

KOMMUNINVEST
ANNUAL REPORT
2006



KOMMUNINVEST ANNUAL REPORT 2006

Kommuninvest's remit – local debt office

Kommuninvest's remit is to create lasting conditions for its owners' financial operations based on a municipal value foundation. It achieves this by providing access to competitive loans, debt management and other services that contribute to effective financial administration.

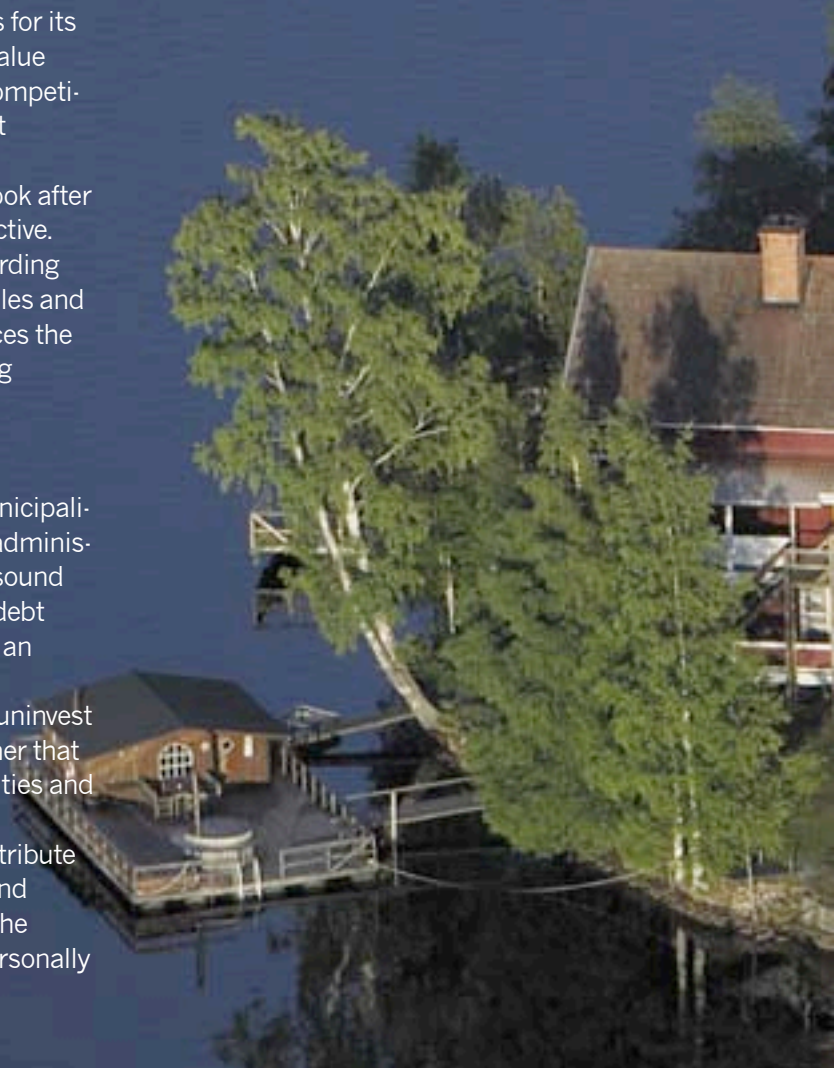
In its capacity as an organisation, it also helps look after the municipal sector's interests in a broader perspective. Kommuninvest acts as a referral body in issues regarding legislation, implementation and adaptation to EU rules and directives, as well as other rule changes, and enhances the sector's opportunities for the most efficient financing possible.

Kommuninvest's vision

Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to financial administration. Competitive solutions, efficient service and sound advice mean happy customers. In its role as a local debt office that benefits society, Kommuninvest occupies an exceptional position in Sweden.

Players on the financial market consider Kommuninvest a stable, efficient and knowledgeable business partner that represents local government, comprising municipalities and county councils.

Its personnel perceive Kommuninvest – and contribute to its standing – as a workplace focused on quality and knowledge with clear controls and follow-up, where the individual is motivated, happy and develops both personally and professionally.



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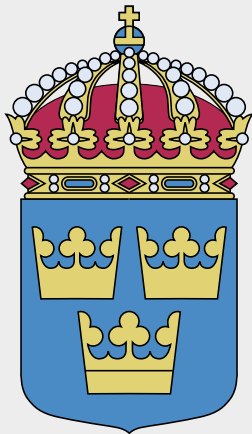


Bollnäs Lat: N 61° 15' 19.31" Long: E 16° 39' 25.82"

THE YEAR IN BRIEF

- Kommuninvest attracted 15 new members, now 182 municipalities and 7 county councils.
- The balance sheet total increased by 11% to SEK 101.2 billion.
- Net lending increased by SEK 10.1 billion and totalled SEK 66.8 billion.
- Net profit was SEK 17.9 million.
- Kommuninvest has the market's highest rating – triple A – from Moody's and Standard & Poor's.

LOCAL DEBT OFFICE



Kommuninvest offer all Swedish municipalities and county councils effective financial management methodologies, with the focus on funding Kommuninvest carries out this remit without a vested interest in profit-making but with the aim of creating favourable solutions for its members.

This concept which is beneficial to society results in a local debt office, a shared function offering Swedish municipalities and county councils effective financial administration.

As a result all municipalities and county councils in Sweden are welcome to become members. Membership and the right to use the services are both voluntary.

Kommuninvest is part of the public sector.

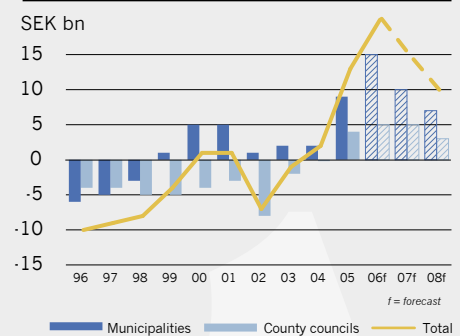
Kommuninvest is permitted to use Sweden's coat of arms in its presentations to the international capital markets, to demonstrate its origins in Sweden and the public sector.

STABLE

Municipalities – stable, secure borrowers

Sweden's municipalities have good finances and are covered by a stable set of rules and a good structure which the municipalities have the right to levy taxes, making them attractive borrowers with a 0% risk-weighting. Neither Kommuninvest nor its Nordic sister organisations have ever sustained a credit loss. The municipal sector is currently reporting its best financial results since the 1980s.

Financial development in the municipal sector



Source: Kommuninvest

SECURE

Stable operation with highest credit rating

A high credit rating is the single most important factor in securing good terms for Kommuninvest's borrowing. Kommuninvest has the highest possible credit rating from the two most highly reputed credit rating institutions – Moody's Investors Service and Standard & Poor's. In Sweden only the State (The Kingdom of Sweden) has the same high rating from two independent rating institutions.

«Strong franchise with a solid market share in lending to its member local governments, combined with good financial fundamentals, strong asset quality and prudent asset liability management.»

GROWING

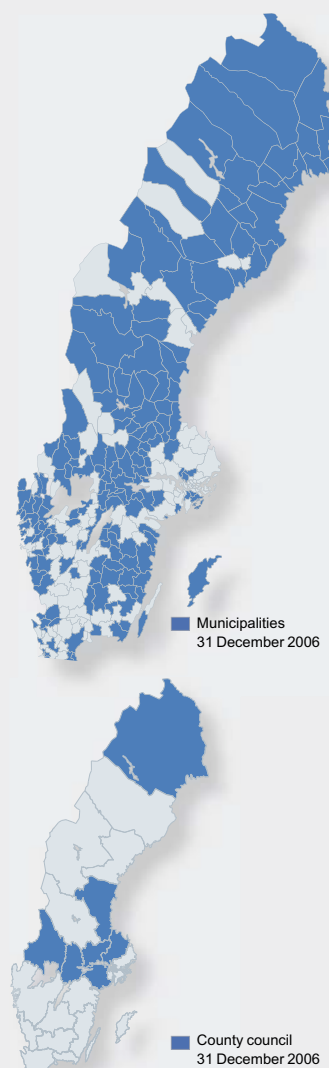
A growing organisation based on voluntary corporation

Kommuninvest is a growing organisation supported by the idea of voluntary corporation between municipalities and county councils with the aim of looking after common interests. Membership has increased by 10% a year in recent years and the organisation's 189 members at the year-end 2006 comprise 63% of municipalities and 35% of county councils in Sweden. Another five municipalities joined in January and February 2007.

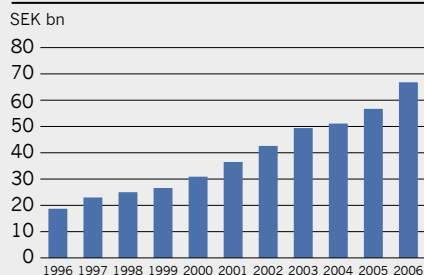
The new members that joined in the year were:

175 Hallstahammar	180 Kiruna	185 Norrbottens	190 Nybro
176 Avesta	181 Finspång	läns landsting	191 Hagfors
177 Trosa	182 Lysekil	186 Dorotea	192 Vännäs
178 Lilla Edet	183 Söderhamn	187 Nordanstig	193 Bjurholm
179 Skinnskatteberg	184 Hudiksvall	188 Arjeplog	194 Eskilstuna
		189 Botkyrka	

The following members joined after the end of the year:

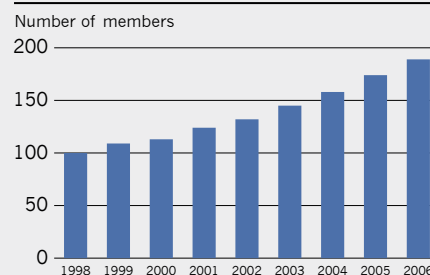


Lending as of 31 December each year 1996–2006



Source: Kommuninvest

Membership 1998–2006



Source: Kommuninvest

EFFICIENT

A guarantor of efficient, competitive finance solutions

By growing and positioning itself as an established, well-known player in the bond markets, Kommuninvest can issue bonds on favourable terms, which is the very foundation for being able to offer municipalities and county councils efficient, competitive finance solutions.

KNOWLEDGEABLE

Kommuninvest – a knowledgeable, efficient organisation

Kommuninvest is a small, knowledgeable organisation and its compact size makes it efficient. This efficiency is clear from the fact that participation issues for members have been carried out for five consecutive years following strong operating results.

Participation issues to members

	2002	2003	2004	2005	2006
SEK mn	4.0	4.6	3.6	3.3	3.1
Per cent	4.5	4.5	3.0	2.5	2.0

NEW MEMBERS AND INCREASED LENDING CREATE STABLE GROWTH



2006 was yet another good year for Kommuninvest i Sverige AB and for the members of Kommuninvest Cooperative Society.

Cooperating through Kommuninvest is based on voluntary involvement. It is voluntary to become a member of the Society, and it is voluntary to use the company's services. With that in mind, I am very pleased to see that our lending has continued to grow; in fact the increase in 2006 was the largest in our history. We have also had the pleasure of welcoming 15 new members.

We consciously strive for growth. By growing bigger and stronger, Kommuninvest is consolidating its role as a local debt office for the Swedish municipal sector. This entails even better financing terms as well as lower administration expenses in real terms. We are fulfilling our mission to offer the sector better, more competitive financing terms.

Financial results in 2006 were strong, thus consolidating the capital base without burdening members through higher margins. Reduced

administration expenses in relation to our balance sheet, along with tougher competition, have contributed to a decrease in lending margin.

Looking back at the 2005 figures – the highest ever – just over SEK 26 million arose outside of our lending operations. The corresponding figure in 2006 was almost SEK 15 million. The 2006 figures were also affected by high consultant costs arising from an altered regulatory structure and general quality enhancements in the organisation. I hope and trust that these enhancements will serve to benefit our members both in the short and the longer term.

Kommuninvest promotes competition which benefits members and the sector

The year has been characterised by extensive interest in loans to the municipal sector, but also by intensive competition, as the margin between lending and borrowing interest rates on the market has decreased.

I am proud to say that Kommuninvest has brought about a improved competitive situation, which will not only benefit members but the entire sector. Greater competition in lending to Swedish municipalities, combined with a dramatic increase in our lending – the best year ever – serve as important confirmation of our significance. Kommuninvest's role as a guarantor for effective competition contributes to extremely attractive terms for the sector as a whole.

Successful borrowing secures access and cost efficiency

Since 2002 we have had the highest possible credit rating from Moody's, Aaa. In 2006 we were also ranked by the other major rating institute – Standard & Poor's. It awarded Kommuninvest its highest possible credit rating, AAA. This opens up brand new opportunities for us and is one of the most important preconditions for favourable borrowing terms.

Our ambition is to secure access to cost-effective borrowing. We achieve this in various ways: with a presence on different markets, by working with a wide variety of agencies, and by attracting different categories of investor. In 2006 we successfully launched yet another benchmark loan totalling around USD 1 billion. This type of regular public loan strengthens Kommuninvest's position on Swedish and international capital markets, and is crucial if we are to secure access to cash flow and favourable financing terms. The strategy of recent years to regularly issue large liquid bond loans has been successful. Kommuninvest bonds are sought-after, and as a borrower Kommuninvest is approved by far more investors now than before. The result is greater security, as access to borrowing has been assured and more opportunities lead to lower borrowing costs.

Rapid rate of change and new demands while maintaining quality

Because Kommuninvest has been undergoing rapid growth for the past 15 years, it is no wonder we have occasionally experienced 'growing pains'. In a financial operation like ours, it is an absolute requirement that growth takes place without compromising on quality, be it towards our owners or our lenders. A lot of time and energy has been spent in 2006 on improvements and

changes. We have raised the quality of registration in the support systems and improved our work-flows. The areas of IT support, risk management, communication and expertise development have also been effected by this process, which is necessary to equip the organisation for continued expansion.

Tension has been running even higher during the year, as in addition to all of these processes we have also been preparing for the introduction of new International Financial Reporting Standards (IFRS) and the new Basel II capital coverage regulations, which are being introduced from 2007. The IFRS rules are primarily intended for public listed companies and are not designed for a public sector organisation with the specialist focus and distinctive nature of Kommuninvest. The reason why Kommuninvest is affected in any case is partly our listed obligations and the fact that we are regulated by the Swedish Financial Supervisory Authority.

All these new developments and alterations have of course entailed an extraordinary work effort on the part of our personnel, but also additional administration costs.

A changing organisation and clearer roles

The Swedish Code of Corporate Governance has been under discussion in the company Board and the Parent Society. Kommuninvest has decided to gradually introduce the code's recommendations.

One of the most important effects is our endeavour to clarify the division of work between the credit market company Kommuninvest i Sverige AB and the Parent Society, Kommuninvest Cooperative Society. The process of change has also led to certain changes in Kommuninvest's organisation. For example, a special human resources committee has been formed during the year to focus on personnel issues.

As the operation grows and new personnel are recruited, it is particularly important that everyone in the organisation is given the chance to discuss the values that Kommuninvest represents, how they affect our work internally and eventually combine to form Kommuninvest's outward profile. We have therefore continued efforts related to our corporate values. I am convinced this will strengthen the organisation and lead to higher quality and clarity, thereby further increasing faith in Kommuninvest's mission.

So much more than inexpensive financing

As a voluntary member organisation, we closely follow new legislation and norms in Sweden and the EU. It is absolutely vital that we take a proactive approach in looking after the interests of Swedish municipalities and county councils to ensure the general conditions for the sector's financing do not deteriorate. In 2006 we successfully contributed towards a positive change in the formulation of Sweden's new capital coverage regulations. Moreover, we are also involved in the reference group that forms part of the municipal expertise inquiry, which deals with issues on guidelines for exemption from local government principles and on municipal cooperation.

We constantly strive to convey a clear picture of the sector and its financial development. One example is a paper entitled *The Creditworthiness of Swedish local governments* which we published during the year in association with the Ministry of Finance and the Swedish Association of Local Authorities and Regions. The document provides the credit markets with easily accessible information on the financial strength and distinctive nature of the municipal sector. The report on the economic development of the municipal sector, published twice a year as members' finances are monitored, is another example.

By the end of 2006, Kommuninvest's management and the Chairman of the Parent Society had met representatives of most of our members. Alongside a general discourse about Kommuninvest and our development, the effects of the dramatic expansion following the rapid increase in membership were also discussed. It was clear from the talks that a continued rise in membership and lending is important. There is also firm support for continued prioritisation of general monitoring, processing and advice related to finance issues, with the emphasis on efficient financing.

Local debt office for Sweden's municipalities and county councils

Pleasingly, it is clear that developments over the past year are leading straight towards our long-term vision: to be a local debt office for all of Sweden's municipalities and county councils. Our ambition is to fulfil the entire local government sector's needs in terms of financing and general strategic financial advice, and to be an interest organisation in the field of public funding.

On the date of the Annual General Meeting almost 70% of Sweden's municipalities and 35% of Sweden's county councils will be members. Our own forecasts, based on applications received and private meetings, indicate continued good growth on a par with 2006.

Bearing in mind the assessment that there is a latent great need for investment in the sector, all signs indicate an increased demand for credit in the years to come from municipalities, county councils and their companies. The strong growth in membership numbers also entails a potential increase in lending.

The ultimate proof of the strength in the idea of Kommuninvest as a local debt office is the influx of new members and a steady increase in lending. Our role as a local debt office for Sweden's municipalities and county councils will become clearer and clearer.

Tomas Werngren
President and CEO

VISION, BUSINESS CONCEPT AND OBJECTIVES

Vision

Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to financial administration. Competitive solutions, efficient service and sound advice mean happy customers. In its role as a local debt office that benefits society, Kommuninvest occupies an exceptional position in Sweden. Players on the financial market consider Kommuninvest a stable, efficient and knowledgeable business partner that represents the part of the public sector comprising municipalities and county councils. Its personnel perceive Kommuninvest – and contribute to its standing – as a workplace focused on quality and knowledge with clear controls and follow-up, where the individual is motivated, happy and develops both personally and professionally.

Business concept

The company's remit is to create lasting favourable conditions for its owners' financial operations based on a municipal value foundation. It achieves this by providing access to competitive loans, debt management and other services that contribute to effective financial administration.

Objectives

Growth in the number of members entails increased lending. Kommuninvest has 189 members, which means that 63% of Sweden's municipalities and 35% of Sweden's county councils are represented. The goal is for the operation to encompass 80% of municipalities and 50% of county councils in Sweden in 2010, which equates to an increase to approximately 230 members. During the same period, the proportion of members' total financing shall increase from its current level of 42%.

Kommuninvest's objective is to retain the highest possible credit rating (Aaa) from the two rating institutions. A steady high rating is the single most important factor in accessing competitive finance solutions, and consequently it is also crucial to growth.



MUNICIPALITIES – STABLE, SECURE BORROWERS

Kommuninvest's remit – local debt office

Kommuninvest has a public remit to offer its member municipalities and county councils effective financial administration with a clear focus on financing.

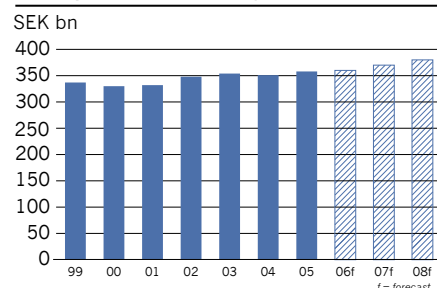
Kommuninvest's ambition is to represent all of Sweden's municipalities and county councils in the role of a local debt office, and that vision is steadily being realised. As many as 189 of Sweden's 290 municipalities and 20 county councils are now members of Kommuninvest, and the figure is constantly rising. The right to use Sweden's lesser coat of arms in business presentations in international contexts helps to clarify Kommuninvest's public remit.

Financing for Sweden's municipalities and county councils

A large, growing market

Kommuninvest's existing and potential market comprises borrowing in all of Sweden's municipalities and county councils, including the municipally owned companies. The municipal sector's current total borrowing is approximately SEK 350 billion. Municipally owned companies account for the majority of this, with 57% or SEK 200 billion of the total. For practical reasons, municipalities

Municipal sector borrowing



Source: Statistics Sweden and Kommuninvest calculations



have often chosen to run capital-intensive operations, such as housing and energy supply, in the form of a public enterprise.

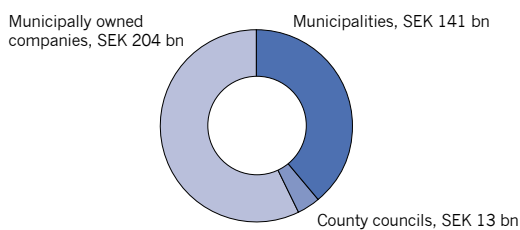
Through its finance solutions, Kommuninvest is the most important financier of municipalities and county councils in Sweden. The form of financing offered to the sector by Kommuninvest comprises just over 80% of total local government borrowing. Only a few municipalities and county councils have chosen to take out bond loans directly. Direct bond loans account for 15% of the

municipal sector's total borrowing. Kommuninvest predicts that borrowing will remain relatively unchanged over the next few years, but that it will increase in the long term. This growth forecast follows announcements from the municipal sector of an increased rate of investment, which cannot be funded without new borrowing.

Increased competition

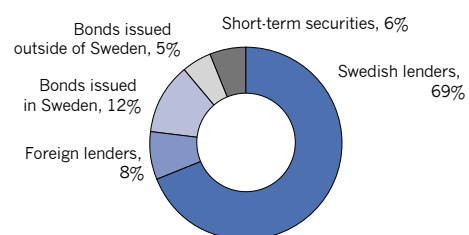
Competition in the market has increased in recent years. The background to this is surplus liquidity in

Municipal sector borrowing, forecast 2006



Source: Statistics Sweden and Kommuninvest calculations

Municipal sector sources of credit, Q3 2006



Source: Statistics Sweden



the banking sector, partly due to a reduced corporate borrowing requirement. The new capital coverage regulations, Basel II, which came into force on 1 February 2007, have also affected lender behaviour. Increased lending to the municipal sector and other public borrowers gives banks and other lenders more balanced credit portfolios with lower risk-weightings, which is attractive as it reduces the banks' equity requirement.

As a result of the change in rules and the increased competition, banks are offering more attractive lending terms to local government. The product offering has also changed, with a noticeable focus on very short interest fixings, such as repo rates and overnight rates. This development increases the need for lenders to monitor and calculate financial exposure, as interest rate sensitivity increases and any changes have a direct impact.

Kommuninvest's growing role

Kommuninvest's lending amounts to approximately SEK 66.8 billion. During the period 1996–2006, borrowing increased by an average of 15% a year. The increase is primarily due to the continuously increasing number of members, and to Kommuninvest accounting for an increasing proportion of members' borrowing. Today as many as 189 of Sweden's municipalities and county councils are members of Kommuninvest. Kommuninvest is responsible for the highest proportion of members' borrowing, with 42%.

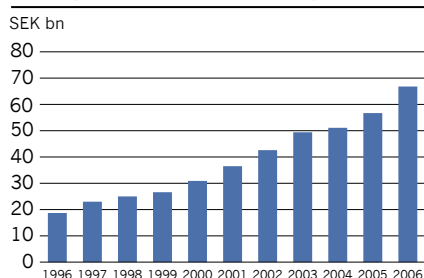
The special status of municipalities

The municipal sector's special status can partly be attributed to the solid foundation of municipal self-government in Sweden, with a strong power of taxation and clear statutory financial objectives, requirements and rules for the sector.

The municipality's constitutional place in Swedish government

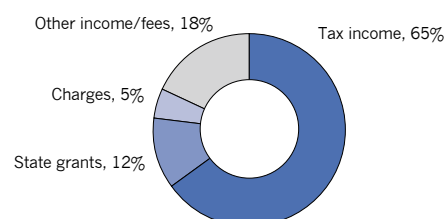
Democratic representation, and thereby also

Lending as of 31 December each year 1996–2006



Source: Kommuninvest

Municipality and county council income, forecast 2006



Source: Kommuninvest

public service – welfare – in Sweden is divided into a national and a local level. Municipalities and county councils make up the local level. The State is responsible for the national level, and sets the framework for the self-governing local level through laws and regulations. The emphasis of public welfare is on the local level, which accounts for 70% of public service, while the State is responsible for the remaining 30%.

The highest decision-making body in a municipality or county council is the main council, which is elected in a public election every four years.

The important tasks of municipalities

Municipalities have a broad spectrum of tasks to carry out, with the emphasis on service in the form of societal activities and education which make up approximately 75% of total costs. Municipalities are also responsible for planning and development issues, environmental and public health protection, waste and sanitation, water and sewage, the emergency services and libraries. The county councils' main task is responsibility for healthcare. All these tasks are obligatory. There are also a number of voluntary tasks such as leisure, culture and energy supply. Municipalities and county councils share responsibility for public transport.

The total annual budget for Sweden's municipalities and county councils was approximately SEK 640 billion for 2006, which equates to around 20% of GDP. Expenditure on personnel, employed and hired, accounts for two-thirds of the sector's total costs.

Strong foundation of municipal self-government

In an international perspective, Swedish municipalities and county councils enjoy a highly autonomous position. Sweden has a long tradition of local self-government. This mainly hails back to the 1862 Local Government Act and since 1974 has been part of the Swedish Constitution. Self-government entails an autonomous and, within certain national limits, free right of decision-making for municipalities. An important aspect of local self-government is the constitutional right to levy taxes to fund municipal activities. The direct right of municipal taxation means that as much as 85% of municipal income is raised through their own taxes, fees and other income, primarily from the sale of land and other property, which means

that Swedish municipalities have an uncommonly high degree of financial autonomy vis-à-vis the State by international standards.

Stable, secure borrowers

Clearly defined financial requirements and regulations combined with an improved economy make municipalities and county councils stable, secure borrowers.

Clear financial requirements and regulations for the municipal sector

High demands are placed on the economies of the municipalities and county councils in Sweden. The overall goal of financial management is to maintain sound public fund management in the operation. A clear goal is set for the various operations and the financial administration, and it also includes financial objectives. Every year, a budget and financial plan for the next three years is drawn up. A balance demand balanced budget requirement has applied since 2000, which means that the budget should normally be set with income exceeding costs. If new costs are introduced during the current budget year, the decision must also contain details of how the expenditure is to be funded. If the result is a loss, the council must, after looking into the balanced budget requirement, adopt an action plan for restoring a positive result after no more than three years.

«Extremely solid guarantee structure, very strong asset quality, strong liquidity, and prudent matching principles.»

Standard & Poor's
Credit Research Report
July 3 2006

Municipalities and county councils are obliged to review their operation each year by preparing an annual report in accordance with generally accepted accounting principles. The annual report must contain an evaluation showing how the operations' goals have been achieved. The municipal politically appointed audit, assisted by professional auditors, constitutes the control authority.

The improved finances of municipalities

The finances of municipalities and county councils have also developed very positively in recent years. Over the past two years the total estimated earnings have improved from just over SEK 2 billion in

2004 to just over SEK 20 billion in 2006. Today 95% of the municipalities and all the county councils are reporting a surplus.

Municipal and county council consolidated earnings, i.e. including the municipally owned companies, have also improved and are estimated at just over SEK 25 (20) billion. Total earnings are at a level that is sustainable in the long term and compatible with sound financial management.

The improved earnings have been used to strengthen the long-term financial capacity, primarily through increased investments in financial assets, although preparedness regarding liquid assets has also been improved.

External funding in the sector has been relatively unchanged in recent years, but is expected to increase following announcements from the municipal sector of an increased rate of investment, which cannot be funded without new borrowing.

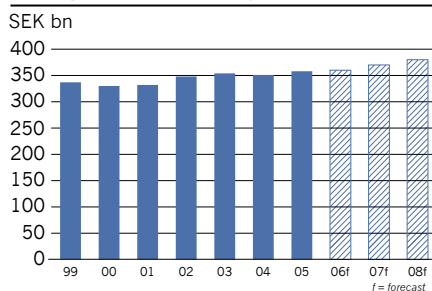
The current financial results are the best since the 1980s, and although the results are expected to decrease slightly in the years to come, they are still at a stable level compatible with the requirement for sound financial management. The most important explanations behind the improved finances can be attributed to a strong focus on financial issues, which has contributed to good cost control. Tax increases and various increased central government initiatives for the municipal sector have also contributed to this development.

Clear rules and procedures for lending

Funds are lent to Kommuninvest's members, their majority-owned companies and to intermunicipal cooperation organisations, if all their members are also members of Kommuninvest. All lending is currently in Swedish kronor and the terms are generally under 10 years. The average term is



Municipal sector borrowing



Source: Statistics Sweden and Kommuninvest calculations

around 2–3 years. Lending takes place at fixed interest rates and variable interest rates via derivatives as additional products.

Kommuninvest has procedures for continuously monitoring municipal sector finances in general, and in particular the members it is financing. More members, shorter terms and an increased percentage of loans with variable interest rates have increased the requirements over time. A major review is carried out twice a year of each municipality and its companies in which Kommuninvest finances investments. The reviews are often carried out in conjunction with the annual or interim accounts. Kommuninvest has an average acceptance rate of 80% of tenders submitted to member municipalities and their companies.



Landskrona Lat: N 55° 52' 33.26" Long: E 12° 50' 44.71"

The municipal sector's high creditworthiness

Swedish municipalities and county councils have a very high creditworthiness. No municipality or county council has ever failed to honour an agreement with a lender and, as a result, Kommuninvest has never sustained a credit loss.

The special status in the Swedish constitution and the right to levy taxes mean that municipalities and county councils cannot go bankrupt. Neither can they cease to exist in any other way. In the event of a municipal merger, responsibility for all assets and liabilities always transfers to the new unit. The Swedish Local Government Act prohibits the pledging of municipal property as security for a loan, which means that municipalities and county councils are liable for all obligations they enter into,

with all their tax power and their total assets.

The Local Government Act prohibits municipalities and county councils from carrying out speculative operations. Consequently, according to prevailing capital coverage rules, they are equated with state exposure and have a risk-weighting of 0%, which investors find attractive.

Although Sweden has extensive self-government in municipalities, the State has ultimate responsibility for ensuring that public services as a whole develop in socio-economic balance. In the few cases where individual municipalities and county councils have temporarily encountered difficulties, the State has therefore provided support over short periods to ensure the municipality has time to resolve the situation in a financially satisfactory way.

Other factors contributing to the municipalities' financial strength and creditworthiness include an uncommonly strong system for balancing municipal finances and what is known as 'the local government financing principle'. The equalization system aims to give all municipalities and county councils equal conditions for municipal service, and comprises both income and cost balancing. The local government financing principle has a positive effect on the municipalities' financial position, as it entails a change in state subsidies to municipalities when the State decides on measures that have a direct impact on the municipal sector's operations, so that the financial effects of the State decision are neutral for municipalities.

The special status of the municipal sector, the right to levy taxes, the clearly defined statutory financial requirements and rules for the sector, the strong foundation of municipal self-government and the clearly improved financial situation in recent years, gives the municipalities a high creditworthiness. The low risk in municipality and county council operations also makes Kommuninvest a stable, safe borrower. Kommuninvest's lending constitutes a low-risk operation - the lending has no associated credit risk, only liquidity risk. This low risk is furthermore confirmed by Kommuninvest's top credit rating from Moody's and Standard and Poor's, the two most highly reputed credit rating institutions.

A GUARANTOR OF EFFICIENT, COMPETITIVE FINANCE SOLUTIONS



The municipal sector's borrowing operation via Kommuninvest aims to offer municipalities and county councils efficient, competitive solutions. Thanks to its knowledgeable, efficient organisation, Kommuninvest has managed to force the market's terms, which primarily benefits members but is also good for the sector as a whole.

In order to fulfil its public remit as a local debt office, Kommuninvest must obtain the best possible terms when financing the operation's lending. Financing mainly takes the form of issues on the Swedish and international bond markets.

The important credit rating

A high credit rating is the single most important factor in securing good terms for Kommuninvest's borrowing. Kommuninvest has the highest possible credit rating from the two most highly reputed credit rating institutions – Moody's Investors Service and Standard & Poor's. Kommuninvest is part of an exclusive group of around 60 borrowers worldwide, one quarter of which are states, with such a high credit rating. In Sweden only the Kingdom of Sweden (the Swedish State) has the same high credit rating from two independent institutions.

The joint and several guarantee pledged by



members for Kommuninvest's commitments are a very important factor in the high rating. The form of guarantee means that all members and their resources are ultimately behind each financing transaction – a situation that offers uncommonly strong security. The fact that Kommuninvest lends solely to the Swedish municipal sector, and that the sector has high creditworthiness and a good reputation, is another important factor in the rating.

In addition to facilitating good borrowing terms, the two high credit ratings also provide access to the maximum number of investors, as some investors require top ratings from at least two independent institutions.

Other important factors for good financing terms

In addition to the overall credit rating, Kommuninvest has a number of further strengths which improve the financing terms for bond issues:

Frequent issues of an interesting size

As a regular issuer of interesting volumes on the bond markets, Kommuninvest has built up a knowledge and understanding of its operations amongst investors. Today Kommuninvest is a well-known player on a number of bond markets outside of Sweden.



A strong form of ownership

Kommuninvest is wholly owned by municipalities and county councils, all of which have the right to levy taxes, making this a strong form of ownership.

High-quality borrowers

Kommuninvest lends exclusively to members and their majority-owned companies, which entails exposure solely to the municipal sector with a 0% risk-weighting. Swedish municipalities are relatively large from a Nordic and a European perspective, and this is often considered an advantage in credit contexts. Through its size, the average municipality has greater financial resources and better conditions to carry out its local government remit. Neither Kommuninvest nor any of its Nordic sister organisations have ever sustained a credit loss.

A clear link to the public remit

The right to use Sweden's lesser coat of arms in business presentations in international contexts gives Kommuninvest a strong, clear link to Sweden's public sector.

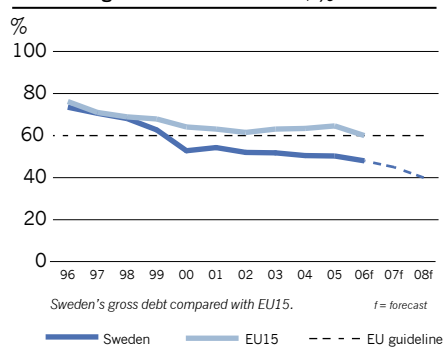
Good liquidity

Kommuninvest maintains a primary liquidity reserve of between SEK 4 and 6 billion. In addition Kommuninvest has liquidity which satisfies the capital requirement for the estimated growth in lending over the next 12–18 months.

Municipal and other public sector debt in Sweden

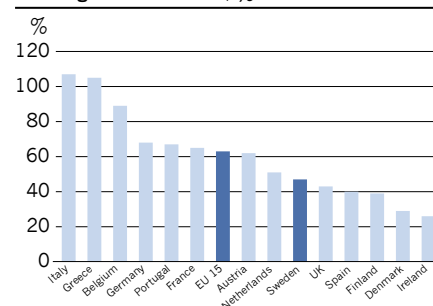
Sweden has strong public finances. The municipal sector's borrowing amounted to approximately SEK 350 billion in 2006, which equates to

Sweden's gross debt 1996–2006, % of GDP



Source: EU: European Economy November 2006

Public gross debt 2006, % of GDP for EU15



Source: EU: European Economy November 2006

approximately 15% of GDP. The municipal sector's borrowing, together with the national public debt which is handled by the Swedish National Debt Office, makes up what is termed Sweden's consolidated gross debt, defined in line with EU Maastricht criteria. Gross debt has decreased as a percentage of GDP since the mid-1990s. Today it is 50.3% compared with 73.5% in 1996. Government forecasts predict a further decrease to around 40% of GDP up to 2008. Sweden's consolidated gross debt is well below the EU average of 60% of GDP.

The positive development is a result of clear improvements in the ongoing balance of Sweden's public finances. Sweden's annual public surplus as a percentage of GDP was 3% in 2005, among the highest in Europe. For several years Sweden has had a surplus target of an average of 2% over an economic cycle.

In absolute terms, municipal sector debt has increased from approximately SEK 200 billion to SEK 350 billion between 1996 and 2006. This rise is primarily a result of increased investments in the municipally owned companies. During the same period the Swedish National Debt Office reduced state borrowing to SEK 1,200 (1,400) billion and the national public debt decreased sharply as a proportion of GDP to 50%, compared with 80% before.

Kommuninvest is a major financier of municipal sector borrowing. The operation is growing and lending amounts to SEK 66 billion, equivalent to 42% of all financing taken out by members and their majority-owned companies.

Kommuninvest's financing amounts to almost SEK 100 billion, the vast majority made up of issued bonds. Approximately 81% of the financing is in Swedish kronor, SEK. The large rise in the number of members has increased the size of Kommuninvest's operation and its financing needs.

It is currently one of the fastest growing borrowers in the Nordic region.

The combination of the top credit rating, a public remit as a local debt office for the Swedish municipal sector and a growing volume, helps make Kommuninvest's bond issues an interesting investment option on the bond markets.

Developments on the bond markets

Internationally

The world's total bond markets amount to approximately SEK 450 000 billion. The USA is the largest market, accounting for over 50%. Japan, after Euroland, is the third largest market with approximately 18%. The largest category of issuer is represented by states, which jointly represent half the issued volume, while companies account for just over 30%. During the year bond interest rates have tended to rise in Europe but fall in the USA. Volume growth in the market continued during the year while credit quality, in terms of rating, decreased slightly.

Competition

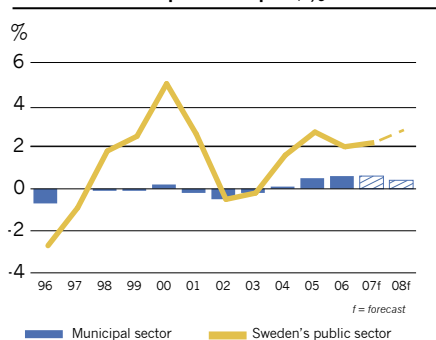
Competition is increasing, partly due to regulatory changes which enable players to create new types of instruments with an AAA rating, known as covered bonds. Even in the slightly altered competitive situation, Kommuninvest's bonds will continue to be more attractive on the market. The majority of Kommuninvest's security is comprised solely of credit to the municipal sector with a 0% risk-weighting, and the entire operation has the highest possible rating, which means Kommuninvest bonds can be defined as 'pure' AAA.

Kommuninvest's efficient borrowing

Growing volumes

Kommuninvest's financing in the form of issued bonds amounts to around SEK 90 billion in total.

Sweden's annual public surplus, % of GDP



Source: Eurostat, January 2007.

Borrowing has increased by an average of 15% a year during the period 1996–2006, making Kommuninvest one of the fastest growing issuers in the Nordic region. In addition, there is a small proportion of direct loan financing.

Diversification

80% of the bonds issued are denominated in Swedish kronor and 20% in foreign currencies. The percentage of bonds denominated in foreign currencies has decreased over time. Kommuninvest can always choose between financing directly in Swedish kronor on the Swedish bond market or on the international bond market, depending on which has the better terms. Today there is a close link between the interest and foreign exchange markets via large liquid foreign currency derivative markets. Kommuninvest can therefore issue bonds abroad at low interest rates and then convert the bond loan in a foreign currency into Swedish kronor through currency swaps. Despite the additional costs for currency swaps, international borrowing has by far the lower total cost.

Much of the financing is currently in Denmark and Japan, markets where Kommuninvest is a well-known player. Kommuninvest is also well prepared to raise finance in Australia, and has begun building relations on the American market.

Low financing cost

In 2006 Kommuninvest had an average borrowing cost below the reference STIBOR 3-month interest rate. Over the period 1996–2006 the ‘discount’ compared with STIBOR has tended to increase. The low financing cost is a prerequisite for Kommuninvest to be able to act as a guarantor for competitive lending to members.

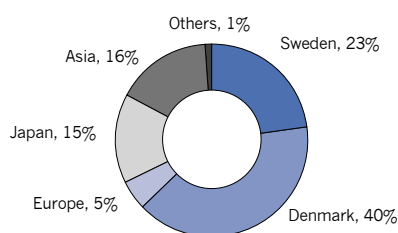
Terms

Kommuninvest uses various terms in its financing – from 3 months to 30 years – with the aim of gradually reducing the maturity profile over time. The average term was virtually unchanged in 2006.

Liquidity management

In order to also act as a guarantor for rapid lending, Kommuninvest applies what is termed liquidity borrowing – a buffer for future loan requirements. Pending a loan, the liquidity management is administered in an investment portfolio comprising interest-related products denominated in Swedish kronor, US dollars or euros. Investments are only made in interest-bearing securities issued by borrowers with a low risk-weighting and a high rating. The clear majority of these have a 0% risk-weighting and a AAA rating.

Borrowing per market, 2006



Source: Kommuninvest

Small yet efficient organisation

With 38 (35) employees, Kommuninvest is still a relatively small organisation. The limited size results in short decision paths and also enables clearly defined roles and assignments.

The organisation's cost-effectiveness is demonstrated by the stable level of administration expenses measured against total lending and the balance sheet total, and the improved relationship between income and expenses. Through the formation of Kommuninvest, the municipalities have also created a platform for building up advanced knowledge of financing in a way that would be more difficult for them to achieve individually.

Other important elements of Kommuninvest's financing strategy are the administrative work it carries out and the well-established procedures it follows in connection with bond issues. This document management has developed into a service which is a clear competitive advantage and is highly appreciated by the counterparties on the market.

Continuous cultivation and contact with the market is required to remain a successful bond issuer. To this end Kommuninvest participates in the annual Nordic Funding Agencies Forum – a cooperation where local and international

agencies are invited to a meeting in one of the Nordic countries, and Kommuninvest and its sister organisations alternate the role of host. Kommuninvest also holds several annual meetings for international investors independently, for example in London and Tokyo.

Administration expenses as a percentage of lending and I/E ratio

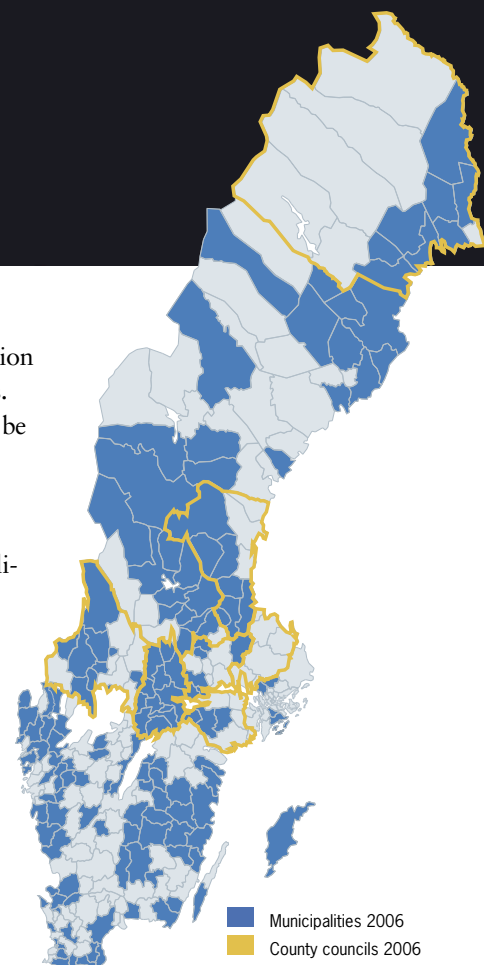
	2006	2005	2004	2003	2002	2001
Administration expenses as % of lending	0.120	0.109	0.104	0.102	0.108	0.105
Income/expense ratio	1.3	2.0	1.5	1.4	1.6	1.5

AN ORGANISATION BASED ON VOLUNTARY COOPERATION

Kommuninvest is an organisation supported by the idea of voluntary cooperation between Sweden's municipalities and county councils for better financial terms. Through the members' cooperation, the municipalities have become a force to be reckoned with on the capital market. Kommuninvest also works to improve general terms and conditions for the municipal sector, and therefore assumes a broader responsibility than solely providing inexpensive finance solutions.

The concept is that the organisation is open to all of Sweden's municipalities and county councils and that all members' interests are looked after – Kommuninvest's ultimate aim is to be the local debt office in Sweden, and this includes a public remit.

The strength of Kommuninvest's business concept is partly apparent from a sharp rise in membership numbers. At present the cooperation encompasses 189 members. There is also wide general consensus in the organisation, among the Boards of the company and the society and the individual members, that growth is important. Growth creates a virtuous circle. The large scale makes Kommuninvest interesting to the international capital market, which enables better terms. The size also generates opportu-



«Kommuninvest has a very interesting operation which provides excellent results for its members.»

Mats Odell, economic policy spokesman for the Christian Democrats and current Minister for Local Government and Financial Markets.



Bolnäs Lat: N 61° 15' 46.41" Long: E 16° 38' 41.10"

nities for developing expertise and reducing administration costs, which further strengthens Kommuninvest. A stronger player attracts even more municipalities to become members.

By far the most important source of new members is recommendations from existing members, although Kommuninvest also actively promotes the organisation and concept. One of the ways it does this is by taking part in fairs such as KOMMEK, the local government days organised by the various political parties, and meetings with individual municipalities/county councils and their companies.

Focusing on communication

One challenge in a fast growing organisation is how to continue maintaining good communication and

dialogue between Kommuninvest and the increasing number of individual members.

When Kommuninvest was a small, young organisation, communication with its member municipalities took place through representation on the Board and other joint forums which automatically encompassed many of the members. The forums were also small enough to fulfil the need for members to converse and exchange information. Today Kommuninvest has grown to 189 members which are represented by 30 members and deputy members on the society's Board. Although the contact interface is partially supplemented by the presence of Kommuninvest's financial advisors, who are often out in the municipalities as part of their day-to-day work, communication with the members, i.e. the owners, has unfortunately

suffered with Kommuninvest's rapid growth. More communication opportunities are needed to reach all members and give them the chance to make themselves heard, particularly in strategic issues. In an effort to create closer contact between Kommuninvest and its members, Kommuninvest's management have been making visits to the municipalities for the past couple of years, and these visits will now be intensified. In January 2007, Kommuninvest's management invited the political management of all the member municipalities to consultation meetings at 16 locations. The management view these meetings as a necessity and a good opportunity to discuss future issues.

The mutual relationships, roles and responsibilities of the two Boards – of the company and the parent society – have also attracted a lot of attention in recent years. The society's Board is represented in the company's Board, but here too it is important to further review the forms of communication between the various boards. The increased contact and clarity means that the society Board is increasingly focusing on the essential cooperative issues and the company Board on the company's operational direction. A working group with representatives from both Boards has been formed to continue working on cooperative issues in 2007. One very important area of work for the group is how Kommuninvest should further develop forms for member dialogue.

Professional, reliable advice for members

The unique remit to work for the interest of the individual members is further clarified when the member is both the customer and the owner.

Kommuninvest currently has six financial advisors divided into three regions who offer direct advice to the many members. The financial advisors and the members' finance managers have phone, online and face-to-face contact.

Kommuninvest's general financial advice to its members aims to minimise financing costs and financial risks. The financial advisors also have the important task of interpreting and communicating the market information to which they have access through daily contact with the financial markets. This is partly carried out through Kommuninvest's weekly newsletter which was established at the request of members.

The advisors and customers also have the interactive online Finance Support service to assist them. Finance Support's range of services is summarised in the fact box below. The online services are continuously improving, partly thanks to members' comments and partly as new technology becomes available.

Kommuninvest is continuously developing its role as an advisor. The advisory services are highly appreciated by the members, who find Kommuninvest reliable in its advisory capacity.

Members also receive assistance in strategic matters. One topical area in which the municipalities have sought the advisors' assistance is with regard to pension obligations. Questions have concerned how to enter pension provisions in the accounts, what size of provisions to make, and considerations regarding the choice between external administration with the associated external borrowing or reducing the external borrowing.

Finance Support services in brief

Financial Research: An analysis tool comprising five sub-areas; highlighting the financial strength of groups, liquidity preparedness, financial flexibility, financial capacity, commitments and external business factors. All five sub-areas are evaluated and then assessed as a whole. Based on the assessment, the individual municipality or county council's financial strength can then be

determined as weak, balanced or strong.

Finance Policy: A well-established model which helps municipalities and county councils create their own financing policy in a simple, educational way. The result of the financial research forms the basis for the policy objectives regarding risks and prevailing return requirements. To satisfy the need for long-

term strategies and more detailed rules, Kommuninvest has developed two proposals: General Finance Policy and Detailed Guidelines for the municipality's financial operation.

Debt Calculation: Offers the user a collective picture of the current borrowing situation. Using a compilation, all transactions are reported in a well-arranged



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manner. The compilation includes the total debt, the proportion of fixed interest taking into account derivatives and variable interest respectively, average interest period and average interest. Further, the service can simulate the effects of interest rate changes, for example.

Market Information: Provides access to up-to-date information from Reuters in real time and

historic data on national and international interest and exchange rates. Also offers global financial news.

Benchmark: The aim of the benchmark service is to enable the user to compare the performance of its loan portfolio with a relevant reference, an index. Has the loan portfolio performed better, worse or the same as the norm?

Kommuninvest's benchmark model is based on three different norm portfolios for municipalities with strong, balanced and weak economies respectively. The user chooses the norm portfolio that best matches its own profile depending on the user's financial strength.

Training, networks and cooperation for common goals

Cooperation is the very essence of Kommuninvest. As a member municipality, direct contact with Kommuninvest's financial advisors is not the only benefit. Many new members emphasise access to networks for exchanging ideas and dialogue regarding financial information relevant to local government.

Kommuninvest works in various ways to create opportunities for its members to exchange information and experiences in various issues. Examples of such networking opportunities include the regular two-day courses in Effective financing, which bring together participants from different parts of Sweden. The courses includes a theory section covering market intelligence, municipal financing and municipal consolidation. Speakers include internal and external experts.

Other contact interfaces are also available for new member municipalities, county councils and their companies in the meetings organised by Kommuninvest a couple of times a year, as well as visits by Kommuninvest to individual municipalities. These meetings can also be attended by newly appointed finance managers of existing member bodies. The aim is to showcase Kommuninvest's operation, go through the Finance Support service and provide training in the finance market and various financial instruments.

Members also benefit from the cooperation and contacts Kommuninvest as an organisation enjoys with other organisations. These include the Ministry of Finance, the Swedish Association of Local Authorities and Regions, as well as the various sister organisations in the Nordic region: Kommunalbanken, the Norwegian local government funding agency; KommuneKredit in Denmark; and Municipality Finance in Finland, the Financial Supervisory Authority and various banks and financing institutions.

Moreover, Kommuninvest arranges loans from the Council of Europe Development Bank, CEB, and the European Investment Bank, EIB.

Active influence on municipal finance issues

Kommuninvest shall participate in the general financial debate and as the members' expert in financing issues shall actively debate and form

opinion in issues relating to municipal sector finances.

Kommuninvest not only monitors legislative proposals in Sweden, but also follows the establishment of norms and new legislation within the EU. Several directives have been adopted in recent years and more are to be expected. Decreed EU directives are more or less automatically incorporated into Swedish legislation and regulations, and several of the directives have a direct impact on municipal sector borrowing. Consequently it is important to monitor proposals in progress and endeavour to influence them early on for preventive purposes if necessary. Kommuninvest can also help Swedish representatives taking part in negotiations in Brussels with analysis support in these issues. In purely Swedish issues, close, constructive dialogue with the Ministry of Finance is essential.

Communicating municipalities' financial position

Kommuninvest increasingly acts as the municipal sector's expert in financial issues. This role involves providing information in various ways both about Kommuninvest's operation and the municipal sector in general. During the year Kommuninvest published a report entitled The Creditworthiness of Swedish local governments together with the Ministry of Finance and the Swedish Association of Local Authorities and Regions. Kommuninvest carries out a review of the sector's finances twice a year, and this also leads to a published report.

The seminar Kommuninvest organises every 18 months with its Nordic colleagues (Kommunalbanken – the Norwegian local government funding agency, KommuneKredit in Denmark and Municipality Finance in Finland) is an opportunity to inform international investors about the financial position of municipalities. The Nordic companies take turns to organise the seminar, which provide opportunities to update agencies on the capital market about developments in the municipal sector and to exchange experience and information.

COMPETENCE

Competitiveness through high competence

Kommuninvest operates in demanding markets against stiff competition. Success in these markets requires motivated, knowledgeable staff with the skills and ability to deliver high quality in every stage. Kommuninvest's staff are well-educated and have a high level of knowledge in their respective areas of responsibility.

In markets exposed to competition developments are swift, with rules and conditions under virtually continuous pressure to change. As a natural consequence of this, the knowledge requirements of Kommuninvest's staff are also changing. The company therefore invests significant resources each year in training and skills enhancement, both at an individual and group level. For example, all our financial advisors have undergone Swedsec's training and certification during the year.

Kommuninvest also enjoys regular cooperation with its sister companies in the Nordic region. During the 10 years of cooperation, contacts have been forged and several small networks created in which knowledge and experiences are shared.

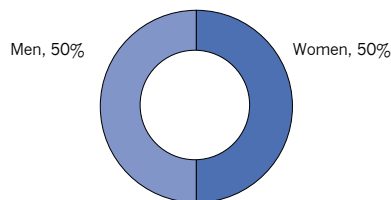
Equally important as retaining high competence within the organisation and ongoing training is the ability to retain and attract qualified personnel. The company must therefore be able to offer financial rewards and other incentives in line with market conditions, which can stand up to competition from other comparable organisations. To this end, an important review of the pay and reward structure is under way.

Important recruitment

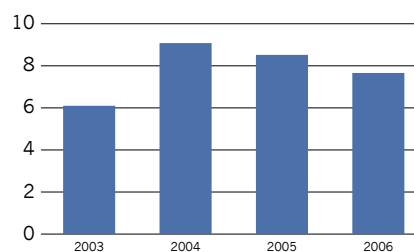
The high requirements on knowledge and skills in an organisation with a relatively low number of staff and a low staff turnover places great demands

Personnel statistics

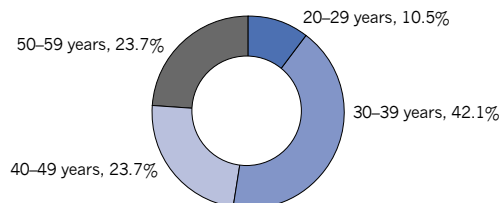
Gender distribution, %



Further training, average no. hours/employee



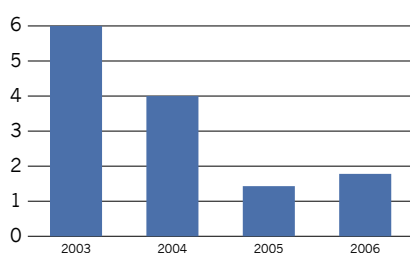
Age groups, total for men and women



Average age

Average age total:	40 years
Women, 19 people:	42 years
Men, 19 people:	38 years

Sick leave 2003-2006, %



on recruiting the right people. Applicants not only need the right knowledge, but also the right personal qualities. It is particularly important that the individual is able to and enjoys taking extensive responsibility and has the desire and interest to continuously develop in their role.

As Kommuninvest has grown and become an increasingly major player, recruitment has become easier. The annual careers fair at Örebro University is the main opportunity for Kommuninvest to market itself to potential employees. Kommuninvest is well-known today in the finance sector which has made it easier to find suitable qualified personnel to fill vacant positions.

Stimulating but intensive work

Staff appreciate the flat organisation. The open-plan offices mean personnel sit close to the entire operation, making it easy to see the big picture. What can sometimes be perceived as problematic here, as in other cost-effective organisations, is an intensive workload from time to time.

Kommuninvest's management are aware that the workload can be high at times. The company is endeavouring to confront and counter the effects in various ways. It is vital to try to notice the signs of stress in good time, which is why time is set aside for managerial development to ensure those with

personnel responsibility have help in this process. In addition, all personnel naturally have a responsibility to call attention to an excessive workload in good time. Kommuninvest also engages external consultants to help even out peaks in the workload. In several cases close cooperation has been established with important external specialists, which means they are continuously kept updated and can easily be brought in when required.

A changing corporate culture

Kommuninvest has developed strongly since its foundation in 1986, and this has intensified in recent years. As the company has experienced rapid growth, personnel at Kommuninvest have had different images of the operation. In light of this, it was natural to initiate a project to identify and reach a consensus on common values and attitudes. When the project began in 2004, the priority was to involve all staff in the dialogue and to engender an understanding of each other's roles and their importance to the operation. Taking this as a foundation, in 2006 a number of core values were formulated for the operation: quality, clarity, participation and a holistic approach.

During 2006, Kommuninvest concentrated internally on efforts to apply the core values in order to strengthen internal consensus.

ELIMINATING, LIMITING AND CONTROLLING RISKS

The fundamental principle is that the terms for borrowing and lending are equal from a risk perspective. This does not mean that the transactions or the operation are completely free of risk, but that Kommuninvest should avoid being exposed to risks that cannot be managed. As a local debt office owned by members in the form of municipalities and county councils, Kommuninvest is subject to the prohibition of speculative and high-risk activities in accordance with Section 2 §7 of the Local Government Act. Kommuninvest has to manage the following types of risk:

- Market risk – the risk of loss, mainly as a result of changes in interest and exchange rates.
- Liquidity risk – the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price.
- Credit or counterparty risk – the risk of loss due to the counterparty not fulfilling its commitments at the contracted time.
- Operational risk – the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer error, or external influences such as crime.

To limit the market risks that arise when borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts. Moreover, the rights and obligations resulting from the derivative contract are transferred to the ultimate borrower, i.e. Kommuninvest's members and their majority-owned companies.

Capital coverage requirements

Kommuninvest is subject to capital coverage regulations. Because all its lending is to the municipal sector, 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 meet its 15% capital

coverage ratio objective, Kommuninvest's only permitted investments are in securities issued by governments, financial institutions with government guarantees and financial borrowers with risk-weightings of 0 or 20%. Board guidelines also stipulate that Kommuninvest should diversify its derivative contracts and investments in securities between various types of counterparty, and counterparties in different geographical areas.

Market risk

Interest risks limited at portfolio level

Due to the scope of the operation, comprehensive matching between the company's assets (lending) and liabilities (financing) is not always possible for each individual position; instead interest risk is limited at portfolio level. Interest risks also arise in pre-funding through mismatches in interest fixing periods between invested assets and the related funding. The risk (exposure) in the portfolio at any measurement point may not exceed SEK 10 million in a one (1) percentage point parallel shift in the yield curve.

Currency risk limited by frequent foreign exchange

Currency risk arises when assets and liabilities denominated in the same foreign currency in 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 in liquidity management. Kommuninvest limits this risk by frequently converting such returns into Swedish kronor.

Liquidity risk

Liquidity risk can most simply be expressed as a shortage of funding. To avoid high costs for borrowing the required funds, Kommuninvest has a liquidity reserve – a minimum of SEK 4 billion and a maximum of SEK 6 billion – which can ultimately be utilised to fulfil its liquidity requirements. Invested assets that are part of the company's general liquidity reserve also constitute a reserve.

Credit or counterparty risk

Secure counterparties are a prerequisite for a

successful financial operation. Up-to-date knowledge of Kommuninvest's counterparties is a significant element of maintaining a low risk profile. Credit and counterparty risk can be divided into three categories:

Risks from lending

Kommuninvest lends solely to its members in the parent society and their majority-owned companies. The owner-members always issue a guarantee for majority-owned companies, and thus there is a pledge that the member municipalities guarantee all Kommuninvest's lending.

Risks when investing in assets not yet loaned

These risks consist of losses and value changes on invested assets. The risks are limited by restricting investment exclusively to highly creditworthy counterparties. Highly creditworthy counterparties must have a minimum stable A level from one of the internationally recognised rating institutions. A significant proportion of the investments are in European governments and government-guaranteed financial institutions – counterparties – which in most cases have the highest credit ratings. The risks are also limited by the short duration of the investments, a maximum of three years.

Risks from value changes on derivative contracts

This risk comprises loss if the counterparty in interest, currency, equity and commodity swaps 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 a risk on the contract counterparty.

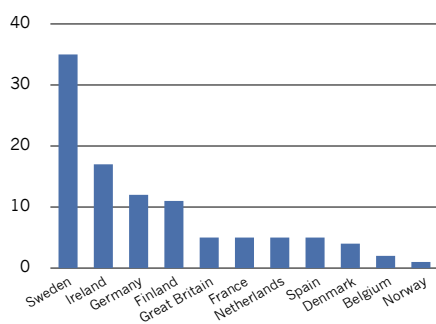
To limit the risks and exposure arising because

of value changes in derivatives, Kommuninvest enters credit support annexes (CSAs) with its derivatives counterparties. These give Kommuninvest the sole right, under certain conditions, to require extra collateral. The determinants of when and how much extra collateral is to be pledged are whether the value change in derivative contracts entered exceeds the pre-determined contracted exposure or if the counterparty's creditworthiness deteriorates. Such collateral comprises government securities, which have zero risk-weighting from a capital coverage perspective. The aim of the CSAs is to cover receivables while simultaneously extending the scope for business with counterparties.

To become an approved counterparty in a derivative transaction with Kommuninvest, the party must have a minimum credit rating of a stable A level from one of the internationally recognised credit rating institutions. The counterparty's credit rating is also a deciding factor in what Kommuninvest is prepared to accept when it comes to the contract's maturity period, structure and permitted risk exposure. Kommuninvest is a member of the International Swaps and Derivatives Association (ISDA), and before entering derivative contracts it stipulates the right to early redemption of such contracts if the counterparty's credit rating deteriorates below a pre-determined level. The Other disclosures section on page 44 shows the extent of the company's derivative contract commitments.

In terms of nominal amounts, as much as 90% of derivative 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 10% of contracts, all

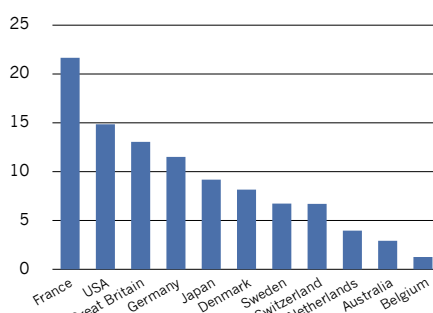
Geographic division of investments, %, 31 Dec 2006



Apart from Sweden, no individual country may exceed 50% of invested assets.

Source: Kommuninvest

Geographic division of derivative contracts, %, 31 Dec 2006



All counterparties are domiciled in countries that are full members of the OECD.

Source: Kommuninvest



of which have a short duration.

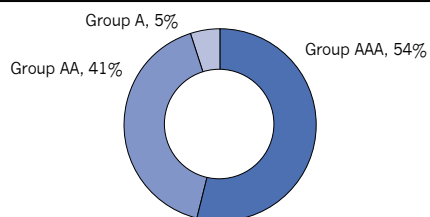
Delivery risk is also a type of credit and counterparty risk. This is the risk of a counterparty being unable to fulfil a securities or payment transaction. Accordingly, Kommuninvest always ensures that the counterparty is the first to fulfil its commitment, or utilises an approach where both counterparties must fulfil their commitments

simultaneously for a transaction to take place.

Ongoing research and monitoring of counterparties

Continuously monitoring the progress of Kommuninvest's counterparties is an important element of its activities to minimise risk. Its organisational resources include a Credit Group, which has the task

Invested assets by rating, 31 December 2006



The diagramme illustrates that 54% was invested with counterparties in the most secure rating category.

Source: Kommuninvest

of processing and continuously monitoring new counterparties and the financial instruments applied in the company's financing activities.

Counterparties are evaluated according to their financial strength, and are compared with similar players. The research is intended to provide a complete picture of the counterparty's ability 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 report developments of all counterparties to Kommuninvest's corporate Board of Directors at least once a year.

For lending activities, each municipality or county council is screened before being approved as a member of Kommuninvest Cooperative Society. Members' progress is subsequently analysed biannually based on a pre-determined model. As part of the research process, every year the company's Board sets credit limits for the members. The credit limits are universal and proceed on the basis of each member's consolidated borrowing. Individual members may increase their credit limit subject to scrutiny. Increased limits are usually motivated by assets with 'surplus value'.

Operational risk

Work on operational risks is, of course, mainly targeted at attempting to eliminate unexpected internal events, as this is the environment where Kommuninvest has the greatest influence. One such example is legal risk. This is the risk of loss due to the inability to carry through a contract on legal grounds, such as due to insufficient documentation. The central aspects of work to reduce operational risks internally are:

- The duality principle – which means a single person never manages a transaction alone through the entire process. There are usually three people from different departments involved in a business flow.
- The right tools – in the form of guidelines, standardised processes, reporting procedures and policies.
- The right skills and experience – each employee is well-prepared with the latest information and technology. The right skills to ensure risks can be calculated and managed so that no

unplanned risks arise. Establishing high personnel competence through continuous training is an important tool in this work.

- Respect for skill – The internal control requires that each employee feels and takes responsibility for the risks in their specific work area, and that each skill and skill area is respected.

During 2005 the Board established a model for the risk management process focusing on operational risk. Activities to develop methods for identifying and valuing operational risks were intensified during the past year.

Risk organisation and responsibility

Kommuninvest is organised with reliable rules and processes for secure, systematic risk management. Kommuninvest's Board of Directors bears overall responsibility for the company's risk exposure and risk management.

The Board decides on the Group's overall risk policy and instructions for the finance operation. This includes specifying how market, liquidity, credit-related, counterparty and operational risks should be managed. The Board decides on overall objectives for capital coverage and liquidity reserves as well as the orientation and limits for the company's exposure to credit-related counterparty and market risks.

The President of the company is responsible for following up business activities and ensuring they are conducted within the framework of the policies and instructions determined by the Board. The Executive Function has an independent status within the company and monitors ongoing operational control. The Executive Function bears overall and coordinating responsibility for the company's aggregate risks (risk monitoring) and reports to the President and Board.

The Risk & Analysis Department is responsible for controlling and conducting continuous monitoring and analysis of market, liquidity, credit and counterparty risks. It reports daily to the President and monthly to the Kommuninvest Board. Risks are mainly controlled through frequent monitoring of risk exposure through comparison with the established limits.

ADMINISTRATION REPORT

Administration Report for Kommuninvest i Sverige AB (publ), Corporate identity number: 556281-4409. The Board of Directors and President of Kommuninvest i Sverige hereby present the company's Annual Report for the 2006 financial year.

Operations

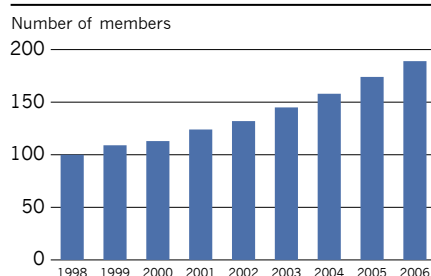
Kommuninvest i Sverige AB is a wholly-owned subsidiary of Kommuninvest Cooperative Society ("the Society"). The purpose of the operation is to offer attractive long-term conditions for members' financing and to be a local debt office for Sweden's municipalities and county councils.

The scope of the operation is primarily determined by the number of members in the Society and the development of individual members' financial needs. Lending primarily relates to loans for investment. Kommuninvest i Sverige AB is a credit market company and is thus regulated by the Swedish Financial Supervisory Authority.

In addition to loans, Kommuninvest i Sverige AB also offers advisory and training services to members and their companies. Moreover, Kommuninvest i Sverige AB also acts as an interest organisation for the municipal sector in issues relating to general conditions for the sector's financing. The operation is growing and in 2006 fifteen new municipalities joined the Society, bringing the total number of Society members at the year-end to 189 (174).

For Kommuninvest i Sverige AB to be able to offer good borrowing terms to Society members, the company must in turn be able to find competitive terms in its own financing on the bond markets in Sweden and internationally.

Membership 1998–2006



Source: Kommuninvest

Over the last five years, the membership base has expanded by almost 51%.

Rating

Kommuninvest i Sverige AB's opportunities for good financing terms greatly depend on a high credit rating from the international rating institutions. Kommuninvest i Sverige AB has had the highest possible credit score from Moody's, Aaa, since April 2002. In 2006 it also received the highest credit rating, AAA, from Standard & Poor's.

Significant events

On 23 March 2006 the Annual General Meeting decided to appoint Robert Stenram the new Chairman of Kommuninvest and Ellen Bramness Arvidsson the new Vice Chairman. Tomas Werngren was appointed the new President from 19 April 2006.

Profit

Operating profit in Kommuninvest i Sverige AB decreased by 47% and totalled SEK 29,503,000 (55,969,000). Profit for the year after appropriations and tax decreased by 43% to SEK 17,882,000 (31,576,000).

Income and expenses

Net interest income, which is by far the largest income item, increased by 9% to SEK 100,214,000 (91,504,000). Net interest income has benefited from the continued increase in lending and investment volumes, but has been adversely affected by a lower margin. Increased interest in lending to the municipal sector has generally led to lower borrowing costs, which is positive for the municipal sector as a whole. In the long term, however, this places pressure on Kommuninvest i Sverige AB's margin between borrowing and lending. At year-end 2006, SEK 30.6 (31.7) billion was invested in bonds and other securities prior to lending to members. SEK 5.7 (4.3) billion of this amount comprised the company's primary liquidity reserve. The investment portfolio accounted for approximately SEK 25,000,000 of the net interest income. The buy-back of a number of previously issued securities (reported under 'Net profit/loss from financial transactions'), contributed just over SEK 14,934,000 (approx. 26,000,000). Other operating income decreased by 72% to SEK 1,042,000 (3,831,000).

Expenses increased by 30% and amounted to SEK 80,305,000 (61,603,000). Personnel costs, the largest expense item, increased to SEK 32,945,000 (30,872,000). Consultant costs, SEK 12,600,000 (4,952,000), accounted for the greatest increase in expenses in 2006.

Credit losses

Credit losses amounted to SEK 0 (0). To date Kommuninvest has never sustained a credit loss in its operation.

Financial position and equity

The balance sheet total increased to SEK 101.2 (91.1) billion, an increase of 9%. The largest asset item is lending which amounted to SEK 66.8 (56.7) billion at the year-end, an increase of 18%. The second largest item relates to assets in the investment operation. These mainly comprise interest-bearing securities that are hedged against changes in interest and exchange rates ahead of being loaned to members. At year-end 2006, the investment operation amounted to SEK 30.6 (31.7) billion, equivalent to 30% (35) of the balance sheet total.

Borrowing at the year-end amounted to SEK 93.4 (84.7) billion, an increase of 10%.

At the end of 2006, equity amounted to SEK 265.6 (249.5) million. In addition to profit for the year, equity also increased through a new issue. Based on the authorisation given to the Board by the AGM, a new issue of SEK 3,1 million was carried out. The purpose was to strengthen the company's financial base by transferring participation capital from new members of the Society. Such transfers have been carried out regularly as membership has increased. Equity amounts to SEK 153.1 million divided among 1,531,000 shares with Kommuninvest Cooperative Society as the sole shareholder.

Capital coverage

Kommuninvest i Sverige AB is subject to capital coverage rules, which require a capital coverage of at least 8%. Kommuninvest i Sverige AB imposes stricter capital coverage requirements on itself and has a goal of 15%. At year-end 2006, capital coverage was 18.81% (17.08). The capital coverage analysis below shows that because all its lending is to the municipalities and county councils, and because derivative contracts are transferred to the ultimate borrower, the company's capital coverage ratio is affected almost exclusively by its investment operations.

Risk management

The fundamental principle is that the terms for borrowing and lending should be equal from a risk perspective. This does not mean that the transactions or the operation are completely free of risk, but that Kommuninvest i Sverige AB should avoid being exposed to risks that cannot be managed.

The risks Kommuninvest has to manage are:

- Market risk – the risk of loss, mainly as a result of changes in interest and exchange rates.
- Liquidity risk – the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price.
- Credit or counterparty risk – the risk of loss due to the counterparty not fulfilling its commitments at the contracted time.
- Operational risk – the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer fault, or external influence such as crime.

Group (in thousands of SEK)	Balance Sheet items	Off Balance Sheet commitments		Total	Weighting ratio, %	Risk-weighted amount
		Nominal amount	Translated amount			
A	93,427,184	169,732,600	20,634,084	114,061,268	0	-
B	7,737,006	-	-	7,737,006	20	1,547,401
C	-	-	-	-	50	-
D	9,862	-	-	9,862	100	21,181
	101,174,052	169,732,600	20,634,084	121,808,136		1,568,582
Capital base*						295,187
Total primary capital						295,187
Capital coverage ratio						18.81%
Total primary capital consists of:						
Equity					100	265,612
Untaxed reserves					72	29,575

* The capital base includes the Board's proposed appropriations.

To limit the market risks that arise when borrowing and lending terms do not match, risk management instruments are used in the form of derivative contracts. The principle applied is that the rights and obligations resulting from the derivative contract are transferred to the ultimate borrower, i.e. Kommuninvest's members.

90% of all derivative contracts' nominal amounts are with counterparties with a credit rating of at least AA. Kommuninvest has only entered into basic currency and interest derivatives on the remaining 10% of contracts, all of which have a short duration.

Kommuninvest i Sverige AB's Board of Directors bears overall responsibility for the company's risk exposure and risk management. For a more detailed description of risks, see Note 26 and risk section on page 27.

Employees and the environment

The number of employees increased by three during the year, to total 38 at the year-end. Kommuninvest i Sverige AB does not conduct any operations requiring a licence under Sweden's Environmental Code. The operation is assessed as having very little impact on the environment.

The Board

For a description of the Board's work, see the Corporate Governance Report on page 50.

New accounting standards (IFRS/IAS)

EU rules stipulate that all listed parent companies must adopt International Financial Reporting Standards (IFRS). IFRS must be adopted for these companies' consolidated accounts from 2005. For Kommuninvest, however, which only has listed debt instruments, the requirement comes into force starting with the 2007 accounts.

During 2006, Kommuninvest has continued its efforts to adapt to the new accounting standards. The focus has been on issues relating to IAS 39 (Financial Instruments: Recognition and Measurement), and to hedge accounting and its analysis. The adoption of IAS 39 will increase the volatility of profit and equity in the company. The volatility cannot be accurately predicted today, but the aim has been to limit the volatility in the income statement through hedge accounting. During the autumn the focus has been on producing comparison figures and an opening balance. Kommuninvest will publish accounts including comparison figures in accordance with the new rules regarding interim reports in 2007.

New rules for capital coverage (Basel II)

New capital coverage rules, the Basel II standards, come into force on 1 February 2007. The regulations have been radically reworked with the aim of adapting the capital coverage rules to ensure the capital requirement is based more than at present on the actual risk taken by the banks/credit institutions.

In 2006 Kommuninvest has worked to develop method support in operational risk and the capital assessment process.

Prospects for 2007

Interest in Kommuninvest's business concept is growing. Several new members are expected to join the Society in 2007. As an increase in the number of members has previously always entailed an increase in net lending, if with some delay, lending is also expected to increase in 2007. Other factors which indicate an increase in lending are expectations of a higher investment volume generally in the entire municipal sector, and the trend towards Kommuninvest accounting for an increasing share of existing members' total borrowing.

Group contribution to parent society

Kommuninvest i Sverige AB pays a Group contribution of SEK 6.7 million to Kommuninvest Cooperative Society. This contribution enables the Society to carry out a participation issue to members for the sixth consecutive year. If the Annual General Meeting approves the Board's proposal, the issue will correspond to 2.6% of the participation capital. The Board of Kommuninvest i Sverige AB also intends to propose a new issue of shares to the Parent Society. The size of the new issue corresponds to the total of the proposed participation issue in the Society.

Appropriation of surplus

The Board and President propose that

the surplus for the year of SEK 17,881,984 together with the balance brought forward of SEK 77,156,894 making a total of SEK 95,038,878 be allocated by the Annual General Meeting as follows:

To be carried forward	SEK 95,038,878
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ACCOUNTING AND VALUATION PRINCIPLES

Annual report

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 and the recommendations of the Swedish Financial Accounting Standards Council. Kommuninvest has listed debt instruments and will therefore apply IFRS starting from the 2007 financial year. The 2006 Annual Report will therefore be the final Annual Report prepared according to non-IFRS standards.

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% on acquisition value.

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.

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 shown as income on the Balance Sheet.

Repurchase agreements

Exchange rate differences that arise when repurchasing securities issued by the company itself are recognised under Net profit/loss from financial transactions. Repurchase agreements have produced surpluses both for individual borrowers and for Kommuninvest.

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 page 35). Any changes in exchange rate between a foreign currency and the Swedish krona during the period are recognised as currency translation effects. Currency translation effects 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.

AUD	=	Australian dollars	5.4218
CAD	=	Canadian dollars	5.9255
CHF	=	Swiss francs	5.6284
DKK	=	Danish kronor	1.2134
EUR	=	Euro	9.0450
GBP	=	British pounds sterling	13.4762
HUF	=	Hungarian forint	0.0360
JPY	=	Japanese yen	0.0578
MXN	=	Mexican pesos	0.6331
NOK	=	Norwegian kronor	1.0968
NZD	=	New Zealand dollars	4.8344
PLN	=	Polish zloty	2.3600
USD	=	US dollars	6.8700
ZAR	=	South African rand	0.9818

INCOME STATEMENT

(SEK 000)	Note	2006	2005
Interest income	1	3,216,430	2,477,090
Interest expenses	2	-3,116,216	-2,385,586
NET INTEREST INCOME		100,214	91,504 ¹⁾
Commissions, fees	3	-4,080	-3,806
Net profit/loss from financial transactions	4	12,632	26,043
Other operating income	5	1,042	3,831
TOTAL OPERATING INCOME		109,808	117,572
General administration expenses	6	-74,535	-57,604
Depreciation of tangible assets	7	-2,084	-1,807
Other operating expenses	8	-3,686	-2,192
TOTAL EXPENSES		-80,305	-61,603
OPERATING PROFIT		29,503	55,969
Appropriations		-3,595	-11,595
PROFIT BEFORE TAX		25,908	44,374
Tax on profit for the year	10	-8,026	-12,798
PROFIT FOR THE YEAR		17,882	31,576

1) Last year's net interest income has been adjusted for the result from buying back own bonds, which, as in 2006, is instead recognised under Net profit/loss from financial transactions.

BALANCE SHEET

(SEK 000)	Note	31 Dec 2006	31 Dec 2005
ASSETS			
Cash		1	1
Government bonds eligible as collateral	11, 16	6,349,315	10,518,887
Lending to credit institutions	12, 16	2,680,563	3,109,722
Lending	13, 16	66,811,917	56,738,251
Bonds and other interest-bearing securities	14, 16	21,567,302	18,116,466
Shares in associated companies	15	504	504
Tangible assets, equipment	17	3,356	3,151
Other assets	18	3,067,005	2,043,157
Prepaid expenses and accrued income	19	694,089	618,308
TOTAL ASSETS		101,174,052	91,148,447
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities to credit institutions	20	3,618,393	3,424,562
Securities issued	21	93,388,186	84,738,299
Other liabilities	22	3,105,578	2,019,697
Accrued expenses and deferred income	23	755,206	678,953
Total liabilities		100,867,363	90,861,511
Untaxed reserves	24	41,077	37,482
Share capital		153,100	150,000
Statutory reserve		17,473	14,315
Profit brought forward		77,157	53,563
Profit for the year		17,882	31,576
Equity	25	265,612	249,454
TOTAL LIABILITIES, PROVISIONS AND EQUITY		101,174,052	91,148,447
Other pledged assets		None	None
Contingent liabilities		None	None
Obligations			
- credit facilities agreed, but not taken up		1,185,428	620,148
- swaps with negative market value, notional principal		100,797,614	74,894,374
- swaps with positive market value, notional principal		68,934,986	87,547,305

CASH FLOW STATEMENT

(SEK 000)	2006	2005
Liquid assets at the start of the accounting period	302,751	77,366
Operating activities		
Operating profit	29,503	55,969
Adjustment for items not included in cash flow: (Note 1)	7,408	3,896
Income tax paid	-13,443	-5,352
Cash flow from operating activities before the change in the assets and liabilities of operating activities	23,468	54,513
Change in interest-bearing securities	984,896	-15,922,031
Change in lending	-10,073,666	-5,622,760
Change in other assets	-1,095,264	-1,394,643
Change in other liabilities	1,163,187	1,415,487
Cash flow from operating activities	-8,997,379	-21,469,434
Investment activities		
Sale of tangible assets	73	-
Acquisition of tangible assets	-2,362	-1,364
Cash flow from investment activities	-2,289	-1,364
Financing activities		
Increase in interest-bearing securities	8,644,563	20,053,789
Change in liabilities to credit institutions	193,831	1,624,059
Cash flow from financing activities	8,838,394	21,677,848
New share issue	3,100	21,500
Group contribution paid	-4,824	-3,165
Cash flow for the year	-162,998	225,385
Liquid assets at the end of the accounting period	139,753	302,751

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	2006	2005
Depreciation	2,084	1,807
Net change in accrued acquisition value in the period	3,022	2,047
Exchange rate differences from change in financial assets	2,302	42
Total	7,408	3,896

NOTES ON THE INCOME STATEMENT AND BALANCE SHEET

All amounts in SEK 000 unless otherwise stated.

1 Interest income

	2006	2005
Lending to credit institutions	14,541	5,997
Lending	2,011,777	1,795,041
Interest-bearing securities	1,189,975	662,627
Other interest income	137	13,425
Total	3,216,430	2,477,090

The average interest on lending in the year was 3.48% (2005: 3.06%).

2 Interest expenses

	2006	2005
Liabilities to credit institutions	6,200	3,291
Interest-bearing securities	3,108,726	2,379,583
Other interest expenses	1,290	2,712
Total	3,116,216	2,385,586

3 Commission expenses

	2006	2005
Payment agency commissions	4,080	3,806
Total	4,080	3,806

4 Net profit/loss from financial transactions

	2006	2005
Result from buy-back of own bonds	14,934	26,000
Exchange rate changes	-2,302	43
Total	12,632	26,043

5 Other operating income

	2006	2005
Capital gain on the sale of securities classified as fixed assets	0	62
Other operating income	1,042	3,769
Total	1,042	3,831

6 Administration expenses

	2006	2005
Personnel costs		
Salaries and emoluments	19,233	16,992
Pension expenses	3,188	3,010
Transfer to participation capital fund	0	1,650
Social security charges	6,976	6,575
Training expenses	2,279	2,096
Other personnel costs	1,269	549
Total	32,945	30,872

	2006	2005
Average number of employees during the year	38	34
of whom women	19	20
Salaries and other remuneration to present and previous Board President and Exec. Vice President	4,009	3,829
Other	15,224	13,163
Total	19,233	16,992

Gender of senior executives

Board (members)	9	7
Number of women	3	2
Number of men	6	5
Executive Management		
Group inc. President	5	5
Number of women	3	3
Number of men	2	2

Note 6 continued.**Remuneration to senior executives**

	Basic salary/ Board fee	Attendance fees	Other benefits	Pension expenses	Other remuneration
Board Chairman					
Robert Stenram	90	48			150
Sören Gunnarsson, Chairman until 23 mars 2006		8			
Other Board members	250	195			
President/Executive Vice President					
Tomas Werngren	1,911		86	418	
Thomas Åkelius	1,357		85	363	

Information about senior executives

In this context, the term senior executives refers to the Board Chairman and the President. The term other senior executives refers to Board members. The President and Executive Vice President are employed by the Board, which also determines the general terms of their employment contracts. In accordance with these contracts, salaries are reviewed annually. Remuneration to the President for the 2006 financial year was decided by the Board.

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.

Pension and terms of notice for Tomas Werngren

There are no agreements regarding severance pay. For termination initiated by the company, Tomas Werngren 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.

Pension and terms of notice for Thomas Åkelius

If the company terminates Thomas Åkelius' contract before the age of 60 (30 January 2014), Åkelius is guaranteed supplementary severance pay, in addition to lost work income, amounting to SEK 55,000 per month. The severance pay is payable for 24 months, although not beyond 30 January 2014. The severance pay includes holiday pay and holiday supplement in accordance with prevailing laws and agreements. Thomas Åkelius is covered by pension terms according to the SPP pension scheme. The pension is a defined-contribution scheme.

Pension obligations, other personnel

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

%	1 Jan 2006- 31 Dec 2006	1 Jan 2005- 31 Dec 2005
Total sick leave	1.78%	1.43
of which long-term sick leave, as a percentage of total sick leave	0.00%	0.00
Sick leave for women	2.79%	1.23
Sick leave for men	0.69%	1.72
Sick leave for the group up to age 29	*	*
Sick leave for the group aged 30–49	1.69%	1.40
Sick leave for the group aged 50 and over	*	*

* 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.

	2006	2005
Other administration expenses		
Rents and other expenses for premises	238	277
Rents, group companies	1,512	1,520
Temporary/contract personnel	1,606	770
Consultancy fees	12,600	4,952
Computing expenses	7,253	7,914
Travel expenses	3,468	3,226
Other	14,913	8,073
Total	41,590	26,732

Of which**Emoluments and costs for the auditors**

	2006	2005
<i>Öhrlings PricewaterhouseCoopers AB:</i>		
Audit assignments	180	183
<i>Ernst & Young AB:</i>		
Audit assignments	630	254
Other assignments	69	56
<i>KPMG Bohllins AB:</i>		
Internal audit assignments	444	437
Total	1,323	930

7 Depreciation of tangible assets

	31 Dec 2006	31 Dec 2005
Depreciation according to plan		
Equipment	2,084	1,807
Total	2,084	1,807

8 Other operating expenses

	2006	2005
Communication and information	3,095	1,683
Corporate insurance	507	460
Other	84	49
Total	3,686	2,192

9 Appropriations

	31 Dec 2006	31 Dec 2005
Transfer to tax allocation reserve	6,953	13,770
Cancellation of tax allocation reserve	-3,358	-2,175
Total	3,595	11,595

10 Tax on profit for the year

	2006	2005
<i>Current tax expense</i>		
Tax expense for the period	-8,026	-12,798
	-8,026	-12,798
<i>Reconciliation of current tax</i>		
Profit/loss before tax	25,908	44,374
Tax according to prevailing tax rate, 28%	-7,254	-12,425
Non-deductible expenses	-462	-373
Tax attributable to previous years	-310	-
Reported tax	-8,026	-12,798
<i>Tax items accounted directly against equity</i>		
Current tax in group contribution paid	1,876	1,231

11 Government bonds eligible as collateral

Fixed assets

	Accrued acq. value 31 Dec 2006	Actual value 31 Dec 2006	Accrued acq. value 31 Dec 2005	Actual value 31 Dec 2005
Swedish Government	3,720,538	3,717,056	10,020,174	10,020,790
Swedish municipalities	2,628,777	2,628,077	498,713	498,633
Total	6,349,315	6,345,133	10,518,887	10,519,423

All government bonds eligible as collateral are entered at accrued acquisition value. The positive difference arising from book values exceeding nominal values is SEK 1,402,000. The negative difference arising from book values being below nominal values is SEK 81,584,000.

Average remaining maturity is 0.40 years (2005 0.14 years)

12 Lending to credit institutions

	31 Dec 2006	31 Dec 2005
Lending in Swedish currency	133,627	261,690
Lending in foreign currency	2,546,936	2,848,032
Total	2,680,563	3,109,722

13 Lending

Lending refers to lending to municipalities and county councils, and to municipal and county-council owned corporations. Approximately 46% (48) 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 43% (42) and other companies with municipal guarantees 11% (10).

	31 Dec 2006	31 Dec 2005
Lending in Swedish currency	66,811,917	56,738,251
Total lending	66,811,917	56,738,251

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

14 Bonds and other interest-bearing securities

	Accrued acq. value 31 Dec 2006	Actual value 31 Dec 2006	Accrued acq. value 31 Dec 2005	Actual value 31 Dec 2005
Swedish housing finance institutions	1,577,015	1,576,715	1,079,663	1,083,287
Other Swedish issuers	2,464,546	2,462,197	565,767	567,716
Other foreign issuers	17,525,741	17,513,363	16,471,036	16,486,687
of which				
Short-term securities in foreign currency	20,067,281	20,054,325	17,916,983	17,938,228
Short-term securities in Swedish currency	1,500,021	1,497,951	199,483	199,462
Total	21,567,302	21,552,275	18,116,466	18,137,690

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 321,000. The negative difference arising from book values being below nominal values is SEK 95,117,000.

Average remaining maturity is 0.44 years (2005 0.50 years).

15 Shares in associated companies

	31 Dec 2006	31 Dec 2005
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 5.7 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 2006	31 Dec 2005
Acquisition value brought forward	10,323	10,598
Investments for the year	2,362	1,364
Sales/disposals during the year	-6,063	-1,639
Acquisition value carried forward	6,622	10,323
Depreciation brought forward	-7,172	-6,999
Adjustment for depreciation on equipment sold/disposed of	5,990	1,634
Depreciation for the year	-2,084	-1,807
Depreciation carried forward	-3,266	-7,172
Planned residual value at the end of the accounting period	3,356	3,151

18 Other assets

	31 Dec 2006	31 Dec 2005
Market valuation, equity derivatives	3,006,850	2,004,602
Other assets	60,155	38,555
Total	3,067,005	2,043,157

19 Prepaid expenses and accrued income

	31 Dec 2006	31 Dec 2005
Accrued interest	692,388	617,479
Other prepaid expenses and accrued income	1,701	829
Total	694,089	618,308

20 Liabilities to credit institutions

	31 Dec 2006	31 Dec 2005
Swedish currency	3,618,393	3,424,562
Total	3,618,393	3,424,562

21 Securities issued

	31 Dec 2006	31 Dec 2005
Swedish currency	74,437,127	67,446,293
Foreign currency	18,951,059	17,292,006
Total	93,388,186	84,738,299

22 Other liabilities

	31 Dec 2006	31 Dec 2005
Market valuation, equity derivatives	3,006,850	2,004,602
Liabilities to parent society	6,700	4,396
Other liabilities	92,028	10,699
Total	3,105,578	2,019,697

23 Accrued expenses and deferred income

	2006-12-31	2005-12-31
Accrued interest	747,174	672,274
Other accrued expenses and deferred income	8,032	6,679
Total	755,206	678,953

24 Untaxed reserves

	2006-12-31	2005-12-31
Tax allocation reserves		
Tax allocation reserve 2001 tax assessment	-	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	13,770
Tax allocation reserve 2007 tax assessment	6,953	
Total	41,077	37,482

25 Equity

	Share capital	Statutory reserve	Unrestricted equity
Equity brought forward	150,000	14,315	85,139
New share issue	3,100		
<i>Appropriation of surplus/loss according to AGM decision:</i>			
Transfer to statutory reserve		3,158	-3,158
Group contribution			-6,700
Tax effect on group contribution			1,876
Profit brought forward			
Profit for the year			17,882
Equity carried forward	153,100	17,473	95,039

Share capital 1,531,000 shares = SEK 153,100,000

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 2006, the division of lending and investment by counterparty category and domicile was:

Counterparty risk exposure

	(SEK bn) Amount	%
Counterparty category		
Municipalities and county councils	30.7	32
Corporations majority owned by municipalities	36.1	37
Central governments	7.8	8
Banks	22.8	23
Total	97.4	100

Counterparty domicile	Lending		Investment	
	(SEK bn) Amount	%	(SEK bn) Amount	%
Sweden	66.8	100	9.8	34.8
Rest of Europe			19.9	65.2
Asia			0.9	0.0
Total	66.8	100	30.6	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 executive 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	Contracts with negative market value		Nominal amount	Market value
Interest contracts, counterparty rated	AAA	6,884,392	637,804	Interest contracts, counterparty rated	AAA	9,820,501	-121,252
	AA	12,946,827	327,861		AA	17,383,918	-545,206
	A	2,648,307	48,825		A	2,311,339	-96,588
		22,479,526	1,014,490			29,515,758	-763,046
Currency and interest-based contracts, counterparty rated	AAA	4,373,625	351,598	Currency and interest-based contracts, counterparty rated	AAA	10,817,599	-1,247,249
	AA	27,194,724	2,786,548		AA	45,897,271	-3,076,974
	A	2,216,955	281,434		A	5,532,365	-355,618
		33,785,304	3,419,580			62,247,235	-4,679,841
Equity contracts, counterparty rated	AAA	1,115,973	357,432	Equity contracts, counterparty rated	AAA	781,500	-51,288
	AA	8,843,301	2,971,418		AA	6,379,905	-667,795
	A	2,566,072	472,076		A	1,024,601	-99,468
		12,525,346	3,800,926			8,186,006	-818,551
Commodities contracts, counterparty rated	AAA			Commodities contracts, counterparty rated	AAA		
	AA	104,810	129,805		AA	119,850	-19,109
	A	40,000	3,244		A	728,765	-89,465
		144,810	133,049			848,615	-108,574
Total		68,934,986	8,368,045	Total		100,797,614	-6,370,012
						169,732,600	1,998,033

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			6,349,315	6,345,133
Lending to credit institutions	139,753	139,753	2,540,810	2,542,939
Lending			66,811,917	66,677,772
Shares in associated companies			504	504
Bonds and other interest-bearing securities			21,567,302	21,552,275
<i>Tangible assets</i>				
- equipment			3,356	3,356
Other assets	3,067,005	3,067,005		
Prepaid expenses and accrued income			694,089	694,089
TOTAL ASSETS	3,206,759	3,206,759	97,967,293	97,816,068
LIABILITIES				
Liabilities to credit institutions			3,618,393	3,615,356
<i>Securities issued</i>				
- debt instruments			93,388,186	94,756,885
Other liabilities	3,105,578	3,105,578		
Accrued expenses and deferred income			755,206	755,206
TOTAL LIABILITIES	3,105,578	3,105,578	97,967,293	99,127,447
<i>Positions not included in the Balance Sheet</i>				
Positive market value				8,368,045
Negative market value				-6,370,012
				1,998,033

Maturities (SEK 000)	Remaining maturity Payable at call	Max. 3 months	3 months -1 year	1-5 years	5-10 years	10 years +	Total
Lending to credit institutions	2,680,563						2,680,563
Lending		4,780,456	6,605,333	42,698,156	8,626,788	4,101,184	66,811,917
Government bonds eligible as collateral		4,075,328	2,243,385	30,602			6,349,315
Bonds and other interest-bearing securities		14,027,496	4,511,927	3,027,879			21,567,302
Total assets	2,680,563	22,883,280	13,360,645	45,756,637	8,626,788	4,101,184	97,409,097
Liabilities to credit institutions		6,870		1,664,478	725,936	1,221,109	3,618,393
Securities issued		9,545,308	6,898,128	61,595,616	7,097,304	8,251,830	93,388,186
Total liabilities		9,552,178	6,898,128	63,260,094	7,823,240	9,472,939	97,006,579

Interest fixing terms, interest exposure

(SEK 000)	Remaining maturity Payable at call	Max. 3 months	3 months -1 year	1-5 years	5-10 years	10 years +	Total
Lending to credit institutions	139,753	2,540,810					2,680,563
Lending		35,983,233	5,294,567	20,489,366	4,491,434	553,317	66,811,917
Government bonds eligible as collateral		2,840,206	3,478,507	30,602			6,349,315
Bonds and other interest-bearing securities		20,570,451	589,824	407,027			21,567,302
Total assets	139,753	61,934,700	9,362,898	20,926,995	4,491,434	553,317	97,409,097
Liabilities to credit institutions		2,962,758		404,526		521,109	3,618,393
Securities issued		62,981,849	5,795,721	20,087,251	4,493,788	29,577	93,388,186
Total liabilities		65,674,607	5,795,721	20,491,777	4,493,788	550,686	97,006,579

Accrued acquisition value

The estimated recoverable amount/accrued acquisition value has been written down by SEK -3,268,700 (straight-line depreciation). If the present value method had been used instead, depreciation would have been SEK -3,517,900.

**Credit risk exposure
(SEK 000)**

	Credit risk, Balance Sheet exposure	Credit risk, off- Balance Sheet exposure	Credit risk exposure, gross
Credit against security of municipal guarantees	66,811,917	1,998,033	68,809,950
Lending to credit institutions	2,680,563	-	2,680,563
Government bonds eligible as collateral	6,349,315	-	6,349,315
Bonds and other interest-bearing securities	21,567,302	-	21,567,302
Total credit risk exposure	97,409,097	1,998,033	99,407,130

FIVE-YEAR SUMMARY

(SEK 000)	2006	2005	2004	2003	2002
INCOME STATEMENT					
Net interest income	100,214	91,504 ¹⁾	78,373	65,291	71,449
Commissions, fees	-4,080	-3,806	-2,704	-1,065	-644
Net profit/loss from financial transactions	12,632	26,043	-1,948	-1,528	-822
Other operating income	1,042	3,831	1,514	3,163	1,574
Total income	109,808	117,572	75,235	65,861	71,557
General administration expenses	-74,535	-57,604	-49,413	-47,529	-43,272
Depreciation	-2,084	-1,807	-1,634	-1,623	-1,548
Other operating expenses	-3,686	-2,192	-2,386	-1,200	-1,122
Total expenses	-80,305	-61,603	-53,433	-50,352	-45,942
Operating profit	29,503	55,969	21,802	15,509	25,615
Appropriations, net	-3,595	-11,595	-2,722	-1,206	-5,233
Taxes	-8,026	-12,798	-5,503	-4,117	-5,883
Profit for the year	17,882	31,576	13,577	10,186	14,499
BALANCE SHEET					
Cash	1	1	0	3	13
Government bonds eligible as collateral	6,349,315	10,518,887	5,175,618	3,670,647	2,751,082
Lending to credit institutions	2,680,563	3,109,722	1,705,395	2,140,192	1,076,279
Lending	66,811,917	56,738,251	51,115,491	49,430,079	42,615,623
Bonds and other interest-bearing securities	21,567,302	18,116,466	8,716,646	5,990,106	2,453,889
Shares in associated companies	504	504	504	504	504
Equipment	3,356	3,151	3,599	3,576	3,870
Other assets	3,067,005	2,043,157	616,513	8,236	153,192
Prepaid expenses and accrued income	694,089	618,308	650,304	743,648	713,444
Total assets	101,174,052	91,148,447	67,984,070	61,986,991	49,767,896
Liabilities to credit institutions	3,618,393	3,424,562	1,800,503	2,529,389	2,807,100
Debt instruments issued	93,388,186	84,738,299	64,682,421	58,458,959	46,080,914
Other liabilities	3,105,578	2,019,697	623,238	12,443	15,234
Accrued expenses and deferred income	755,206	678,953	652,479	782,182	710,677
Total liabilities	100,867,363	90,861,511	67,758,641	61,782,973	49,613,925
Untaxed reserves	41,077	37,482	25,887	23,166	21,960
Equity	265,612	249,454	199,542	180,852	132,011
Total liabilities and equity	101,174,052	91,148,447	67,984,070	61,986,991	49,767,896

1) Last year's net interest income has been adjusted for the result from buying back own bonds, which, as in 2006, is instead recognised under Net profit/loss from financial transactions.

(SEK 000)	2006	2005	2004	2003	2002
KEY RATIOS 2002–2006					
Growth					
Lending (change, %)	17.8	11.0	3.4	16.0	16.7
Net interest income (change, %) ¹⁾	9.5	16.8	20.0	-8.6	26.0
Consolidation					
Equity + untaxed reserves as a percentage of balance sheet total	0.30	0.31	0.33	0.33	0.31
Profit figures					
Management expenses as a percentage of lending	0.120	0.109	0.104	0.102	0.108
Management expenses as a percentage of balance sheet total	0.079	0.068	0.079	0.081	0.092
Efficiency					
Administration expenses/employee (SEK 000)	2,113	1,760	1,569	1,574	1,702
Change (%)	20.1	12.2	-0.3	-7.5	-2.0
Lending/employee (SEK 000)	1,758,208	1,621,093	1,503,397	1,544,690	1,578,356
Change (%)	8.5	7.8	-2.7	-2.1	-4.9
Returns					
Operating profit after tax as a percentage of average equity	7.43	16.29	7.55	6.47	13.28
Income/expense ratio (I/E)					
Net interest income + other operating income in relation to total costs ¹⁾	1.3	1.5	1.5	1.4	1.6
Other information					
Number of employees	38	35	34	32	27

1) The 2005 net interest income has been adjusted for the result from buying back own bonds.

Örebro, Sweden, 15 February 2007

Robert Stenram
Chairman

Ellen Bramness Arvidsson
Vice Chairman

Lorentz Andersson

Alf Egnerfors

Nils Häggström

Göran Mattsson

Kerstin Ryding

Petter Skouen

Anna von Knorring

Tomas Werngren
President

Our Audit Report was submitted on 28 February 2007
Ernst & Young AB

Lars Bonnevier
Authorised Public Accountant

AUDIT REPORT

To the annual meeting of the shareholders of Kommuninvest i Sverige AB (publ). Corporate identity number 556281-4409

We have audited the annual accounts, the accounting records and the administration of the board of directors and the President and CEO of Kommuninvest i Sverige AB (publ) for the year 2006. These accounts and the administration of the company and the application of the Annual Accounts Act for Credit Institutions and Securities Companies when preparing the annual accounts are the responsibility of the board of directors and the President. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the President and significant estimates made by the board of directors and the President when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. As a basis for our opinion concerning discharge

from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

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

We recommend to the annual meeting of shareholders that the income statement and balance sheet be adopted, that the profit be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the President be discharged from liability for the financial year.

Örebro, Sweden, 28 February 2007

Ernst & Young AB

Lars Bonnevier
Authorised Public Accountant

OWNERSHIP ISSUES AND LOCAL DEBT OFFICE IN FOCUS

A rapid, continuous rise in membership is one of the conditions for Kommuninvest to be able to fulfil its public remit of offering members efficient financing solutions in the long term. Similarly, continued growth in membership is required to fulfil our vision – to be a local debt office for the whole of Sweden’s municipal sector. More members and larger volumes also improve the company’s refinancing on the capital markets.

The increasing number of members places tougher demands on clear communication between members and the Boards of the society and company. Another challenge lies in our structure, whereby all the operational activities are handled in the company and ownership issues by the Society’s Board. A Group for Ownership Issues was formed during the year to review the issues of principle and, in some cases, constitutional issues and links. In early 2007 we have held a dialogue with members about the group’s ideas for the

future of Kommuninvest. A proposal regarding an owner directive will be presented at the Annual General Meeting in March. After that, work will begin to make the necessary adjustments to the regulations and Articles of Association.

It is also pleasing to see Kommuninvest’s concept increasingly attracting international attention. When the esteemed Financial Times describes Kommuninvest as “a striking experiment that could provide a model for other countries”, it demonstrates the sheer strength of our fundamental strategies of a commercial approach, cost efficiency and voluntary membership combined with a democratic ideal of equality and consensus.

Finally, we would like to wish this year’s 15 new members a warm welcome to our profitable cooperation, and also to take the opportunity to thank Kommuninvest’s personnel and management for their strong commitment and hard work during yet another successful year.

Kommuninvest
Cooperative Society

Alf Egnerfors
Chairman

Kommuninvest
i Sverige AB

Robert Stenram
Chairman

CORPORATE GOVERNANCE REPORT

KOMMUNINVEST I SVERIGE AB (PUBL)

In legal terms, Kommuninvest i Sverige AB (publ) (“Kommuninvest”) is a limited company which conducts its financing operations as a credit market company. The business is regulated by the Swedish Financial Supervisory Authority. As a non-listed company, Kommuninvest is not encompassed by the Swedish Code of Corporate Governance, but the owner directive does state that the Code shall be implemented from 2007 onwards. Kommuninvest has assumed a responsible role as a debt office for Sweden’s municipal sector and therefore pursues active corporate governance.

As a wholly-owned subsidiary of Kommuninvest Cooperative Society, Kommuninvest has only one owner. As a result, an important part of the actual corporate governance is carried out by the Annual General Meeting of Kommuninvest Cooperative Society, which is the natural forum of the owners. This means that the members of the two committees appointed at the Society’s AGM – the Election Committee and the Auditing Committee – are also appointed as the Election Committee and Auditing Committee for Kommuninvest i Sverige AB at the following AGM.

Election Committee

The seven members of the Election Committee are appointed at the Annual General Meeting of Kommuninvest Cooperative Society. The members must be individuals with commissions of trust with municipalities or county councils that are members of the Society, but they must be independent of the Society’s Board.

The Election Committee appointed by the Society is responsible for putting forward proposals regarding the election of the Board of Directors, chairman, deputy chairman and auditors in Kommuninvest, as well as proposals for their remuneration. The Election Committee places high demands on the company’s Board members. It works according to a profile of standards, based on the principle that the Board members should possess the skills required by the Swedish Financial

Supervisory Authority relevant to the nature and scope of Kommuninvest’s operation.

The Election Committee shall also submit proposals for members of Kommuninvest’s Auditing Committee and proposals for their remuneration.

The Kommuninvest Cooperative Society AGM in 2006 elected the following members onto the Election Committee:

Anders Ceder (born 1951),

Chair of the Executive Committee, Municipality of Lindsberg (Convener)

Kenneth Carlsson (born 1952),

Executive Committee 1st Vice Chair, Municipality of Färgelanda

Kerstin Sjöström (born 1955),

Member of the Executive Committee, Municipality of Nordmaling

Anette Åkesson (born 1966),

Chair of the Executive Committee, Municipality of Båstad

Niklas Sjöberg (born 1964),

Chair of the Executive Committee, Municipality of Skurup

Anders Berglöv (born 1961),

Chair of the Executive Committee, Municipality of Flen

Lilly Bäcklund (born 1956),

Chair of the Executive Committee, Municipality of Lycksele

For further information on the Election Committee and its full rules of procedure, please see www.kommuninvest.org

Auditing Committee

The members of the Auditing Committee are appointed at the Annual General Meeting of Kommuninvest Cooperative Society. The Auditing Committee regularly meets the appointed auditors and where necessary it can initiate auditing measures additional to the statutory audit. The Auditing Committee also acts as an election committee, recommending auditors and submitting proposals for their remuneration.

The Kommuninvest Cooperative Society AGM on 23 March 2006 appointed the following members onto the Auditing Committee:

Erik Johansson (born 1933), Örebro

Bengt Björnemalm (born 1935),
Municipality of Lindesberg

The following were appointed deputies:

Bo Johansson (born 1944),
Municipality of Älvsbyn

Ingemar Andersson (born 1944),
Municipality of Varberg

Articles of Association

The Articles of Association of Kommuninvest i Sverige AB (publ) define the company's operation, the share capital framework, the number of members and deputies on the Board, procedures for appointing auditors, AGM location, rules for convening the AGM and dealing with the items on its agenda, the company's financial year and other parameters.

The full Articles of Association can be read at www.kommuninvest.org

Annual General Meeting

The Annual General Meeting of Kommuninvest i Sverige AB (publ) considers and resolves on the company's income statement and balance sheet, discharge of Board members and the President from liability, appointment of the Board, Chairman and Vice Chairman for the coming 12 months, and where applicable appointment of the auditors and remuneration for the Board and auditors.

The AGM on 23 March 2006 decided on various matters, including:

- Changes to the Articles of Association
- Appointment of an Election Committee and Auditing Committee
- New share issue
- New share issue during the current financial year
- Appointment of the Board, its Chairman and Vice Chairman
- Payment of an annual fee to the Board Chairman

The Board of Directors and its activities

The Board of Directors of Kommuninvest has ultimate responsibility for the company's organisation and management. Set rules of procedure stipulate areas such as the Board's remit and routines for Board meetings. The Board's remit includes setting objectives and strategies for the operation, a responsibility for identifying and managing risks, and ensuring the operation is conducted in compliance with the pre-determined objectives. The Board shall also prepare internal controlling documents including written instructions for the reports to be produced by the company. The rules of procedure are reviewed and adopted once a year.

Instructions for the President and report instructions prepared by the Board stipulate for example that the President is responsible for the company's ongoing activities pursuant to Board guidelines, and for drawing up a proposed operations plan, budget and annual/interim accounts.

The Board consists of nine members representing a broad skills base in areas such as public services, the capital markets and business development.

In 2006 the Board of Directors met on 12 (11) occasions. Agendas and decisions have related to:

- Appointment of a new President
- Alignment with the new International Financial Reporting Standards (IFRS)
- Follow-up and effects of the EU's proposals for altered capital coverage regulations
- Alignment with regulations on internal capital assessment (ICAAP)
- Ownership issues – allocation of work and responsibility between the company and Cooperative Society
- How member contact can be further improved

Board members' and their remuneration

At the Annual General Meeting of Kommuninvest i Sverige AB (publ) on 23 March 2006, the following Board of Directors was elected:

Robert Stenram (born 1941), London

Board Chairman since 2006, Vice Chairman since 1999. Former Executive Vice President, Swedbank, Stockholm.

Other assignments: Chairman London Section of Swedish Center for Business and Policy Studies, Board member - Sweden-Japan Foundation, Stockholm – Anglo-Swedish Society, London - Swedish American Chamber of Commerce, New York.

Ellen Bramness Arvidsson (born 1964), Stockholm

Vice Chairman since 2006, member since 2003. Chief Accountant, Swedish Insurance Federation, Stockholm.

Other assignments: Deputy Board member for the association for good practice on the securities market.

Petter Skouen (born 1946), Oslo

Member since 1994.

President, Norges Kommunalbank, Oslo.

Other assignments: Board member of Kommunalbanken AS, Oslo.

Lorentz Andersson (born 1942), Umeå

Member since 2001.

County Governor, Västerbotten County.

Other assignments: Chairman of County Administrative Board, County Labour Board, Digital TV Commission, National Wood Building Committee, Kvarken Council, Process IT, Sparbanken Norrland Foundation and the Municipal Competence Inquiry. Board member of the Structural Funds Committee, Objective 1 and The Barents Regional Council.

Göran Mattsson (born 1944), Askersund

Member since 1986.

Analyst, Municipality of Askersund.

Other assignments: Head of Sparbank Foundation Nya. Board member of Hammars Industristiftelse.

Anna von Knorring (born 1965), Helsinki

Member since 2004.

Assistant Director, State Treasury, Helsinki.

Other assignments: Board member of Hansel AB, the Finnish government's central procurement unit, the Sparbank Foundation delegation, Helsinki, Nordic Capital Markets Forum.

Remuneration and attendance – Board of Directors of Kommuninvest i Sverige AB (publ)

Name	Board attendance	Credit committee attendance	Remuneration ¹⁾	
			2006	(2005)
Robert Stenram, Vice Chairman until 23 March 2006, Chairman from 23 March 2006	12 (12)	5(5)	288,000	(256,000)
Ellen Bramness Arvidsson, Vice Chairman from 23 March 2006	12 (12)	5(5)	118,000	(70,000)
Petter Skouen	11 (12)		44,000 ²⁾	(66,000)
Lorentz Andersson	12 (12)		78,000	(66,000)
Göran Mattsson	12 (12)		78,000	(67,298)
Anna von Knorring	11 (12)		74,000	(62,000)
Nils Häggström	10 (12)		41,440	(72,860) ³⁾
Kerstin Ryding	8 (12)		63,866	(28,975)
Alf Egnerfors	10 (12)		70,634	(0)
Sören Gunnarsson, Chairman until 23 March 2006	2 (12)		8,000	(126,000)

1) Including travel expenses and fees for attendance.

2) Remuneration paid to Kommunalbanken AS, Oslo.

3) Fee paid for full member, settled in 2006.

Nils Häggström (born 1934), Umeå

Member since 2006, deputy member since 1994. Municipal Council Member, Umeå.
Other assignments: Member of Bostaden AB, Kvarken Council and its board, Nolia AB, steering committee for Interreg Kvarken – Mittskandia.

Kerstin Ryding (born 1952), Gävle

Member since 2006, deputy member since 2003 CFO, Municipality of Sandviken.
Other assignments: Chair of the friends of visually-impaired persons association in Gävleborg County.

Alf Egnerfors (born 1946), Eskilstuna

Member since 2006.
Board Chairman of Kommuninvest Cooperative Society. Board Chairman of Kommunfastigheter i Eskilstuna.
Other assignments: Municipal Council member, Municipality of Eskilstuna.

Board members' remuneration

Remuneration to the Board Chairman within the framework of the Board fees approved by the Annual General Meeting, amounted to SEK 126,000 in 2006. Remuneration is payable to each Board member as specified in the 'Remuneration and attendance' table on page 53. Moreover, SEK 4,000 was paid for each meeting attended. Total remuneration to the Board members elected by the Annual General Meeting is subject to AGM resolution and amounted to SEK 631,000 in 2006. In addition, Chairman Robert Stenram was paid an additional SEK 150,000 for his work on the Credit Committee as approved by the AGM.

In addition to the committees appointed by the AGM – the Election Committee and the Auditing Committee – Kommuninvest i Sverige AB (publ) has three committees appointed by the Board of Directors: the Credit Committee, the Credit Research Committee and the Financial Committee.

Committees*Credit Committee*

The Credit Committee is entitled to decide on issues stipulated in policies and instructions for the credit and finance operation.

The Board Chairman and Vice Chairman are the members of the Credit Committee.

Committees*Credit Research Committee*

The overall purpose of the Credit Research Committee is to act as an advisory body for the Board of Directors. Activities include monitoring the financial progress of the municipal sector and Society members to ensure they fulfil the requirements for sound public fund management, and screening municipalities and county councils that apply for membership. The members of the Credit Research Committee are recruited from member organisations or their companies and are appointed by the Board of Kommuninvest.

Credit Research Committee members:*Chairman***Thomas Åkelius**

Director, Kommuninvest

David Nyberg

Chief Administrative Officer, Municipality of Skellefteå

Tomas Carlsson

Principal Finance Director, Municipality of Eksjö

Ingalill Hellberg

Chief Administrative Officer, Municipality of Staffanstorp

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 task is to monitor progress on the financial markets and thereby offer support for the company's finance activities. The Committee's remit includes monitoring progress

on those capital markets significant to the company's borrowings, to act as an advisory body to the Head of Finance Group on issues relating to 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 the development of the economy and interest rates. The members of the Financial Committee are appointed by the Board of Kommuninvest and are representatives of the member municipalities and their companies.

Financial Committee members:

Chairman

Tomas Werngren,

President of Kommuninvest

Per Björkengren

Principal Finance Director,
Municipality of Karlstad

Stefan Ekfeldt

Principal Finance Director,
ÖrebroBostäder AB

Bernt Grahn

Chief Administrative Officer,
Municipality of Luleå

Kerstin Gustavsson

Principal Finance Officer,
Municipality of Örkelljunga

Anders Ottensten

Chief Administrative Officer,
Municipality of Varberg

Björn Ryd

Principal Finance Officer,
Municipality of Gävle

Johan Sandlund

Chief Administrative Officer,
Municipality of Trosa

Lars Sjökvist

Managing Director,
Växjö Kommunfastigheter

Corporate management

The President leads, organises and develops operations in such a way 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 take account of the Swedish Financial Supervisory Authority's general recommendations on the control and management of financial companies, as well as the Authority's perception of the President's tasks and responsibilities.

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

Remuneration – Executive managers of Kommuninvest i Sverige AB (publ)

Name	Year	Basic salary	Other benefits	Pension expense	Total
Tomas Werngren,	2005	1,509,000	71,000	498,000	2,078,000
Vice President until April 2006	2006	1,368,000	71,000	418,000	1,610,000
President from 19 April 2006	2006	1,911,000			
Thomas Åkelius,	2005	1,563,000	69,000	431,000	2,063,000
President until 18 April 2006	2006	1,357,000	85,000	363,000	1,805,000
Vice President until 31 October 2006					
Executive Management Group	2005	1,864,692	0	Pursuant to SPP's	
	2006	2,526,688	0	pension plan	

Executive managers and their remuneration

Corporate management

Tomas Werngren (born 1961)

President and CEO
Employed since 1994.

Harriet Forsell Söderberg (born 1959)

Executive Vice President
Employed since 1995.

Maria Viimne (born 1970)

Head of Funding and Investment
Employed since 1998.

Ulf Jivmark (born 1956)

Head of Legal
Employed since 1995.

Johanna Larsson (born 1973)

Head of Administration
Employed since 2000.

Auditors

The auditors are appointed by the Annual General Meeting of Kommuninvest every four years, the most recent occasion being the 2004 AGM. The auditors' task is to review the company's annual report 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 and the Auditing Committee on an ongoing basis.

Audit Report

The auditors attend Kommuninvest's final Board meeting of each calendar year and report observations on their examination of the company's accounts. The auditors shall also attend the first scheduled Board meeting of the year, when the income statement and balance sheet of both the company and the Society for the past year are considered.

The Board's Report on Internal Controls

In internal control, the Board of Directors annually specifies the focus of the recurring independent audit in written instructions. This audit monitors that the operation's scope and direction comply with the Board's guidelines, and that accounting, fund management and the company's financial situation can otherwise be controlled in a manner that provides reasonable assurance. The audit also encompasses evaluating the company's organisation for the financial reporting. Kommuninvest's own internal audit function is the Board's tool for conducting the audit that aims to secure internal control.

THE BOARD MEMBERS

Board Chairman



Robert Stenram (born in 1941)
Chairman since 2006.
Vice Chairman since 1999.
London

Vice Chairman



Ellen Bramness Arvidsson (born in 1964)
Vice Chairman since 2006. Member since 2003.
Chief Accountant, Swedish Insurance Federation,
Stockholm.

Board Members



Petter Skouen (born in 1946)
Member since 1994.
President, Kommunalbanken AS, Oslo

Board Members



Lorentz Andersson (born in 1942)
Member since 2001.
County Governor, Västerbotten County.



Göran Mattsson (born in 1944)
Member since 1986.
Analyst, Municipality of Askersund



Alf Egnerfors (born in 1946)
Member since 2006. Board Chairman of
Kommuninvest Cooperative Society, Board
Chairman of Kommunfastigheter i Eskilstuna.

Board Members



Anna von Knorring (born in 1965)
Member since 2004.
Assistant Director, State Treasury, Helsinki.



Nils Häggström (born in 1934)
Member since 2006.
Deputy Member since 1994.
Municipal Council Member, Umeå.



Kerstin Ryding (born in 1952)
Member since 2006.
Deputy Member since 2003.
CFO, Sandviken.



KOMMUNINVEST

The Swedish Local Government Funding Agency

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