
Non-deductible costs	-1,039	-849
Non-taxable revenues	1,565	895
Tax effect of policyholder tax charged	147	115
Policyholder tax	-527	-416
Reported tax charge	**-438**	**-250**

[1] Pertains mainly to tax on group contributions.

NOTES ON THE BALANCE SHEET

Note 17 Investments in group and associated companies

	Cost[1]		Fair value		Carrying amount	
	2007	2006	2007	2006	2007	2006
Shares and participations in group companies[2]	11,320	13,910	25,394	29,775	11,320	13,910
Loans to group companies	2,468	534	2,468	534	2,468	534
Shares and participations in associated companies[3]	152	116	152	116	152	116
Total	**13,940**	**14,560**	**28,014**	**30,425**	**13,940**	**14,560**

[1] Valuation based on cost, i.e., after requisite write-downs.

[2] Shares and participations in group companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Share of equity	Share of result	Carrying amount 2007	Carrying amount 2006
Australia								
Australian Skandia Ltd		Sydney	72,300,918	100	105	21	389	389
Chile								
Skandia Chile S.A.[1]		Santiago	42,215,625	99.99	31	-21	53	78
Skandia Chile S.A. Corredora de Bolsa[2]		Santiago	1	0.01	0	0	0	0
Colombia								
Skandia Holding de Colombia S.A.[3]		Bogotá	2,271	5.09	4	0	2	2
Denmark								
A/S Nevi Danmark		Copenhagen	–	–	–	–	–	8
Skandia Link Livsforsikring A/S		Copenhagen	7,440	100	506	-7	712	–
Germany								
Observice Rating GmbH		Berlin	–	–	–	–	–	0
Skandia Leben Holding GmbH		Berlin	–	–	–	–	–	1,452
Hong Kong								
Skandia Global Funds (Asia Pacific) Ltd		Hong Kong	5,000,005	100	5	-2	7	4
Ireland								
SGF Marketing Ltd		Dublin	10,000,000	100	11	4	5	5
Skandia Fund Management (Ireland) Ltd		Dublin	350,000	100	27	10	24	24
Mexico								
Skandia Vida S.A. de C.V.[4]		Mexico City	45,311	99.99	28	-12	113	102
Skandia Servicios Mexico S.A. de C.V.[5]		Mexico City	45,145	99.99	3	2	5	10
Skandia Operadora de Fondos S.A de C.V. Sociedad Operadora de Sociedades de Inversión[6]		Mexico City	56,244	99.99	23	-34	51	60
Norway								
Skandia Informasjons-teknologi AS		Oslo	1,000	100	20	1	15	15
Poland								
Skandia Zycie Towarzystwo Ubezpieczen Spolka Akcyjna[7]		Warsaw	460	1	1	1	0	0

Cont. Note 17 Investments in group companies and associated companies

[2] Shares and participations in group companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Share of equity	Share of result	Carrying amount 2007	Carrying amount 2006
Sweden								
Dial Försäkring AB	516401-8300	Stockholm	100,000	100	629	48	765	765
Livförsäkringsaktie-bolaget Skandia (publ)	502019-6365	Stockholm	3,000	100	126,751	17,814	0	0
Schnil HB[8]	969711-6201	Stockholm	70	70	2	-2	2	4
SkandiaBanken AB (publ)	516401-9738	Stockholm	4,000,000	100	1,994	117	2,529	2,478
Skandia Capital AB (publ)	556306-3881	Stockholm	5,000	100	103	12	100	100
Skandia Europe AB	556598-0322	Stockholm	1,000	100	1,271	-215	1,563	1,563
Skandia Global Investments AB	556589-5694	Stockholm	—	—	—	—	—	1,866
Skandia Holding AB	556000-1033	Stockholm	3,639,552	100	219	1	200	200
Skandia Informations-teknologi AB	556023-5797	Stockholm	10,000	100	7	2	15	40
Skandia Investment Advisory Services	556555-6965	Stockholm	1,697,000	100	30	29	7	7
SkandiaLink Multifond AB	556132-9284	Stockholm	—	—	—	—	—	18
Skandia Netline AB	556567-0154	Stockholm	1,000	100	32	-13	33	5
Skandia Roibois AB	556712-3392	Stockholm	—	—	—	—	—	0
Skandia Telemarketing AB	556606-6832	Stockholm	1,000	100	10	0	10	10
Sturebadet AB	556302-8421	Stockholm	10,000	100	14	1	4	4
UK								
Skandia UK Ltd		London	500,000,000	100	4,507	2,268	4,558	4,558
Skandia NTS Ltd		London	5,000,000	100	10	-4	13	22
USA								
Skandia America Corporation		New York	100	100	235	-23	145	121
Total							**11,320**	**13,910**

[1] Skandia Holding de Colombia S.A. has 1 share.
[2] Skandia Chile S.A. holds the other 99.99%.
[3] Skandia Holding AB holds the other 94.91%.
[4] Skandia Europe has 5 shares.
[5] Skandia Europe has 5 shares.
[6] Skandia Servicios Mexico S.A. de C.V. has 6 shares.
[7] Skandia Europe holds the other 99%.
[8] Skandia Informasjonsteknologi AS holds the other 30%.

Changes of shares in group companies

	2007	2006
Accumulated cost		
Opening balance	20,607	20,230
Purchases	712	1,104
Sales	-5,440	-1,160
Shareholder contributions	197	493
Repayment of shareholder contribution	-378	-60
Closing balance, 31 December	**15,698**	**20,607**
Accumulated write-downs		
Opening balance	-6,697	-3,972
Sales	2,473	514
Write-downs	-154	-3,239
Closing balance, 31 December	**-4,378**	**-6,697**
Carrying amount on 31 December	**11,320**	**13,910**

[3] Shares and participations in associated companies

	Reg. no.	Domicile	No. of shares	Share of capital, %	Carrying amount 2007	Carrying amount 2006
Skandia-BSAM Life Insurance Corporation Ltd		Beijing	e.t.	50	151	115
Sophiahemmet Rehab Center	556248-6323	Stockholm	750	50	1	1
Skandia A/S		Copenhagen	1	50	0	0
Total					**152**	**116**

Condensed information for associated companies	Revenues	Result	Assets	Liabilities	Equity	Share, %
Skandia-BSAM Life Insurance Corporation Ltd	0	1	81	0	81	50
Sophiahemmet Rehab Center	37	1	13	7	4	50
Skandia A/S	2	1	60	58	2	50

Note 18 Categories of financial assets and liabilities, and their fair values

	Financial assets stated at fair value through profit or loss					
Financial assets 2007	**Assets determined to belong to category**	**Held for trading**	**Loan receivables**	**Carrying amount**	**Fair value**	**Cost**
Shares and participations	—	190	—	190	190	95
Bonds and other fixed-income securities	—	2,120	—	2,120	2,120	2,147
Other loans	—	—	0	0	0	0
Lending to credit institutions	—	—	1,560	1,560	1,560	1,560
Derivatives[1]	—	4	—	4	4	—
Deposits with ceding undertakings	2,435	—	—	2,435	2,435	2,435
Assets for conditional bonuses	103	—	—	103	103	77
Unit linked assets	91,764	—	—	91,764	91,764	81,423
Debtors arising out of direct insurance operations	—	—	4	4	4	4
Other debtors	—	—	585	585	585	585
Cash and bank balances	—	—	68	68	68	68
Accrued income	—	—	430	430	430	430
Total	**94,302**	**2,314**	**2,647**	**99,263**	**99,263**	**88,824**

[1] Pertains to currency derivatives with a nominal value of SEK 1,137 million.

	Financial liabilities stated at fair value through profit or loss				
Financial liabilities 2007	**Liabilities determined to belong to category**	**Held for trading**	**Other financial liabilities**	**Carrying amount**	**Fair value**
Conditional bonuses	103	—	—	103	103
Unit linked obligations	94,264	—	—	94,264	94,264
Creditors arising out of direct insurance operations	—	—	228	228	228
Derivatives	—	32	—	32	32
Other creditors	—	—	5,602	5,602	5,602
Accrued expenses	—	—	1,240	1,240	1,240
Total	**94,367**	**32**	**7,070**	**101,469**	**101,469**

	Financial assets stated at fair value through profit or loss					
Financial assets 2006	**Assets determined to belong to category**	**Held for trading**	**Loan receivables**	**Carrying amount**	**Fair value**	**Cost**
Shares and participations	—	178	—	178	178	84
Bonds and other fixed-income securities	—	2,069	—	2,069	2,069	2,066
Other loans	—	—	0	0	0	0
Lending to credit institutions	—	—	150	150	150	150
Derivatives	—	53	—	53	53	—
Deposits with ceding undertakings	6,844	—	—	6,844	6,844	6,844
Assets for conditional bonuses	110	—	—	110	110	73
Unit linked assets	85,967	—	—	85,967	85,967	71,243
Debtors arising out of direct insurance operations	—	—	7	7	7	7
Other debtors	—	—	3,297	3,297	3,297	3,297
Cash and bank balances	—	—	273	273	273	273
Accrued income	—	—	430	430	430	430
Total	**92,921**	**2,300**	**4,157**	**99,378**	**99,378**	**84,467**

Financial liabilities 2006	Financial liabilities stated at fair value through profit or loss: Liabilities determined to belong to category	Financial liabilities stated at fair value through profit or loss: Held for trading	Other financial liabilities	Carrying amount	Fair value
Conditional bonuses	110	—	—	110	110
Unit linked obligations	92,870	—	—	92,870	92,870
Creditors arising out of direct insurance operations	—	—	246	246	246
Derivatives	—	22	—	22	22
Other creditors	—	—	6,157	6,157	6,157
Accrued expenses	—	—	1,283	1,283	1,283
Total	**92,980**	**22**	**7,686**	**100,688**	**100,688**

Note 19 Deposits with ceding undertakings

	2007	2006
Pertains to reinsurance of unit linked obligations. The deposits consist of Skandia's share of unit linked assets in group companies that have ceded reinsurance.	2,435	6,844

Note 20 Assets for conditional bonuses

	2007	2006
Pertains to deposit insurance in which the terms and conditions are equivalent to unit linked assurance. The life assurance policyholders bear the direct investment risk for these assets.	103	110

Note 21 Unit linked assets

	2007	2006
Equity-based funds	75,989	74,120
Fixed income funds	15,775	11,847
Total	**91,764**	**85,967**

Note 22 Debtors arising out of direct insurance operations

	2007	2006
Amounts receivable from policyholders	31	17
Amounts receivable from insurance brokers	4	7
Total	**35**	**24**

Note 23 Other debtors

	2007	2006
Amounts receivable from group companies	369	2,939
Amounts receivable from companies in the Skandia Liv group	128	179
Other debtors	88	179
Tax asset	0	65
Total	**585**	**3,362**

Note 24 Deferred tax, net

	2007	2006
Deferred tax liability, gross, pertaining to:		
Investments	2	10
Deferred tax assets, gross, pertaining to:		
Tax-loss carryforwards or other future tax deductions	914	1,185
Pensions and similar obligations	80	79
Other provisions	158	45
Other accrued expenses	55	26
Endowment insurance policies pledged as security for pension obligations	331	328
Less: items that do no meet requirements for asset accounting[1]	-971	-1,191
Deferred tax assets	**567**	**472**
Total deferred tax assets, net	**565**	**462**

[1] Pertains primarily to tax assets on loss carryforwards in cases where it has been judged to be less likely that they can be deducted from future taxation in the years immediately ahead.

Tax loss deductions can be offset against future profits indefinitely and amount to SEK 3,265 million (4,234).
Unreported deferred tax liabilities pertaining to untaxed reserves amount to SEK 585 million (585).

Note 25 Tangible assets

Machinery and equipment	Cost	Accumulated depreciation	Carrying amount
As per 1 January 2006	**75**	**-42**	**33**
Purchases	20	—	20
Sales	-11	18	7
Depreciation for the year	—	-18	-18
Exchange rate difference	0	0	0
As per 1 January 2007	**84**	**-42**	**42**
Purchases	19	—	19
Sales	-17	11	-6
Depreciation for the year	—	-14	-14
Exchange rate difference	0	0	0
As per 31 December 2007	**86**	**-45**	**41**

Note 26 Deferred acquisition costs

	2007			2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance						
Capitalisation of acquisition costs during the year	14	-14	0	11	-11	0
	14	**-14**	**0**	**11**	**-11**	**0**
Life assurance						
Capitalisation of acquisition costs during the year	4,273	—	4,273	1,835	—	1,835
Amortisation of deferred acquisition costs during the year	-1,102	—	-1,102	-780	—	-780
	3,171	**—**	**3,171**	**1,055**	**—**	**1,055**
Total	**3,185**	**-14**	**3,171**	**1,066**	**-11**	**1,055**

Note 27 Other prepayments and accrued income

	2007	2006
Prepayments in the Skandia Liv group	104	84
Other prepayments	67	25
Accrued income from group companies	149	115
Other accrued income	219	241
Total	**539**	**465**

Note 28 Untaxed reserves

	2007	2006
Untaxed reserves consist of an equalisation reserve. The aim of the equalisation reserve is to smoothen out changes in the result of the insurance operations over time. Reversals are regulated in accordance with transitional stipulations made by the National Tax Act. No new provisions can be made to the equalisation reserve after 1990.	2,091	2,091

Note 29 Subordinated liabilities

	2007	2006
Fixed-term subordinated loans[1]	—	850

[1] Pertains to SEK 150 million and SEK 700 million issued in 2002, which fall due for payment in 2017, but were prematurely redeemed in 2007. In accordance with applicable rules, subordinated loans in Skandia Insurance Company Ltd are included in the group's capital base. The estimated fair value of the subordinated loans in 2006 was SEK 898 million.

Note 30 Provision for unearned premiums and unexpired risks

	2007			2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance	197	-197	0	174	-174	0
Life assurance	60	—	60	25	—	25
Total	**257**	**-197**	**60**	**199**	**-174**	**25**

Note 31 Life assurance provision

	2007	2006
Pertains to guarantees made for a portfolio of occupational pension contracts.	300	300

Note 32 Provision for claims outstanding

	2007			2006		
	Gross	Ceded	Net	Gross	Ceded	Net
Property & casualty insurance						
Incurred and reported claims	598	-647	-49	382	-432	-50
Incurred but not reported claims (IBNR)	94	-94	0	318	-318	0
Provision for claims settlement costs	49	—	49	50	—	50
	741	**-741**	**0**	**750**	**-750**	**0**
Life assurance						
Notified claims[1]	597	-33	564	628	-29	599
Unnotified claims	72	-13	59	67	-16	51
	669	**-46**	**623**	**695**	**-45**	**650**
Total	**1,410**	**-787**	**623**	**1,445**	**-795**	**650**

1) The amount is discounted. The undiscounted amount was SEK 684 million (723).

Calculations of all technical provisions have been made in accordance with the rules stipulated in the Skandia Group Policy for Technical Provisions.

The technical provisions for waiver of premium insurance are calculated using a discount rate that has been set according to market principles. The Financial Supervisory Authority's guidelines on choice of interest rate (FFFS 2006:19) have also been taken into account to calculate life assurance provisions and certain other technical provisions. The assumptions used in the calculation, except for the interest rate and an inflation assumption regarding insured benefits, are an estimate for recoveries among disability claimants on the basis of previous experience from this business. The calculation is in conformity with standard formulas and Swedish practice.

The technical provisions for group accident and private healthcare insurance have been calculated using triangulation methods combined with average claims techniques – methods that have been accepted practice in property & casualty insurance for a long time and are recommended by actuarial associations in general in both Europe and the USA. These reserves are not discounted due to the short average duration of claims payments.

The uncertainties that exist in the estimations are handled in a prudent manner in accordance with generally accepted accounting practice. An example of this prudence principle is that an incompletely reported claim is taken up at its maximum value in the calculation.

The IBNR provisions are made for claims that have been incurred but not reported. Based on experience, it can be warranted to assume that certain claims are reported with a time delay. The IBNR calculation is performed using several different variants of the chain ladder method, involving the number of reported claims, benefits paid out to date, etc. The calculation variants are compared and compiled to arrive at a joint estimation of number of claims, after which the reserve is determined under the assumption that the unreported claims have the same average cost as those that have been reported.

The actuarial provisions for guarantees that have been issued are calculated entirely in accordance with the methods prescribed in the Skandia Group Principles for Guarantees and are based on generally accepted international actuarial methods.

Technical provisions for unearned premiums can be of the following three types:

- "Genuine" unearned premium
  In cases where risk premiums are paid to the insurance company long before their due date, an allocation of premiums should be done, i.e., a provision is made for the excess amount and is dissolved in the period that the premium falls due. Since the company's business consists largely of monthly premiums, no provision has been made in the 2007 accounts. Controls are performed on a regular basis to ensure that the need for this type of provision is immaterial.
- So-called active reserves
  Waiver of premium insurance is sold at an equalised premium. A calculation is made of the need for periodic premiums, and the excess amount of the paid-premium is reserved for the future. In the same way, the provision is dissolved for insureds whose premium requirement exceeds the charged, equalised premium. In this manner, the earned premium will consist of a risk premium charged according to an age-differentiated rate. This calculation technique is in accordance with Swedish practice.
- Provision for unexpired risks
  A sub-portfolio in waiver of premium insurance is a run-off portfolio. The insureds have a high average age, and most of the contracts today have already reached the highest permissible premium level that the insurance contracts allow Skandia to charge. For these contracts, a technical provision was made in 2007, which is intended to cover anticipated risk premium needs until the end of the insurance period. The provision will be dissolved in pace with the due dates of the premiums.

Note 33 Conditional bonuses

	2007	2006
Opening balance	**110**	**116**
Deposits	3	1
Decrease due to surrenders	-7	-30
Decrease due to mortality	-3	—
Changes in fund values	2	25
Charges	-2	-2
Closing balance	**103**	**110**

Note 34 Unit linked obligations

	2007	2006
Opening balance	**92,870**	**86,775**
Portfolio transfers	-3,734	-4,547
Deposits	8,337	9,311
Decrease due to surrenders	-2,774	-3,998
Decrease due to maturity	-2,328	-1,877
Decrease due to mortality	-139	-160
Change in fund values	3,927	9,676
Charges	-1,596	-1,380
Exchange rate difference	-299	-930
Closing balance	**94,264**	**92,870**

Note 35 Provisions for pensions and similar obligations

	2007	2006
Pertains to the provision for special employers' payroll tax to be paid upon future disbursements of previously expensed pensions. See also note 45, Pension disclosures.	287	284

Note 36 Other provisions

	2007	2006
Opening balance	**1,037**	**692**
New provisions	616	469
Utilisation of reserves	-78	-15
Reversal of provisions from previous years	10	-18
Exchange rate difference	-35	-91
Closing balance[1]	**1,550**	**1,037**

1) Of which:

Provision for restructuring	
Opening balance	10
New provisions	67
Utilisation of reserves	-10
Closing balance	**67**
Provision for cost of sold subsidiaries	
Opening balance	890
New provisions	9
Utilisation of reserves	-52
Exchange rate difference	-35
Closing balance	**812**
Other provisions[2]	
Opening balance	137
New provisions	540
Utilisation of reserves	-16
Reversal of provisions from previous years	10
Closing balance	**671**

2) For additional information on other provisions, see the Board of Directors' Report.

Note 37 Creditors arising out of direct insurance operations

	2007	2006
Policyholders	235	245
Insurance brokers	35	34
Total	**270**	**279**

Note 38 Derivatives

	Cost		Fair value		Carrying amount	
	2007	2006	2007	2006	2007	2006
Currency forward contracts	—	—	32	22	32	22

Note 39 Other creditors

	2007	2006
Amounts payable to group companies	5,173	5,867
Amounts payable to companies in the Skandia Liv group	41	40
Other creditors	388	250
Total	**5,602**	**6,157**

The estimated fair value of long-term liabilities to group companies was SEK 3,084 million (4,073). The market value of other interest-bearing liabilities is estimated as the book value, due to the short term of the liabilities. Contracted, unutilised credit facilities amounted to SEK 1.6 billion (0.6) on the balance sheet date.

Note 40 Other accruals and deferred income

	2007	2006
Accrued interest expense	27	85
Other accruals	1,255	1,246
Deferred income	22	1
Total	**1,304**	**1,332**

Note 41 Anticipated recovery dates for assets and liabilities

	Max. 1 yr	Longer than 1 yr	Total
Assets			
Shares and participations in group companies	475	10,845	11,320
Loans to group companies	193	2,275	2,468
Share and participations in associates	—	152	152
Shares and participations	190	—	190
Bonds and other fixed-income securities	2,120	—	2,120
Lending to credit institutions	1,560	—	1,560
Derivatives	4	—	4
Deposits with ceding undertakings	2,435	—	2,435
Investments for the benefit of policyholders who bear the investment risk	7,223	84,644	91,867
Reinsurers' share of technical provisions	938	46	984
Debtors arising out of direct insurance operations	35	—	35
Debtors arising our of reinsurance operations	21	—	21
Other debtors	585	—	585
Deferred tax, net	—	565	565
Tangible assets	19	22	41
Cash and bank balances	68	—	68
Deferred expenses and accrued income	615	3,171	3,786
Total assets	**16,481**	**101,720**	**118,201**
Liabilities			
Technical provisions, gross	537	1,430	1,967
Provisions for life assurance policies where the investment risk is borne by the policyholders, gross	38,241	56,126	94,367
Other provisions	489	1,358	1,847
Deposits from reinsurers	965	—	965
Creditors arising out of direct insurance operations	270	—	270
Creditors arising out of reinsurance operations	21	—	21
Derivatives	—	32	32
Other creditors	3,142	2,460	5,602
Accrued expenses and deferred income	1,318	—	1,318
Total liabilities	**44,983**	**61,406**	**106,389**

Note 42 Pledged assets

	2007	2006
Pledged assets and therewith comparable security		
Deposits with ceding undertakings	2,435	6,844
Endowment insurance policies pledged as security for pension obligations[1]	1,182	1,170
Assets covered by policyholders' beneficiary rights[2]	94,035	88,194
Total	**97,652**	**96,208**

[1] See also note 45.

[2] Corresponds to provisions in the balance sheet, totalling SEK 93,738 million (87,970). In the event of insolvency, the policyholders have preferential rights to the registered assets. During the course of the business, the company has the right to transfer assets in and out of the register as long as all insurance obligations are covered in accordance with the Insurance Business Act.

Note 43 Contingent liabilities

	2007	2006
Pension obligations[2]	0	0
Sureties and guarantees[1]	1,049	1,069
Total	**1,049**	**1,069**
[1] Of which, on behalf of group companies	683	989

[2] In the parent company, there are pension obligations that have not been included in the balance sheet, amounting to SEK 1,182 million (1,170), which are covered by the value of company-owned endowment insurance policies and SEK 2 million (2) which are covered by assets in the Skandia Group Pension Foundation (see also note 45).

Skandia is – in relation to third parties – still bound to certain guarantee commitments stemming from property & casualty insurance operations which were transferred to the If Group in 1999. Through agreements between the companies concerned in the If Group on the one side and the Skandia group on the other, the If Group guarantees that the Skandia group will be indemnified for any possible claims made by third parties with respect to such guarantee commitments. With respect to disputes, refer to the Disputes section in the Board of Directors' Report.

OTHER NOTES

Note 44 Average number of employees, salaries and remuneration

I. AVERAGE NUMBER OF EMPLOYEES AND AGENTS

	Men	Women	2007 Total	2006 Total
Office staff per country				
Sweden	430	698	1,128	1,236
Denmark	4	17	21	22
Finland	—	3	3	9
Norway	4	6	10	10
UK	11	13	24	5
Agents employed in Sweden	191	44	235	231
Total	**640**	**781**	**1,421**	**1,513**

II. GENDER BREAKDOWN, SENIOR EXECUTIVES

Information on the gender breakdown among company directors and other executives pertains to the conditions on 31 December 2007.

	2007		2006	
	Men	Women	Men	Women
Board members, including employee representatives	62%	38%	78%	22%
Chief Executive and other members of executive management	67%	33%	86%	14%

III. WAGES, SALARIES AND REMUNERATION[1]

	2007	2006
Senior executives[2]	58	48
Office staff in Sweden	543	663
Office staff outside Sweden	90	55
Agents	185	180
Wages, salaries and remuneration	**876**	**946**
Pensions and other social security charges for employees in Sweden	529	498
Of which, pension costs	249	218

[1] During the year, SEK 36 million was allocated to Skandianen, Skandia's long-term profit-sharing foundation, which covers Swedish employees who do not have a variable salary component in their compensation package.

[2] Pertains to 15 persons.

IV. LOANS TO SENIOR EXECUTIVES

SEK thousand	2007	2006
Senior executives in Sweden, including employee representatives on Skandia's board	8,968	3,492

Drawn lines of credit amount to SEK 44 thousand (0), with a credit limit of SEK 260 thousand (100). The terms of the loans are comparable with those normally applied in lending to the general public. However, more favourable interest rates are offered to all group employees working in Sweden. Neither SkandiaBanken nor other group companies have pledged security or undertaken contingent liabilities on behalf of the executives reported here. The loans granted to senior executives in Sweden are issued by SkandiaBanken.

V. INFORMATION ON SENIOR EXECUTIVES' COMPENSATION AND BENEFITS

Principles

Fees are paid to the Chairman of the Board and directors in accordance with a decision by the Annual General Meeting (AGM) and where applicable for work on subsidiary boards. The fees decided by the AGM pertain to the period up until the next AGM. If changes are made in this group of individuals during the mandate period, the amount of fees will be adjusted accordingly. No fees are paid to board members who are employees of the Skandia group.

During the year, Skandia's senior executives consisted of persons who were employed directly by Skandia and by one person who was primarily employed by the parent company, Old Mutual plc, but who, according to a special agreement, spent his working time in the Skandia group (the Chief Executive). In cases where employment was outside Skandia, the costs have been charged against Skandia's result. Compensation for the Chief Executive and other senior executives consists of base salary, variable compensation, other benefits and pension. By senior executives is meant the 20 persons who, together with the Chief Executive, at any time during the year were members of the Executive Management Board, which at year-end consisted of 12 individuals, of whom one was a foreign citizen (the Chief Executive). This definition applies throughout this annual report unless specifically stated otherwise.

Variable compensation

In 2007 a programme was in place for variable compensation of senior executives and key persons. For the management of Skandia's Nordic division and a number of key executives ("the Key Group"), an incentive programme is in place which includes both a long-term and short-term component.

For members of the Key Group, the bonus opportunity amounts to a maximum of 60% of base salary. For other senior executives and key persons, the bonus opportunity amounts to a maximum of 20% or 10% of base salary. For senior executives and employees in the asset management unit, a variable compensation model is used which can amount to a maximum of 50% of base salary.

For other employees, variable compensation may amount to a maximum of 115% of one-half of the Price Base Amount. Any such compensation is paid through a provision to Skandianen, an employee foundation.

Employees can only be covered by one of the above-described models for variable compensation.

Cont. Note 44 Average number of employees, salaries and remuneration

Senior executives

For senior executives of Skandia, the variable compensation is maximised according to a percentage of the respective individuals' base salary, whereby the target level is generally equivalent to half the maximum amount. Of earned variable compensation, two-thirds is payable in cash. The remaining one-third is paid in the form of Restricted Shares and Share Options based on Old Mutual plc shares. These programmes are described under section VI, "Share-based payment".

In addition, a few employees have been given the opportunity to invest up to 25% of their net cash incentive in Old Mutual plc shares in return for a matching restricted share award, on a gross for net basis, under the Old Mutual Restricted Share Plan.

For senior executives, Skandia's overall compensation policy is used, whereby the total compensation shall be in line with the going rate in the market based on local conditions. Variable compensation is based on the outcome in relation to individually set targets.

Other compensation and benefits

The amounts pertain to the time during which the following persons were senior executives

Directors' fees paid by Skandia

SEK thousand	2007 Fee	2007 Committee work
Chairman of the Board Lars Henrik Otterbeck[1]	767	267
Former Chairman of the Board Jim Sutcliffe[2]	333	17
Björn Björnsson, director	200	100
Norman Broadhurst, director	125	104
Michael Newman, director	300	50
Magnus Beer, director	200	33
Indra Åsander, director	200	–
Total	**2,125**	**571**

1) In his capacity as Chairman from 1 May.

2) In his capacity as Chairman through 30 April.

SEK thousand	2006 Fee	2006 Committee work
Lennart Jeansson[1]	200	–
Jim Sutcliffe[2]	867	42
Björn Björnsson, director	900	50
Lars Otterbeck, director	250	250
Michael Newman, director	250	42
Norman Broadhurst, director	250	208
Christer Gardell, director	50	–
Karl-Olof Hammarkvist, director	50	8
Birgitta Johansson-Hedberg, director	50	–
Kajsa Lindståhl, director	50	8
Anders Ullberg, director	50	42
Total	**2,967**	**650**

1) In his capacity as Chairman through 21 February.

2) In his capacity as Chairman from 22 February.

Other compensation and benefits for senior executives employed by Skandia in 2007

SEK thousand	Average number of persons	Base salary	Variable compensation	Share-based payment[3]	Other compensation and benefits	Pension premiums	Total
Chief Executives							
Hans-Erik Andersson	1	–	–	–	–	2,538	2,538
Julian Roberts	1	6,763	3,994	–	2,100	267	13,124
Management, excl. Chief Executive[1) 2)]	13	17,567	8,463	3,216	9,105	13,927	52,278

1) SEK 9,105 thousand includes SEK 8,494 thousand in severance pay.

2) Pension premiums include premiums for two board members.

3) Share-based payments to the Chief Executive are not charged to Skandia. For further information, see the Old Mutual plc 2007 Annual Report.

Other compensation and benefits for senior executives employed by Skandia in 2006

SEK thousand	Average number of persons	Base salary	Variable compensation	Share-based payment[6]	Other compensation and benefits	Paid-in pension premiums	Total
Chief Executives							
Lars-Eric Petersson[1]	1	–	–	–	2,824	13,307	16,131
Hans-Erik Andersson (through 21 February)[2) 3)]	1	5,839	1,500	–	559	1,922	9,820
Julian Roberts (from 22 February)	1	5,502	6,014	–	2,553	228	14,297
Executive management excl. Chief Executive[4]	7	20,514	17,138	17,880	7,847	9,940	73,319[5]

1) Payment in accordance with ruling by Arbitration Board.

2) Base salary includes salary during notice period.

3) Other compensation and benefits includes SEK 500 thousand in severance pay.

4) Other compensation and benefits includes SEK 6,483 thousand in severance pay.

5) Of which, a total of SEK 47,509 thousand paid in Sweden and SEK 25,810 thousand paid abroad.

6) With respect to share-based payments to the Chief Executive and members of the executive management employed by Old Mutual, see the Old Mutual plc 2006 Annual Report.

Other compensation and benefits for senior executives who were not employees of Skandia in 2007

SEK thousand	Average number of persons	Base salary	Variable compensation	Share-based payment	Other compensation and benefits	Pension premiums	Total
Other senior executives	2	5,464	1,590	322	95	2,773	10,244

Information on Julian Roberts' compensation and benefits in 2007

Julian Roberts' compensation for the time as Chief Executive of Skandia in 2007 is shown in the table above. Other components, such as share-based payment, term of notice and severance pay, are described in the Old Mutual plc 2007 Annual Report.

Financial instruments

Senior executives participate in the incentive programme described in section VI, "Share-based payment". Grants of shares and options to senior executives are shown in the table below:

Number of options and shares in Old Mutual plc

Thousands	Shares granted in Sept. 2006	Shares granted in March 2007	Options granted in March 2007
Outstanding options/shares at 1/1/2006	–	–	–
Granted options/shares	125	–	–
Exercised options/shares	–	–	–
Forfeited options/shares	–	–	–
Outstanding options/shares at 1/1/2007	125	–	–
Granted options/shares	–	111	138
Exercised options/shares	–	–	–
Forfeited options/shares	–	–	–
Outstanding options/shares at 31/12/2007	125	111	138

No shares or options were fully vested as per 31/12/2007.

The financial instruments held by Chief Executive Julian Roberts that are coupled to Old Mutual shares are described in the Old Mutual plc 2007 Annual Report.

Pensions

Julian Roberts is a member of the Old Mutual Staff Pension Fund, which is a defined contribution pension plan. The terms of this pension plan are described in the Old Mutual plc 2007 Annual Report.

For other senior executives in Sweden, the retirement age varies from 57 to 65 years. This group of employees is covered by defined contribution as well as defined benefit pension commitments. The premiums are set at a level that would apply for a level of benefits corresponding to 40%-70% of pensionable salary. For senior executives in other countries, terms are applied in accordance with the going rate in the market in the respective countries. All pension commitments are vested.

Severance pay

For information on the terms of severance pay for Julian Roberts, see the Old Mutual plc 2007 Annual Report. Other senior executives are entitled, in the event the company serves notice, to salary during the notice period, plus severance pay. Normally, termination salary and severance pay together do not amount to more than 24 months' salary.

Drafting and decision-making process

According to the Board's instructions, the Compensation Committee is responsible for assisting the Board in drafting recommendations on the principles of compensation for senior executives. Decisions on the Chief Executive's compensation are made by the Old Mutual plc Remuneration Committee.

VI. SHARE-BASED PAYMENT

Some 20 key employees of Skandia are covered by a share-based incentive programme. Skandia's parent company, Old Mutual, has two programmes in which these employees participate:

- The UK Restricted Share plan consists of shares in Old Mutual plc.
- The UK Share Option Plan consists of options which give their holders the right to buy shares in Old Mutual plc at a predetermined exercise price.

The employees covered by the programmes were granted shares and options in March 2007. The options have an exercise price of GBP 1.63. A small number were also granted in August 2007. Grants were made on the basis of a combination of individual targets and result-based outcome for 2006. A number of employees were also granted shares in September 2006, of whom seven were still employed by Skandia at year-end 2007.

The term of the options is six years. The options can be exercised at three years after their grant at the earliest. In accordance with international practice, options and shares are granted without cost to the individual. In order for employees to be able to benefit from the value of granted options and shares, they must remain in service for at least three years. Options are personal and are not transferrable for employees.

The company has not taken out any hedges for the programmes, but has set aside a reserve for future social insurance costs in connection with exercise of the options and shares. The company has not had any management costs for the option programmes. In all, the incentive programme resulted in a cost of SEK 9 million (0) in 2007.

The options are settled with equity instruments and are reported in accordance with IFRS 2 Share-Based Payment, which is described in note 1, Significant accounting policies, section 17.

For further information on the incentive programmes, see the Old Mutual plc Annual Report and website, www.oldmutual.com. No other share-based incentive programmes, in addition to the above-mentioned share and option programmes, are used by Skandia. In 2006, the former programme expired, which consisted of options which gave the holders the right to buy shares in Skandia. These are described in the 2006 Annual Report, page 45.

Number of options and shares

Thousands	Shares granted in Sept. 2006	Shares granted in March 2007[1]	Options granted in March 2007[1]
Outstanding options/shares at 1/1/2006	–	–	–
Granted options/shares	520	–	–
Exercised options/shares	0	–	–
Forfeited options/shares	-192	–	–
Outstanding options/shares at 1/1/2007	328	–	–
Granted options/shares	0	202	511
Exercised options/shares[2]	-86	–	–
Forfeited options/shares	-29	-4	-18
Outstanding options/shares at 31/12/2007	213	198	493

[1] Including a few shares and options granted in August 2007.

[2] The weighted average share price for the exercised options was GBP 1.47 per share.

No shares or options were fully vested as per 31/12/2007.

Calculated value

SEK per share/option	Shares	Options
30/9/2006	22.90	n.a.
31/12/2006	22.20	n.a.
31/3/2007	22.60	5.40
31/12/2007	22.10	5.50

The calculated value of the shares is based on the closing price on the Stockholm Stock Exchange on the respective valuation dates.

The value of the options has been calculated using the Black & Scholes option pricing model.

The following parameters have been used in the calculation:	31/3/2007	31/12/2007
Anticipated volatility[1]	31%	33%
Exercise price, GBP	1.63	1.63
Share price, GBP	1.63	1.72
Exchange rate, GBP	13.76051	12.83203
Anticipated dividend	3.7%	3.7%
Risk-free interest rate	4.6%	4.5%
Calculated remaining term, years[2]	5.0	4.3

[1] This forecast is based on actual volatility during the quarter preceding the measurement date.

[2] The expected life assumption is based on the average length of time similar grants have remained outstanding in the past and the type of employees to which awards have been granted. In connection with valuation, no assumption on premature redemption has been made.

VII. SICKNESS-RELATED ABSENCE

	2007	2006
Total, sickness-related absence	**3.56%**	**4.30%**
— Long-term sickness-related absence (>60 days)	1.89%	2.46%
— Sickness-related absence, men	2.95%	3.30%
— Sickness-related absence, women	4.05%	5.08%
— Employees -29 years	1.89%	2.80%
— Employees 30-49 years	3.15%	3.90%
— Employees 50 years –	3.96%	6.11%

Data above pertains only to employees in Sweden and is expressed as a percentage of the employees' total working time.

Note 45 Pension disclosures

Skandia adheres to the rules of the Pension Obligations Vesting Act (*Lagen* (1967:531) *om tryggande av pensionsutfästelse*) and the Swedish Financial Supervisory Authority's guidelines for reporting pensions. The rules of IAS 19 pertaining to defined benefit pension plans are therefore not used by the parent company; instead, disclosures are provided in relevant areas with respect to IAS 19.

Skandia's pension plans consist primarily of pension benefits provided under the occupational pension plan for salaried employees in the insurance industry ("FTP") and to some extent by additional pension benefits for senior executives. The pension plans consists primarily of retirement pension, disability pension and family pension. The FTP plan is a defined benefit plan, which entails that employees are guaranteed a certain level of pension benefits after concluded employment, which are based on their salary at the time of retirement. Salaried employees with a pensionable salary in excess of 10 times the Income Base Amount have the right to a pension solution pertaining to salary amounts ranging between 7.5 and 10 times the Income Base Amount ("Alternative FTP"). Alternative FTP, as well as supplementary retirement pension ("FTPK"), is classified as a defined contribution pension plan. Defined contribution pension plans entail that the company's pension cost consists of a percentage share of the employee's salary.

Skandia's pension plans are vested through payment of insurance premiums primarily to Skandia Liv and Försäkringsbranschens pensionskassa (FPK). Certain defined benefit pension obligations are also vested in the Skandia Group Pension Foundation. Pension obligations vested in the pension foundation are not reported on Skandia's balance sheet.

Pension obligations that are secured through company-owned endowment insurance policies are not reported on the balance sheet. The value of these pension obligations corresponds to the insurance capital in the respective endowment policies. The insurance capital is based on actuarial guidelines and calculation bases of the insurers and consists of the market value of the share of the insurer's investments that accrue to the policy, excluding unallocated surpluses. As a result of the reporting of the pension obligations secured through the endowment insurance policies, the value of company-owned endowment insurance policies is not reported as an asset on the balance sheet.

The endowment insurance policies are pledged for the benefit of the pension beneficiary and are thus reported as pledged assets. The value of the pledged assets corresponds to the insurance capital in the endowment insurance policies.

For endowment insurance contributions, the premiums are reported as a pension cost. Future premiums for endowment insurance policies may be affected by salary increases, returns on pension funds and allocations of surpluses. For most pension beneficiaries, capital from the endowment policies is paid out on a continuing basis directly to the beneficiaries without going via Skandia. Where applicable, capital from the policies is paid via Skandia to the beneficiaries.

In the income statement, the company's pension cost consists of the sum of pension premiums, contributions to endowment insurance policies, direct pensions paid out from pension obligations vested in the Skandia Group Pension Foundation (pensions under own management) and payroll tax. The cost has been reduced by the compensation received from Skandia's pension foundation. The cost is reported as an administrative expense, see note 46. A provision has been made for payroll tax in the balance sheet for pension obligations secured through company-owned endowment insurance policies.

INFORMATION ON OBLIGATIONS SECURED THROUGH FOUNDATIONS

	2007	2006
Specification of assets and liabilities pertaining to pensions vested under own management		
Present value of obligations pertaining to funded pension plans	-3	-4
Fair value of assets in pension foundation at end of period	72	86
Surplus in pension foundation (+)	**69**	**82**
Unreported surplus in pension foundation	-69	-82
Net liability in balance sheet	**0**	**0**
Specification of change in surplus in pension foundation		
Net liability at start of year pertaining to pension obligations	**0**	**0**
Carrying amount in income statement of costs for pensions vested under own management	-31	-24
Provision to pension foundation	0	0
Pension payments	0	-1
Compensation from pension foundation	31	25
Net liability at year-end pertaining to pension obligations	**0**	**0**
Specification of pension costs and revenues during the period		
Pensions vested under own management		
Cost for earning of pensions	0	0
Difference between compensation from pension foundation and paid-out pensions	31	25
Interest expense	0	0
Actual return on specially detachable assets	-17	-8
Cost for pension vested under own management	**14**	**17**
Pensions through insurance		
Insurance premiums	-214	-179
Pension cost for the year	**-200**	**-162**
Increase in surplus in specially detachable assets	17	8
Reported net cost pertaining to pensions, excluding taxes	**-183**	**-154**

Fair value of assets in foundation, broken down by main categories	2007	2006
Equities	49	59
Fixed-income investments	15	16
Cash and bank balances	3	2
Other assets	5	9
Total assets	**72**	**86**

The following actuarial assumptions have been used to calculate the pension liability:

Discount rate 4.5% (3.75%)

Inflation 2% (2%)

For 2008, payments for defined benefit pension plans are expected to be level with the payments made in 2007.

Note 46 Administrative expenses

	2007	2006
Wages, salaries and remuneration	-876	-946
Social security charges	-280	-280
Pension costs (including special payroll tax)	-280	-243
Compensation from pension foundation	31	25
Other payroll costs[1]	-475	-145
Payroll costs	**-1,880**	**-1,589**
Cost of premises	-210	-246
Depreciation	-15	-18
Provision for restructuring costs	-67	—
Reversal of provision for restructuring costs from previous years	0	18
Other[2]	105	-255
Administrative expenses	**-2,067**	**-2,090**
Administrative expenses are broken down in the income statement as follows:		
Investment income (included in note 13)	-1,072	-1,298
Provision for restructuring costs	-67	—
Reversal of provision for restructuring costs from previous years	0	18
Claims incurred in the technical result of property & casualty insurance business (included in note 5)	-15	-15
Claims incurred in the technical result of life assurance business (included in note 8)	-18	-19
Operating expenses in the technical result of property & casualty insurance business (included in note 6)	-192	-193
Operating expenses in the technical result of life assurance business (included in note 10)	-703	-583
Total distributed administrative expenses	**-2,067**	**-2,090**
[1] Of which, expensed provisions/payments for profit-sharing systems for employees of other group companies	—	88
[2] Auditing and other assignments are broken down as follows:		
Audit assignment, KPMG	-9	-11
Other assignments, KPMG	-2	-2
Audit assignment, Deloitte	0	-2
Other assignments, Deloitte	-2	-8
Audit assignment, SET Revision	-1	-2

By audit assignments is meant review of the annual report and bookkeeping as well as of the Board's and CEO's management, other duties that are incumbent on the company's auditor to perform, and advice or other assistance that results from observations from such review or execution of such other duties. Everything else consists of other assignments.

Note 47 Leasing

In its capacity as a lessee, Skandia has entered into a number of operating leases. Minimum lease payments pertaining to non-cancellable operating leases as per 31 December 2007 mature as follows:

Operating leases	Amount
2008	-193
2009	-190
2010	-187
2011	-6
2012	-3
2013 and later	—
Total leasing expense	**-579**

Leasing expenses for the year amounted to SEK 205 million (119).

Note 48 Related party disclosures

Related parties

Related parties are defined as all companies in the Old Mutual Group. Added to these are board members and senior executives of Skandia as well as their close relatives. Associated companies and joint ventures are also defined as related parties.

Skandia Liv is a wholly owned subsidiary of Skandia. However, Skandia Liv's business is conducted on a mutual basis. This means that the profit or loss that is generated from Skandia Liv's operations is to be passed on to the policyholders. No profit distribution may take place to the shareholder. All companies in the Skandia Liv group are defined as related parties.

Compensation of the Board and senior executives of Skandia is disclosed in note 44. In other respects, no transactions have been made with these persons or close relatives of these persons other than normal customer transactions conducted at market terms.

Pricing

The pricing methods used are market price or cost-price. Market price is used in cases where it is possible to make comparisons with similar services in the market. In other respects, the cost-price method is used. When cost-price is used, the consultation group decides on the scope and allocation of costs. In connection with business planning, a budget is produced which includes the total cost per assignment, broken down into separate costs and joint costs, along with an allocation formula that reflects degree of use. Compensation is paid based on the actual outcome. Departures from the budget must be presented to and approved by the consultation groups, and a review of the allocation formulas shall be performed on a quarterly basis in the aim of changing these if material changes have taken place.

Following is a description of the significant relations that Skandia has with companies in the Skandia Liv group, subsidiaries and other companies in the Old Mutual Group.

TRANSACTIONS BETWEEN SKANDIA AND THE SKANDIA LIV GROUP

Process between Skandia and the Skandia Liv group

Skandia's board of directors has adopted guidelines for transactions and other relations between Skandia and Skandia Liv. These entail, among other things, that agreements of an economic nature between Skandia and Skandia Liv must be specially reviewed to ensure that they are compatible with the prohibition against profit distribution, and valuations must be tested in a thorough and impartial manner. Clear documentation shall be prepared for agreements and valuations in which it is clearly stated who is commercially responsible for the transaction. All agreements shall be specified and be reported yearly for the board of Skandia Liv. Skandia Liv's audit committee has special responsibility for reviewing the application of the guidelines adopted by the Board for transactions and other relations between Skandia Liv and Skandia.

Transactions of a nonrecurring nature shall be decided on by the respective boards, and in connection with the sale of material assets in which a market quotation is lacking, a valuation shall be performed by an external appraiser. Such valuation shall be documented.

With respect to transactions of an ongoing nature, an established process is in place. For each respective assignment, business heads are appointed who are responsible for control and follow-up. Outsourcing agreements and specifications shall be produced for each assignment, specifying the assignment and the details of its execution, control and planning of the assignment, business heads, decision-making and work processes, payment methods, routines for handling errors, and reporting and follow-up. Consultation groups are set up for the respective assignments, and the parties consult with each other regarding the level of service, how errors are to be handled, compensation levels, follow-up and other questions. In addition, Skandia Liv has its own contracts group comprising all responsible agreement owners. The purpose of this group is to ensure compliance with the guidelines and processes.

Transactions by order of significance

Character	Receiving company	Rendering company	Compensation, SEK m	Reference
Distribution support, market communication, customer service centres, group insurance and staffs, and business development	Skandia	Skandia Liv	645	1)
Distribution compensation (retrocessions)	Skandia	Skandia Liv	520	1)
Rents of office premises	Skandia Liv	Skandia	-190	2)
Occupational pensions to Skandia employees	Skandia Liv	Skandia	-164	3)
Joint occupational pensions concept	Skandia Liv	Skandia	-47	4)
Accounting systems, treasury and legal affairs	Skandia	Skandia Liv	19	5)
Reinsurance contracts (net)	Skandia Liv	Skandia	-6	6)
Liability insurance	Skandia	Skandia Liv	5	7)
Other	Skandia Liv	Skandia	-3	8) 9)

1) In 2004 Skandia and Skandia Liv entered into an agreement in principle and framework agreement on co-operation covering market-related functions and certain staff functions in order to increase efficiencies between the companies. The co-ordinated services involve distribution and distribution support, customer service, market communication, business development, administration of group insurance products, and diverse staff and service functions. With respect to distribution, Skandia receives going-rate compensation for performed services, but at the same time is responsible to reimburse Skandia Liv in the event of a cancellation of the sold policies. Compensation for sales via Skandia's own sales channels is based on the level of commissions to external insurance brokers plus the client's special risks and outlays for its own sales channel. The compensation that is payable for other areas covered by this point is based on cost-price, broken down into degree of actual use. This latter category includes the business development for the Individuals and Corporate segments, which is conducted jointly by the companies. The former is conducted by Skandia and the latter by Skandia Liv.

2) Skandia rents office premises at various locations around Sweden from Skandia Liv and pays market rents for these.

3) Skandia Liv provides occupational pensions for the employees of the Skandia group. These pension benefits are based on agreements made in the Swedish labour market, and the premiums are thus in line with the going rate in the market.

4) Through the Skandia Link unit, Skandia Liv and Skandia have a joint occupational pensions concept. Skandia Liv handles the administration and receives compensation for administrative services based on cost-price. This joint occupational pensions concept was renegotiated with effect on 1 January 2007, whereby Skandia and Skandia Liv fully accept their own share of the risks. In connection with this renegotiation, a payment of SEK 2,360 million was made to Skandia Liv.

5) Skandia provides joint functions for accounting systems, treasury and certain legal functions for the Skandia group. The compensation that Skandia Liv pays to Skandia is based on cost-price and is allocated according to actual degree of use.

6) Skandia reinsures a significant share of its disability insurance risks in the Swedish operations with Skandia Liv. In this way, co-ordination gains are obtained in risk assessment, etc. Skandia pays a going-rate premium for the reinsurance, which has been secured in such way that Skandia Liv, in turn, reinsures part of its risk in the open market.

7) The entire Old Mutual Group has joint liability insurance. Skandia Liv pays its share of this cover to Skandia. Its share has been verified by an external party.

8) Skandia Liv performs certain administrative services for Skandia in developing services for companies an in IT, benefit payments, and legal functions. Compensation is based on the cost-price principle based on debited time.

9) Skandia Liv has the opportunity to invest its surplus liquidity with Skandia. The maximum amount that can be invested is SEK 1,400 million. Market interest rates are charged for these transactions. In 2007, overnight investments were made on 61 (30) occasions. At year-end there was no short-term lending or borrowing.

The dispute pertaining to the allocation of surpluses in the occupational pension plan was resolved by Skandia agreeing to pay SEK 290 million to Skandia Liv from the future payments that Skandia would likely receive from payments from the surplus in the pension plans. The agreement to pay SEK 290 million shall be settled before 31 March 2013. Skandia does not report the receivables from future pension surpluses in its balance sheet and thereby does not receive the reduction in the surplus that its undertaking to Skandia Liv represents. As the insurer, Skandia Liv reports the pension obligation as a technical provision and also books a receivable of SEK 290 million from Skandia.

Skandia has a net receivable of SEK 182 million from Skandia Liv as per 31 December 2007. Skandia Liv reports a receivable of SEK 108 million in its accounts from Skandia. The difference, SEK 290 million, is explained in the preceding paragraph.

TRANSACTIONS BETWEEN SKANDIA AND ITS SUBSIDIARIES

Investments
Skandia owns shares in subsidiaries and made shareholder contributions during the year to certain subsidiaries. Information on the book value of subsidiaries and the size of the shareholder contributions is provided in note 17. Skandia has received dividends of SEK 2,628 million (2,599) from subsidiaries. Certain Swedish subsidiaries have also rendered or received group contributions.

Transactions by order of significance

			2007		2006
			Compensation		
Character	Receiving company	Pricing method	SEK m	Refer-ence	Compen-sation, SEK m*
Distribution compensation from fund companies (retro-cessions)	Skandia	Market price	559	1)	509
IT-operations, net	Subsidiaries	Cost-price	-226	2)	-199
Administrative services	Skandia	Cost-price	154	3)	49
Cash management and financing	Subsidiaries	Cost-price	-105	4)	-225
Ceded reinsurance	Subsidiaries	Market price	-70	5)	-89
Rental of premises	Skandia	Market price	31	6)	34
Reinsurance accepted	Skandia	Market price	20	7)	72
Distribution compensation, Skandia Liv	Skandia	Market price	11	8)	14

*Amounts in the preceding year are coupled to character.

Transactions

1) Distribution compensation (retrocessions) from fund companies
Skandia receives compensation from fund companies, based on sold volume. The compensation is in line with the going rate in the market.

2) IT activities
IT activities are conducted by several Skandia subsidiaries, which is why Skandia both invoices IT services to subsidiaries and receives invoices from some subsidiaries for IT services. The main services provided by Skandia are operation and development of joint accounting and cash management systems. The services that Skandia buys pertain to operation and service of PCs and networks, as well as insurance systems for unit linked assurance. The compensation paid for these services is based on cost-price.

3) Administrative routines
Skandia performs certain administrative services under assignment from subsidiaries in the following areas:
- Legal affairs
- HR
- Marketing and communication
- Internal audit
- Treasury administration
- Administration of premises

The compensation paid in these areas is based on cost-price according to actual use.

4) Cash management and financing
Skandia co-operates with subsidiaries in cash management and financing, which is coordinated in the subsidiary Skandia Capital. The Swedish subsidiaries (with the exception of SkandiaBanken) are included in Skandia's group account and receive or pay interest to Skandia for their share of the account. Skandia also conducts financing via Skandia Capital. For all transactions, Skandia pays or receives interest in accordance with market rates or a price in accordance with the going rate in the market.
Skandia has a net liability of SEK 610 million to subsidiaries. Of this net liability, SEK 3,078 million pertains to loans from subsidiaries and SEK 2,468 million in loans to subsidiaries.

5) Ceded reinsurance
Skandia reinsures the disability risks that arise in the Health and Private Healthcare product area to the subsidiary Dial Försäkringsaktiebolag. Skandia has a net receivable of SEK 2 million. Contracts with Dial Försäkringsaktiebolag are based on market prices.

6) Premises
Skandia rents office premises from Skandia Liv. Parts of these premises are sublet to subsidiaries, which pay market rents for these.

7) Reinsurance accepted
The subsidiary Dial Försäkringsaktiebolag reinsures 100% of its mortality risks with Skandia. Skandia has a net receivable of SEK 3 million. The contract with Dial Försäkringsaktiebolag is based on market prices.

8) Distribution agreement with Skandia Liv
Skandia receives, in accordance with a distribution agreement with Skandia Liv, compensation from Skandia Liv for sales conducted by Skandia for the benefit of Skandia Liv. Subsidiaries receive compensation for performance of services in accordance with the going rate in the market, but at the same time are responsible to repay Skandia in the event of a cancellation of sold policies.

TRANSACTIONS BETWEEN SKANDIA AND OTHER COMPANIES IN THE OLD MUTUAL GROUP

Several persons who work for Skandia are employees of Old Mutual and receive salary and other remuneration from Old Mutual. These costs are invoiced to Skandia on a regular basis and are expensed by the company. In 2007, SEK 60 million (26) was expensed for these services.

Old Mutual pays for joint liability insurance for the entire Old Mutual Group, including Skandia. Skandia paid SEK 24 million for its share of this insurance in 2007.

One subsidiary in the Old Mutual Group reinsures its mortality risks with Skandia. Skandia has a net receivable of SEK 7 million from this company.

Note 49 Result per class of insurance, property & casualty insurance

	2007	2006
Accident and illness		
Premiums written, gross	696	649
Premiums earned, gross	675	639
Claims incurred, gross	-435	-393
Operating expenses, gross	-197	-193
Result of ceded reinsurance	-43	-53
Technical result before investment income	**0**	**0**

Note 50 Post balance-sheet events

No significant events have occurred after the balance sheet date.

five-year summary

SEK million RESULT	2003	2004	2005	2006	2007
Premiums earned, net of reinsurance, property & casualty insurance	0	0	0	0	0
Premiums written, net of reinsurance, life assurance	8,535	775	748	938	914
Investment income in insurance business, net	-2	-3	-2	1	-2
Claims incurred, net of reinsurance, property & casualty insurance	0	0	0	0	0
Claims incurred, net of reinsurance, life assurance	-2,375	-255	-102	-116	-126
Change in technical provisions, net of reinsurance	0	0	18	-325	-35
Operating expenses	-405	-549	-636	-861	-1,244
Other technical income and expenses	-5,246	765	946	1,202	1,447
Technical result, insurance business	**507**	**733**	**972**	**839**	**954**
Result for the year	**655**	**-810**	**-3,688**	**-657**	**968**

FINANCIAL POSITION	2003	2004	2005	2006	2007
Investments	28,246	24,517	33,260	23,854	20,249
Investments for the benefit of policyholders	46,188	53,800	74,039	86,077	91,867
Reinsurers' share of technical provisions	877	967	963	969	984
Net asset value					
Shareholders' equity	4,991	4,893	8,844	8,697	9,721
72% of untaxed reserves	1,518	1,506	1,506	1,506	1,506
Surplus values in business in force after deferred tax	6,660	6,770	8,907	10,444	8,940
28% of untaxed reserves	591	585	585	585	585
Deferred tax assets	-2,514	-2,558	-448	-462	-565
Subordinated loans	849	849	850	850	—
Net asset value[1]	**12,095**	**12,045**	**20,244**	**21,620**	**20,187**
Capital base, parent company	7,647	7,651	12,038	9,159	9,283
Of which, deduction for intangible assets	20	—	—	—	—
Solvency margin, parent company	552	604	977	841	867
Capital base, group	18,815	20,505	12,793	12,876	15,980
Of which, deduction for intangible assets	-102	-201	-184	-181	-9
Solvency margin, group	3,066	3,540	3,273	3,182	2,332

KEY RATIOS	2003	2004	2005	2006	2007
Result of insurance operations					
Property & casualty insurance					
Claims ratio, gross, %[2]	71	78	66	62	64
Expense ratio, gross, %[3]	42	30	28	30	29
Combined ratio, gross, %[4]	113	108	94	92	94
Life assurance					
Management expense ratio, %[5]	0.6	0.7	0.7	0.8	1.1
Result of asset management					
Direct yield, %[6]	1.3	1.6	3.6	5.9	10.6
Total return, %[6]	29.6	4.1	3.6	7.1	7.7
Financial position					
Net asset value ratio, %[7]	7,231	5,972	11,299	13,639	12,817

The 2003 financial year is reported in accordance with Swedish GAAP. The years 2004-2007 are reported in accordance with legally limited IFRS. For more information on this change, see Skandia's 2005 Annual Report.

[1] Net asset value calculated in accordance with the guidelines of the Swedish Financial Supervisory Authority.
[2] Claims incurred in relation to net premiums earned.
[3] Operating expenses of the insurance operations in relation to net premiums earned, excluding other technical income and charges.
[4] Claims incurred plus operating expenses of the insurance operations, in relation to net premiums earned.
[5] Operating expenses and claims settlement costs in relation to investments and cash at bank and in hand.
[6] The direct yield and total return are calculated in accordance with the recommendation issued by Försäkringsbranschens Redovisningsnämnd (FRN) in a circular memo dated 1/93. In calculating the direct yield and total return, the assets for which the policyholders bear the investment risk are not included, since the purpose of the key ratio is to report the result of the company's own asset management.
[7] Risk-bearing capital in relation to risk-bearing premium.

auditors' report

To the Annual General Meeting of the shareholders of Skandia Insurance Company Ltd (publ) Corporate identity number 502017-3083

We have audited the annual accounts, the accounting records and the administration of the Board of Directors and the Chief Executive Officer of Skandia Insurance Company Ltd (publ) for the financial year 2007. The company's annual accounts are presented on pages 3-38 in the printed version of this document. The Board of Directors and the Chief Executive Officer are responsible for the accounting records and the administration of the company as well as for the application of the Annual Accounts Act for Insurance Companies when preparing the annual accounts. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the chief executive and significant estimates made by the Board of Directors and the Chief Executive Officer when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the Chief Executive Officer. We also examined whether any board member or the Chief Executive Officer has, in any other way, acted in contravention of the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The board of directors' report is consistent with the other parts of the annual accounts.

We recommend to the Annual General Meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the board of directors' report, and that the members of the board of directors and the Chief Executive Officer be discharged from liability for the financial year.

Stockholm, 27 May 2008

KPMG Bohlins AB

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