

KOMMUNINVEST 2005



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“KOMMUNINVEST SAVES
SWEDEN’S MUNICIPALITIES
MILLIONS OF KRONOR.”



KOMMUNINVEST IN BRIEF

VISION

Kommuninvest's ultimate ambition is to be a local debt office for Sweden's entire local government sector.

BUSINESS CONCEPT

Kommuninvest will offer its members effective finance solutions. As an interest group, Kommuninvest pursues the enhancement of the general conditions affecting the finance of the sector.

OBJECTIVES

Growth

Offering competitive finance products, advisory service models and financial know-how are prerequisites for Kommuninvest realizing its vision. Accordingly, Kommuninvest's funding and

management costs must be as cost-efficient as possible. In a competitive market, this means continued growth.

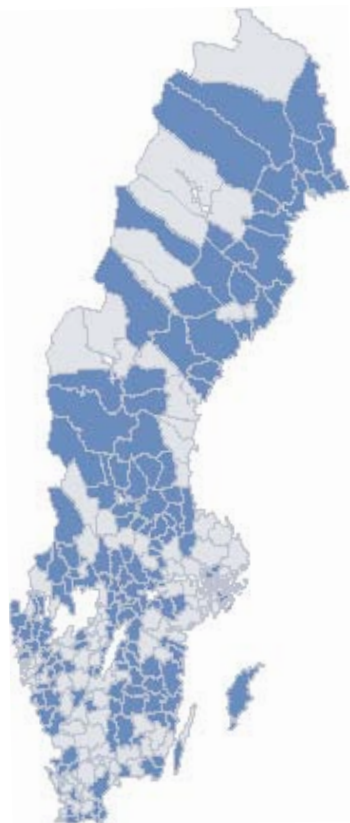
Stability

Kommuninvest's objective is to retain the highest possible credit rating (Aaa); this stability is a prerequisite for growth and being able to offer effective finance solutions.

Customer benefit

The customer benefit objective is based on the satisfaction of other targets, that Kommuninvest sustainably delivers competitive products and independent advice.

At year-end 2005, Kommuninvest had 174 members. The 16 new members that joined in the year were:

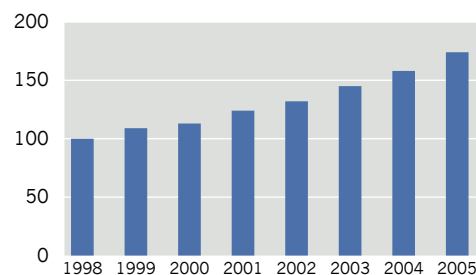


The Municipality of Håbo, the Municipality of Gällivare, Uppsala County Council, the Municipality of Kramfors, the Municipality of Haparanda, the Municipality of Krokom, the Municipality of Arvidsjaur, the Municipality of Mariestad, the Municipality of Åsele, the Municipality of Sollefteå, the Municipality of Örnsköldsvik, the Municipality of Karlstad, the Municipality of Surahammar, the Municipality of Filipstad, the Municipality of Motala, the Municipality of Jokkmokk.

The following 5 members joined after the end of the year:

The Municipality of Hallstahammar, the Municipality of Avesta, the Municipality of Trosa, the Municipality of Lilla Edet and the Municipality of Skinnskatteberg.

Membership, 1998 – 2005



Credit ratings

Aaa	The Kingdom of Sweden Kommuninvest Venantius
Aa1	The City of Stockholm SEK Handelsbanken
Aa2	The City of Gothenburg
Aa3	FöreningsSparbanken Spintab SBAB

THE YEAR IN BRIEF

- Kommuninvest expanded by 16 new members to 168 municipalities and 6 county councils.
- The balance sheet total grew by 34% to SEK 91.1 billion.
- Net lending grew by SEK 5.6 billion, to SEK 56.7 billion.
- Operating profit was the highest in Kommuninvest's history at SEK 56.0 million.
- Kommuninvest has retained the market's highest rating (Aaa)
- Kommuninvest won 'Most Innovative Product' for a bond launched on the Danish private client market alongside Danske Bank.

Capital markets news and data provider mtn-i awarded Kommuninvest 'Most Innovative Product' for a bond launched on the Danish private client market in 2005, recognizing that Kommuninvest had captured the increased interest in structural bonds in Europe.



A YEAR OF RECORD-LOW INTEREST RATES AND HIGH GROWTH

2005 was an excellent year for Kommuninvest and its members. Kommuninvest is now Sweden's largest inter-municipal cooperation.

It is with some pleasure that we can conclude that progress over the past year is entirely consistent with our long-term vision, to be a local debt office for all Sweden's municipalities and county councils.

Our lending expanded by SEK 5.6 billion—one of the best years in Kommuninvest's history. We also had the pleasure of welcoming 16 new members. Our membership base increased by nearly 55% in 2001-2005, which is fantastic progress.

In the past year, Swedish interest rates were the lowest in the modern era, and amongst the lowest in international terms. We have never been able to offer our customers such low interest rates as in 2005.

Meanwhile, Kommuninvest's profits were its highest ever. These excellent earnings have been sourced from outside our lending activities, and are mainly due to re-purchasing our own bonds and the profitable investment of borrowed funds yet to be lent.

Intense competition favours the municipal sector

Sweden's municipal sector is now in its best financial position for decades, and generally, liquidity continued to improve in 2005, which is very significant to local government finance. When we can project an unequivocal image that things are going well for Sweden, her municipalities and county councils internationally, Kommuninvest can secure the best possible terms for the sector.

This enhanced liquidity has reduced borrowing requirements, while simultaneously low interest rates favour municipalities through cheaper funding. The result was a year of intense competition, with high interest in lending to the municipal sector, and Kommuninvest has been an



active contributor to this competitive position. In these circumstances, being able to conclude that we have maintained healthy lending levels is positive, offering proof that our cooperation is working well.

Kommuninvest introduced two new loan products last year. These have very short-term fixed interests, which was new for us. These products took some time to develop, because it was necessary for Kommuninvest to find practicable solutions that did not conflict with its policy of pursuing low risk across all our activities. However, Kommuninvest is now able to offer all the usual types of loan our clients want.

Looking slightly further ahead, Kommuninvest anticipates increased municipal funding, because we are aware of a substantial investment requirement, and signs of this were already apparent in the

latter half-year 2005. The brisk growth of our membership base also implies an increase to our potential lending, although there is always a time-lag before new members' existing loans are turned over and we get the opportunity to offer new products from Kommuninvest.

Successful funding

Diversified funding is an important element of Kommuninvest's strategy to minimize risks and ensure good and effective finance for its members. We took a significant step along this route in January last year when, after a preparatory phase, we launched a USD 1 billion benchmark loan arranged by Dresdner Kleinwort Wasserstein, Credit Suisse First Boston and Nomura.

This loan was a success, and quickly oversubscribed. In the ensuing trading, it was priced at levels that offer promise for the future. This type of public funding facility is consolidating Kommuninvest's position in international capital markets, which is highly significant ahead of the volume expansion we expect. This is a result of our progressively more central role as a lender to Sweden's municipal sector.

Kommuninvest's ambition for the coming years is to utilize this type of large bond loan regularly to satisfy a portion of our funding requirement.

An array of other funding significant to Kommuninvest was raised during the year. Particularly, I would like to mention the loan targeted at the Danish consumer market launched alongside Danske Bank, which proved very popular. This instrument, linked to the Turkish lira, was recognized as the year's most innovative product in the international newsletter mtn-i.

Kommuninvest's high creditworthiness is a key determinant for its prospects of securing attractive funding terms. In 2005, Kommuninvest's rating from Moody's was stable at Aaa.

In August 2005, the Swedish Patent and Registration Office granted permission for Kommuninvest to use Sweden's coat of arms in business presentations, a very favourable decision, particularly in international contexts, constituting symbolic clarification of what Kommuninvest represents as an organization, and our origins.

Continuous quality enhancement

Kommuninvest has achieved constant growth over the past 15 years. Growth, with retained high quality for borrowers and lenders, is crucial in a business like ours. This is why we are rolling out constant change and improvement activities in segments including our services, IT support, risk management and skills enhancement.

Kommuninvest conducts customer surveys, the most recent in December 2005. 100% of respondents stated that Kommuninvest kept its promises, 96% stated that they would recommend membership of Kommuninvest to another municipality. However, our customers want more contact with Kommuninvest in terms of visits and telephone advisory services. The survey provides us with backing to keep prioritising our advisory services to satisfy our customers' wishes for closer contact.

Apart from the development of new loan products reviewed earlier, the following are examples of other keynote projects in 2005:

Under the auspices of our cooperation with Kommunalbanken of Norway, we conducted a major security project intended to further enhance Kommuninvest's access to rapid alternative IT business support in the event of an emergency, such as a fire at our office premises. The outcome of this project was the availability of a new operational environment for our business-critical systems at short notice.

The Board of Directors adopted a model for processing operational and other risks prepared by the company's Controller function. This new model also ensures that the company satisfies the new EU regulations that come into force with our national regulatory structure.

All these measures are significant, both for our present operations and as preparation for the growth we anticipate in the future. Kommuninvest's role in the municipal sector implies a special responsibility to conduct efficient finance activities at very low risk.

Focusing on our values

Kommuninvest wants to be a well-regarded corporation by its clients, members, employees and other observers. For this reason, we rolled out extensive initiatives regarding our shared values last year, activities that affected our management and all employees, and that also constituted the

foundations for last year's activities relating to our vision, objectives and strategies.

When a business is growing and new staff are hired, offering every member of the organization the opportunity to discuss the values most important for our operations and the values Kommuninvest represents is particularly important.

Kommuninvest is active in many countries and cultures, and at the interface between Sweden's public sector and the commercial financial world. This also means that developing our philosophy on value issues is significant.

Our work on values last year laid a prime foundation which, through various means, we will continue to build on through the coming years.

New regulations ahead

During the year, our Board of Directors and owners discussed the Swedish Corporate Governance Code, which came into force for large listed companies on 1 July 2005. Although Kommuninvest has no formal obligation to observe the Code, after considering its position, Kommuninvest has decided to progressively introduce the Code's recommendations through 2006.

We hope that this step towards increased openness and clarity will make a contribution to our efforts to nurture the considerable trust that has been placed in Kommuninvest.

We also worked on preparing the adoption of IFRS (International Financial Reporting Standards) in the year, whose purpose is to provide a more accurate impression of financial position and profits, primarily for global corporations. Kommuninvest has made good progress in adopting these standards in its accounting, and will satisfy the new standards when they come into force on 1 January 2007.

In fact, these Standards are not intended for an organization with our specialization and particular type. They have already been subject to several amendments before they come into force. Overall, this implies extra administrative costs during their adoption phase.

Continued growth towards realizing our vision

Kommuninvest's financial and advisory services contribute to making municipal finance more efficient overall. In the longer term, our ambition is to be able to satisfy the needs of the entire sector

for funding and financial advisory services.

We also want to become more skilled as an interest group in our sphere. We closely monitor the emergence of new standards and legislation, particularly in the EU. It is crucial that the interests of Sweden's municipalities and county councils are protected, so that general conditions do not deteriorate.

We are also striving to create a more honest impression of financial progress in the sector; on occasion over the years, the sector's situation has been described misleadingly. As part of this ambition, we published our first report on municipal sector finances in 2005, and our intention is to publish our view of the sector's position annually.

Kommuninvest will continue to protect its members' interests on these issues.

Coincident with our Annual General Meeting, as many as 60% of Sweden's municipalities and 30% of its county councils will be members. Our internal forecasts, based on membership applications received and informal contacts with municipalities and county councils that have yet to join Kommuninvest, suggest sustained brisk growth, commensurable with progress in 2005.

Kommuninvest's management visited several senior representatives of its members in 2005. Apart from a general discussion of Kommuninvest and its progress, the continued expansion resulting from an growing municipal membership base was also considered. We can conclude that there is considerable understanding and acceptance that additional extension of the cooperation is exclusively a benefit to current members and Swedish municipalities and county councils that apply for membership in future.

Kommuninvest's role as a debt office for Sweden's municipalities and county councils will only become clearer. Ultimately, our cooperation, which is built on a voluntary and businesslike approach, is for the benefit of all members of society.

Thomas Åkelius
President and CEO

MUNICIPAL FINANCES MAKING VERY POSITIVE PROGRESS

A substantial share of Sweden's public finances

Sweden's municipal sector represents 70% of total public consumption expenditure. Thus the municipal sector exerts a significant impact on overall public finances. Robust progress by municipalities was a contributor to a public finance surplus in 2005 of an estimated 2% of GDP.

The best results for a very considerable period

The positive progress of municipal finances for several years continued in 2005, with the municipal sector forecast to post its best financial results since the 1980s.

Estimated municipal and county council earnings are SEK 12 billion, or 2% of annual fiscal and state subsidy revenues. Estimated consolidated surpluses are SEK 15 billion,

There are several explanations for this positive progress, the most prominent being firm cost

control and increased central government initiatives for the municipal sector.

Firm cost control

For several years, the municipal sector has been working intensively towards activities progressing consistent with an economy that is sustainable for the long term. Far-reaching structural measures and continuous change have enabled the municipal sector to now generate the surpluses necessary to finance municipal welfare for the long term.

This positive economic progress is particularly apparent within county councils, which are accountable for basically all Sweden's health-care, and nearly 10% of GDP. County councils have reconciled structural rationalization measures and uniformly firm cost control with retained high quality and service. Recent interna-





tional reviews indicate that Sweden's healthcare is well funded and maintains a high standard.

More surpluses in the coming years

Economic forecasts for the coming years indicate healthy growth in Sweden. The tax base is expanding, and the prospects for municipalities appear stable. This, and sustained firm cost control means that financial results through the coming years will be consistent with the past year.

An improved financial position

Positive progress of the sector's results also exerted an impact on financial positions; financial assets increased while borrowings were unchanged. Improved cash flows increased the prospects for internal funding of investments within the sector. Meanwhile, liquidity has increased, while there has been an improved preparedness for future pension disbursements and other challenges.

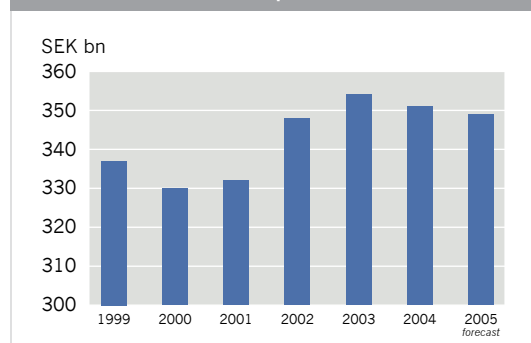
Investments increase while borrowing remains relatively unchanged

Municipal investments increased by nearly 10% last year, and viewing the municipal sector as a whole, the future heralds an increased investment requirement. For the coming year, the sector is forecast to finance more investment internally, without external loan finance increasing to the same extent. Municipal sector borrowings are SEK 350 billion, with municipalities and county councils representing SEK 150 billion, and their municipal corporations representing SEK 200 billion. A high proportion of municipal borrowings are loaned to municipal corporations.

Pension commitments

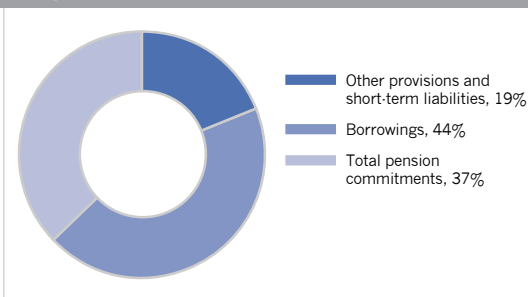
In addition to external borrowings, the municipal sector has nearly SEK 300 billion of pension commitments. The sector is continually conducting a series of measures to increase its preparation for future costs and disbursements implicit in this. Financial results over the coming years will continue to offer the scope to further enhance this preparedness through avenues such as liquid reserves.

The municipal sector's * borrowings
Billions of kronor at current prices



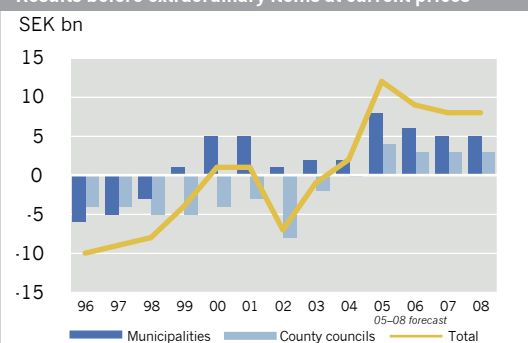
* Including municipal corporations. Sources: SCB, SKL and our own calculations

Division of municipal sector's * debt, provisions and pension commitments



* Including municipal corporations. Sources: SCB, SKL and our own calculations

Municipalities' and county councils' results
Results before extraordinary items at current prices



Sources: SCB, SKL and our own calculations

A GLOBAL PLAYER WITH A MUNICIPAL ASSIGNMENT



“Thanks to our high rating, collectively, Kommuninvest’s members have a rating as high as the Kingdom of Sweden for the credits they source through Kommuninvest.”

Tomas Werngren, Executive Vice President and Chief Financial Officer

Kommuninvest’s primary purpose is to achieve good long-term finance terms for all Swedish municipal financing. The opportunities implicit in cooperation have become increasingly apparent since incorporation in 1986, and Kommuninvest has grown constantly in terms of its membership base, lending, and notably as an issuer on the capital markets. Looking ahead, growth remains the primary focus; Kommuninvest will increase in size to be able to satisfy the overall Swedish municipal sector’s finance needs even better, but also to be able to retain the company’s low management costs.

Kommuninvest is active in a competitive market on its borrowing and lending sides. Competition benefits member municipalities, and corroborates the value of Kommuninvest’s collaboration whenever finance is in demand. It also serves as the ultimate guarantee of the collaboration remaining effective for the long term and creating value for Sweden’s municipalities.

The purpose of operations is to guarantee the constant availability of efficient finance for the municipal sector and to offer the best solutions. This must be simultaneous with very limited risk-taking because operations are guaranteed by Sweden’s municipalities. This limits Kommuninvest’s scope to compete with other commercial players if it implies financial risk-taking. On the other hand, this limitation is one of the explanations for Kommuninvest’s high credit rating from Moody’s, Aaa.

Protecting municipal interests

However, Kommuninvest’s role is not exclusively as an institution to provide attractive loans to member municipalities. It also serves an important function as an interest group for the entire municipal sector, which has secured increasing significance, particularly because of advancing regulatory harmonization across the EU. In these activities, decisions can have an impact of billions of kronor on municipalities, for example

regulations on capital coverage and central government support.

Advisory services and training are also part of the interest group's role.

Kommuninvest keeps pace with municipalities, not only assisting them with cost-effective finance but also advisory services that enable them not only to borrow both cheaply and correctly. Providing tools that can rationalize municipal financial management is part of Kommuninvest's assignment, and also enhances its credibility in the municipal sector.

Intense competition over lending

On its borrowing side, Kommuninvest cooperates worldwide, while on the lending side operations are, and will remain, limited to Sweden's municipalities, county councils and their majority-owned corporations. Over the past year, this market featured intensifying competition, partly dependent on the municipal sector's healthy financial progress, and other financial players' increasing interest in the municipal sector as a borrower.

Municipal financial performance continued to improve over the past year, among municipalities, county councils and their corporations. Sweden's municipalities are in their best financial position for 20 years. This improvement is a consequence of progressively tighter cost control, government surpluses, an expanding tax base, tax increases and record-low interest rates. The consequence is that the sector's financial assets have outgrown external borrowings.

Meanwhile, surplus liquidity has prevailed in the banking sector, for reasons including a reduced corporate borrowing requirement. The new Basle II capital coverage regulations, which come into force on 1 January 2007, also affected lender behaviour. A better mix of public borrowers, loans with mortgages or corporate mortgages as collateral, as well as normal unsecured credits, mean that banks and other lenders have reduced equity requirements.

The consequence of the proposed regulatory realignment and surplus liquidity in the banking sector is that direct bank lending has become more attractive for municipalities. Product offerings have also changed, with a focus on really short interest fixings, such as repo rates and overnight rates, becoming apparent. This progress

puts demands on municipal monitoring and the calculation of financial exposures.

Despite this, Kommuninvest's market share of the municipal sector's total funding increased slightly in 2005, to now represent some 42% of member municipality loan portfolios.

A top-rated borrower

Kommuninvest has achieved long-lasting success as an issuer on the funding market, targeting small and medium-sized investors on Nordic, European and Japanese markets. Kommuninvest is one of the largest issuers of bonds on the Swedish capital markets whose yields are linked to various indices, currencies and commodities. Kommuninvest is also one of the ten largest borrowers on the uridashi market, with loans targeted at private clients and regional institutions.

While Kommuninvest was recognized by the *mtn-i* newsletter in 2005 for Loan of the Year on the EMTN market, what perhaps is even more pleasing is being nominated as Borrower of the Year, with the jury praising the corporation for capturing increased interest in structured finance in Europe.

However, continued growth necessitates Kommuninvest attracting new investor categories and establishing a presence on more markets. For this reason, Kommuninvest launched a large USD 1 billion bond issue in 2005 targeted at central banks and other major institutional investors.

Intensive activities to communicate the unique autonomy of the Swedish municipal sector, and that the sector is as secure a borrower as the Kingdom of Sweden despite the absence of government guarantees, underpinned this successful launch.

Investors are accepting the clarity of Sweden's legislation on the special status and secure position of Sweden's municipalities. This status as a strong issuer was also accentuated by Kommuninvest being the only Swedish player apart from the Kingdom of Sweden with the maximum credit rating, Aaa, from ratings institution Moody's. Obviously, the joint and several guarantee is one of the primary underlying factors for the high credit rating, although it is also based on the combination of member municipalities' strong credit profiles, and Kommuninvest's sta-

ble operations and solid market positioning with its owner-members. Moody's also rates Kommuninvest's financial fundamentals and asset and liability management highly.

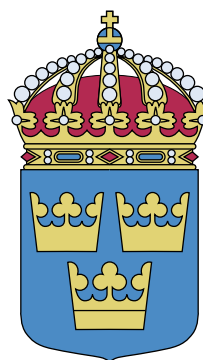
Kommuninvest's strengths as an issuer will be further enhanced by continued growth. A larger Kommuninvest not only means a stronger presence on the funding markets, but more members also make Kommuninvest a stronger financial partner. A genuine local debt office, with all Sweden's municipalities as members, will mean cheaper and more secure borrowing, offering yet more advantageous loans for Sweden's municipalities, county councils and their majority-owned corporations: progress that would favour existing members.

Thanks to its high rating, Kommuninvest's member municipalities enjoy as high a collective rating as the Kingdom of Sweden for the credits they secure through Kommuninvest. Thus individual member municipalities are guaranteed to never receive worse terms than justified by the strength of the municipal sector as a whole, and this is what Kommuninvest means by being a 'local debt office'.

Credit ratings

Aaa	The Kingdom of Sweden Kommuninvest Venantius
Aa1	The City of Stockholm SEK Handelsbanken
Aa2	The City of Gothenburg
Aa3	FöreningsSparbanken Spintab SBAB

Sweden's coat of arms



Kommuninvest is permitted to use Sweden's coat of arms in its presentations to the international capital markets, to demonstrate its origins in Sweden and the public sector.

A portrait of Maria Viimne, a woman with dark, wavy hair, wearing a black top and a light-colored blazer with a red patterned scarf. She is looking directly at the camera with a slight smile.

“Kommuninvest conducted its biggest ever issue in 2005, of USD 1 billion. Investor interest demonstrates that the financial world views Kommuninvest as a very creditworthy and stable issuer.” Maria Viimne, Funding Manager

“A big success for our largest issue yet”

Kommuninvest consummated its biggest transaction ever in 2005, a USD 1 billion issue. Kommuninvest's continued membership base expansion is the primary driver for this loan, in turn implying Kommuninvest needs a growing funding volume to satisfy its members' needs for liquidity.

In November 2004, Dresdner Kleinwort Wasserstein, Credit Suisse First Boston and Nomura were appointed as arrangers. The issue was preceded by intensive contacts by Kommuninvest with investors across Asia and Europe.

The issue was quickly over-subscribed, with the order book closed at some USD 1.5 billion. A total of 55 investors were apportioned, with over 60% placed with central banks. Just over half of the issue was placed in Asia, with European investors also exhibiting strong interest.

Kommuninvest's intention is to continue this type of transaction and to conduct similar issues at intervals of about 12 months in the future.

A STABLE BORROWER WITH THE TOP CREDIT RATING

Kommuninvest's borrowing is intended to provide Sweden's municipalities and county councils with the best possible funding terms. This assignment implies Kommuninvest utilizing a well-diversified funding portfolio in terms of its investor community, loan instruments and geographical diversification.

Kommuninvest is now one of the fastest-growing borrowers in the Nordic region, built on a background of a constantly expanding membership base among municipalities and county councils. The robust growth of our membership base implies a growing funding requirement, which is accentuating investor interest in Kommuninvest, as investors progressively take on board the message of stability and creditworthiness of the Swedish municipal sector as a borrower.

The fact that leading rating institution Moody's assigns Kommuninvest the same credit rating as the Kingdom of Sweden, Aaa, the highest possible issuer rating, corroborates this fact.

The assignment Kommuninvest has been granted by its members is decisive for Moody's and investors' evaluations of Kommuninvest as a borrower. The healthy economy of Sweden and her municipalities, and the special constitutional status of municipalities, the members' joint and several guarantee and implicit government guarantee mean Kommuninvest has secured the top

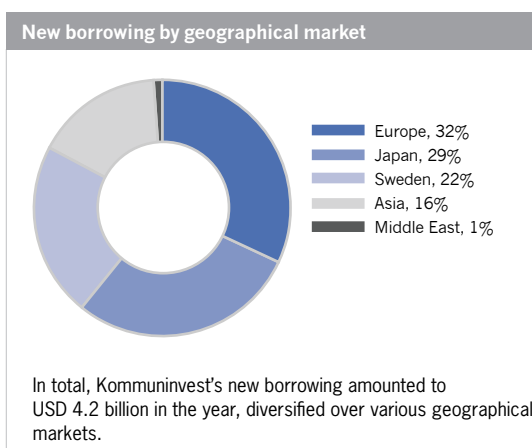
rating. Kommuninvest's own good reputation as an issuer that is highly flexible, with good risk control and high-quality documentation routines, is also a contributor.

Diversified funding

Kommuninvest has current lending volumes of some SEK 57 billion, and to live up to its role as a municipal debt office, the company secures funding that utilises a selection of loan instruments tailored to the preferences of various markets and investor categories.

Kommuninvest experienced a robust upturn in sales of bonds to the general public distributed by banks and securities brokers in 2005. For example, Kommuninvest is one of the largest issuers of bonds in Sweden whose yields are linked to various equity indices. In Japan, Kommuninvest is one of the ten most active borrowers on the uridashi market, with loans targeted at consumers and regional institutions. In terms of uridashi volumes, the year was the most successful ever. Kommuninvest issued 25 bond loans through seven different arrangers denominated in six different currencies. A bond linked to the Turkish lira was issued alongside Danske Bank, which was a big sales success, and recognized as the year's most innovative transaction by the international newsletter mtn-i.

The diversification of activities between various loan instruments, currencies and geographical regions is an element of extending Kommuninvest's investor community to satisfy the increasing funding requirement ensuing from its growth.



Kommuninvest won international newsletter mtn-i's 'Most Innovative Product' award for a bond launched on the Danish private client market in 2005. Mtn-i recognized that Kommuninvest had captured the increased interest in structural bonds in Europe.



“This structure suits us perfectly, our payment plan was right, we stayed under our estimated interest rate, and for the loan part, were below this level. As a solution, Kommuninvest has worked well throughout.”

Hans-Åke Tilly

“Advice that worked all the way”

A few years ago it became apparent that the Municipality of Eksjö, in south central Sweden, would need a new boiler centre for its municipal heating plant because of the increasing demand for district heating.

For a municipality of this size, with 16,800 inhabitants, the decision was a very significant one, with the desired capacity equating to a cost of SEK 225 million. “Considering the relative size of this investment, we had no room to take any risks,” said Hans-Åke Tilly, CEO of municipal utility Eksjö Energi AB. “Naturally, we wanted the best possible funding terms, and to be sure we would retain the interest rates we had anticipated right the way through. Access to a construction loan during the project’s two-year term was another key need, because our suppliers wanted schedule payments and to work on open account.”

Initially, Eksjö Energi contacted Kommuninvest to find the best approach to the financing tender. Their contact is Financial Adviser Sofia Frändberg.

A very in-depth review of the various aspects of the financing process was undertaken jointly, encompassing matters such as the finance solutions available in the market, and how consistent

they were with Eksjö Energi’s requirements. A number of factors were reviewed such as the consequences of various interest fixings, the size of various individual items, the liquidity the company would receive and when there would be scope for amortization, to identify the optimal solution for Eksjö Energi.

Mr. Tilly speaks very highly of the support he received: “I view the advice as objective and impartial, giving us a valuable footing to stand on when formulating our request for tenders.”

Kommuninvest was one of several lenders invited to the tendering process itself. There was no link between the tendering municipality, the company and Kommuninvest at this time, with every tender evaluated on its merits.

Finally, Kommuninvest supplied the majority of the funding, a solution Mr. Tilly is satisfied with.

“This structure suits us perfectly, our payment plan was right, we stayed under our estimated interest rate, and for the loan part, were below this level. As a solution, Kommuninvest has worked well throughout. There have been no surprises, while I really appreciate the opportunity to keep up a dialogue with our financial adviser all the way.”

KEEPING CUSTOMER BENEFIT IN FOCUS

Kommuninvest offers its members and their majority-owned corporations good terms for financing important societal investments for the long term. It supplements its lending with advisory and training programmes, and tools that help clients manage their credit portfolios as efficiently as possible.

A guarantor of competition

Kommuninvest's lending activities are fully exposed to the same intense competition as all the other players on Sweden's credit market. In fact, Kommuninvest is a guarantor of competition and lowest pricing, by other players being forced to match Kommuninvest's often very attractive terms.

While Kommuninvest's activities exist for its members, this does not mean that as clients, its members are obliged to choose Kommuninvest as their lender. The selection for each funding facility is based on professional criteria, where considering their own interests, clients themselves choose the party offering the best pricing and terms. The fact that Kommuninvest is competitive is apparent in its expanding lending portfolio.

A tailored offering

Meanwhile, its membership means that Kommuninvest still has a special status in the market. Instead of conducting business for profit, Kommuninvest maintains its focus on its members' best interests, which means that Kommuninvest can operate both as a lender and adviser regarding the best finance alternatives for its clients. Kommuninvest does not choose lenders for its clients, but is, for example, able to provide support such as reviewing entire credit portfolios, pricing evaluations of various offerings and advisory services on portfolio structures, in contexts such as maturities.

The loan products and derivatives Kommun-

invest offers are determined by the needs and demands of its borrowers. Kommuninvest's ambition is to always be responsive.

"KI-räntan", a new product launched in autumn 2005, is a product with tied-up capital and fully variable interest, and is an example of Kommuninvest's offerings being influenced by customers' wishes.

Increased market shares

Generally, municipal sector customers have fared better financially in the last two years and their need for new funding has reduced, while many have chosen to redeem existing loans. Simultaneously, the market has offered ready access to capital because of high liquidity among large corporations and in the banking sector.

Nevertheless, Kommuninvest's net lending increased by SEK 5.6 billion in 2005, and to some extent, this increase is explained by the growing membership base. But this effect is subject to some delay, because it takes several years before most members' borrowing requirements come up for renegotiation. First and foremost, the influx of new members has affected Kommuninvest's share of the municipal sector's total consolidated debt. The share of members' borrowings was 42% at year-end 2005.

The role of an interest group

In addition to satisfying members' needs for attractive financing and the associated services, Kommuninvest is an interest group whose task is to enhance the general conditions of municipal finance. Like the Kingdom of Sweden, the municipal sector has a special status in many senses compared to private lenders, and it is reasonable for the municipal sector to utilize this special status. It is only then that exactly what the municipal sector represents becomes apparent.

Evaluations of creditworthiness are one segment where the municipal sector enjoys special

status. In many senses, municipal and county council credit ratings are comparable with the Kingdom of Sweden. There are many explanations for this, but their fundamental legislated right to levy taxation alongside their major significance to the overall public sector are the main reasons.

Several directives have been adopted in recent years to accelerate the harmonization of financial services legislation in the EU, and more directives in this sphere are impending. Several are directly dependent on the municipal sector as a borrower. In its status as an interest group that protects municipal and county council interests, Kommuninvest will have an important role to play in forthcoming activities when EU directives are to be absorbed into Swedish legislation and regulatory structures. These activities are on various levels, and on occasion also involve other organizations representing the municipal sector.

The importance of advisory services

Advisory services are a significant element of lending activities, and can be considered to come into play as early as screening new membership applications, when extensive creditworthiness checks are conducted on entire municipal or county council structures. Proceeding from this, Kommuninvest can provide advice and IT support on rationalizing debt portfolios.

Kommuninvest also offers training packages such as its Internet-based interactive Finance Support membership service, which comprises five main tools. Finance Policy is a template for formulating a municipality's policy. The Financial Research tool helps the user assess its financial strength, while the Market Information tool

offers information such as real-time interest and exchange rates, as well as financial news. Debt Calculation offers the user an integrated impression of its entire debt situation and reports for comparing its actual debt portfolio with a benchmark. It also enables the user to simulate the effects of the change in its debt portfolio. The Benchmark service enables the user to compare the progress of a debt portfolio with a relevant reference.

Kommuninvest's financial advisers possess backgrounds from the municipal and financial sectors, which contribute to good integrated understanding of client needs and the way the credit market works, which also benefits the client's contact with Kommuninvest, whether this is a matter of credit issuance, advisory services or training.

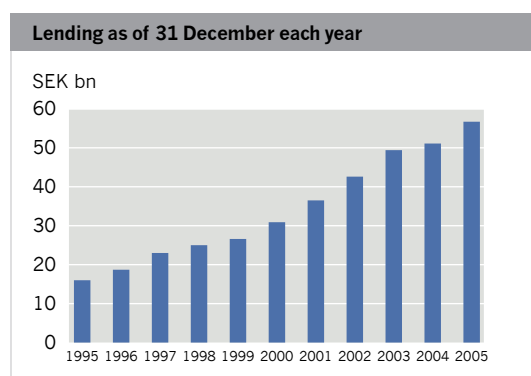
Loans from the CEB and EIB

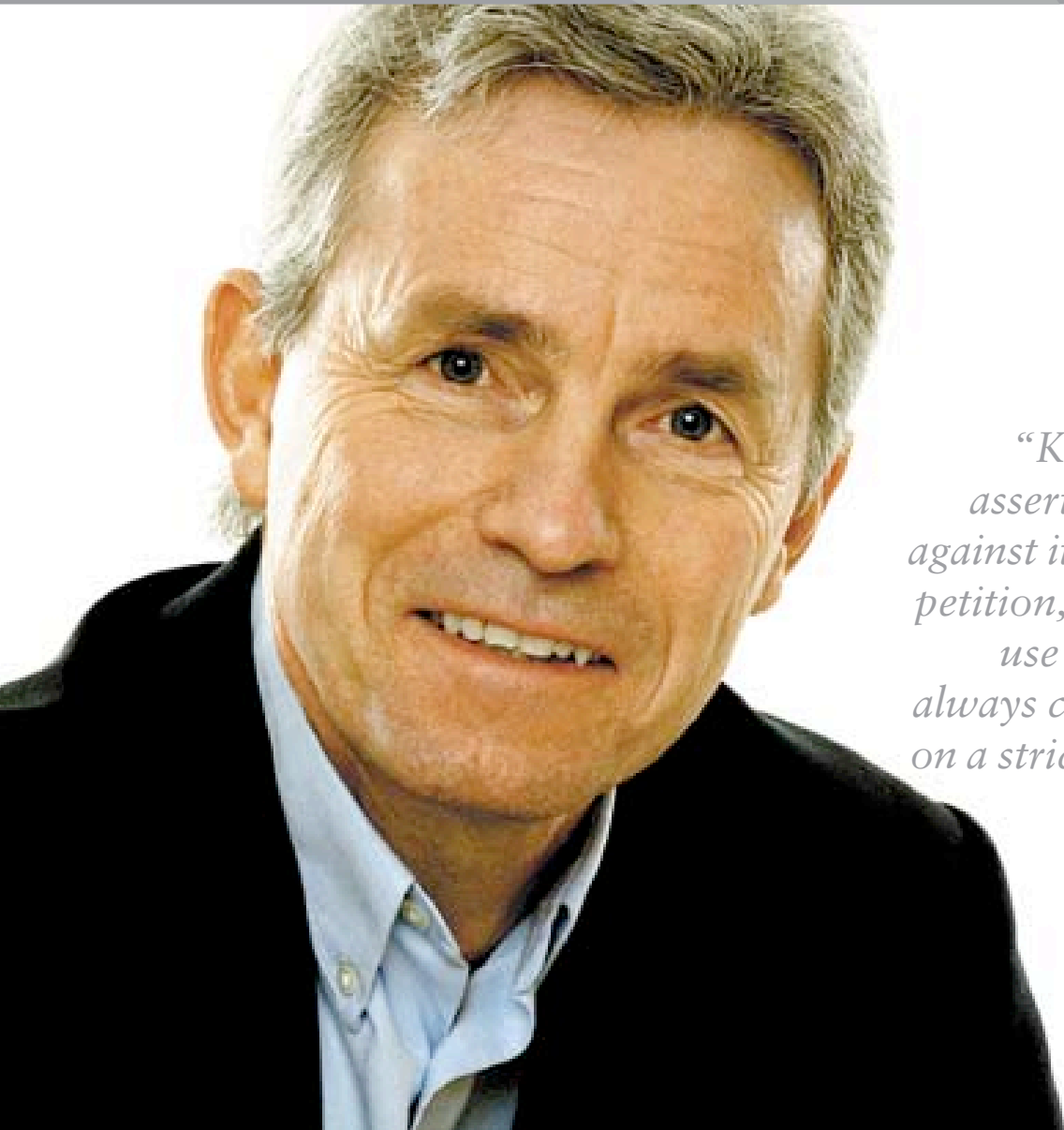
The finance Kommuninvest intermediates from the CEB (Council of Europe Development Bank) and EIB (European Investment Bank) is a special element of its lending activities.

The CEB participates in financing projects with a social purpose, mainly relating to ecological measures, healthcare and investments in education.

The EIB's purpose is to participate in projects that consolidate European unity and such projects may relate to investments across a broad field in the municipal sector such as infrastructure, energy, environmental measures, healthcare and education.

Kommuninvest helps its customers identify projects that may be approved by the CEB and EIB. The application process is quick and easy, and after approval by one of the Banks, Kommuninvest raises the funding for subsequent lending to the client. Kommuninvest acts as lender in all cases.





“Kommuninvest has asserted itself very well against its increasing competition, although we also use other lenders. We always choose our lenders on a strict business basis.”

Göran Tjällman

“Kommuninvest fares well against the competition”

“Kommuninvest possessing the highest possible credit rating is evidence of very considerable know-how and credibility on the capital markets,” notes Göran Tjällman, CFO of the Municipality of Umeå in northern Sweden, “This is valuable for clients like us because it means Kommuninvest can always offer us good funding terms.”

The Municipality of Umeå became a member of Kommuninvest back in 1993. With some 100,000 inhabitants, the Municipality is also one of Kommuninvest's larger members. This means that the Municipality possesses considerable in-house know-how on managing its own finance activities; it has had a Treasury function since the late 1980s, which is responsible for funding for the entire Municipality. The Treasury function manages some SEK 6 billion of borrowings, of which SEK 4 billion is on housing and SEK 1 billion on its energy sector. The scope of the Treasury function's activities means that the municipality's finance operations harbour considerable internal know-how.

Mr Tjällman considers that the Municipality gets a lot of benefit from Kommuninvest, but thinks its needs may differ from the smaller municipalities.

“Obviously, we always have to find the best finance solution for the Municipality, which means we continually analyse the various finance solutions the market has to offer.”

In this context, the intense competition between the credit market's many players is good for the municipal sector.

As Mr. Tjällman notes, there are several factors contributing to the rising competition. Partly, Kommuninvest has been a pioneer in offering the municipal sector attractive loans, thereby bringing in other players that have been impelled to improve their terms. Partly, other major lenders are always interested in municipalities, which are considered secure borrowers. Over the years, municipalities have garnered increasing knowledge of the funding sphere.

“Kommuninvest has asserted itself very well against its increasing competition although we also use other lenders. We always choose our lenders on a strict business basis,” continues Mr. Tjällman.

Mr. Tjällman also notes other benefits of Kommuninvest membership and the ability to have a forum for overall discussions regarding municipal funding issues. Kommuninvest's Financial Committee, which he has been a member of, is this kind of forum.

Mr Tjällman also appreciates the opportunity Kommuninvest offers for measuring results with the aid of benchmark portfolios.

“We are keen to measure our funding against other solutions to see how efficient we are ourselves, and to do this we need comparative data. Kommuninvest has an excellent product, which is one of the best on the market,” concludes Mr. Tjällman, adding that “membership of Kommuninvest also means we are always guaranteed funding, almost regardless of how the rest of the market is.”



“It’s important that our professionals always feel that they’re developing professionally.”

Malin Gillberg, HR Manager

Kommuninvest’s corporate culture features considerable know-how and constant learning. Highly skilled and motivated professionals throughout operations are the real key to the success and high growth rates achieved in the past year.

The reality Kommuninvest’s staff encounter is in constant change and necessitates an organization that encourages flexibility and creativity.

Challenges for staff

Kommuninvest’s ambition is to remain one of the leaders against its competition both as a borrower and lender, which puts demands on its staff to capture the market’s new trends and tendencies, and to transform them into new services and products.

A CONSTANT LEARNING ORGANIZATION

The staff are where Kommuninvest must get its message across, and where the challenges resulting from the demands of the international capital markets are met. The staff also build customer relationships with the entire municipal sector. Moreover, achieving rapid growth rates with constant quality improvements throughout activities have also been decisive to Kommuninvest.

Skills enhancement initiatives

The consequence is a constant focus on training to stimulate the skills enhancement of Kommuninvest’s staff. These initiatives are significant, and extensive, with 281 training days conducted for 33 employees last year.

Every group and individual assumes sizeable responsibility for its own skills enhancement in consultation with line managers. In-house training programs are run continually, with tailored training packages outsourced when necessary. Additionally, Kommuninvest’s staff also participate in a range of external training packages in Sweden and other countries.

Cooperation and staff exchanges are a constant feature at a pan-Nordic level, with the companies in the cooperation taking turns to organize a joint staff conference, the intention being to build networks and exchange best practice, but also to invite lecturers and offer training on the relevant themes such as new international regulations. The ninth pan-Nordic staff conference will be held in March 2006.

Offering staff good prospects to extend their skills is a key hiring argument for the corporation. In practical terms, Kommuninvest has a flat topology, with managers involved in day-to-day activities. Rather than being based on hierarchy, the career opportunities Kommuninvest offers are skills based, where it is vital that staff constantly feel they are making progress professionally.

A foundation of shared values

A high proportion of human resources activities in 2005 related to an extensive project on the company's shared values, activities that should also be considered against the background of Kommuninvest's constant growth. Rather than preparing documentation, the aim has been to unite new and existing staff of different ages around a shared foundation of values. This has been achieved through open dialogue between all staff, opening up communication, giving staff a better overall picture and thereby enhancing respect for each other's know-how. Efforts associated with these shared values are a process that will be kept alive for the future, in continuous dialogue within the corporation.

Balance and health

Kommuninvest's equal opportunities activities strive for a balance through an even division between the sexes at all levels. However, regardless of sex, age or position, it is beneficial if all staff have the opportunity to achieve a good balance between work and life.

High performance necessitates constant alertness, so that staff are genuinely provided with the scope to live balanced lives. This also implies a sizeable responsibility from every line manager, to ensure that all staff members have the opportunity to plan their work in a reasonable manner.

Health initiatives will also be conducted throughout the corporation in 2006, with the objective being a health diploma. The purpose of this initiative is to increase consciousness of how health affects all aspects of life, in leisure time, at work and in terms of professional performance. This initiative is also an element of Kommuninvest's ambition to enhance its staff's prospects of reconciling their work and leisure, both key parts of life.

Salaries and incentives

Kommuninvest's professionals are attractive as employees, so even if their salaries basically conform to other municipal activities, being able to compete with the private sector, such as investment banks, is also important.

Kommuninvest does not have any individualized performance-related schemes, although the Board does assign resources to a fund controlled by the staff. On each occasion, the scale of these resources is based on evaluations of factors including earnings figures and workloads. All staff that have been with Kommuninvest for a full financial year gain an equal share of these funds, which are paid at pensionable age.

Kommuninvest will maintain a high ambition in creating a stimulating workplace that offers scope for development and utilises staff know-how, where everybody gets the opportunity to grow and extend themselves professionally. This remains one of the critical success factors for delivering customer benefit to shareholders and members.

HR statistics

- Staff headcount: 35
- Overall average age: 41
- Share of women/men: 16 men, 19 women
- Total sickness absence: 1.43%

A LOW RISK PROFILE ENABLES SECURE FUNDING

One fundamental principle of Kommuninvest's financing activities is to avoid being exposed to risks that the company cannot manage. Moreover, as a credit institution owned by municipalities and county councils, Kommuninvest is subject to the legislated prohibition of speculative and high-risk activities. To limit the market risks that arise when borrowing and lending terms and conditions are inconsistent, risk-management instruments are utilised, in the form of derivatives contracts. In derivatives contracts, rights and obligations are transferred to the ultimate borrower, i.e. the members and their majority-owned corporations.

Kommuninvest is subject to capital coverage regulations. Because all its lending is to the municipal and county council sectors, and because derivative contracts are transferred to the ultimate borrower, the company's capital coverage ratio is affected exclusively by its investment operations. Capital coverage regulations stipulate a minimum capital coverage ratio of 8%. However, Kommuninvest has a higher objective, of 15%. To maintain a low risk profile, and satisfy its 15% capital coverage ratio objective, Kommuninvest's only permitted investments are in securities issued by governments, financial institu-

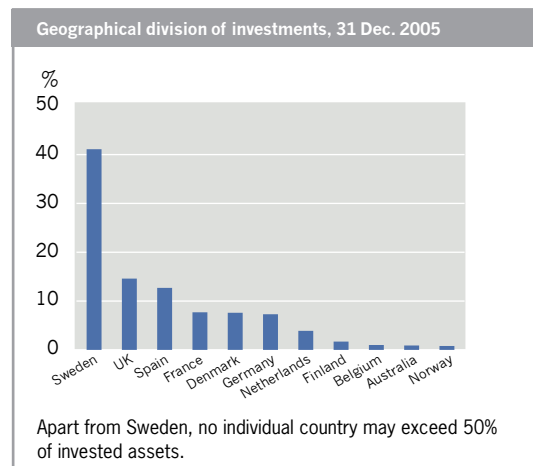
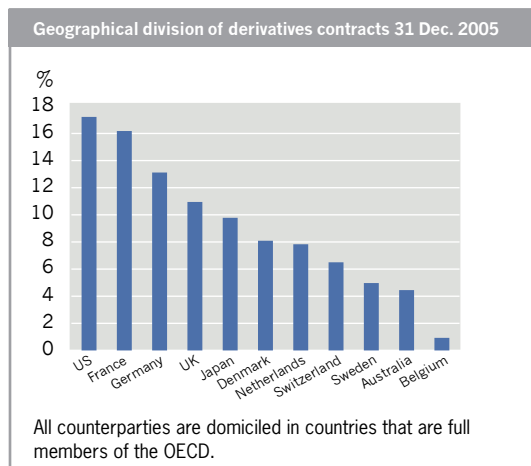
tions with government guarantees and financial borrowers with risk-weightings of 0 or 20%. Board guidelines also stipulate Kommuninvest diversifying its derivatives contracts and investments in securities between counterparties and in terms of their geographical origins. In 2006, Kommuninvest will continue to adapt to the new capital coverage regulations to be introduced from 1 January 2007 pursuant to EU directives. These new standards will include operational risks in a clearer manner than current regulations. When calculating its capital coverage ratio, for operational risks, the company utilises the base method. The company will utilise the standardised method for credit-related counterparty risks.

Market risks

Market risks are part of Kommuninvest's day-to-day business and comprise the risk of changes in interest and exchange rates, share and commodities prices resulting in the net value of Kommuninvest's assets and liabilities, including derivatives, reducing.

Interest risks limited at portfolio level

The scope of Kommuninvest's business means



comprehensive matching between the company's assets and liabilities is not possible. Interest risks arise in business through mismatches in interest fixing periods between invested assets and the related funding. For Kommuninvest, interest risk is the risk that net interest income will be adversely affected by changes in general interest rate levels. Although this risk is limited to SEK 2 m, a maximum of SEK 3 m is permitted for a number of days, given a 1% shift in the yield curve.

Foreign exchange limits currency risks

Currency risk is defined as the risk of exchange rate variations adversely affecting the company's profits. Foreign currency exposure arises when assets and liabilities denominated in the same foreign currency on the balance sheet are mismatched in terms of size. Currency risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments. Kommuninvest controls this risk by frequently exchanging such returns into Swedish kronor.

Liquidity risks

Liquidity risk is the risk of Kommuninvest not being able to fulfil its payment commitments, or being forced to take extraordinary measures to do so. Liquidity risk can also be expressed as a shortage of funding.

Consequently, the Board of Directors has resolved on a liquidity reserve, currently a minimum of SEK 4 billion and a maximum of SEK 6 billion, which can be utilized to fulfil its liquidity requirements at any time. Invested assets consti-

uent to the company's pre-funding can also be considered a form of liquidity reserve.

Credit-related counterparty risks

Secure counterparties are a prerequisite for long-term value growth

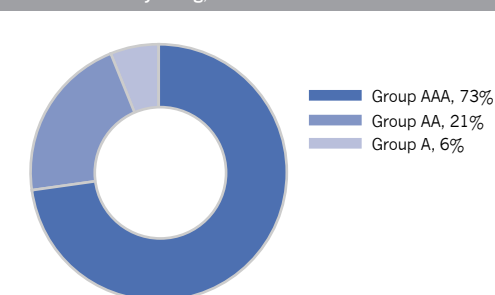
Knowledge of counterparties is a significant element of maintaining a low risk profile. Credit-related counterparty risk can be defined as the risk of a counterparty not fulfilling its commitments to Kommuninvest at the contracted time, and can be divided into the following three categories:

- *Risks from lending to owner-members and their majority-owned corporations.* The member municipalities always issue a guarantee for majority-owned corporations, and thus there is a guarantee that the member municipalities and county councils will always guarantee all Kommuninvest's lending.

- *Risks when investing in assets not yet loaned.* Only highly creditworthy counterparties are approved, with a minimum stable A level from one of the internationally recognized rating institutions. The risk consists of losses and value changes on invested assets.

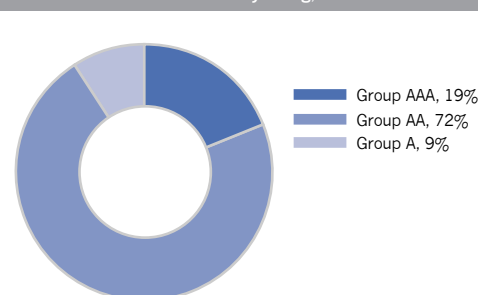
These risks are limited by investments maintaining a short duration, of a maximum of three years. European governments and government-guaranteed financial institutions are predominant investments, which in most cases also have the highest credit ratings.

Invested assets by rating, 31 December 2005



The diagram illustrates that 73% was invested with counterparties in the most secure rating category.

Nominal amount on derivatives by rating, 31 December 2005



Terms of nominal amounts, 91% of derivatives contracts were entered with parties with minimum ratings of AA.

- *Risks coincident with value changes on derivatives contracts* such as interest, currency, equity and commodity swaps imply losses if the counterparty does not fulfil its commitments. The risk exposure comprises the cost of entering an equivalent contract in the market. Such cost is calculated for each contract, and is considered as a risk on the contract counterparty. In relative terms, the risk exposure on derivative contracts is less than the receivables outstanding in investment activities, but can imply high sensitivity to market variations.

To limit the exposure arising because of value changes on derivatives, Kommuninvest enters CSAs (credit support annex) with its derivatives counterparties, whose purpose is to cover receivables, while simultaneously extending the scope for deals with counterparties. The determinant of when and how much collateral to be pledged is whether counterparty creditworthiness deteriorates, or whether value changes on derivatives contracts entered exceed the predetermined contracted exposure. CSAs are unilateral to the extent that Kommuninvest's counterparty is the only party pledging collateral. Such collateral comprises government securities, which from a capital coverage perspective, the Swedish Financial Supervisory Authority considers as zero risk weighted.

Kommuninvest is a member of the ISDA (International Swaps and Derivatives Association), and before entering derivatives contracts, stipulates the right to early redemption of such contracts if counterparty credit ratings deteriorate below a predetermined level. For approval as a derivatives counterparty, the counterparty must have a minimum credit rating of a stable A level from one of the internationally recognized rating institutions. Counterparty credit ratings are decisive for what Kommuninvest is prepared to accept in terms of contract maturities, structure and permitted risk exposure. The other disclosures section on page 46 reviews Kommuninvest's derivative contract-related commitments in order of scale.

In terms of nominal amounts, as much as 91% of derivatives contracts are with counterparties with minimum credit ratings of AA from one of the recognised ratings institutions. Kommuninvest has only entered simpler currency and interest derivatives on the remaining 9% of contracts. These contracts have short durations.

Credit-related counterparty risk also encompasses delivery risk, which is the risk of a counterparty being unable to fulfil a securities or payment transaction. Accordingly, Kommuninvest always ensures that the counterparty is first to fulfil its commitment, or utilizes an approach where both counterparties must fulfil their commitments in order for any exchange to be able to occur.

Ongoing research and update of counterparties
Continually monitoring the progress of Kommuninvest's counterparties is an important element of its activities to minimise risk. Its organizational resources include a Credit Group, whose task is to monitor the progress of counterparties and financial instruments utilized in the corporation's financing activities. The Credit Group also prepares supporting data for evaluating new counterparties and new financial instruments.

Counterparties are evaluated according to their financial capacity, and are compared with similar players. This research is intended to provide a complete impression of the counterparty's capacity to fulfil its commitments if market conditions change. The Credit Group's activities also include proposing the removal or introduction of limits for approved counterparties and financial instruments. The Credit Group must update all counterparties, and provide a statement of this to Kommuninvest's corporate Board of Directors at least once a year.

For lending activities, the municipality or county council is screened before its membership of Kommuninvest Cooperative Society is valid, with the progress of members subsequently screened biannually. This research conforms to a pre-determined model, which was reviewed in 2005 to further enhance ongoing updates of members' financial performance.

The Board of Directors sets lending limits for members annually as an element of the overall research process. The lending limits are universal and proceed on the basis of each members' consolidated borrowing. Individual members' lending limits can be increased after special review. Increased lending limits are usually justified through assets with surplus values.

Operational risk

Internal controls a priority

Kommuninvest not only monitors external risks; internal monitoring also requires each employee assuming responsibility for the risks within their specific tasks. The operational risk implies the risk of errors or shortcomings in Kommuninvest's administrative routines resulting in unexpected financial or confidence-related losses. Segments encompassed by operational risks include legal risks, IT-related risks and various types of staff-related risks.

Kommuninvest continually rolls out activities to enhance its working processes and routines to ensure sustained good internal controls. Skills enhancement to ensure a high level of professional know-how is a prime means to monitor and reduce operational risks.

A contingency plan was prepared in the IT segment in the year, embodied in an alternative operational environment in the event of system outage. This environment can be utilized for outages of varying length, for primary production systems, or parts of them. Paper flows, archiving and other routines have been modified to an electronic environment with the aim of ensuring that alternative operating environments can be used without significant data losses.

Activities to develop methods to identify and value operational risks in activities were intensified in the past year. One aim is to ensure that risk management covers all significant segments.

Adapting progress in this segment is also obvious when operations are expanding, and in 2005 the Board of Directors adopted a risk management model for its risk management process, focusing on operational risk. Obviously, the new capital coverage regulations introduced in 2007 are a primary driver of these activities. The company intends to enhance its asset evaluation process in 2006, to comply with forthcoming regulations.

Reliable processes for secure risk management

Kommuninvest's Board of Directors bears overall responsibility for the company's risk exposure and risk management. In the group's overall risk policy and instructions for its financing activities, the Board stipulates the management of market, liquidity, credit-related counterparty and opera-

tional risks. The Board decides overall objectives for capital coverage, liquidity reserves, as well as the orientation and limits of the company's exposure to credit-related counterparty and market risks.

Within the company, the President is responsible for updating business activities, and ensuring that they are conducted within the framework of policies and regulations. A dedicated central function has independent status within the corporation, and monitors ongoing operational controls. This function also bears overall and coordinating responsibility for the company's aggregate risks (risk monitoring) and reports to the President and Board of Directors.

Kommuninvest has an organizational unit responsible for monitoring and conducting continuous updates of market, liquidity and credit-related counterparty risks. It reports monthly to the President and Board of Directors. Market risks are monitored through frequent updates of risk exposure against established limits.

A SUCCESS BRED FROM SUCCESS

2005 was another successful year for Kommuninvest, with the membership base continuing to expand rapidly as large and small municipalities and county councils realise the benefits and value of membership. By being part of Kommuninvest, they participate in Sweden's largest, and growing, inter-municipal cooperation.

We welcomed 16 municipalities and county councils during the year, so that by year-end Kommuninvest had 174 members. Now that we are some way into the new year, it is pleasing to note that this influx is continuing.

This growth favours new and existing members. The larger our membership, the better Kommuninvest can complete its assignment of providing Sweden's municipal sector with some of the best finance the market has to offer. The bigger we grow together, the more attractive we become to the world's institutional investors as borrowers. Growth is also a prerequisite for

Kommuninvest becoming more efficient. It enables more cost-efficient funding and better service to our members, through finance products and advisory services.

But ultimately, the people who benefit most from this progress are municipal citizens.

Kommuninvest's long-term vision is to become a debt office for Sweden's entire municipal sector, and our progress in this direction is accelerating. This demonstrates the value of our fundamental strategies of a voluntary approach, market practices and cost-efficiency on the one hand, and the democratic ideas of equality and consensus on the other.

Thus we extend a warm welcome to our new members, and simultaneously thank Kommuninvest's staff and management for yet another outstanding effort.

Alf Egnerfors
Chairman
Kommuninvest
Cooperative Society

Sören Gunnarsson
Chairman
Kommuninvest
i Sverige AB

CORPORATE GOVERNANCE REPORT — KOMMUNINVEST I SVERIGE AB (PUBL)

The Swedish Corporate Governance Code

Kommuninvest i Sverige AB (publ) is a credit market company owned by Kommuninvest Cooperative Society. Operations, conducted through the credit market company, are regulated by the Swedish Financial Supervisory Authority. Although Kommuninvest is not encompassed by the Swedish Corporate Governance Code, the Society's Board of Directors has already decided to adopt the Code from 2007 onwards. A summary of Kommuninvest's current activities follows.

The purpose of the Swedish Corporate Governance Code is to help improve the control of Swedish corporations. The Code is intended to enhance the efficiency and competitiveness of the business sector, and to promote trust in Swedish business practices on the Swedish capital markets and Swedish society generally. One of the Code's other purposes is to raise awareness of, and confidence in, Swedish corporate governance among foreign investors and other players on the international capital markets, and thus promote the Swedish business community's access to foreign risk capital on good terms.

Corporate Governance

Kommuninvest is a credit market company owned by Kommuninvest Cooperative Society. Kommuninvest has assumed a responsible role as a debt office for Sweden's municipal sector. Kommuninvest's Board and management pursues active corporate governance, and the Election Committee sets high standards for the company's Board Members having an appropriate skills profile. A dedicated Auditing Committee has been appointed by the Society's AGM, and meets the appointed auditors regularly. Where necessary, they can initiate auditing measures additional to the statutory audit and consider the election of auditors before general meetings.

Proposals for members can be sent by post to the Election Committee via Kommuninvest's head offices in Örebro, Sweden.

Articles of Association

Kommuninvest's Articles of Association include stipulations on the company's operations, shareholders' rights, the number of Board Members and Deputy Members, the number of auditors, convening annual general meetings, notifications of attendance at annual general meetings, matters for consideration at annual general meetings and the company's financial year.

Annual General Meeting

The Annual General Meeting considers the company's progress and resolves on a number of central issues such as dividends, Board Members' and Auditors' remuneration, amendments to the Articles of Association, appointing auditors, discharging the Board Members from liability and electing the Board for the forthcoming 12 months.

Election Committee

The Election Committee Members are appointed at the Annual General Meeting of Kommuninvest Cooperative Society. The Election Committee should represent the Society's members, and its primary task is to submit proposals on the election of Board Members and Board Members' remuneration at annual general meetings. The Election Committee appointed by the Society is also responsible for submitting proposals for electing the Board of Directors and Auditors of Kommuninvest i Sverige AB. The Election Committee will also submit proposals for members of the Auditing Committee and proposals for their remuneration.

The Election Committee prepares a profile of standards and pursues the principle of the company's Board Members possessing a skills profile relevant to Kommuninvest. The Election Committee should also pursue the results of general elections in member municipalities and county councils being reflected in the composition of the the Society's Board. The Election Committee should also pursue an even division

between the sexes, Board Members representing Sweden's various geographical regions and Board Members representing municipalities of varying sizes.

The Election Committee members should be individuals with commissions of trust with municipalities or county councils.

Kommuninvest's Annual General Meeting in 2005 elected Anders Ceder, Kenneth Carlsson, Alf Egnerfors, Margareta Karlsson, Kerstin Sjöström and Barbro Tjärnström. Kommuninvest's Annual General Meeting in 2006 will be proposed to approve procedural rules for the Election Committee's activities within the Society. Kommuninvest i Sverige AB's AGM in 2006 will also formalise the Election Committee's activities in the company pursuant to the Code.

Election Committee members

Anders Ceder (born in 1951)

Convener
Chair of the Executive Committee,
Municipality of Lindesberg

Kenneth Carlsson (born in 1952)

Executive Committee 1st Vice Chair,
Municipality of Färgelanda

Alf Egnerfors (born in 1946)

County Council Executive Committee member, Sörmland County Council. Board Chairman of Kommuninvest Cooperative Society

Margareta Karlsson (born in 1942)

Chair of the Executive Committee, Municipality of Karlskoga. Board Member of Kommuninvest Cooperative Society

Kerstin Sjöström (born in 1955)

Member of the Executive Committee,
Municipality of Nordmaling

Barbro Tjärnström (born in 1936)

Chair of the Executive Committee, Municipality of Söderköping. Board Member of Kommuninvest Cooperative Society

Auditing Committee

The members of the Auditing Committee are appointed at Kommuninvest Cooperative Society's Annual General Meeting. The Auditing Committee's primary task is to submit proposals for appointing Auditors and their remuneration at Annual General Meetings. The Committee's members meet the appointed auditors regularly. Where

necessary, they can initiate auditing measures additional to the statutory audit and consider the election of auditors before general meetings.

Auditing Committee members

Erik Johansson (born in 1933)

Member since 2000. Örebro

Bengt Björnemalm (born in 1935)

Member since 2003.
Municipality of Lindesberg

Bo Johansson (born in 1944)

Deputy Member since 2003.
Municipality of Älvsbyn

Ingemar Andersson (born in 1944)

Deputy Member since 2003.
Municipality of Varberg

Committees appointed by the Board

Credit Research Committee

The members of the Credit Research Committee are recruited from members or their corporations and are appointed by the Board of Kommuninvest i Sverige AB. The overall purpose of the Committee is to function as an advisory body for the Board of Directors. Activities include monitoring the financial progress of members and the municipal sector and screening those municipalities and county councils that apply for membership.

Credit Research Committee members

Chairman **Thomas Åkelius**

President of Kommuninvest.

David Nyberg

Chief Administrative Officer, Municipality of Skellefteå.

Tommy Karlsryd

Principal Finance Officer, Municipality of UpplandsBro.

Ingalill Hellberg

Chief Administrative Officer, Municipality of Staffanstorps.

Karin Hydén

Principal Finance Director, Municipality of Mark.

Nils-Eric Gustavsson

Principal Finance Director, Västmanland County Council.

Madeleine Sjöstrand

Chief Administrative Officer, Municipality of Haninge.

Gunnar Tidemand

Chief Administrative Officer, Municipality of Arvika.

Financial Committee

The Financial Committee's members are appointed by the Board of Directors of Kommuninvest i Sverige AB, and are representatives of member municipalities and their corporations. The Committee's task is to monitor progress on the financial markets, and thereby offer support for the company's finance activities. The Financial Committee's tasks include monitoring progress on those capital markets significant to the company's borrowings, to act as an advisory body to the CFO on issues affecting finance strategies, risk management and financial technology, and to deal with issues regarding assessments of the future, partly comprising the municipal sector's need for finance, and partly progress on the economy and interest rates.

Financial Committee Members

Chairman **Tomas Werngren**
Executive Vice President and CFO,
Kommuninvest

Victoria Galbe
Principal Finance Officer, AB Landskronahem

Bo Johansson
CFO, Municipality of Karlskrona

Lars Sjökvist
Managing Director, Växjö Kommunfastigheter

Kerstin Gustavsson
Principal Finance Officer, Municipality of Örkelljunga

Anders Ottensten
Chief Administrative Officer, Municipality of Varberg

Björn Ryd
Principal Finance Officer, Municipality of Gävle

Stefan Ekfeldt
CFO, Örebrobostäder AB

Bernt Gran
Chief Administrative Officer, Municipality of Luleå

Corporate management

The President leads, organizes and develops operations in a manner that the objectives determined by the Board of Directors are achieved. Written instructions stipulate the division of responsibility between the Board of Directors and President.

These instructions also consider the Swedish Financial Supervisory Authority's general directives on the control and monitoring of finance corporations, and additionally, the Authority's perception of the President's responsibilities and tasks.

The President is responsible for keeping the Board of Directors informed of changes to regulatory structures, the content of Audit Reports and other significant events on an ongoing basis. The President's task is to provide the Board of Directors with requisite information and decision-support data in contexts such as Board meetings, and to ensure that the Board of Directors receives a monthly written report. The procedural rules also formalize the President's financial framework.

Executive managers

Thomas Åkelius (born in 1954)
President and CEO
Employed by Kommuninvest since 1994.

Tomas Werngren (born in 1961)
Executive Vice President and CFO
Employed by Kommuninvest since 1994.

Harriet Forsell Söderberg (born in 1959)
Deputy CFO
Employed by Kommuninvest since 1995.

Malin Gillberg (born in 1971)
HR Manager
Employed by Kommuninvest since 1992

Maria Viimne (born in 1970)
Head of Funding and Investment
Employed by Kommuninvest since 1998.

Remuneration to the Executive Management

Name	Year	Basic salary	Performance-related pay	Other benefits	Pension expense	Other	Total
Thomas Åkelius, President	2005	1,563,000	0	69,000	431,000	0	2,063,000
	2004	1,426,000	0	60,000	419,000	0	1,905,000
Tomas Werngren, Executive Vice President	2005	1,509,000	0	71,000	498,000	0	2,078,000
	2004	1,368,000	0	71,000	171,000	0	1,610,000
Executive management	2005	1,864,692	0	0	Pursuant to SPP's pension scheme	0	
	2004	1,603,050	0	0		0	

The Board of Directors and its Activities

The Board of Directors is responsible for the group's organizational structure and management pursuant to the Swedish Companies Act. Procedural rules stipulate the division of responsibility between the Board of Directors and President. These procedural rules stipulate the Board of Directors reaching decisions on issues including the appointment of the President, main organizational structure, long-term financial planning, business plans, budget data and annual reports. The procedural rules stipulate the Board of Directors setting objectives and strategies for operations, being liable for identifying and managing risks, and ensuring that business is conducted pursuant to pre-determined objectives. The Board of Directors should also prepare internal controlling documents including written instructions for the reports to be produced by the company. The procedural rules are considered and adopted annually. The Board of Directors prepares terms of reference for the President and reporting instructions, whereby Kommuninvest's President is responsible for planning and implementation pursuant to Board decision, and for ongoing corporate management.

The Board of Directors of Kommuninvest i Sverige AB (publ) consists of eight Board Mem-

bers possessing broad-based know-how in activities including public management, the capital markets and business development. The Board of Directors met on eleven occasions in 2005.

Board Members' remuneration

The remuneration to the Board Chairman within the auspices of the Board fees approved by the Annual General Meeting, was SEK 126,000 in 2005. Remuneration is payable to each Board Member as specified in the following table. Remuneration of SEK 4,000 is payable for each meeting attended. Total remuneration to the Board Members elected by the Annual General Meeting is subject to Annual General Meeting resolution and amounted to SEK 631,000 for 2005 excluding travel expenses and fees for attendance.

Committees

Credit Committee

The Credit Committee consists of the Board Chairman and Vice Chairman. The Credit Committee possesses the right to resolve on issues stated in the policy and instructions for credit and finance operations.

Remuneration of SEK 150,000 was payable to Robert Stenram, pursuant to Board resolution.

Kommuninvest's Board of Directors					
Name	Board	Credit Committee	Remuneration		Other benefits
	Attendance	Attendance	2005 ¹⁾	(2004) ²⁾	
Sören Gunnarsson, Chairman	10/11	7/7	126,000	(90,000)	0
Robert Stenram, Vice Chairman	10/11	7/7	256,000	(70,000)	0
Petter Skouen	9/11		66,000 ³⁾	(30,000)	0
Lorentz Andersson	10/11		66,000	(30,000)	0
Göran Mattsson	10/11		67,298	(30,000)	0
Ellen Bramness Arvidsson	11/11		70,000	(30,000)	0
Anna von Knorring	9/11		62,000	(30,000)	0
Nils Häggström, Deputy	11/11		72,860 ⁴⁾	(30,000)	0
Kerstin Ryding, Deputy	8/11		28,975	Variable	

1) Including travel expenses and fees for attendance. 2) Excluding travel expenses and fees for attendance.
3) Remuneration paid to Kommunalbanken AS, Oslo. 4) Fee paid for full member, settled in the current year.

BOARD MEMBERS

Board Chairman



Sören Gunnarsson (born in 1943)
Board Chairman since 1999.
County Governor, Örebro County
Other assignments: Chairman of County Administrative Board North Sweden structural fund delegation, 'Target 2 West'. Structural fund delegation, 'Urban II, Gothenburg'
County Labour Board, Örebro.

Vice Chairman



Robert Stenram (born in 1941)
Vice Chairman since 1999.
Former Executive Vice President, Swedbank FöreningsSparbanken, London
Other assignments: Advisor to the Board of Directors of FöreningsSparbanken, Chairman of SNS (Swedish Center for Business and Policy Studies) London Board member - Sweden-Japan Foundation, Stockholm - Anglo-Swedish Society, London - Swedish American Chamber of Commerce, New York.

Board Members



Petter Skouen (born in 1946)
Member since 1994.
President, Kommunalbanken AS, Oslo
Other assignments: Board member of Kommunalbanken AS, Oslo.

Board Members



Lorentz Andersson (born in 1942)
Member since 2001.
County Governor, Västerbotten County
Other assignments: Chairman of County Administrative Board, County Labour Board, Skills Board, Forest Management Board, Digital TV Commission, National Wood Building Committee - Kvarken Council, Communications council, The Foundation for Vindelfjällen Nature Reserve, The Barents Regional Council - Process IT, Board member, North Sweden structural fund delegation, Target 1, Sparbanken Norrland foundation.



Göran Mattsson (born in 1944)
Member since 1986.
Former Chief Administrative Officer, Askersund
Other assignments: Principal of Sparbanken Nya Foundation. Board member of Hammar's Industrial Foundation.



Ellen Bramness Arvidsson (born in 1964)
Member since 2003.
Chief Accountant, Swedish Insurance Federation, Stockholm.
Other assignments: Deputy Board member for the association for good practice on the securities market

Board Members



Anna von Knorring (born in 1965)
Member since 2004.
Senior Financial Advisor, State Treasury, Helsinki
Other assignments: Board member of Hansel AB, the Finnish Government's central procurement unit. Member of the Sparbank Foundation delegation, Helsinki. Board member of the Nordic Capital Markets Forum.



Nils Häggström (born in 1934)
Deputy Member since 1994.
Municipal Council Member, Umeå
Other assignments:
Member of Bostaden AB, Kvarken Council and its Board, Nolia AB, steering committee, Kvarken - Mittskandia cross-border cooperation.



Kerstin Ryding (born in 1952)
Deputy Member since 2003.
CFO, Sandviken.
Other assignments: Board member of the Swedish municipal accountants' association

Auditors

The Auditors are appointed by the Annual General Meeting every fourth year, with the most recent appointment being at the Annual General Meeting in 2004. The Auditor's task is to review the company's annual reports and accounting records, and the Board of Directors' and President's administration on behalf of the owner. The Auditors report to the Board of Directors on an ongoing basis.

Audit Report

The Auditors attend the final board meeting of each calendar year and present their Audit Report from the quarterly financial statement as of 30 September. This Report should state whether the company's organizational resources are such that accounts, the management of assets and the company's other financial conditions can be monitored satisfactorily. The Auditors should also attend the first scheduled Board meeting of the year, when the Income Statement and Balance Sheet of both the company and society are considered. In instances of significant discrepancy from quarterly reports, the final full-year Audit Report should be submitted to the Board of Directors for consideration.

SEK 000	2005	2004	2003
Remuneration for auditing	930	750	858
Remuneration for other consulting services	0	0	601

The Board's Report on Internal Controls

The Board prepares internal control documents annually, embodied as policies and instructions. In addition to procedural rules for the Board of Directors, terms of reference issued to the President and Reporting Instructions, the Overall Risk Policy and Internal Audit Instructions are central, over-arching control documentation.

The lending and borrowing operations are regulated by the Credit Policy, Credit Instructions, Financing Policy and Financing Instructions, where the Board of Directors specifies limits and other risk-limiting circumstances in practical business operations. The administrative operation is formalised by Administration Instructions, Security Policy, IT Policy, Communication and Information Strategies. Instructions for handling complaints, preventing money-laundering and reporting other significant events are included.

Determining how, in terms of their practical structure and ongoing routines, operations will consider the legislation regulating operations and the Swedish Financial Supervisory Authority's instructions and general advice is an important element of many of these control documents. In addition to the legislation regulating banking and credit operations and limited companies, the company is also encompassed by municipal legislation and other public legislature. A dedicated compliance function has been inaugurated.

Kommuninvest i Sverige AB (publ)

Corporate identity number: 556281-4409

Registered office: Örebro, Sweden

Annual Report 2005

The Board of Directors and President hereby

present the company's Annual Report for 2005.

ADMINISTRATION REPORT

Operations

Kommuninvest commenced operations in 1986. Swedish municipalities and county councils may apply for membership of Kommuninvest Cooperative Society. The Society owns the credit market company Kommuninvest i Sverige AB (publ), which conducts operating activities.

The cooperation is based on a voluntary and business-like approach. The primary purpose of operations is to attain attractive long-term terms for members' finance and to be a local debt office for Sweden's municipalities and county councils. Primarily, operations relate to loans for investment finance. Additionally, Kommuninvest offers extra value through advisory and training services. Kommuninvest also works as an interest group, to influence the general conditions affecting the finance of the sector.

Kommuninvest's services are exclusively intended for its owner-members, and corporations and trusts controlled by the members. Credits to such entities necessitate their purposes being within the auspices of the municipal skills base, and that members have provided guarantees for borrower commitments.

The financial cooperation should be pursued with minimum risk to Kommuninvest and its owner-members.

Operations that build on member needs

The operations of the credit market company are primarily determined by the number of members of the Society,

and individual members' financial needs.

At present, 60% of Sweden's municipalities and 30% of county councils are members.

At year-end 2005, the association had 174 members, implying an increase of 16 members in the financial year. Between year-end 2005 and the publication of this Annual Report, another three members joined Kommuninvest.

The membership base has increased by nearly 55% over the past five years.

Experience indicates that an expanding membership implies an increase in net lending. However, this is subject to some time-lag as new members' existing loans turn over and they require new loans. The high membership expansion in 2005 will not exert its full impact on lending until 2006 and beyond.

Shareholders and share capital

Kommuninvest i Sverige AB has total paid-up share capital of SEK 150,000,000. All 1,500,000 shares are held by Kommuninvest Cooperative Society, which is also the parent organisation of the group (corporate identity number: 716453-2074), with its registered office in Örebro, Sweden.

Joint and several guarantees

The members of the Cooperative Society are required to sign unlimited joint and several guarantees to cover all the credit market company's obligations.

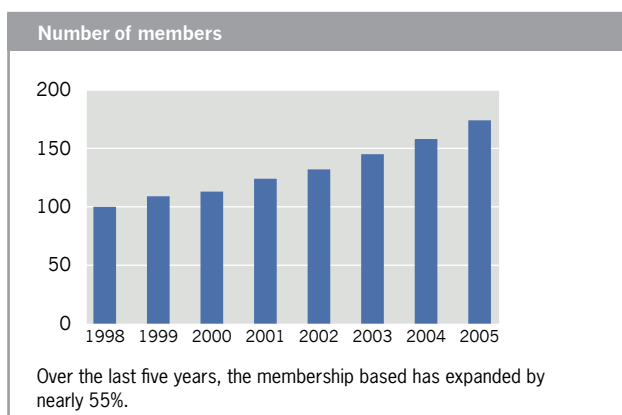
The Board

The Board met on 11 occasions in 2005. The Board has a Credit Committee. The Committee consists of the Board's Chairman and Vice Chairman, and met seven times during the year.

Legal status

As a credit market company since 1995 Kommuninvest i Sverige AB is regulated by the Swedish Financial Supervisory Authority.

The Act on Banking and Financing Operations (2004:297) came into effect on 1 July 2004. Kommuninvest is covered by the new act's definition of financing



operations and previous sanctions to conduct financing operations have not been affected.

Rating

Kommuninvest invites Moody's Investors Service to issue credit ratings for the company in order to facilitate borrowing. Kommuninvest's long-term rating for loans in foreign and domestic currencies has been the highest possible, Aaa, since April 2002. At year-end 2005 Kommuninvest was rated as follows:

Long-term rating, foreign currencies	Aaa
Long-term rating, Swedish krona (SEK)	Aaa
Short-term rating	P-1

Financial results

The prime indicator of the financial success of Kommuninvest's activities is the improvement in the situation for the treasuries of Kommuninvest's principals as a result of the favourable terms offered to members cooperation through Kommuninvest that use the services of the company.

Operating profit was SEK 55,969,000 (21,802,000). Profit after appropriations and tax increased by approximately 132% to SEK 31,576,000 (13,577,000). Transfers to the tax allocation reserve amounted to SEK 13,770,000 (4,906,000). The sum of SEK 2,176,000 (2,184,000) has been utilised from the tax allocation reserve. The balance sheet total increased to SEK 91.148 (67.984) billion.

Net interest income

Net interest income increased to SEK 117,504,000 (78,373,000), and benefited from the continued increase in lending and investment volumes. However, low general interest rate levels exerted an adverse impact on net interest income, primarily through lower returns on equity.

To some extent, the increase in net interest income is attributable to a higher margin on investing funds which have still not been lent to Kommuninvest's borrowers. Kommuninvest's investment activities include investing in securities with high credit ratings, see Notes 11, 14 and 16, of which a significant proportion is investments in government securities and government-guaranteed financial institutions.

At year-end 2005, SEK 31.7 (15.6) billion had been invested in bonds and other interest-bearing securities in anticipation of lending to Kommuninvest's borrowers.

Of this amount, SEK 4.3 billion comprised the company's primary liquidity reserve. The remaining SEK

27.4 billion has been invested in anticipation of lending to Kommuninvest's borrowers, and is calculated on the basis of the required liquidity if Kommuninvest were unable to access to the capital markets for its borrowing for a period of one year.

Moreover, the buy-back of a number of previously issued securities contributed to the increase in net interest income. In 2005, the re-purchase of previously issued bonds increased net interest income by over SEK 26 million, with the positive profit gains explained by a marked increase in re-purchases on 2004. Increased interest in lending to the municipal sector has generally led to lower borrowing costs for the sector. This has to a limited extent contributed to lower margins between borrowing and lending, which had an adverse impact on net interest income.

Other operating income

Other operating income grew by 153% to SEK 3,831,000 (1,514,000). Income was subject to factors including the cancellation of provisioning for liabilities to counterparties that was no longer required.

Expenses

Expenses grew by approximately 15.3% or SEK 8,170,000 to SEK 61,603,000 (53,433,000). Operating expenses amounted to approximately 0.07% (0.08%) of the balance sheet total.

Personnel costs

Personnel costs increased to SEK 30,872,000 (26,981,000); the number of employees increased by one in the year, to 35 at year-end 2005.

Other expenses

Other expenses, i.e. general administration expenses and depreciation of tangible assets, grew by approximately 18.6% to SEK 28,539,000 (24,066,000). Those costs increasing most in 2005 included IT expenses, which amounted to SEK 7,914,000 (5,710,000), with the increase explained by factors including leasing charges on the company's ERP systems increasing, and increasing other license expenses. The company's travel expenses were SEK 3,226,000 (2,035,000), with the increase due to a number of road-shows conducted coincident with new issues.

Group contribution to parent society

Kommuninvest i Sverige AB's group contribution of SEK 4.4 million to Kommuninvest Cooperative Society will enable the society to make a participation issue to its

members for the fifth consecutive year.

If the Annual General Meeting approves the proposal of the Society's Board, the issue will correspond to 2.0% of the participation capital.

The Board of Kommuninvest i Sverige AB also intends to propose a placement of shares to the parent society. The size of the new issue corresponds to the proposed total of the participation issue in the society.

Increased membership permits new issues

At the Annual General Meetings in March 2004 and March 2005, the Board of Directors was authorised to make one or more new share issues up to a specified value before the next Annual General Meeting. The aim of the delegation is, through these issues, to be able to transfer new members' participation funds from the parent society to the company to increase the share capital, which in turn strengthens the company's financial base.

As there was a strong increase in the number of members in the year, two new issues of SEK 7 million and SEK 11.2 million were conducted to the parent society in 2005.

Liquidity reserve

At the end of 2005, Kommuninvest had a primary liquidity reserve of SEK 4.3 billion. The Board has resolved that these funds may only be used during times of poor cash flow, and never in normal business operations. The various sections of the primary liquidity reserve can be translated into liquid funds at very short notice: within three days.

To date the company has had no recourse to make use of this facility, (Note 16).

Operations

Kommuninvest is now Sweden's largest inter-municipal cooperation with 174 Swedish municipalities and county councils cooperation on financial issues. In 2005, 16 new municipalities joined. Lending increased by SEK 5.6 billion, and at year-end, lending was SEK 56.7 billion. A portion of lending, SEK 5.4 billion, can be explained by Kommuninvest expanding its variety of loans, and now Kommuninvest is able to offer all types of maturity and interest fixing periods usually available on the Swedish credit market. In autumn 2005, Kommuninvest created the "KI ränta" product, a type of loan offering Swedish municipalities the opportunity to link interest to the very shortest interest fixing periods.

Kommuninvest utilizes an organizational structure divided into three regions for its advisory and training services for members and their corporations. Kommuninvest

has retained its intention to be a reliable cooperation partner, with personal visits becoming more significant in the year.

Kommuninvest visited a total of 127 municipalities and county councils in the year. Regional and central meetings were supplemented by visits to individual municipalities, where knowledge of the capital markets and municipal sector was exchanged.

Additionally, Kommuninvest's management visited leading representatives of Sweden's municipalities in 2005, such as leading councillors from sitting majorities and oppositions. Apart from general discussions on Kommuninvest and its progress, discussions also covered continued expansion, with more Swedish municipalities joining Kommuninvest. There is a broad-based understanding and acceptance that the cooperation's further extension benefits current and future municipalities and county councils that apply for membership.

Borrowing activities are intended to provide Sweden's municipalities and county councils with the most attractive possible finance terms. In total, Kommuninvest's new borrowing amounted to SEK 31 billion gross in 2005. This borrowing has been diversified across various capital markets, with Sweden, Europe and Asia sourcing approximately equal shares of Kommuninvest's new borrowing in the year. Borrowing doubled on the previous year in 2005.

Kommuninvest consummated its biggest-ever transaction in 2005, a USD 1 billion bond loan arranged by Dresdner Kleinwort Wasserstein, Credit Suisse First Boston and Nomura. Kommuninvest launched a private bond alongside Danske Bank, with yields linked to the Turkish lira. This instrument was recognized by capital markets news and data provider mtn-i as the most innovative transaction of the year. Kommuninvest issued 25 bond loans through seven different arrangers denominated in six different currencies on the Japanese uridashi market in the year.

A high volume of liquid assets (pre-funding) is a prerequisite for Kommuninvest playing its role of providing the most attractive finance terms possible. That portion not directly lent to members is invested in various fixed-income securities with the aim of protecting the corresponding borrowing against interest changes, in anticipation of lending to members.

Risk management

The financial markets are developing and changing, with finance solutions tending to become more complex, while competition increases. Accordingly, Kommuninvest is having to manage increasingly complex external and internal risks. In its activities identifying, measuring and moni-

toring risks within its business, the company monitors and develops models and routines for its financial and operational risks. Kommuninvest to the exclusion of others utilizes derivative instruments with the sole aim of alleviating risks in its borrowing and lending activities.

Kommuninvest has a Credit Group that monitors the progress of counterparties and financial instruments used in the company's borrowing.

The Group's activities include preparing supporting data for assessing new counterparties and financial instruments. Lending activities observe a pre-determined research model that results in a credit decision and a dedicated research function monitors the municipal sector's progress. Kommuninvest works constantly to enhance the company's risk management within borrowing and lending, with the aim of continually improving ongoing monitoring and minimising counterparty risks.

The quality of Kommuninvest's assets remains high, and improved further over the past year. Lending is exclusively to the municipal sector and the progress of the sector's finances was very positive in the year.

As of 31 December 2005, 73% of invested assets (as yet not loaned) was in the most secure creditworthiness category.

Of total derivative contract nominal amounts, 91% was divided between counterparties with credit ratings of AA level or better.

The Board of Directors bears overall responsibility for the company's risk exposure and risk management. Apart from ongoing information on the progress of financial and operational risk, the Board also receives periodical summaries of the progress of Kommuninvest's counterparties.

Kommuninvest strives to minimize its exposure to market risks. It limits foreign exchange risk by frequent foreign exchange to Swedish kronor, with the interest risks permitted to arise within pre-funding being limited.

Activities to develop methods for identifying and evaluating operational risks in Kommuninvest's business were prioritised over the past financial year. In its IT activities, Kommuninvest has created an alternative operational environment in the event of outage of its primary production systems.

Risks are reviewed in more detail in Note 26.

Human resources

The number of employees increased by one in 2005, to 35 at year-end 2005.

A significant proportion of employees' time was assigned

to a major project dealing with the company's foundation of values in 2005. These activities were intended to open a dialogue between staff, while simultaneously offering them enhanced understanding, both holistically and of other employees' efforts. The activities of the year did not mark the end of this work and a dialogue will continue within the company on this subject.

In 2005, Kommuninvest assigned 281 training days for the ongoing training of its employees, pursuant to its intent to retain good operational quality.

Salaries have been mapped pursuant to Kommuninvest's equal opportunities plan.

The division of personnel costs is stated in Note 6.

New accounting and capital cover standards

New standards, rules and legislation necessitate activities to adapt the company's processes and routines on time. The continued adoption of IAS/IFRS accounting standards was a major part of such activities in the year. Kommuninvest focused on the continued analysis of the impact, opportunities and legal conditions and implementation of new rules and other adaptation in the year, and these efforts continue. The new standards come into force on 1 January 2007 with comparative values for 2006.

Kommuninvest also started to adopt new capital cover rules (proposed EU directive). An analysis has been conducted regarding the company's adoption of these standards. Kommuninvest focused on the development of methodological support within operational risk and capital assessment processes, which continue in 2006. These new standards come into force on 1 January 2007.

The new standards will encompass operational risk more clearly than in current regulatory structures. The company has selected the base method for operational risk. For credit-related counterparty risk, the company will pursue the standardised method.

Executive Management Group

The Executive Management Group remained unchanged in the course of the year and consisted of Thomas Åkelius (President and CEO), Tomas Werngren (Executive Vice President and CFO), Malin Gillberg (HR Manager), Maria Viimne (Funding) and Harriet Forsell Söderberg (Deputy CFO).

Prospects for 2006

The cooperation attracted major interest in 2005, and there are no signs of any slowdown at present. According to 10-15 new members are expected to join in 2006.

For lending operations, Kommuninvest expects its

loan stock to increase at a comparable rate to the past year. The expectation of higher net lending is partly based on the increase in Kommuninvest's membership between 2001 and 2005 of 61 new members, or nearly 55%, generally higher investment volumes in the sector, and a continued increase in Kommuninvest's share of its members' and their corporations' total borrowing.

Capital coverage analysis

The following capital coverage analysis illustrates how well Kommuninvest satisfies the capital requirements applicable to the company. The capital coverage ratio requirement (solvency ratio) changed from 16.35% at year-end 2004 to 17.08% at year-end 2005.

Kommuninvest's capital cover at year-end 2005 is presented in the following table (all figures in thousands of SEK).

Group	Balance Sheet items	Off Balance Sheet commitments		Total	Weighting ratio, %	Risk-weighted amount
		Nominal amount	Translated amount			
A	83,193,265	162,441,676	13,318,326	96,511,591	0	-
B	7,946,694	-	-	7,946,694	20	1,589,339
C	-	-	-	-	50	-
D	29,125	-	-	29,125	100	29,125
	91,169,084	162,441,676	13,318,326	104,487,410		1,618,464
Capital base						276,441
Total primary capital						276,441
Capital coverage ratio						17.08%
<i>Total primary capital consists of:</i>						
Equity					100	249,454
Untaxed reserves					72	26,987

The capital base includes the Board's proposed appropriations.

Appropriation of surplus

The Board and President propose that

the surplus for the year of SEK 31,576,368 together with the balance brought forward of SEK 53,562,582, totaling SEK 85,138,950 be allocated by the Annual General Meeting as follows:

To the statutory reserve	SEK 3,158,000
To be carried forward	SEK 81,980,950
Total	SEK 85,138,950

ACCOUNTING AND VALUATION PRINCIPLES

The Annual Report of Kommuninvest i Sverige AB has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, the regulations and general advice of the Swedish Financial Supervisory Authority.

Assets and liabilities in foreign currencies

Kommuninvest's assets and liabilities in foreign currencies partly comprise loans and the refinancing of these loans, in part accrued income or expenses contingent upon these loans and their refinancing. Assets and liabilities are valued at the current closing day rate.

Lending

Receivables have been valued at the value at which they are expected to be paid in.

Liquid assets

Liquid assets have been valued at their nominal value.

Liabilities

Liabilities have been valued at their nominal value.

Equipment

Equipment has been valued at its acquisition value with a deduction for accumulated depreciation. Planned depreciation for equipment is 20% p.a.

Government bonds eligible as collateral, and bonds and other interest-bearing securities

If funds are invested in an interest-bearing security, with the intention of safeguarding the corresponding borrowing against changes in interest rates, the investment is valued at its acquisition value plus accrued interest. The investment is classified as a fixed asset. Accrued acquisition values of borrowing are written off using straight line depreciation to match the lending as borrowing and lending conditions are identical.

Early redemption of loans

If a credit is repaid prematurely, the client is liable to pay a fee which is intended to compensate for the net interest loss

that may possibly arise if the company is unable to re-lend the amount repaid at the same rate of interest as that agreed for the original loan. Compensation for net interest loss is allocated to the relevant periods over the remaining maturity of the loan and shown under "Accrued expenses and deferred income" on the Balance Sheet.

Repurchase agreements

Exchange rate differences that arise when repurchasing securities issued by the company itself are shown in the accounts for the year, or where the accounting treatment of hedging has changed, are allocated to the appropriate periods over the term of the corresponding credits. Repurchase agreements have produced surpluses both for individual borrowers and for Kommuninvest. The allocation is shown under "Accrued expenses and deferred income" on the Balance Sheet.

Index-linked notes

Index-linked notes are reported such that the derivative portion is valued separately and accounted under "Other receivables/other liabilities" and taken up as "Net profit/loss from financial transactions". As Kommuninvest purchases various financial instruments to eliminate exposure to the stock market, profit has not been affected.

Valuing derivatives

The primary derivative instruments Kommuninvest utilizes are currency and interest rate-related swap agreements. The Articles of Association stipulate that derivatives may only be used to eliminate risks in borrowing and lending operations. Accordingly, all instruments are used for hedging purposes. The 'other information' section states the scale of the company's commitments pursuant to such contracts.

Foreign currency translation

Assets and liabilities in foreign currencies have been translated into Swedish kronor at closing exchange rates (see below). The effects of currency translation are entered as a component under "Net profit/loss from financial transactions".

Income and expenses denominated in foreign currencies are translated into Swedish kronor at the rates applying on the dates they arise. Any changes in exchange rates between a foreign currency and Swedish kronor in the period from when the income or expenses arise until they are paid are reported as currency translation effects.

AUD = Australian dollars	5.8325
CHF = Swiss francs	6.0580
DKK = Danish kronor	1.2640
EUR = Euro	9.4300
GBP = British pounds sterling	13.7325
HUF = Hungarian forint	0.0373
JPY = Japanese yen	0.0678
NOK = Norwegian kronor	1.1760
USD = US dollars	7.9525
ZAR = South African rand	1.2600

Re-allocation of expenses within the notes section

An amount for travel expenses of SEK 3,226,000 in the note for personnel costs in 2004 (Note 6) has been re-allocated to 'other administration expenses'.

INCOME STATEMENT

(SEK 000)	Note	2005	2004
Interest income	1	2,477,090	2,125,076
Interest expenses	2	-2,359,586	-2,046,703
NET INTEREST INCOME		117,504	78,373
Commissions, fees	3	-3,806	-2,704
Net profit/loss from financial transactions	4	43	-1,948
Other operating income	5	3,831	1,514
TOTAL OPERATING INCOME		117,572	75,235
General administration expenses	6	-57,604	-49,413
Depreciation of tangible assets	7	-1,807	-1,634
Other operating expenses	8	-2,192	-2,386
TOTAL EXPENSES		-61,603	-53,433
OPERATING PROFIT		55,969	21,802
Appropriations	9	-11,595	-2,722
PROFIT BEFORE TAX		44,374	19,080
Tax on profit for the year	10	-12,798	-5,503
PROFIT FOR THE YEAR		31,576	13,577

BALANCE SHEET

(SEK 000)	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Cash		1	0
Government bonds eligible as collateral	11, 16	10,518,887	5,175,618
Lending to credit institutions	12, 16	3,109,722	1,705,395
Lending	13, 16	56,738,251	51,115,491
Bonds and other interest-bearing securities	14, 16	18,116,466	8,716,646
Shares in associated companies	15	504	504
Tangible assets, equipment	17	3,151	3,599
Other assets	18	2,043,157	616,513
Prepaid expenses and accrued income	19	618,308	650,304
TOTAL ASSETS		91,148,447	67,984,070
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities to credit institutions	20	3,424,562	1,800,503
Securities issued	21	84,738,299	64,682,421
Other liabilities	22	2,019,697	623,238
Accrued expenses and deferred income	23	678,953	652,479
Total liabilities		90,861,511	67,758,641
Untaxed reserves	24	37,482	25,887
Share capital		150,000	128,500
Statutory reserve		14,315	12,915
Profit brought forward		53,563	44,550
Profit for the year		31,576	13,577
Equity	25	249,454	199,542
TOTAL LIABILITIES, PROVISIONS AND EQUITY		91,148,447	67,984,070
Other pledged assets		None	None
Contingent liabilities		None	None
Obligations			
- credit facilities agreed, but not taken up		620,148	2,113,098
- swaps with negative market value, notional principal		74,894,374	83,939,659
- swaps with positive market value, notional principal		87,547,305	37,807,532

CASH FLOW STATEMENT

(SEK 000)	2005	2004
Liquid assets at the start of the accounting period	77,366	145,244
Operating activities		
Operating profit	55,969	21,801
Adjustment for items not included in cash flow: (Note 1)	3,896	608
Income tax paid	-5,352	-6,602
Cash flow from operating activities before the change in the assets and liabilities of operating activities	54,513	15,807
Change in lending	-5,622,760	-1,685,412
Change in other assets	-1,394,643	-513,834
Change in other liabilities	1,430,379	481,092
Cash flow from operating activities	-5,532,511	-1,702,347
Investment activities		
Sale of tangible assets	-	-71
Acquisition of tangible assets	-1,364	-1,586
Cash flow from investment activities	-1,364	-1,657
Financing activities		
Increase in interest-bearing securities	-15,922,031	6,225,073
Change in liabilities to credit institutions	1,624,059	-728,886
Purchase/sale of financial assets	20,059,774	-3,865,174
Cash flow from financing activities	5,761,802	1,631,013
New share issue	21,500	8,600
Group contribution paid	-3,165	-3,487
Cash flow for the year	246,262	-67,878
Liquid assets at the end of the accounting period	302,751	77,366

This Cash Flow Statement has been prepared using the cash accounting method and based on operating profit for the period and changes in the Balance Sheet's opening balances. Operating profit has been adjusted for changes not included in operating activities. Cash flow is accounted divided into inward and outward payments from operating activities, investment activities and financing activities.

Liquid assets include cash, balances on current accounts and postal giro accounts.

NOTE 1, Adjustment for items not included in cash flow	2005	2004
Depreciation	1,807	1,634
Net change in accrued acquisition value in the period	2,047	922
Exchange rate differences from change in interest-bearing securities	0	-1,609
Exchange rate differences from change in financial assets	42	-339
Total	3,896	608

NOTES ON THE INCOME STATEMENT AND BALANCE SHEET

All amounts in SEK 000 unless otherwise stated.

1 Interest income

	2005	2004
Lending to credit institutions	5,997	4,075
Lending, Note 13	1,795,041	1,912,329
Interest-bearing securities	662,627	206,493
Other interest income	13,425	2 179
Total	2,477,090	2,125,076

The average interest on lending in the year was 3.06% (2004: 3.57%).

2 Interest expenses

	2005	2004
Liabilities to credit institutions	3,291	782
Interest-bearing securities	2,353,583	2,042,676
Other interest expenses	2,712	3,245
Total	2,359,586	2,046,703

3 Commission expenses

	2005	2004
Payment agency commissions	3,806	2,704
Total	3,806	2,704

4 Net profit/loss from financial transactions

	2005	2004
Exchange rate changes	43	-1,948
Total	43	-1,948

5 Other operating income

	2005	2004
Capital gain on the sale of securities classified as fixed assets	62	811
Other operating income	3,769	632
Profit from sale of equipment	-	71
Total	3,831	1,514

6 Administration expenses

	2005	2004
Personnel costs		
Salaries and emoluments	16,992	15,418
Pension expenses	3,010	2,612
Transfer to participation capital fund	1,650	500
Social security charges	6,575	5,727
Training expenses	2,096	2,287
Other personnel costs	549	437
Total	30,872	26,981

	2005	2004
Number of employees at year-end	35	34
Average number of full-time employees in the year	34	33
Of which women	20	20
Salaries and emoluments		
Board, President and Exec. Vice President	3,829	3,615
Other	13,163	11,803
Total	16,992	15,418
Gender of senior executives		
Board (members)	7	8
Number of women	2	2
Number of men	5	6
Executive Management		
Group inc. President	5	5
Number of women	3	3
Number of men	2	2

Information on senior executives

In this context, the term *senior executives* refers to the Board Chairman and the President. In this context, the term *other senior executives* refers to Board members and the Executive Vice President. The President and Executive Vice President are employed by the Board, which also approves the general terms of their employment contracts. In accordance with these contracts, salaries are reviewed annually. Remuneration to the President for the financial year 2005 was approved by the Board. Remuneration to the Executive Vice President was approved by the President after consultation with the Board Chairman.

REMUNERATION TO SENIOR EXECUTIVES

Remuneration to the Board Chairman in 2005

Sören Gunnarsson

	2005	2004
Within the framework of the Board fees determined by the AGM for the Board Chairman for the period 1 January 2005 – 31 December 2005.	126	134
Total	126	134

Pension and terms of notice for the Board Chairman

Kommuninvest does not have any pension obligations or particular terms of notice for the Board Chairman.

Remuneration to the President in 2005

Thomas Åkelius

	2005	2004
Fixed remuneration, salary	1,563	1,426
Car benefit	69	60
Total	1,632	1,486

Pension and terms of notice for the President

There are no agreements regarding severance pay. For termination initiated by the company, the President will continue to receive a salary for the duration of the 24-month notice period. If a new position is found, the salary paid by Kommuninvest will be reduced accordingly. Premiums for pension insurance amounted to a total of SEK 431,000. The President is covered by pension terms according to the SPP pension scheme. The pension is a defined-contribution scheme.

REMUNERATION TO OTHER SENIOR EXECUTIVES IN 2005

Remuneration to the Executive Vice President in 2005

Tomas Werngren

	2005	2004
Fixed remuneration, salary	1,509	1,368
Car benefit	71	71
Total	1,580	1,439

Remuneration to Board members

Fees	631	687
Total	631	687

Pension and terms of notice for the Executive Vice President

There are no agreements regarding severance pay. For termination initiated by the company, the Executive Vice President will continue to receive a salary for the duration of the 24-month notice period. If a new position is found, the salary paid by Kommuninvest will be reduced accordingly. Premiums for pension insurance amounted to SEK 498,000. The pension is a defined-contribution scheme.

Pension obligations, other personnel

The company's pension obligations are covered by insurance contracts.

Sick leave

Total sick leave is stated as a percentage of employees' total regular working hours for each group. Long-term sick leave is absence for a period of 60 or more consecutive days.

%	1 Jan 2005 – 31 Dec 2005	1 Jan 2004 – 31 Dec 2004
Total sick leave	1.43	4
of which long-term sick leave, as a percentage of total sick leave	0.00	53
Sick leave for women	1.23	6
Sick leave for men	1.72	0
Sick leave for the group up to age 29	*	*
Sick leave for the group aged 30 - 49	1.40	1
Sick leave for the group aged 50 and over	*	12

* Not reported due to a special provision in Swedish legislation stipulating that data must not be issued if the number of employees in a group is 10 or less, or if the data can be attributed to an individual. The term group refers both to an age category and gender distribution within the age category.

Other administration expenses	2005	2004
Rents and other expenses for premises	277	276
Rents, group companies	1,520	1,504
Temporary/contract personnel	770	-
Consultancy fees	4,952	4,754
Computing expenses	7,914	5,710
Travel expenses	3,226	2,035
Other	8,073	8,153
Total	26,732	22,432

Of which

Emoluments and costs for the auditors

	2005	2004
<i>Öhrlings PricewaterhouseCoopers AB:</i>		
Audit assignments	183	125
<i>Ernst & Young AB:</i>		
Audit assignments	254	188
Other assignments	56	-
<i>KPMG Bohlins AB:</i>		
Internal audit assignments	437	437
Total	930	750

7 Depreciation of tangible assets

	31 Dec 2005	31 Dec 2004
Depreciation according to plan		
Equipment	1,807	1,634
Total	1,807	1,634

8 Other operating expenses

	2005	2004
Communication and information	1,683	1,886
Corporate insurance	460	500
Other	49	-
Total	2,192	2,386

9 Appropriations

	31 Dec 2005	31 Dec 2004
Transfer to tax allocation reserve	13,770	4,906
Cancellation of tax allocation reserve	-2,175	-2,184
Total	11,595	2,722

10 Tax on profit for the year

	2005	2004
Current tax expense		
Tax expense for the period	-12,798	-5,503
Reconciliation of current tax		
Profit/loss before tax	44,374	19,080
Tax according to prevailing tax rate, 28%	-12,425	-5,342
Non-deductible expenses (SEK 1,332,000)	-373	-134
Tax attributable to previous years	-	-27
Reported tax	-12,798	-5,503
Tax items accounted directly against equity		
Current tax in group contribution paid	1,231	1,356

11 Government bonds eligible as collateral

Fixed assets

	Accrued acq. value	Actual value	Accrued acq. value	Actual value
	31 Dec 2005	31 Dec 2005	31 Dec 2004	31 Dec 2004
Swedish				
Government	10,020,174	10,020,790	5,175,618	5,174,032
Swedish municipalities	498,713	498,633	-	-
Total	10,518,887	10,519,423	5,175,618	5,174,032

All government bonds eligible as collateral are entered at accrued acquisition value. The positive difference arising from book values exceeding nominal values is SEK 2,763,000. The negative difference arising from book values being below nominal values is SEK 20,877,000.

Average remaining maturity is 0.14 years (2004 0.15 years)

12 Lending to credit institutions

	31 Dec 2005	31 Dec 2004
Lending in Swedish currency	261,690	466,334
Lending in foreign currency	2,848,032	1,239,061
Total	3,109,722	1,705,395

13 Lending

Lending refers to lending to municipalities and county councils, and to municipal and county-council owned corporations. Approximately 48% (54) of total lending is direct to municipalities and county councils that are members of Kommuninvest. The remainder is to their corporations, which have municipal guarantees, and are mainly municipal housing corporations 42% (38) and other companies with municipal guarantees 10% (8).

	31 Dec 2005	31 Dec 2004
Lending in Swedish currency	56,738,251	51,115,491
Total lending	56,738,251	51,115,491

Loan receivables refer to the geographical regions represented by owner municipalities.

14 Bonds and other interest-bearing securities

	Accrued acq. value	Actual value	Accrued acq. value	Actual value
	31 Dec 2005	31 Dec 2005	31 Dec 2004	31 Dec 2004
Swedish housing finance institutions	1,079,663	1,083,287	1,742,909	1,748,402
Other Swedish issuers	565,767	567,716	-	-
Other foreign issuers	16,471,036	16,486,687	6,973,737	6,978,920
of which				
Short-term securities in foreign currency	17,916,983	17,938,228	8,566,821	8,577,509
Short-term securities in Swedish currency	199,483	199,462	149,825	149,813
Total	18,116,466	18,137,690	8,716,646	8,727,322

All bonds and other interest-bearing securities are accounted at accrued acquisition value. The positive difference arising from book values exceeding nominal values is SEK 11,713,000. The negative difference arising from book values being below nominal values is SEK 50,635,000.

Average remaining maturity is 0.50 years (2004 0.35 years)

15 Shares in associated companies

	31 Dec 2005	31 Dec 2004
The company owns 50% of shares in the associated company Administrative Solutions NLGFA AB Corp. ID. No.: 556581-0669	504	504
Total	504	504

16 Liquidity reserve

The Board has resolved that an amount of a minimum of SEK 4 billion and a maximum of SEK 6 billion will be deposited in bank accounts with immediate access or invested in securities that can be converted into liquid funds within three days. Pursuant to the Board resolution, these funds are reserved solely for Kommuninvest risks being unable to fulfil its obligations on time for some reason. At present, SEK 4.3 billion has been invested pursuant to this Board resolution. The contracts ensure that the necessary liquidity is available for Kommuninvest i Sverige AB to fulfil all its obligations in principle in a rolling 30-day period.

17 Tangible assets, equipment

	31 Dec 2005	31 Dec 2004
Acquisition value brought forward	10,598	9,359
Investments for the year	1,364	1,809
Sales/disposals during the year	-1,639	-570
Acquisition value carried forward	10,323	10,598
Depreciation brought forward	-6,999	-5,783
Adjustment for depreciation on equipment sold/disposed of	1,634	418
Depreciation for the year	-1,807	-1,634
Depreciation carried forward	-7,172	-6,999
Planned residual value at the end of the accounting period	3,151	3,599

18 Other assets

	31 Dec 2005	31 Dec 2004
Income taxes recoverable	-	2,481
Market valuation, equity derivatives	2,004,602	612,698
Other assets	38,555	1,334
Total	2,043,157	616,513

19 Prepaid expenses and accrued income

	31 Dec 2005	31 Dec 2004
Accrued interest	617,479	649,390
Other prepaid expenses and accrued income	829	914
Total	618,308	650,304

20 Liabilities to credit institutions

	31 Dec 2005	31 Dec 2004
Swedish currency	3,424,562	1,800,503
Total	3,424,562	1,800,503

21 Securities issued

	31 Dec 2005	31 Dec 2004
Swedish currency	67,446,293	54,883,877
Foreign currency	17,292,006	9,798,544
Total	84,738,299	64,682,421

22 Other liabilities

	31 Dec 2005	31 Dec 2004
Market valuation, equity derivatives	2,004,602	612,698
Liabilities to parent society	4,396	4,843
Other liabilities	10,699	5,697
Total	2,019,697	623,238

23 Accrued expenses and deferred income

	31 Dec 2005	31 Dec 2004
Accrued interest	672,274	645,588
Other accrued expenses and deferred income	6,679	6,891
Total	678,953	652,479

24 Untaxed reserves

	31 Dec 2005	31 Dec 2004
Tax allocation reserves		
Tax allocation reserve 2000 tax assessment		2,175
Tax allocation reserve 2001 tax assessment	3,358	3,358
Tax allocation reserve 2002 tax assessment	5,231	5,231
Tax allocation reserve 2003 tax assessment	7,004	7,004
Tax allocation reserve 2004 tax assessment	3,214	3,214
Tax allocation reserve 2005 tax assessment	4,905	4,905
Tax allocation reserve 2006 tax assessment	13,770	-
Total	37,482	25,887

25 Equity

	Share capital	Statutory reserve	Unrestricted equity
Equity brought forward	128,500	12,915	58,127
New share issue	21,500		
<i>Appropriation of surplus/loss according to AGM decision:</i>			
Transfer to statutory reserve		1,400	-1,400
Group contribution			-4,395
Tax effect on group contribution			1,231
Profit brought forward			
Profit for the year			31,576
Equity carried forward	150,000	14,315	85,139

Share capital 1,500,000 shares = SEK 150,000,000

26 Counterparty risk

Credit-related counterparty risk can be defined as the risk that a counterparty does not fulfil its commitments to Kommuninvest at the contracted time, and additionally, can be divided into three categories:

- Risks coincident with lending to member municipalities and their majority-owned corporations;
- Risks coincident with the investment of assets not yet loaned;
- Risks coincident with value changes on derivative contracts.

Credit-related counterparty risks are monitored through frequently updating risk exposure against pre-determined limits.

As of 31 December 2005, the division of lending and investment by counterparty category and domicile was:

Counterparty risk exposure (SEK bn)	Amount	%
Counterparty category		
Municipalities and county councils	27.3	31
Corporations majority owned by municipalities	29.4	33
Central governments	10.7	12
Banks	21.1	24
Total	88.4	100

(SEK bn)	Lending		Investment	
	Amount	%	Amount	%
Counterparty domicile				
Sweden	56.7	100	13.3	42.0
Rest of Europe			18.0	56.8
North America			0.1	0.3
Asia			0.3	0.9
Total	56.7	100	31.7	100

Finance and liquidity risk

Kommuninvest's finance and liquidity risk is measured on the basis of various forecasts of the progress of available assets, and borrowing in relation to credit commitments. The Board has resolved a liquidity reserve of a minimum of SEK 4 billion and a maximum of SEK 6 billion to be able to secure the company's liquidity at any time. Invested assets constituent to the company's pre-funding operations can also be considered as a form of liquidity reserve.

Controlling and risks

The Board resolves on overall objectives for capital coverage, liquidity and the orientation and limits of the company's exposure to credit-related counterparty and market risks.

Within the company, the President is responsible for monitoring business operations, and ensuring that operations are conducted within the framework of policies and regulations.

A dedicated central function has independent status within the company, and updates ongoing monitoring of business operations.

The same function has overall and coordinating responsibility for the company's aggregate risks (risk monitoring) and reports to the President and Board.

Dedicated functions within the company are responsible for monitoring and conducting ongoing updates and compiling market and credit-related counterparty risks. These functions report to the President and Board.

Market risk

Market risk is the risk of variations in interest and exchange rates, share and commodity prices resulting in the net of Kommuninvest's assets and liabilities including derivatives reducing in value.

Because of the scope of operations, it is not possible to attain comprehensive matching between the company's assets and liabilities.

Interest risks arise in the pre-funding portfolio through the interest fixing periods of invested assets and the related borrowing not being consistent. This risk must not exceed SEK 2 million, although a maximum of SEK 3 million is permitted for a few days, given a 1% change in the yield curve.

Foreign exchange risk is defined as the risk of exchange rate variations exerting an adverse impact on the company's profits. Foreign currency exposure arises when assets and liabilities are denominated in the same foreign currency in the Balance Sheet, but their size is not equal. Foreign exchange risk arises on an ongoing basis due to the net interest income generated from returns on foreign currency investments.

Kommuninvest limits this risk by frequently exchanging such returns into Swedish kronor.

Operational risk

Within Kommuninvest, operational risk is defined as the risk of financial losses and/or damage to Kommuninvest's reputation due to:

- Events related to business processes, such as inaccuracies or shortcomings in ratings, insufficient compliance, legal risks, management principles and similar;
- Events related to staff, because of inadequate skills, shortage of resources, dependence on senior executives, human error, fraud etc.;
- Events related to IT and systems support, including shortcomings in terms of system reliability, availability, and development;
- Exogenous events, where external criminality and disasters of various forms constitute risks.

OTHER INFORMATION

Off-Balance Sheet commitments

Contracts with positive market value		Nominal amount	Market value
Interest contracts, counterparty rated			
AAA	10,361,190	811,242	
AA	8,372,226	459,725	
A	4,098,350	6,362	
	22,831,766	1,277,329	
Currency and interest-based contracts, counterparty rated			
AAA	5,001,225	222,054	
AA	46,334,297	2,940,414	
A	4,378,534	289,413	
	55,714,056	3,451,881	
Equity contracts, counterparty rated			
AAA	487,870	44,027	
AA	7,220,983	2,358,212	
A	879,280	163,843	
	8,588,133	2,566,082	
Commodities contracts, counterparty rated			
AAA			
AA	413,350	263,913	
A			
	413,350	263,913	
Total	87,547,305	7,559,205	

Contracts with negative market value		Nominal amount	Market value
Interest contracts, counterparty rated			
AAA	3,812,702	-184,154	
AA	29,830,209	-1,506,865	
A	1,050,245	-60,975	
	34,693,156	-1,751,994	
Currency and interest-based contracts, counterparty rated			
AAA	9,936,455	-2,475,378	
AA	19,544,678	-1,484,200	
A	1,518,695	-54,193	
	30,999,828	-4,013,771	
Equity contracts, counterparty rated			
AAA	1,428,200	-320,057	
AA	4,686,960	-346,213	
A	3,064,380	-157,941	
	9,179,540	-824,211	
Commodities contracts, counterparty rated			
AAA			
AA	21,850	-1,182	
A			
	21,850	-1,182	
Total	74,894,374	-6,591,158	
	162,441,679	968,047	

When calculating market value, based on a fictitious expiry date, all contracts are calculated using the present value method with all current market interest rates, exchange rates and share prices. Those contracts that indicate a receivable from the counterparty are accounted under 'positive market value'. At present, the majority of contracts have been entered with AA-rated counterparties as rated by at least one of the recognised US institutions.

When signing ISDA contracts, Kommuninvest insists on reserving the right to redeem a contract prematurely if the counterparty's rating deteriorates or falls below a specified level.

Details of actual value (SEK 000)	Current assets		Fixed assets	
	Book value	Actual value	Book value	Actual value
ASSETS				
Cash	1	1		
Government bonds eligible as collateral			10,518,887	10,519,423
Lending to credit institutions	302,752	302,752	2,806,970	2,825,273
Lending			56,738,251	57,850,719
Shares in associated companies			504	504
Bonds and other interest-bearing securities			18,116,466	18,137,690
<i>Tangible assets</i>				
- equipment			3,151	3,151
Other assets	2,043,157	2,043,157		
Prepaid expenses and accrued income			618,308	618,308
TOTAL ASSETS	2,345,910	2,345,910	88,802,537	89,955,068
LIABILITIES				
Liabilities to credit institutions			3,424,562	3,464,368
<i>Securities issued</i>				
- debt instruments			84,738,299	85,591,123
Other liabilities	2,019,697	2,019,697		
Accrued expenses and deferred income			678,953	678,953
TOTAL LIABILITIES	2,019,697	2,019,697	88,841,814	89,734,444
<i>Positions not included in the Balance Sheet</i>				
Positive market value		7,559,205		
Negative market value		-6,591,158		
		968,047		

Accrued acquisition value

The estimated recoverable amount/accrued acquisition value has been written down by SEK -6,146,600 (straight-line depreciation). If the present value method had been used instead, depreciation would have been SEK -5,746,700.

Credit risk exposure (SEK 000)	Credit risk,		Credit risk, off- Balance Sheet exposure	Credit risk exposure, gross
	Balance Sheet exposure			
Credit against security of municipal guarantees	56,738,251		7,559,205	64,297,456
Lending to credit institutions	3,109,722		-	3,109,722
Government bonds eligible as collateral	10,518,887		-	10,518,887
Bonds and other interest-bearing securities	18,116,466		-	18,116,466
Total credit risk exposure	88,483,326		7,559,205	96,042,531

Maturities (SEK 000)	Remaining maturity Payable at call	Max. 3 months					Total
		3 months -1 year	1-5 years	5-10 years	10 years +		
Lending to credit institutions	3,109,722					3,109,722	
Lending		5,021,804	8,527,696	32,332,468	6,531,525	4,324,758	56,738,251
Government bonds eligible as collateral		10,479,125	3,998	35,764			10,518,887
Bonds and other interest-bearing securities		9,842,196	5,489,780	2,784,490			18,116,466
Total assets	3,109,722	25,343,125	14,021,474	35,152,722	6,531,525	4,324,758	88,483,326
Liabilities to credit institutions		470,400	11,382	1,846,947	756,832	339,000	3,424,562
Securities issued		4,696,921	9,322,407	48,882,762	12,541,373	9,294,837	84,738,299
Total liabilities		5,167,321	9,333,789	50,729,709	13,298,205	9,633,837	88,162,861

Interest fixing terms, interest exposure

(SEK 000)	Remaining maturity Payable at call	Max. 3 months					Total
		3 months -1 year	1-5 years	5-10 years	10 years +		
Lending to credit institutions	302,753	2,806,969					3,109,722
Lending		25,871,303	6,516,961	20,321,493	3,968,494	60,000	56,738,251
Government bonds eligible as collateral		10,479,125	3,998	35,764			10,518,887
Bonds and other interest-bearing securities		18,116,466					18,116,466
Total assets	302,753	57,273,863	6,520,959	20,357,257	3,968,494	60,000	88,483,326
Liabilities to credit institutions		2,949,962		474,600			3,424,562
Securities issued		54,669,168	6,160,758	19,874,919	3,973,454	60,000	84,738,299
Total liabilities		57,619,130	6,160,758	20,349,519	3,973,454	60,000	88,162,861

FIVE-YEAR SUMMARY

(SEK 000)	2005	2004	2003	2002	2001
INCOME STATEMENT					
Net interest income	117,504	78,373	65,291	71,449	56,708
Commissions, fees	-3,806	-2,704	-1,065	-644	-419
Net profit/loss from financial transactions	43	-1,948	-1,528	-822	-
Other operating income	3,831	1,514	3,163	1,574	420
Total income	117,572	75,235	65,861	71,557	56,709
General administration expenses	-57,604	-49,413	-47,529	-43,272	-35,400
Depreciation	-1,807	-1,634	-1,623	-1,548	-1,118
Other operating expenses	-2,192	-2,386	-1,200	-1,122	-1,688
Total expenses	-61,603	-53,433	-50,352	-45,942	-38,206
Operating profit	55,969	21,802	15,509	25,615	18,503
Appropriations, net	-11,595	-2,722	-1,206	-5,233	-3,200
Taxes	-12,798	-5,503	-4,117	-5,883	-4,394
Profit for the year	31,576	13,577	10,186	14,499	10,909
BALANCE SHEET					
Cash	1	0	3	13	5
Government bonds eligible as collateral	10,518,887	5,175,618	3,670,647	2,751,082	2,079,528
Lending to credit institutions	3,109,722	1,705,395	2,140,192	1,076,279	957,737
Lending	56,738,251	51,115,491	49,430,079	42,615,623	36,528,635
Bonds and other interest-bearing securities	18,116,466	8,716,646	5,990,106	2,453,889	6,899,672
Shares in associated companies	504	504	504	504	504
Equipment	3,151	3,599	3,576	3,870	2,897
Other assets	2,043,157	616,513	8,236	153,192	440,022
Prepaid expenses and accrued income	618,308	650,304	743,648	713,444	693,222
Total assets	91,148,447	67,984,070	61,986,991	49,767,896	47,602,222
Liabilities to credit institutions	3,424,562	1,800,503	2,529,389	2,807,100	2,879,537
Debt instruments issued	84,738,299	64,682,421	58,458,959	46,080,914	43,460,932
Other liabilities	2,019,697	623,238	12,443	15,234	419,795
Accrued expenses and deferred income	678,953	652,479	782,182	710,677	707,263
Total liabilities	90,861,511	67,758,641	61,782,973	49,613,925	47,467,527
Untaxed reserves	37,482	25,887	23,166	21,960	16,727
Equity	249,454	199,542	180,852	132,011	117,968
Total liabilities and equity	91,148,447	67,984,070	61,986,991	49,767,896	47,602,222

(SEK 000)	2005	2004	2003	2002	2001
KEY RATIOS 2001–2005					
Growth					
Lending (change, %)	11.0	3.4	16.0	16.7	18.1
Net interest income (change, %)	49.9	20.0	-8.6	26.0	35.3
Consolidation					
Equity + untaxed reserves as a percentage of balance sheet total	0.31	0.33	0.33	0.31	0.28
Profit figures					
Management expenses as a percentage of lending	0.109	0.104	0.102	0.108	0.105
Management expenses as a percentage of balance sheet total	0.068	0.079	0.081	0.092	0.080
Efficiency					
Administration expenses/employee (SEK 000)	1,760	1,569	1,574	1,702	1,737
Change (%)	12.2	-0.3	-7.5	-2.0	19.6
Lending/employee (SEK 000)	1,621,093	1,503,397	1,544,690	1,578,356	1,660,393
Change (%)	7.8	-2.7	-2.1	-4.9	12.8
Returns					
Operating profit after tax as a percentage of average equity	16.29	7.55	6.47	13.28	10.61
Income/expense ratio (I/E)					
Net interest income + other operating income in relation to total costs	2.0	1.5	1.4	1.6	1.5
Other information					
Number of employees	35	34	32	27	22

Örebro, Sweden, 14 February 2006

Sören Gunnarsson
Chairman

Robert Stenram
Vice Chairman

Lorentz Andersson

Petter Skouen

Göran Mattsson

Ellen Bramness Arvidsson

Anna von Knorring

Thomas Åkelius
President

Our Audit Report was submitted on 28 February 2006
Ernst & Young AB

Lars Bonnevier
Authorised Public Accountant

Margareta Edin
Authorised Public Accountant
Öhrlings Pricewaterhouse Coopers AB
Appointed by the Swedish Financial Supervisory Authority

REPORT OF THE AUDITORS

To Kommuninvest i Sverige AB's (publ) Annual General Meeting
Corporate identity number: 556281-4409

We have examined Kommuninvest i Sverige AB's (publ) Annual Report and accounts and the Board's and President's administration for the financial year 2005. The Board and the President assume responsibility for the accounts and management and for the Swedish Annual Accounts Act for Credit Institutions and Securities Companies being observed when preparing the Annual Report.

Our responsibility is to comment on the Annual Report and administration on the basis of our audit.

The audit has been completed in accordance with generally accepted accounting practice in Sweden. This means that we have planned and completed the audit in order to attain high, but not absolute, assurance that the Annual Report does not contain any material misstatement. An audit comprises the examination of a selection of the documentation relating to amounts and other information contained in the accounts. An audit also includes an examination of the accounting principles and the Board's and President's application thereof, as well as evaluating the significant estimates the Board of Directors and President have made when preparing the Annual Report and evaluating overall information contained in the Annual Report. As the basis for our statement regarding

discharge from liability, we have examined significant decisions, measures and conditions in the company in order to assess whether any Board member or the President is liable for compensation vis à vis the company, or has otherwise contravened the Companies Act, the Act on Banking and Financing Operations, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We consider that our audit provides us with a reasonable foundation for the following statements.

The Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and accordingly provides an accurate representation of the company's profit and financial position in accordance with generally accepted accounting practice in Sweden. Administration Report is consistent with the other parts of the Annual Report.

We recommend that the Income Statement and Balance Sheet be approved and that the profit is dealt with in accordance with the proposal in the Administration Report and that the Board members and the President be discharged from liability for the financial year.

Örebro, Sweden, 28 February 2006

Ernst & Young AB

Lars Bonnevier
Authorized Public Accountant

Margareta Edin
Authorized Public Accountant
Öhrlings Pricewaterhouse Coopers AB
*Appointed by the Swedish
Financial Supervisory Authority*

Kommuninvest started operations in 1986. Sweden's municipalities and county councils can apply for membership of Kommuninvest Cooperative Society. The Society owns credit market company Kommuninvest i Sverige AB (publ), which conducts operating activities.

THE BOARD OF KOMMUNINVEST COOPERATIVE SOCIETY

Chairman



Alf Egnerfors
County Council Executive
Committee member,
Sörmland County Council

Vice Chairman



Nils Häggström
Municipal Council Member,
Umeå

Board Members



Christer Akej
Chair of the Executive
Committee, Simrishamn



Anita Bohman
2nd Vice Chair of the
Executive Committee,
Västervik



Sören Gunnarsson
County Governor,
Örebro County

Board Members



Christer Gustafsson
Chair of the Executive
Committee, Gnosjö



Stefan Hedin
Chair of the Executive
Committee, Sandviken



Margareta Karlsson
Chair of the Executive
Committee, Municipality
of Karlskoga



Sören Larsson
Chair of the Executive
Committee, Hallsberg



Olle Lindström
Chair of the Executive
Committee, Boden

Board Members



Kent Persson
Chair of the Executive
Committee, Norberg



Mats Sjöström
Chair of the Executive
Committee, Örebro



Barbro Tjernström
Chair of the Executive
Committee, Söderköping



Margaretha Yngvesson
Chair of the Executive
Committee, Herrljunga



Bert Öhlund
Chair of the Executive
Committee, Skellefteå

Stability

With the majority of Sweden's municipalities and a number of county councils as members, Kommuninvest operates as a local debt office and interest group offering attractive funding, advisory services and efficient financial management methodologies.

Customer benefit

Kommuninvest's mere presence stimulates competition, creating a societal benefit every year by cutting its members' interest costs by many millions of kronor.

Growth

Collectively, Kommuninvest's members exert integrated power that can access efficient funding solutions.

A voluntary approach and influence have helped create Sweden's largest inter-municipal cooperation on finance issues. The decision to join is autonomous and voluntary, as is the decision on if and when to raise funding.

More municipalities and county councils are choosing Kommuninvest: we've never been stronger.



KOMMUNINVEST

The Swedish Local Government Funding Agency

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Website: www.kommuninvest.org