



The Swedish National
Debt Office
Annual Report 2006



Greta Garbo • 1905–1990
I'm afraid of nothing except being bored.

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The Debt Office's premises were refurbished in 2006 to obtain integrated premises, improve the working environment and increase security. The premises are open and modern with a decoration that reminds us of our history since 1789 while, at the same time, displaying the modern Sweden that we work in. Our conference rooms have been named after Swedish cultural personalities. Some of them illustrate this annual report.

The Debt Office's vision

The Debt Office aims to be the world's best central government financial manager.

The tasks of the Debt Office

The Debt Office provides finance for the decisions made by the Swedish government and Parliament, the Riksdag. Our task concerns everything from providing appropriations and loans to government agencies to enable them to carry out their work and be able to pay and collect money efficiently to borrowing the amount required to cover the difference between incoming and outgoing payments.

As the state's treasury, we are responsible for the state payment system with over 100 million incoming and outgoing payments every year. The Debt Office is also responsible for the Government central account. All incoming payments, taxes, charges, customs dues, etc. are deposited there and money is withdrawn from this account for all of the state's outgoing payments. When incoming payments are not sufficient to cover outgoing payments, the Debt Office borrows the difference and conversely invests the surplus. The state can use money efficiently by gathering all incoming and outgoing payments in the same account.

We are also responsible for central government debt management. Our work is governed by guidelines decided upon by the Government, after proposals from the Debt Office. The goal is to borrow as cheaply as possible without taking excessive risks. When the state has a budget surplus, as in 2006, we can repay the central government debt. However, we must still borrow money in order to pay back old loans that have matured.

The Debt Office also provides state guarantees and loans, as decided upon by the Riksdag and Government. We make a charge for the risk that the guarantee will have to be redeemed. The intention is that the total charges should correspond to the costs of the state's guarantees in the long term. The guarantee system is thus to be self-financed.

By concentrating responsibility for the state's cash management, central government debt management, and guarantees and loans at the Debt Office, the state obtains a co-ordinated and professional financial management. This reduces the costs and risks for the state.

Lower central government debt – increased freedom of action

The improvement in central government finances of the past few years continued during 2006. The outcome of the state budget was a surplus of SEK 18 billion, which is an increase of SEK 4 billion compared with 2005. However, this comparison underestimates the difference between the years, among other things because the annual payment of premium pension funds, SEK 25 billion, from the Premium Pension Authority (PPM) was moved from January 2007 to December 2006. The actual improvement was accordingly greater.

Developments in the past two years have meant a sharp turn from a deficit of around SEK 50 billion in 2003 and 2004 to this year's surplus. In the Central Government Borrowing Report in autumn 2006, we expected this development to continue and that the surplus for 2007 would be SEK 82 billion, including the Government's assessment of income from privatisation of SEK 50 billion.

Partly as a consequence of the budget surplus, central government debt fell in 2006 by SEK 39 billion to SEK 1,270 billion, which is equivalent to around 45 percent of GDP. Continued surpluses and a growing economy means that the central government debt, in both absolute terms and in relation to the economy, will continue to fall. This will increase freedom of action in economic policy.

The Debt Office is the state's central financial manager with the overall aim of keeping the costs of the state's financial management to a minimum. One main task is cost-efficient management of central government debt, another to manage and develop the state payments system, which has a turnover of around SEK 4,200 billion a year.

During 2006, the Debt Office signed new framework agreements for central government payments with three banks after a tendering process. The new agreements mean a 30 percent cut in costs if the agencies make use of their full potential. This could mean a saving of up to around SEK 50 million a year.

The Debt Office also issues and manages state guarantees and loans with a credit risk. The goal is for the cost of this operation to be covered by income from fees in the long term. In 2006, a decision was made on a new



guarantee for SwePol Link. It was also decided that the Debt Office would take over responsibility for the bond loans and other commitments of over SEK 4 billion from Venantius AB.

During 2006, the Debt Office has improved its internal control, among other ways by continued work with an integrated financial and risk policy. Our ability to function in a crisis has been reinforced by a continuity planning project. The working environment, integration and security were improved by the refurbishment premises. Investments in competence and management development continued. All in all, developments in 2006 have strengthened the foundation for our efforts to achieve the vision of being the "world's best central government financial manager".

Stockholm, February 2007

Bo Lundgren
Director General of the Debt Office

Summary of performance and goal fulfilment

Summary of the appropriation directions

Assessment of outcome

Financial systems and supervision

The overarching goals for the Debt Office are efficient government debt management and to minimise the costs of central government debt while taking account of risks.

The overarching goals have been achieved.
The various interim goals are shown below.

Debt management

Minimise the costs of central government debt taking into account risks.

*Goal achieved by efficient debt management with-
in the framework of the Government's guidelines.*

Borrow directly from private persons to reduce the cost of the central government debt.

*Goal achieved by costs having decreased by
SEK 177 million in 2006.*

Cash management

Make loans and investments on market conditions.

Goal achieved.

Work for an efficient central government payment system that does not favour any bank.

Goal achieved by the costs for central government payments decreasing by SEK 9 million compared with 2005. New framework agreements for payment services have further reduced the state's costs.

Endeavour to reduce interest expense.

Goal achieved by ongoing simplifications of systems and support for agencies.

Offer agencies good service.

Goal achieved by continued good service to our customers, 82 out of 100 in the satisfied customer index, and new functions in our business systems.

Summary of the appropriation directions

Assessment of outcome

Guarantees and loans

Carry out guarantee and loan activities efficiently.

Goal partly achieved by fees reflecting risks, risk-limiting conditions and active collection of claims, although a regulatory framework for the state's external loans is lacking.

Contribute to limiting the state's risk and safeguarding the state's rights by evaluating economic risks, setting fees, determining terms and conditions, and collecting claims.

Goal achieved, see above.

Work for the costs of the operation to be met by its incomes in the long term by fees based on insurance principles.

Goal achieved, see above.

Work actively for the guarantee and loan operations of other agencies to be performed efficiently.

Goal achieved by advice and assistance to other agencies and proposed efficiency improvements.

Risk management

Endeavour to follow best practice in risk management.

Goal achieved by using generally accepted methods, models and process for risk management.

Ensure that the handling of financial and operational risks complies with the requirements and regulations.

Goal achieved, see above.

Ensure that the basic needs of society can be maintained even under conditions of severe strain in peacetime.

Goal partly achieved by collaboration with other agencies and continued development of continuity planning.

Personnel

The Debt Office is to be an attractive workplace with a high level of competence and a stimulating and motivating work environment.

Goal achieved by special measures for the working environment and management.



Karin Boye • 1900–1941

Strike camp, strike camp! The new day shows its light. Our great adventure has no end in sight.

Translated by David McDuff in "Karin Boye – Collected Poems".

The Debt Office's costs and funding

The Debt Office is responsible for payment of interest on central government debt. Interest is one of the largest expenditure items in the state budget and the appropriation for interest accounts for around six percent of total central government expenditure. Furthermore, we have an appropriation to pay commission in connection with central government debt management and a management appropriation which is used to cover the costs of the Debt Office's activity.

Larger interest payments

Interest payments amounted to SEK 49 billion in 2006; see Table 1. With a minor adjustment, the costs correspond to the appropriation for interest on central government debt; see Table 3. This is an increase of SEK 17 billion compared with last year.

This change is mainly due to foreign currency gains and losses on foreign currency loans. In 2006, these losses were SEK 6 billion. The corresponding amount for 2005 was a gain of SEK 10 billion. The size of the foreign currency gains or losses depend on when loans mature and how exchange rates have moved compared with when the loan was raised.

Interest on loans in Swedish kronor and interest on foreign currency loans have decreased slightly compared with 2005. This is due to the low interest rate levels in recent years continuing to have an impact on interest payments as older loans with high coupon rates mature and are replaced by new loans. Interest rates with short maturities increased in 2006, however. The overall effect was none the less a small decrease in 2006.

Issue premiums decreased by SEK 5 billion. This is due to our issuing loans with lower coupon rates and to our issuing fewer inflation-linked bonds than before.

Average running yield

The amount the state pays in interest does not give a full picture of the costs of central government debt. Interest payments are greatly affected by, for instance, the relationship between the market rate and the coupon rate issued by the Debt Office. Payments vary therefore considerably more from year to year than the actual costs. To estimate the costs of central government debt, the Debt Office uses a measure referred to as the average running yield. This is a weighing together of the rates we have received when we have sold our outstanding loans. The loans are sold at market rates and since these loans have been raised at a large number of different times, some of them a number of years ago, the average running yield is affected by previous interest rate movements.

We can also calculate the average running yield on the new loans issued in a particular year by studying how the average running yield has changed over time. This figure is governed by market rates during the past year in combination with the loans issued. See below for a summary of the interest rate and exchange movements during the year.

Higher running yields on new loans

Average running yields for our largest loan instruments in Swedish kronor are shown in Table 2. The outstanding

Table 1
Interest on the central government debt

SEK million	2002	2003	2004	2005	2006
Interest on loans in Swedish kronor	45,399	37,985	40,688	39,428	37,913
Interest on loans in foreign currency	17,469	16,397	11,515	11,415	10,512
Interest on deposits and loans	373	-6,832	-6,993	-6,943	-6,110
Total	63,241	47,550	45,210	43,900	42,315
Issue premium/discount	-7,728	-14,453	-10,144	-9,049	-3,967
Foreign currency losses/gains	6,650	4,366	5,106	-10,228	6,336
Price losses/gains	4,594	3,811	13,480	7,615	5,929
Other (deposits etc.)	426	741	-1,057	323	-1,240
Total	3,942	-5,535	7,386	-11,339	7,059
Total appropriation interest on government debt	67,183	42,015	52,596	32,561	49,374
Cash basis adjustment	-1,996	223	23	35	-189
Total interest payments	65,187	42,238	52,619	32,596	49,185

volume in these instruments totalled SEK 1,020 billion. Central government debt totalled SEK 1,270 billion.

Nominal bonds

The average running yield for the total volume of nominal bonds was 4.62 percent at the end of 2006. Compared with last year, this is a reduction of 0.17 percentage points. The average running yield for bonds sold during the year increased, however, by 0.60 percentage points. The fact that the average running yield for the total debt in nominal bonds still decreased is due to bonds maturing during the year being sold at considerably higher yields.

T-bills

The average running yield for T-bills increased considerably compared with last year. The increase was 1.14 percentage points for the total volume of T-bills and 0.74 percentage points for T-bills sold during the year. T-bills have short maturities and changes in market rates therefore quickly have an impact on the average running yield for the total volume. Changes in short market rates were due to the Riksbank gradually increasing its key policy rate during the year from 1.50 percent to 3.00 percent.

Inflation-linked bonds

The average running yield decreased by 0.19 percentage points during the year. The average running yield for bonds, sold during the year, was however 0.12 percentage points higher than in 2005. Current market rates for inflation-linked bonds are considerably lower than for the volume as a whole. The average running yield therefore decreases as older bonds mature or we carry out buybacks.

Interest and exchange rates in 2006

Swedish nominal long-term interest rates rose, as did foreign interest rates, during the first six months of the year. They fell back slightly during the second half of the year. The Swedish bond rates were between 0.05 and 0.15 percentage points below the interest rate level in the euro area for the larger part of the year.

In November, the Swedish Financial Supervisory Authority, Finansinspektionen, adopted a more stringent

interpretation of the interest rate at which insurance companies can value their liabilities. This led to expectations of an increased demand for bonds with long maturities. At the end of the year, the Swedish bond rates were between 0.15 and 0.20 percentage points below the interest rate level in the euro area.

The difference between the long and short interest rates decreased during the year, both in Sweden and in other countries. This was primarily due to interest rate increases by the central banks. The interest rate gap between the ten- and two-year Swedish government bonds decreased from 0.80 percentage points to 0.05 percentage points. At the end of 2006, the slope on the Swedish yield curve was weakly negative for maturities over five years; see Figure 1.

The krona strengthened during the year. Measured in terms of TCW, which is a weighted average of the krona's value in relation to other currencies, the krona moved from 131 in January to 123 at the end of December (the lower the index, the stronger the krona); see Figure 2. This can be compared with the average for the period since the changeover to a floating exchange rate in 1992, which is around 126. Good central government finances in combination with the Riksbank increasing the key policy rate more than expected at the beginning of the year contributed to the strengthening of the krona.

Figure 1
Bond yields in Sweden
Per cent

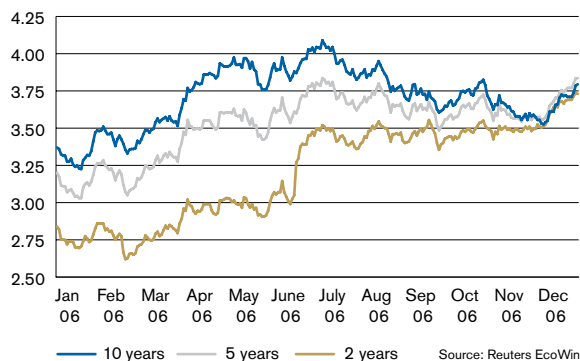


Table 2

Average running yields¹

	Nominal bonds		T-bills		Inflation-linked bonds ³	
	2005	2006	2005	2006	2005	2006
Outstanding debt (SEK bn)	563	550	288	255	206	215
Borrowing ² (SEK bn)	78	84	408	420	27	20
All outstanding debt (%)	4.79	4.62	1.79	2.93	3.25	3.06
All borrowing (%)	3.03	3.63	1.79	2.53	1.43	1.55

¹ In order to compare the average average running yield for nominal and inflation-linked instruments, the average running yield for inflation-linked bonds must be adjusted for inflation.

² Volume issued in auctions and sold component in exchange transactions.

³ The volume of inflation-linked bonds includes accrued inflation.

Figure 2

The krona's exchange rate in relation to the euro, trade-weighted



Lower commissions

We pay commissions in connection with borrowing and external management. Commission costs were SEK 91.4 million in 2006. This was SEK 3.5 million lower

than in 2005. The reduction depended on our using fewer forward contracts in debt management during 2006.

Slight increase in management expenses

Management expenses is an umbrella term for personnel, premises, marketing and IT expenses, among others. In all, these expenses amounted to SEK 389.2 million of which SEK 264.7 million have been paid with the Debt Office's management expense appropriation from the state budget. The remaining SEK 124.5 million has been financed with charges for our guarantees and loans with a credit risk. Part of the difference also consists of costs accrued to or from 2006.

The surplus for the area of operation guarantees and loans was SEK 278.5 million. This outcome also relates to 2006 mainly due to a reduction in provisions for anticipated losses at the same time as income, in the form of guarantee fees and interest, increased.

Table 3

Income statement per area of operation

SEK million

	Cash management	Central government debt management	Guarantees and loans	The Debt Office, total	The Debt Office, 2005
Operating income					
Income from appropriations, interest on central government debt 26 92:1	-6,154	56,751		50,597	32,247
Income from appropriations, commissions 26 92:3		88		88	95
Income from appropriations, debt management 2 2:3	42	222		265	263
Income from appropriations for guarantee subsidies				86	71
Income from grants and fees	1	2	214	216	194
Interest income	0	0	56	57	41
Total operating income	-6,112	57,064	270	51,308	32,911
Operating expenses					
Financial expenses for management of central government debt					
Realised net interest, etc.	6,146	-50,406		-44,260	-42,474
Realised currency gains/losses	8	-6,345		-6,336	10,228
Total, interest on central government debt 26 92:1	6,154	-56,751		-50,597	-32,247
Commissions 26 92:3	0	-88		-88	-95
Unrealised net interest, etc.	61	2,928		2,989	-196
Unrealised currency gains/losses	61	23,432		23,493	-29,578
Commission expense not deducted from appropriations	0	-3		-3	0
Total interest and commission expenses not deducted from appropriations	122	26,357		26,480	-29,773
Total financial expenses on central government debt	6,277	-30,482	0	-24,205	-62,115
Other operating expenses					
Guarantee expenses			47	47	177
Management 2 2:3	-43	-223		-266	-263
Cost for guarantee subsidies				-86	-71
Management expenses not deducted from appropriations	0	-1	-37	-39	-16
Total other operating expenses	-43	-224	9	-344	-174
Collection work	0	0	0	0	-1
Total expenses	6,234	-30,706	9	-24,549	-1
Change in capital for the year	122	26,358	279	26,759	-29,378

Central government debt management

The Debt Office is responsible for managing the central government debt and for borrowing money for the state. The major part of the central government debt consists of bonds and other securities. These are purchased in the first place by funds, insurance companies and financial institutions, in and outside Sweden. A smaller portion is financed by lottery bonds and other savings products targeted on private individuals and small companies. The Debt Office also has the task of carrying out active management in foreign currency.

Goals and guidelines

The overall goal for central government debt management is to minimise the long-term costs while taking risk into account. This goal has been adopted by the Riksdag in a law. The central government debt is managed in accordance with guidelines decided upon annually by the Government, on the basis of proposals from the Debt Office. The guidelines are based on the Government's assessment of how the overarching goal can best be met.

The Government decided upon the following for 2006:

- The proportion of foreign currency debt should be reduced to 15 percent of the central government debt in the long term. SEK 25 billion of the foreign currency debt should be amortised in 2006. The Debt Office had the right to deviate from the amortisation benchmark by SEK \pm 15 billion.
- The proportion of inflation-linked bonds (the yield from which depends on the rate of inflation) should increase to 20 percent of the central government in the long term. The Debt Office was instructed to decide how quickly the inflation-linked debt should increase taking into account demand and the cost compared with borrowing in other types of debt.
- The rest of the borrowing requirement was to be met by nominal loans in Swedish kronor.
- The maturity of the nominal debt shall in future be measured in terms of average interest rate refixing period instead of duration. This change aimed at improving control. The benchmark for the maturity was set at 3.1 years, which meant that the actual maturity was the same as during 2005.

The Debt Office shall moreover borrow from private individuals and small companies using lottery bonds and other special instruments. The aim is to achieve the greatest possible saving compared with other types of borrowing in order to reduce the cost of the central government debt.

In our active management of foreign currency, we attempt to predict the future development of both interest and

exchange rates and create positions that provide a surplus if our assessment proves to be correct. The goal is to reduce the state's costs while taking into account risks.

Reporting requirements

An overall description of how the Debt Office contributed to achieving the goal for central government debt management is provided here in the annual report.¹ We shall also report on the amount of saving achieved by borrowing in the retail market in 2006 and during the period 2002–2006, both for individual types of debt and for borrowing as a whole. The Debt Office's position in the savings market is to be clarified.

¹ A more detailed report is contained in a special report, Underlag till utvärdering av statsskuldskötselningen 2006.

Important events in 2006

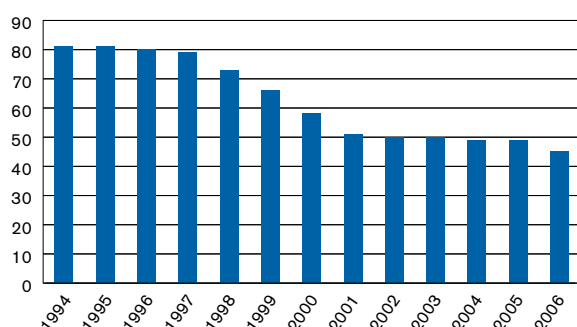
- Central government debt decreased by SEK 39 billion to SEK 1,270 billion.
- The state budget produced a surplus of SEK 18 billion, approximately the same as in 2005.
- The Debt Office amortised the equivalent of SEK 18 billion of the foreign currency debt, SEK 7 billion less than the target in the Government's guidelines. The reason for this reduction was that the krona was abnormally weak in the first six months of the year.
- A new benchmark for the foreign currency debt with an increased proportion of Swiss francs.
- Issues of inflation-linked bonds decreased from SEK 12 to SEK 7 billion.
- A third of new customers among those who bought lottery bonds.
- The surplus from borrowing in the retail market was SEK 177 million, an improvement of 67 percent compared with 2005.
- Active management in foreign currency produced a surplus of SEK 339 million.

The size and structure of central government debt

The central government debt was SEK 1,270 billion at the end of 2006. This is a reduction of SEK 39 billion compared with 2005. Measured as a proportion of GDP, central government debt was estimated at 45 percent, which is around four percentage points less than the previous year; see Figure 3².

² This calculation is based on the National Institute of Economic Research's most recent forecast of GDP in 2006.

Figure 3
Central government debt as a proportion of GDP
Percent



The budget surplus contributed to a decrease in central government debt of SEK 18 billion. Central government debt actually increased more than this due to a number of additional factors that affect the debt. The most important factor is revaluation of the foreign currency debt to current exchange rates. The strengthening of the krona led to a decrease in central government debt of SEK 23 billion in 2006.

Structure of central government debt

At the turn of the year, the inflation-linked debt was SEK 217 billion. The share of inflation-linked debt was thereby 17 percent; see Figure 4. The foreign currency debt was SEK 266 billion at the end of 2006. This corresponds to 21 percent of the central government debt.

Figure 4
Development of central government debt
SEK billion

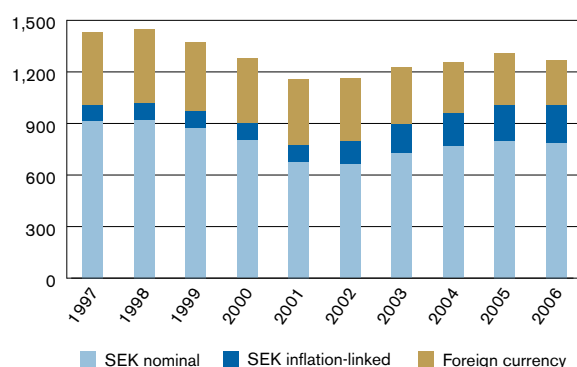
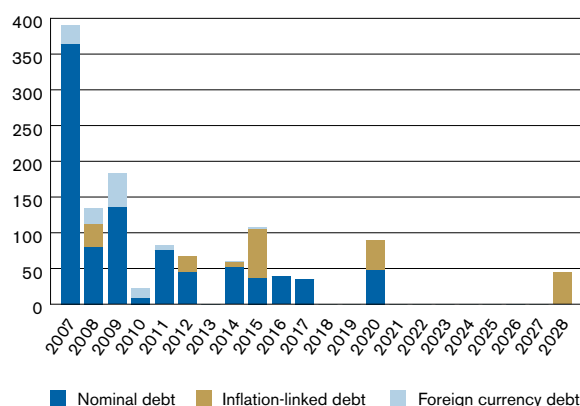


Figure 5
Maturity profile of central government debt
SEK billion



The rest of the debt, SEK 787 billion, was financed with nominal loans in kronor.

The average time to maturity of the central government debt was 4.9 years at the turn of the year. The time to maturity of the debt in nominal krona and foreign currency was 3.0 years, i.e. slightly lower than the benchmark in the guidelines for 2006. The maturity of the inflation-linked debt was 11.1 years; see Figure 5.

The choice of maturity is of absolutely most importance for costs and risks in the central government debt. A short time to maturity usually gives a lower expected cost although a higher risk. The Government's decision on the benchmark for the time to maturity is therefore based on striking a balance between cost and risk.

The composition of the debt is mainly governed by an endeavour to spread risks. The major part of the debt is financed in nominal kronor. By complementing this with inflation-linked debt and foreign currency debt, the state can reduce its dependence on how Swedish nominal interest rates develop. Inflation-linked rates do not move in the same way as nominal rates. Interest rates in other currencies do not either follow the same pattern as interest rates in Swedish kronor. A debt portfolio which includes an inflation-linked debt and a foreign currency debt should therefore have more stable interest expense and be less affected by any single factor.

The Debt Office's market and debt maintenance

The Debt Office works with market and debt maintenance to improve the efficiency of the Swedish government securities market. The better the market works, the more investors are prepared to pay for our securities and the lower will be the state's borrowing costs. Market and debt maintenance are therefore part of our task.

By concentrating borrowing in Swedish kronor to a small number of maturities, we make it easier for investors to trade in the loans. This reduces their risks and makes them prepared to pay more for the loans we sell. The Debt Office also applies a transparent and predictable borrowing policy. This means, for instance, that, to the greatest possible extent, we avoid varying the amount of nominal bonds and inflation-linked bonds we offer in the auctions. We also make efforts to inform clearly about how much we intend to borrow and in what way.

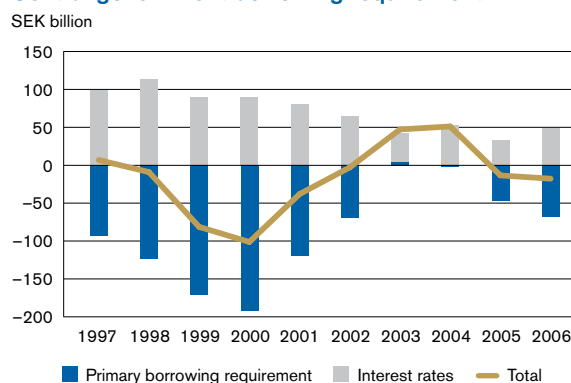
We use a number of banks as authorised dealers of government securities. Their tasks include communicating offers from investors in auctions where we sell government securities. The dealers have also undertaken to purchase and sell government securities on the secondary market. In return, the dealers have access to a number of market maintenance services, for instance, the ability to borrow government securities through so-called repos. Repos reduce the risk of trading in the secondary market, which means that investors can expect to be able to buy and sell large amounts of Swedish government securities without difficulty.

In autumn 2006, the Debt Office carried out a new interview survey of how dealers and investors view our work on market and debt maintenance and the Swedish government securities market as a whole. This survey gave the Debt Office and the government securities market a very good rating.

The borrowing requirement

The amount the Debt Office has to borrow depends on the size of the state's incoming and outgoing payments. We split the borrowing requirement up into two parts: the net borrowing requirement and maturing loans. The net borrowing requirement is the mirror image of the state budget balance. If there is a deficit in the state budget, we then increase the central government debt. If there is a surplus, i.e. if the net borrowing requirement is negative,

Figure 6
Central government borrowing requirement



we then amortise the central government debt. The net borrowing requirement is usually divided into primary borrowing requirement and interest on central government debt. We usually divide the primary borrowing requirement into the primary balance and the Debt Office's net lending to agencies and state-owned companies; see Table 4.

The other part of the borrowing requirement consists of maturing loans. When an old loan matures, it must be repaid. This is financed by our raising new loans. Together, the net borrowing requirement and maturing loans are referred to as the gross borrowing requirement.

Surplus in the state budget

The state budget produced a surplus of SEK 18 billion in 2006; see Figure 6. This surplus was about as large as in 2005, despite payments for interest on central government debt increasing by SEK 17 billion and the Debt Office's lending increasing by SEK 17 billion between these years. Incoming payments have thus increased to a corresponding extent.

Incoming tax payments rose sharply during 2006. The labour market improved and households increased

Table 4
Central government borrowing requirement

SEK billion	2002	2003	2004	2005	2006
Primary borrowing requirement	-68.7	4.3	-2.1	-46.7	-67.6
<i>Of which</i>					
primary balance	-82.9	-5.8	-17.1	-59.9	-97.5
The Debt Office's net lending	14.2	10.1	15.0	13.2	29.9
Interest on central government debt etc.	65.2	42.2	52.6	32.6	49.2
<i>Of which</i>					
interest for loans in Swedish kronor	39.4	21.3	33.9	30.5	33.9
interest for loans in foreign currency	19.0	17.1	13.6	12.3	9.0
realised exchange rate differences, net	6.7	3.9	5.1	-10.2	6.3
Central government borrowing requirement (net)	-3.5	46.6	50.5	-14.1	-18.4

their consumption. This led to an increase in incoming payments from value-added tax and wage-based taxes. There was a large increase in taxes on capital. Moreover, share dividends from state-owned companies increased. The rate of increase for payments followed largely the same development as for the expenditure ceiling in the state budget. Benefit levels were slightly increased in sickness and parental insurance and assistance to the agricultural sector were slightly higher than in 2005. These increases were counteracted by a decrease in the number of sickness benefit days.

Net lending to central government agencies and companies was SEK 30 billion, which is SEK 17 billion less than in 2005. Net lending was affected in 2006 by a rearrangement of payment of premium pension funds from the state to the funds participating in the Premium Pension Authority (PPM) system. Previously, premium pension funds have been paid in January two years after the year earned, while from 2006 this payment is made already in December. Since the payment was moved over the turn of the year, this meant that two PPM payments were made in 2006. This produced a one-off effect on net lending of SEK 25 billion.

The total of all outgoing and incoming payments through the state budget and net lending is referred to as the primary borrowing requirement. This produced a surplus of SEK 67 billion kronor, SEK 20 billion more than in 2005.

The remaining part of the state budget is the interest rate payments on the central government debt, which amounted to SEK 49 billion in 2006. Compared with 2005, this is an increase of SEK 17 billion. See page 7, for comments on interest payments.

Reduced gross borrowing requirement

Loans for SEK 35 billion were repaid in 2006. As shown above, the net borrowing requirement was SEK –18 billion. The total of repayments of loans and the net borrowing requirement is the gross borrowing requirement. The gross borrowing requirement was thus SEK 17 billion, SEK 49 billion less than in 2005.

Forecasts for the borrowing requirement in 2006

The Debt Office makes forecasts of the central government borrowing requirement in order to be able to plan borrowing. Altogether, the Debt Office made five forecasts of the borrowing requirement in 2006. The two forecasts made during 2005 deviate considerably from the outcome. This is explained by the fact that the

economic macro picture looked quite different then and considerably poorer. We made a sharp adjustment of the forecast in February 2006 which retrospectively, despite various one-off effects, proved to be relatively well judged. In this section, we briefly present the three forecasts we published in 2006.

Surplus of SEK 16 billion in the February forecast

In February 2006, we reduced the borrowing requirement forecast by as much as SEK 42 billion to SEK –16 billion (surplus). The main explanation was the sharply increased tax income due to the higher level of economic activity and strong development of corporate profits.

Borrowing requirement of SEK 5 billion in the June forecast

In June 2006, we changed the forecast from a surplus of SEK 16 billion to a deficit of SEK 5 billion. The main explanation for this was that PPM had decided to rearrange payment of premium pension rights. This change led to an increase in the forecast borrowing requirement for 2006 of SEK 25 billion.

Surplus of SEK 11 billion in the November forecast

The forecast again shows a surplus compared with June. A number of agencies decided to increase their deposits and amortise their loans. This affected net lending by SEK 7 billion. At the same time, new lending also decreased. Moreover, the forecast for tax revenue was increased by SEK 6 billion.

Comparison with other forecasters

A comparison with the forecasts from the National Institute of Economic Research, the National Financial Management Authority and the Ministry of Finance shows that all forecasters believed that there would be large deficits in the state budget for 2006. In February, we were the first to sharply adjust the borrowing requirement downwards and all forecasters made similar assessments later in the year.

Borrowing in 2006

The Debt Office's borrowing is mainly governed by two factors. The first self-evident factor is that we have to borrow a sufficient amount to cover the gross borrowing requirement. The second is that the central government debt – the total of new and old loans – shall correspond to the Government's guidelines for the structure and duration of central government debt, adjusted for any deviations decided upon by the Debt Office. The distribution of gross borrowing in 2006 between nominal

Table 5

Central government borrowing

SEK billion	2002	2003	2004	2005	2006
Net borrowing requirement	-4	47	51	-14	-18
Change in cash balance and retail market ¹	-13	15	-10	29	-35
Maturities, buybacks, etc.	55	43	43	56	70
Government bonds	17	12	21	16	36
Foreign currency loans	38	31	22	40	34
Gross borrowing requirement	38	102	84	66	17
T-bill borrowing, net²	-54	-31	-35	-27	-74
Bond borrowing, gross	92	134	119	93	91
Bonds in foreign currency	33	11	10	25	20
Inflation-linked bonds	9	18	18	12	7
Nominal government bonds	50	105	91	56	64
Funding	38	102	84	66	17

¹ Change in liquidity management instruments and retail market loans net.

² Net of issues (excluding exchanges) and maturities during the calendar year.

krona debt, inflation-linked debt and foreign currency debt is shown in Table 5. The Government's guidelines are summarised on page 10.

Nominal krona debt

Nominal loans are the state's most important source of funding. The major part of nominal borrowing takes place in government bonds and T-bills. Nominal loans also include repos, overnight loans and liquidity bills, instruments with a very short maturity which are used to counter fluctuations in the state's short-term cash flows. Borrowing was arranged with a view to the duration of the nominal krona debt being 3.5 years on average.

Government bonds

Borrowing in nominal government bonds increased from SEK 56 billion in 2005 to SEK 64 billion in 2006. This increase is partly due to the duration being slightly below the benchmark at the beginning of the year. We needed therefore to increase the proportion of bonds, which have a long maturity and instead reduce the proportion of T-bills, which are short-term. The Debt Office issues in the first place bonds with two, five or ten-year maturities. Nominal government bonds are sold through auctions. The amount offered at each auction is changed relatively infrequently. It only happened once during 2006, when we increased the volume in March from SEK 2 to 3 billion per auction.

The Debt Office makes a qualitative valuation of the borrowing in nominal bonds, since quantitative measures are lacking. We consider that borrowing worked well during the year. The offers exceeded the volume we wished to sell in all auctions. This is shown by the high demand for government securities, although it is not possible to say how demand is affected by the Debt

Office's actions. (See also the section on market and debt maintenance above.)

T-bills and interest rate swaps

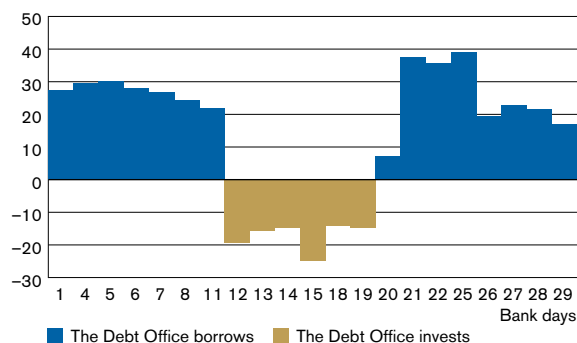
Funding through T-bills decreased by SEK 47 billion kronor compared with 2005. The T-bill stock decreased by SEK 34 billion. This was an adaptation to the average maturity being under the benchmark at the beginning of the year and to the reduction of central government during the year. T-bills have maturities that are at most 18 months and are issued through auctions in the same way as nominal bonds. The Debt Office uses them to counter fluctuations in the central government borrowing requirement over the year. Both auction volumes and the outstanding stock vary considerably more than for bonds therefore.

An alternative to issuing T-bills is to exchange the fixed interest rate on a long bond with the aid of an interest rate swap and instead pay variable interest. In this way, the Debt Office can make use of its relative strength as a borrower in long maturities, and reduce the cost of borrowing. During 2006, we created short borrowing for SEK 11 billion by interest rate swaps.

Liquidity management

The need to borrow varies greatly from day to day during a month depending on the pattern of incoming and outgoing central government payments. The deficit can be as large as SEK 50 billion or more on certain days. We plan our borrowing in order to have a cash deficit of 75 percent of the bank days during the year. On other days, incoming payments are larger than outgoing payments, which leads to a surplus. There is most often a surplus a couple of days in the middle of the month in connection with major incoming tax payments. The variation in the daily borrowing requirement in a typical month is shown in Figure 7.

Figure 7
Liquidity management during a typical month 2006
SEK billion



All krona payments are gathered in the central government account at the Riksbank. The Debt Office's daily liquidity management ensures that the balance in the account is zero at the end of each day. Deficits are financed in the first place by liquidity bills and long repos. The rest is covered by overnight loans and short repos. A repo means that the Debt Office sells a government security with an agreement to repurchase it after a certain number of days. It is accordingly a type of short-term borrowing even if the underlying security can have a longer maturity. Repos are often cheaper than other types of short-term borrowing, since certain players need to borrow government securities and are prepared to pay a little extra to obtain them. The Debt Office has therefore gradually increase repo funding to reduce the state's costs.

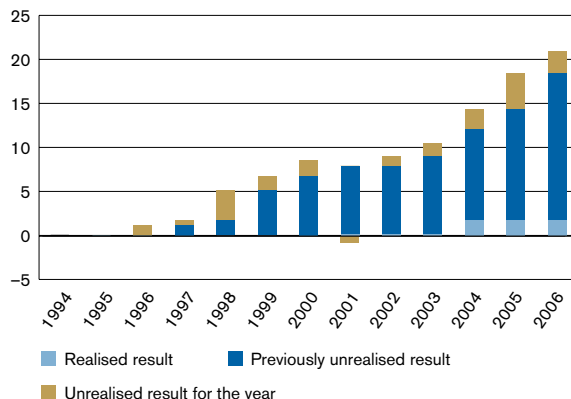
Inflation-linked krona debt

The Debt Office issued inflation-linked bonds in 2006 for almost SEK 7 billion. This was less than previous years but corresponds to the forecast we presented in March. The reduction reflects a lower net borrowing requirement and weak demand. However, almost the whole of the volume offered could be sold in the auctions. Auctions were not fully subscribed only on two occasions.

Inflation-linked loans have an in-built protection against inflation. The investor receives a fixed (inflation-linked) interest, and compensation for the rate of inflation during the maturity of the loan. The interest to be paid by the state in a nominal loan is fixed when the loan is issued. The issuance of inflation-linked bonds takes place according to the same principles as nominal bonds, that is through auctions and the Debt Office offers approximately the same volumes at every auction. However, there are fewer players in the inflation-linked market, which makes it harder to predict demand.

Although the main purpose of the inflation-linked debt is to spread risks, and risks are always in the future, it can

Figure 8
Calculated result for inflation-linked debt
SEK billion



be of interest to study how inflation-linked borrowing has affected the state's costs up until now. A comparison is made with what it would have cost the state to issue nominal bonds with the same maturities. Accumulated since 1994, the estimated saving of issuing inflation-linked loans is almost SEK 21 billion. The main part of the saving is unrealised; see Figure 8.

The explanation for the large saving is that inflation has been considerably lower than expected. The key statistic for comparisons of this kind is referred to as the break-even inflation. This is defined as the difference between the inflation-linked interest rate at the time of issue and the interest rate on the same date on a nominal bond with the corresponding maturity. The higher the break-even inflation in an issue, the higher the actual inflation compensation the state can pay without inflation-linked loans becoming more expensive than normal loans.

The average break-even level in the issues during 2006 was 1.89 percent. This is slightly higher than the previous year's level of 1.84 percent. Whether these loans lead to lower costs than if we had issued the corresponding amount of nominal bonds depends on whether the average rate of inflation during the term of the loan is under or above this level.

Foreign currency debt

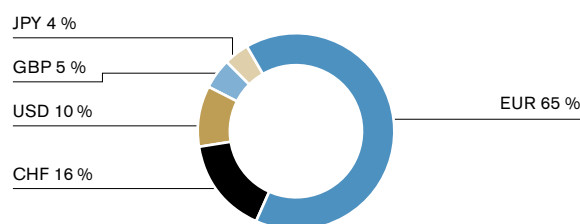
The Debt Office borrowed SEK 44 billion in foreign currency during 2006. We repaid SEK 62 billion, which means that we amortised SEK 18 billion of the foreign currency debt. The difference between the target in the Government's guidelines (SEK 25 billion kronor) is due to the Debt Office amortising at an annual pace of SEK 10 billion until June 2006.

The decision to reduce the pace of amortisation was made in November 2005, the reason being the abnormal weakness of the krona. By postponing amortisation until

a period when the krona was stronger, it was hoped that we would be able to reduce the costs of the gradual reduction of the foreign currency share of the central government debt. In November 2005, the value of the krona, measured in terms of the TCW exchange rate index was around 134 (the higher index value, the weaker the krona). In June, when the pace of amortisation was increased, the index was around 127, which we considered a more reasonable level. The krona remained strong in the second half of the year. To date, our assessment that the krona was abnormally weak at the end of 2005, appears to be correct. The decreased pace of amortisation should therefore have led to lower costs.

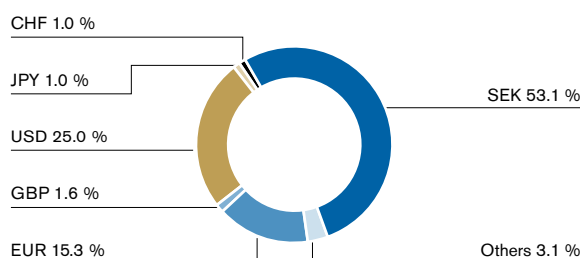
The foreign currency debt is controlled by a benchmark specifying the distribution between component currencies and the maturities of each. The currency distribution is shown in Figure 9. At the beginning of 2006, the Debt Office introduced a new benchmark. The proportion of Swiss francs increased from 9 to 16 percent. Instead, the proportions of dollars and pounds decreased. This decision aimed to reduce the costs of the foreign currency debt without taking too large risks.

Figure 9
Composition of foreign currency debt



We do not fund the foreign currency debt according to the benchmark. The Debt Office endeavours instead to borrow as cheaply as possible and then use derivatives to obtain a foreign currency debt with composition and maturity in accordance with the benchmark. Around half of the foreign currency debt is, for instance, funded in kronor which is then converted to obligations in foreign currency by currency swaps; see Figure 10.

Figure 10
Funding of foreign currency debt

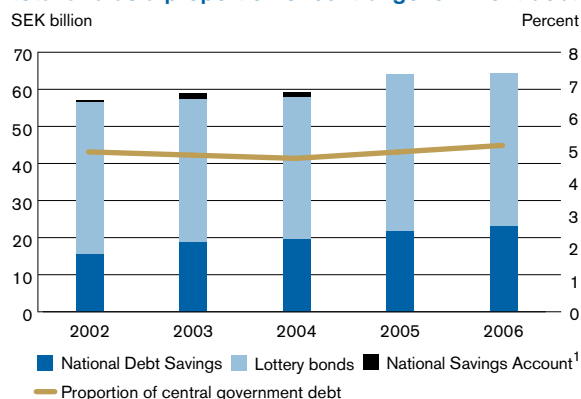


During 2006, we created about half of the new foreign currency debt by bond loans and half by currency swaps. The bond loans were issued in the first six months of the year when we amortised more slowly on the foreign currency debt and therefore had a relatively large borrowing requirement in currency. Bonds in foreign currency produced an interest rate which was on average 0.22 percentage points below the standardised bank rate for dollars (USD libor). Currency swaps cost on average 0.33 percentage points below USD libor.

Retail market borrowing

Borrowing in the retail market is targeted on private persons, small businesses and organisations. On 31 December 2006, SEK 64 billion kronor of the central government debt was funded on the retail market. This corresponds to 5.1 percent of the central government debt; see Figure 11.

Figure 11
Retail market borrowing,
total and as a proportion of central government debt
SEK billion



¹ The National Savings Account is an older type of savings which was ended in 2005.

Savings products for private persons and small companies

Our retail market instruments are lottery bonds and National Debt Savings. We also sell government securities to private persons, small businesses and other organisations through our website.

Lottery bonds are our biggest savings product

Around 500,000 Swedes own lottery bonds. Many customers have investments in several of the outstanding loans. The proportion of completely new customers has successively increased when we have issued new lottery bonds. In the most recent loan, 34 percent of the customers were new.

We sold two new premium loans in 2006, one in March and one in October. New sales totalled SEK 7.8 billion. Despite this, the outstanding volume decreased by just

under SEK 1 billion during the year, to SEK 41 billion. The main cause of this decrease is that large loans matured during 2006. This means that the outstanding volume decreased slightly, despite successful sales during the year.

Increased deposits in National Debt Savings

During the autumn, deposits increased and we had the greatest net inflows since autumn 2003 because of increased interest rates. The increase was greatest for accounts with variable interest. We increased the interest rate on National Debt Savings without a time limit from 1.25 to 2.75 percent during the year.

All in all, National Debt Savings increased by SEK 1.3 billion and had an outstanding volume of SEK 23.1 billion at the turn of the year. Just as in previous years, it was primarily accounts with variable interest that increased. Our variable interest accounts are competitive alternatives to bank savings accounts.

At the turn of the year, we had 147,000 National Debt Savings customers.

Internet sales of government securities

During 2006, we sold government securities through our website for a total of SEK 950 million kronor. This is an increase of 82 percent compared with the previous year. Sales and the number of customers have increased successively since we started internet sales of government securities in autumn 2002. One reason for the increased interest during 2006 is that we increased the maximum limit for offers from SEK 5 to SEK 10 million.

Interest has been greatest the whole time for T-bills, which accounted for 98 percent of the sold volume in 2006. Small companies and organisations which invest temporary surplus liquidity in government securities account for a large part of the volume.

The cost of Internet sales of government securities totalled SEK 5 million in 2006, a reduction of SEK 3 million compared with the previous year.

Retail market borrowing reduces costs

Retail market borrowing reduced the costs of government debt by SEK 177 million in relation to alternative borrowing in the capital market during 2006. The total cost saving was SEK 982 million for the five-year period 2002–2006. The result was improved by SEK 71 million compared with the previous year; see Table 6. Underlying the improvement for lottery bonds are successful issues during the year and the writing-off of old physical premium loans. For National Debt Savings, the improvement depends mainly on reduced marketing costs and lower expenditure for prices losses in connection with early redemptions.

Table 6

Saving retail market borrowing¹

SEK million	2002	2003	2004	2005	2006
Lottery bonds	317	240	110	98	150
National Debt Savings	10	20	6	10	27
National Savings Account	–	–	–4	–2	–
Total saving	327	260	112	106	177

¹ Government securities are not included in the result, since we pay the same interest to private persons as to institutional investors.

The result shows how much more the corresponding borrowing would have cost in the institutional fixed income market. Income is measured as an interest rate margin against borrowing in corresponding maturities in the money and bond market. The costs are the actual costs for borrowing in the retail market (for instance, system support, marketing and commission).

The Debt Office's role in the savings market

Like the banks and other financial institutions, the Debt Office offers interest saving for private and corporate savers. In 2006, our share of the market for fixed-income saving decreased by 0.7 percentage points to 6.5 percent³.

The reasons for this reduction is that the total fixed-income saving market increased sharply during, in particular by increased bank saving. An underlying factor was the price fall on the stock exchange during the spring.

Business intelligence

As part of the future development of the Debt Office's savings products, we have initiated work to survey the savings market in Sweden, in order, among other purposes, to identify market trends and the driving forces underlying the changes taking place. An important question is what role that the Debt Office plays in the fixed-income market and how the offering of products should look in the future.

Good impact for advertising

Our advertising campaigns were successful with good sales during the year, despite relatively low interest rates. We had a good "sender identification", i.e. customers understand who was responsible for the advertising. The advertising aimed to reach younger customers, which we succeeded in doing.

Active foreign currency management

Active management means that we try to predict the future development of interest and exchange rates and

³ The Debt Office's retail market borrowing as at 31 December 2006 and the total savings market on 30 September 2006.

create, using derivative instruments, positions that enable us to earn money if our assessment proves to be correct. A foreign currency position may, for instance, entail that we obtain a debt in dollar and a corresponding claim in euro if we expect the value of the dollar to fall in relation to the euro. If the dollar then falls against the euro, we wind up our euro claim and repay the dollar loan. The difference is the realised gain on the position. If the dollar had instead fallen, we can be obliged to realise a loss. We have an internal framework that restricts the risks we may take.

The Debt Office also uses a number of external managers who work with the same task. The purpose of external management is to obtain external expertise and experience to further reduce costs, and to have a benchmark against which we can evaluate our own management. Active management is a normal component in many private companies' financial management, although it is uncommon among central government debt managers.

The active foreign currency management produced a surplus of SEK 339 million in 2006. The profit comes from interest rate positions. The surplus in the active management reduces the state's interest payments and thus decreases the state's costs. Altogether, the surplus was SEK 1,475 million between 2002 and 2006; see Table 7.

Table 7

Result of active management

	2002	2003	2004	2005	2006
<i>Result in SEK million</i>					
Total management	434	937	195	-430	339
The Debt Office	392	880	164	-426	348
<i>Of which:</i>					
Interest-rate positions	-78	224	-18	187	367
Currency positions	470	656	182	-613	-19
External managers	42	57	31	-4	-9
<i>Result as percent of managed amounts</i>					
The Debt Office	0.11	0.52	0.11	-0.25	0.21
External managers	0.14	0.14	0.09	-0.01	-0.03

Our own management produced a better result than the external managers. Since these are selected from leading international players, and those who have a systematically poor result are replaced, the result indicates that the Debt Office carried out its active management well.

Goal fulfilment

It is not possible to make an exact evaluation of the goal of minimising the cost of borrowing while taking into account risk. The decisions that are most important for costs and risks are made by the Government in the guidelines for central government debt management. There are no clear measures to evaluate guideline decisions. Instead, the valuation concerns assessing

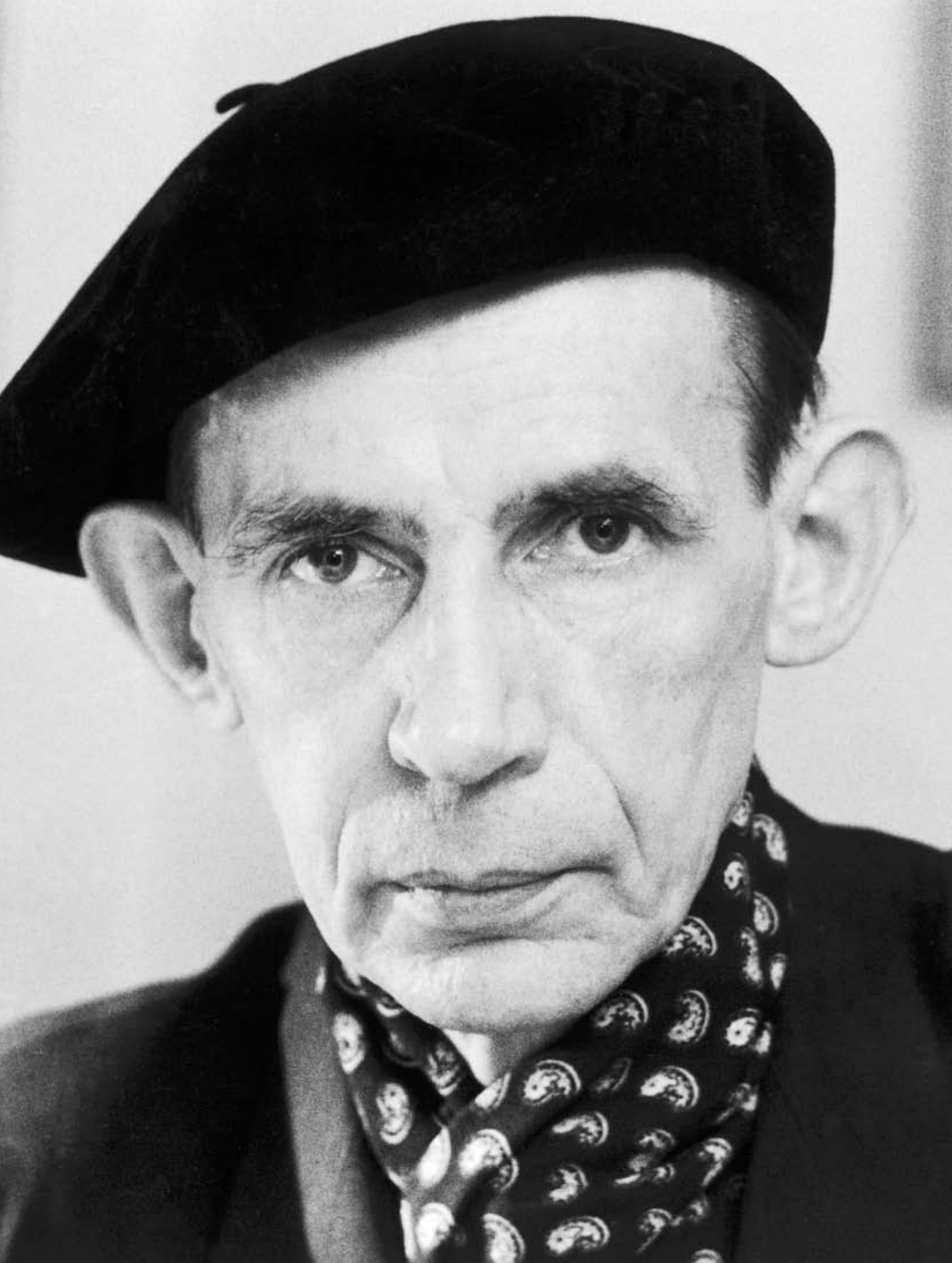
whether decisions overall appear to be reasonable and well judged taking into consideration the objective and the information available when decisions were made. The control system for central government debt management is based on the Riksdag making an assessment of this kind every year.

The Debt Office's proposed guidelines are based on our assessment of how the state should manage its debt to achieve its goal. Since the system of annual guidelines was introduced in 1998, the Government has substantially adopted our proposals. The Riksdag has to date found that the Government's guidelines have been compatible with the goal. Since it is the Riksdag which sets and interprets the goal, this indicates that the Debt Office's work on the guideline proposals provides an important contribution to achieve the overall objective for central government debt management. The goal of central government debt management is long term and nothing has happened during 2006 to make us change this assessment.

The Debt Office considers that we also achieved the other goals in the appropriation directions and guideline decisions for central government debt management. We would like to draw attention to the following, in particular:

- We amortised SEK 18 billion of the foreign currency debt. This reduction compared with the target of SEK 25 billion was based on the assessment that the krona was undervalued in the first six months of the year. This assessment has appeared to be reasonable to date and the state's costs should therefore be lower. The foreign currency share of the central government debt decreased by 2 percentage points, but is still higher than the long-term target in the Government's guidelines.
- The proportion of inflation-linked debt increased from 16 to 17 percent of the central government debt. We therefore took another step towards the target in the Government's guidelines.
- Borrowing in the retail market produced a surplus of SEK 177 million in 2006. The gain for the period 2002–2006 was SEK 982 million in profit.
- Active foreign currency management produced a surplus of SEK 339 million in 2006. The gain for the period 2002–2006 was SEK 1,475 million.

As well as these measurable results, it should be added that we have contributed to the good performance of the Swedish government securities market through our debt and market maintenance. This assessment is supported by the result of this year's questionnaire to investors and dealers which is even better than previous years. A government securities market that performs well gives the state low loan costs. This also contributes to reducing risks by well-performing markets being available if the central government borrowing requirement should increase unexpectedly.



Nils Ferlin • 1898–1961

I have sold my songs to entertain, May God forgive me for some lines, for my legs are rather thin like my arms and neck.



Selma Lagerlöf • 1858–1940

How much oftener is one pricked by a rose than burned by a nettle!
"The Miracles of Antichrist", translated by Pauline Bancroft Flach, 1915.

Cash management

Central government agencies, public enterprises and state-owned companies deposit and borrow money at the Debt Office on commercial terms. We are also responsible for the state payment system. This is to make possible efficient and secure payments, to provide the agencies with good service and contribute to good state cash management. The borrowing of the Debt Office is based on deficits and surpluses in the outgoing and incoming payments of the agencies.

Goals

The Debt Office shall

- set market terms for loans and investments to government agencies and some companies; the terms and conditions are to be based on our borrowing costs
- work for the state payment system to make possible efficient payments, to maintain a high level of security, to be adapted to the central government accounting system, to meet the state's need for information and to be neutral in terms of competition; no bank is to be favoured above any other
- work for efficient liquidity management and decreased interest expenses in the state
- offer the agencies good service.

Reporting requirements

The Debt Office shall report

- changes in the principles for setting interest rates
- improvements made in quantitative and, if possible, qualitative terms
- the customer's view of quality and service
- major steps in development work and important proposals for structural measures and an analysis of the effects of these measures.

Important events in 2006

- We signed new framework agreements for payment services. The agreements reduce the state's costs.
- Service to the agencies was improved by, for instance, new functions and a new user interface in our business system.
- The Government made a decision on a new payment ordinance on our initiative.

Continued development of the state's internal treasury function

We are the agencies' internal bank

Our business system which handles the agencies' loans, investments and appropriations, has been further devel-

oped by new information support and a new layout. The agencies can apply for loans, invest money and transfer it between accounts through the system.

We can now grant inflation-linked loans to agencies

Agencies and companies can now also borrow at a fixed real interest rate. This became possible in 2005 when the Debt Office took over a number of loans with inflation-linked loan terms from Stockholmsleder AB and Göteborgs Trafikleder AB and replaced them with loans to the Swedish Road Administration.

New framework agreement for central government payments reduces costs

On 29 September, the Debt Office entered into new framework agreements with payment services and related matters. The framework agreement banks are as previously Nordea, SEB and Swedbank. The new agreements come into effect on 1 April 2007 and replace the existing agreements from 2003.

The framework agreements are used by around 270 central government agencies. Unlike previously, public enterprises can now also use the agreements.

The agreements include services for the agencies' own payments, for instance, wages, rents and other expenditure for the activity. Agencies such as the Swedish Social Insurance Office and the Tax Agency have more over a great number of large payments – normally statutory transfers – in form of pensions, allowances and taxes. In all the central government payments total approximately SEK 4,200 billion annually.

A new development is that the payment services have been ranked. This applies to what is known as a basic services package that consists of the most used services, and 31 different individual services. The agencies shall in the first place use the services with the highest ranking.

In our assessment, the costs for state payments can be reduced by up to 30 percent. Half of the saving is from lower prices. If the agencies choose services according

to the ranking, the state can earn the same amount again. The requirements to choose the cheapest alternative are greater than before.

New modern payment ordinance for central government agencies

At the beginning of the year, the Debt Office presented a proposal for a new payment ordinance (1994:14). This proposal meant that the rules were to be modernised and adapted to the practice developed for central government payments. Among other things, we proposed that the absolute requirement for separate accounts for incoming and outgoing payments should be abolished and that currency hedging in the central government activities should be regulated. This proposal also meant that the language should be modernised, for instance the state cheque account at the Riksbank (SCR) is to be called the Government central account at the Riksbank (still abbreviated as SCR). In September, the Government adopted a new payment ordinance (SFS 2006:1097). This started to apply at the turn of the year and contains most of our proposals. During the autumn, we have produced regulations and general guidelines for the ordinance.

Payment of congestion tax

During the congestion tax trial, 14.5 payments of congestion tax were made. The Swedish Road Administration carried out its own procurement of the payment service. We are at present discussing with the Swedish Road Administration on how payments shall be made for a future permanent congestion tax. In time, these payments will also be made through our framework agreements.

Even lower costs for state payments

Reduced costs

During 2006, 123 million payments were made in the central government payment system at a cost of SEK 152 million. This is a reduction of SEK 9 million, or 5.6 percent compared with 2005; see Figure 12.

The lower cost is above all due to agencies being able to reduce the use of expensive payment slips and replace them by deposits in accounts. In the past two years, the use of payment slips has been halved which has meant a saving of SEK 23 million.

Payment of salaries and pensions and sending out specifications of payments to recipients is also expensive. The number of specifications has decreased by around 130,000 – mostly from the National Government Employee Pensions Board – producing a saving of around SEK 1 billion.

Reduced float

Before 2003, the banks were paid for their services by being able to retain the deposited money for a period and receiving interest income before the money was forwarded to the recipient, referred to as “the float”. This way of compensating the banks for their payment processing ceased in 2003 when the current framework agreements came into use.

A very small overnight float remains, however, as a result of payments made in the late afternoon and evening, which are not completed until the morning of the following day. This concerns 0.07 percent of the total annual volume of payments. The change in the size of the float is shown by Figure 13.

The Debt Office has no costs for this float. We receive interest corresponding to the Riksbank's repo rate. However, the float does entail a risk that we have to manage.

Greater volume of payments

The volume of payments processed via the framework agreement banks has increased. This is partly due to larger tax payments but also to certain larger payment flows that are now processed by the banks instead of

Figure 12
Central Government Payments And Expenses¹
SEK million

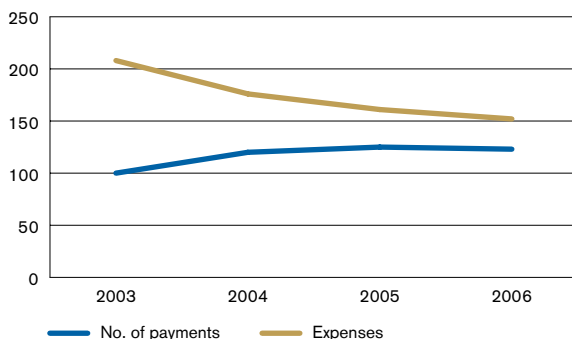
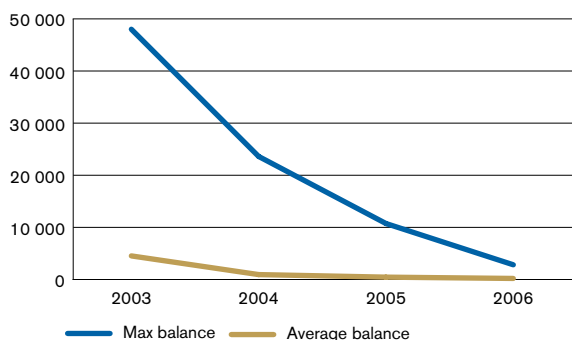


Figure 13
Maximum and average balance per day¹
SEK million

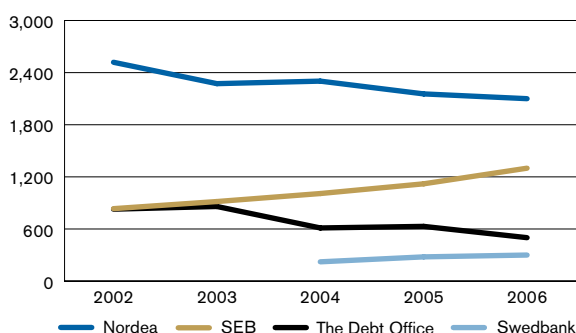


¹ Refers to the framework agreement period 1 January 2003 – 31 March 2007.

Figure 14

Central government payments distribution between banks

SEK billion



via the Government central account at the Riksbank. The latter applies to the Premium Pension Authority's daily loans at the Debt Office, and the Social Insurance Agency's outgoing pensions of, among other payments, pensions and daily allowances.

The breakdown between banks is accordingly to the same pattern as previously; see Figure 14.

Lending and borrowing

Dampened lending activity

Most lenders reduced their new lending with the exception of Botniabanan AB, Svedab and the Swedish National Board of Student Aid (CSN). These increased loans meant that the total loan volume did not decrease.

Among the larger agencies and companies that reduced their borrowing, special note can be made of the fact that the companies created when the Swedish state railways, SJ was incorporated, have phased out the whole of their lending at the Debt Office. The Swedish Defence Materiel Administration is the agency which has reduced its borrowing most. Use of interest account credits also decreased. The Debt Office's lending was SEK 258.3 billion at the turn of the year; see Table 8.

Table 8

The Debt Office's lending to agencies, public enterprises and companies

SEK million	2002	2003	2004	2005	2006
Agencies	177,694	195,313	210,160	226,326	235,690
Public enterprises	7,309	7,682	7,780	6,267	7,069
Limited companies	10,587	9,184	10,716	13,058	15,491
Total lending	195,590	212,179	228,656	245,652	258,251

Table 9

Deposits at the Debt Office by agencies, public enterprises and companies

SEK million	2002	2003	2004	2005	2006
Agencies	71,450	75,889	79,034	81,777	67,080
Public enterprises	769	621	3,893	3,516	3,511
Limited companies	1,978	1,935	1,550	1,200	1,000
Total deposits	76,199	78,445	84,477	86,493	71,591

Reduced deposits

Deposits increased at an even pace during the year with, among other deposits, large payment flows from the Premium Pension Authority and Svenska Spel AB. The balances on the agency interest-bearing accounts at the Debt Office increased. On an annual basis, deposits increased by SEK 4.4 billion. The total balance was SEK 71.6 billion at the turn of the year, of which SEK 28.4 billion were net deposits in interest-bearing accounts; see Table 9. Despite the increased deposits earlier in the year, there was a reduction at the end of the year compared with 2005. The reason for this is that the Premium Pension Authority is paying premium pensions in December from and including 2006 instead of January as previously. As a result of this rearrangement, two outgoing payments were made in 2006.

Quality and service still good

The Debt Office's annual customer questionnaire on the view of the agencies about the quality and services produced a high satisfied customer index this year as well, 82 out of a maximum of 100, which is a good result.

Interest setting

The principles for setting interest rates on deposit and loan accounts are unchanged since last year.

Goal fulfilment

The Debt Office has complied with the goal for the Cash Management area of operations in 2006. The new framework agreements will, for instance, entail decreased costs for the state at the same time as the efficiency and security of the payment system increases. The agencies also remain satisfied with our activities. A number of services and training courses were arranged during the year at the same time as further improvements were made in the system support to agencies.

Guarantees and loans

The Debt Office is to issue and manage state guarantees and provide loans with credit risk as mandated by the Riksdag. Guarantee activities are financed by risk-based fees either from the guarantee takers or by appropriations from the state budget. Viewed over a longer period, the goal is for guarantee indemnification and administrative costs to be covered by fees. Guarantees are thereby wholly fee-financed.

Goals

- The Debt Office shall pursue its guarantee and loan operations efficiently while minimising risk.
- The fees we charge for the guarantees shall cover the costs of guarantee activities in the long term.
- By evaluating economic risks, setting fees, determining conditions, the Debt Office shall contribute to limiting the state's risk and safeguarding the state's rights.
- The Debt Office shall work actively to ensure that the guarantee and loan operations of other agencies are pursued efficiently.

Reporting requirements

The Debt Office is to report on the financial outcome of operations and analyse the factors affecting the outcome.

Important events in 2006

- The Debt Office shall take over Venantius state-guarantee bond loans.
- A new guarantee to SwePol Link.
- A report presented on co-ordinated risk reporting for loans.
- A report produced on financial collateral in nuclear waste processing.

To manage the risks in our guarantees, we make provisions for anticipated losses. At the turn of the year, these provisions amounted to SEK 2.2 billion for all guarantees except Venantius which was dealt with separately. The Öresund bridge accounted for three-quarters of the provisions. In our assessment, no important changes took place during 2006 that affect our long-term analysis. The provisions were therefore largely the same as the previous year.

The expected losses are to be covered by fees, both fees already paid and those that we expect to receive in the future. The fees are entered in an interest-bearing account at the Debt Office. Over a longer period, this activity is to break even, i.e. the fees are to cover losses.

Current assets in the interest-bearing account are SEK 1.9 billion. If the present value of expected future fees and appropriations (SEK 1.1 billion) are included, the guarantee assets amount to SEK 3 billion.

Assets thus exceed provisions; see Table 10. This is due to the economic development in recent years leading to our only having to pay for a few small guarantees. However, the surplus may be needed to cover future losses.

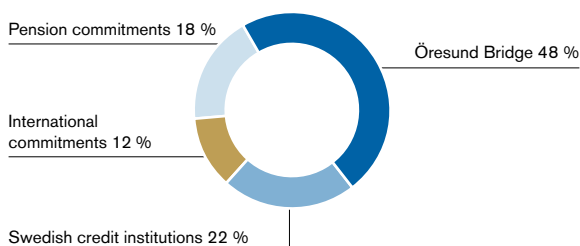
The guarantee and loan portfolio

Provisions for guarantee losses

The Debt Office's guarantee commitments of SEK 53 billion mainly consist of a few large items where the Öresund bridge accounts for almost half; see Figure 15. Other large commitments concern Swedish and international credit institutions and pensions to former employees of central government agencies which have been incorporated.

Figure 15

Guarantee commitments



The Debt Office shall take over Venantius state-guaranteed bond loans

After a proposal from Venantius AB, the Riksdag and Government have decided that the Debt Office should take over responsibility for Venantius state-guaranteed bond loans with appurtenant derivative instruments. In all, this concerns over SEK 4 billion with varying maturities which are to be managed until the end of 2013.

This takeover, which is planned for the first quarter of 2007, is to take place by Venantius paying a cash amount corresponding to the market value of the undertakings. With this takeover, the state's guarantees are terminated.

Venantius is a state-owned credit market undertaking which was established in 1995 to take over state housing loans with large risks. The lending taken over was financed, in among other ways, by the company borrowing in the credit market through bond loans guaranteed by the Debt Office. The favourable development in recent years has meant that Venantius has decreased its lending and there is accordingly no longer any need of external financing for the company's remaining activities.

Guarantee to SwePol Link AB

In May, the Government commissioned the Debt Office to grant a guarantee for a new loan to SwePol Link AB. This guarantee is expected to be issued at the beginning of 2007.

SwePol Link owns a direct current cable under the Baltic Sea which connects the Polish and Swedish electricity grids. The company is owned by the public enterprise Svenska Kraftnät, the state-owned company Vattenfall AB and the energy company Polskie Sieci Elektroenergetyczne S.A.

Continued write-down requirement in the loan portfolio

The Debt Office has outstanding loans with a credit risk of SEK 15.5 billion mainly in the sphere of the infrastructure; see Table 11. We estimate the current value of the loan at SEK 13.5 billion. The major part of the write-downs are attributable to Svedab for the land connections to the Öresund bridge.

Loan frameworks for state railway companies cease

The companies that were created from the public enterprise Swedish State Railways were able to raise loans at the Debt Office. The loan frameworks to Swedcarrier and its subsidiary Jernhusen ceased on 31 December 2006 since the group replaced the loan from the Debt Office by external bank borrowing. The only remaining loan framework is for SJ AB for SEK 2 billion. SJ AB does not utilise this facility at present.

Table 11

Loans with a credit risk

SEK million

Borrower	Outstanding loans	Write-down for expected credit losses
Botniabanan AB	10,140	
Svedab AB	4,076	1,900
A-Train AB	1,000	100
Other	289	
Total	15,505	2,000

Guarantee and credit management at other agencies

The Debt Office provides ongoing advice and support to other agencies that provide guarantees and loans and recommends changes with a view to obtaining a more efficient and responsible management within the state.

At the beginning of the year, the Debt Office reported on a commission from the Government to co-ordinate work with the other agencies that provide loans and the Swedish National Financial Management Authority. The aim of the investigation concerned joint reporting of costs and risk for government loans. The commission has worked to make the distinction between loans and grants clearer and to specify uniform valuation principles for loans to facilitate inter-agency comparisons. The commission also points out the need for a state credit model similar to the model applicable for guarantees. With a regulatory framework of this kind, the state's total commitments could be managed in a more financially responsible way.

Table 10

Undertakings, provisions and assets in guarantee activities

SEK million

	Guarantee undertakings	Provisions for anticipated guarantee losses	Guarantee fees paid	Future still unpaid guarantee fees
Guarantee portfolio except Venantius	48,475	2,208	1,949	1,134
Venantius	4,373	2	562	0

Financial collateral in nuclear waste management

The Debt Office proposed in a report to the Government in the autumn that the state should make higher demands on the financial collateral provided by the nuclear power industry. This collateral complements the money already funded in the Nuclear Waste Fund for the expected cost of nuclear waste processing.

Through these proposals, the nuclear power industry will bear greater responsibility than previously. It is proposed that a ceiling be put on the amount responsible for at each time. This expanded responsibility reduces the risk of the state having to pay for nuclear waste processing.

The Debt Office did not present any proposals for an absolute level of collateral, but only how different types of collateral should be designed to function in the best way. Ultimately, this is a political assessment of how far reaching demands on the nuclear power industry are to be.

We do not consider that the state shall evaluate and demand a fee for the residual risk despite the fund and collateral. If the state wishes to undertake additional measures, it is preferable to let the nuclear power industry fund additional money.

Goal fulfilment

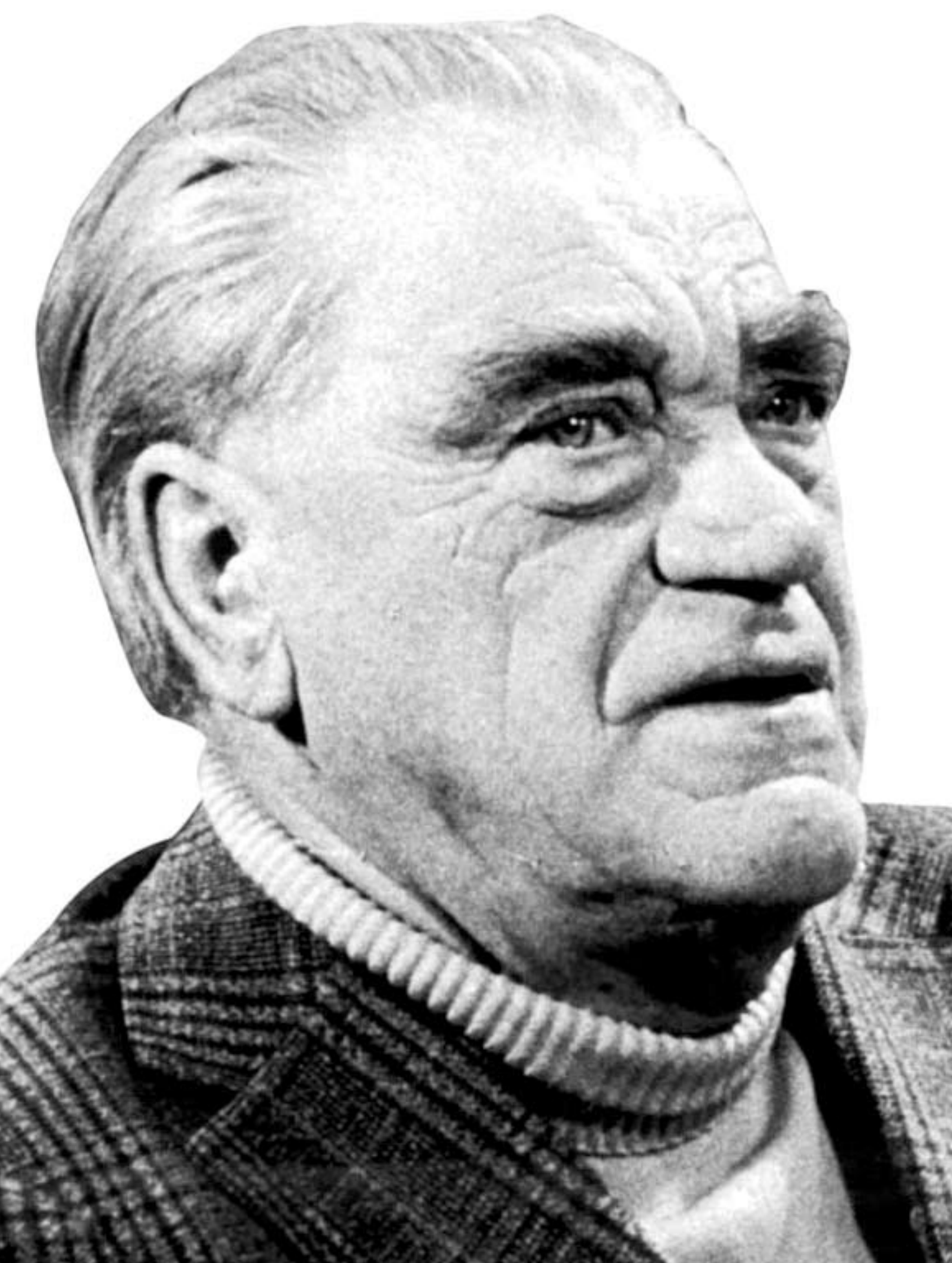
The goals for guarantee activities have been complied with.

The goal of efficient credit management has been partly achieved. We have charged risk-based fees on most loans in recent years, although there is still no framework for government loans.



Jussi Björling • 1911–1960

*"Now the fresh wind of the ocean blows from the southwest and sweetly caresses the sailor's cheek best of all winds!
Toward sea and storms, you boldly course, toward sea and storms, be then on guard!" Music: Jean Sibelius. Lyrics: Jonatan Reuter.*



Vilhelm Moberg • 1898–1973

When a politician says that we're all sitting in the same boat, you'd better watch out. It means that you're going to have to row.

Risk management

The outcome of the management of the central government debt, the state payment system and pricing of guarantees and credits depends partly on our ability to assess and manage risks. Risks also arise in the Debt Office's ongoing operations due to our actions and decisions. Risk management is therefore an important area for the Debt Office and an area that is continually developing.

Goals

In addition to what is stated in the Government guidelines for central government debt management, the Debt Office shall

- endeavour to achieve the best market practice in risk management
- ensure that management of financial and operational risks complies with the relevant demands made in legislation for financial companies and in the regulations and general guidelines of Swedish Financial Supervisory Authority, Finansinspektionen
- ensure that activities take place within the collaboration "Economic security" to minimise risks and contribute to maintaining society's basis needs also during severe strains in peacetime.

Reporting requirements

The Debt Office is to report on the extent of compliance with goals. If a goal is not achieved, the reasons are to be analysed and planned measures for goal compliance described.

The Debt Office shall also make a separate report on its assessment of its ability in severe strains in society in peace, and an analysis of the contributions made to goal fulfilment and effects on emergency preparedness.

Important events in 2006

- Financial and risk policy also includes the area of operations Guarantees and loans.
- Counterparty risks in credit risk management were reviewed and a new regulatory framework included in the Financial and Risk Policy.
- We started work to strengthen our continuity preparedness.

Overall risk management

The goal for risk management at the Debt Office is for operations to have good risk management in accordance with the best market practice.

A first step in our risk management is to identify which different types of risk arise in the Debt Office's activities. We largely work with two main types of risks: operational risks and financial risks.

Operational risks depend on deficiencies in internal processes, human error, faulty systems, or external occurrences. Financial risks consist of market risks and credit risks. Interest rate risk and currency risk are different forms of market risk. The credit risk is the risk that the counterparty will not perform his undertakings in a transaction.

To manage and control the risks in the operation, we work with uniform methods and models, clearly defined policies and instructions and a well-defined division of responsibility at the Debt Office.

The Board is ultimately responsible for limiting and following up the risks in the operation and ensuring that operations take place with good internal control. The Board adopts a Financial and Risk policy annually and receives regular reports about the level of risk.

Every department is responsible for the level of risk and risk management within its own activity. The Risk Management Department is responsible for the independent, overall control and the overall report presented to the executive management and the Board. Internal audit, which reports directly to the Board, evaluates the overall risk management.

To discuss major risks and incidents or risk management issues that affect large parts of the activity, a risk council is convened with representatives from the affected parts of the operation. The council is presided over by the head of the Risk Management Department and the executive management of the agency is to be represented. The work of producing the annual Financial and Risk Policy is led by the Risk Management Department and prepared by a steering group chaired by the Director General of the Debt Office.

Financial risks

Financial risks arise in the management of central government through changes in interest and exchange rates affecting the value of debts and costs. The extent to which the value of the debt and costs are affected depends on the composition of the debt. Based on the Government's overall guidelines, the Debt Office therefore makes decisions on the composition of the debt. This is done by stipulating benchmarks and limits. Risks also arise in the state's payment system which are managed through policies and continuous follow-up.

The financial risks that arise within the guarantee and loan activity ensue from decisions by the Riksdag and the Government. We can therefore not decide ourselves whether the risk is to be taken. The Debt Office therefore does not set any benchmarks or limits in this area.

Market risks

Daily monitoring of the financial risks in central government debt

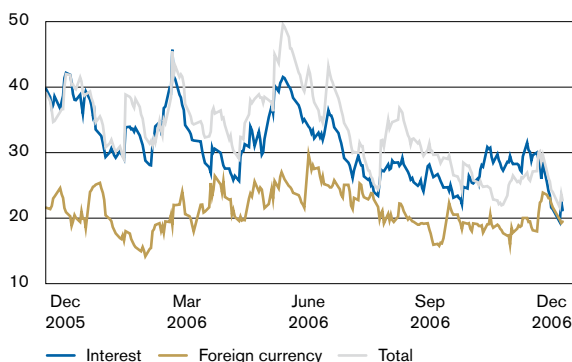
We monitor on a daily basis how the central government debt relates to benchmarks and limits. This monitoring takes place to check that the debt is not deviating from the benchmarks and limits and to see which transactions need to be carried out to steer the debt. Any deviations are reported to the executive management of the agency and the Board.

The interest rate refixing period of the nominal krona debt is reported adjusted for short-term variations. Unlike 2005, no significant deviations occurred from the limits during 2006. One explanation is the changeover from duration to interest rate refixing period as controlling measure. The interest rate refixing period is not affected – unlike the duration – by changes in interest rates. The basis for control of the debt therefore became more predictable.

The foreign currency debt is controlled so that the interest rate refixing period and the currency allocation are always at the benchmarks. Access to a large derivative market means that we can relatively easily steer the debt towards the benchmarks on a day-to-day basis. As previously, no substantial deviations to the set limits occurred.

The inflation-linked krona debt has to date not been controlled in relation to benchmarks and limits. However, the Government decided that the inflation-linked debt from and including 2007 shall be controlled in relation to a benchmark for the interest rate refixing period. Moreover, a benchmark is to be introduced for the proportion of inflation-linked debt.

Figure 16
Value at Risk
SEK million

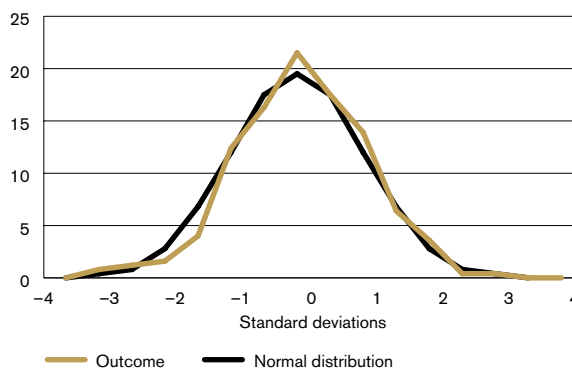


Risks in the active management of foreign currency

We use VaR, Value at Risk, to control and measure the market risks in the active management. The VaR value may be at most SEK 220 million on a daily basis; see Figure 16. The average VaR-value during the year was SEK 33.1 million, which means that the level of risk decreased compared with 2005, when it was SEK 43.3 million.⁴

Since the VaR model is based on expected values, the model's estimates are to be compared with the outcomes. During 2006, the VaR model's values accorded well with the actual outcomes; see Figure 17.

Figure 17
Value at Risk and outcome 2006
Percent



The outcomes largely comply with the statistical normal distribution curve which the VaR model uses. However, according to the theory underlying VaR, there will in reality be more outcomes around the average value than according to the normal distribution curve. There will also be more deviations from the average value. This can be seen in the figure by the outcome curve having a higher top and a rather thicker tail compared with the VaR model's normal distribution curve. No major deviations occurred during 2006.

⁴ The figure for 2005 has been recalculated due to changed calculation methods.

Credit risks

Credit risks arise in derivative and currency transactions which we make to control the central government debt, and in short-term placements made to manage the state's liquidity. The risk is that the counterparty cannot perform their undertaking.

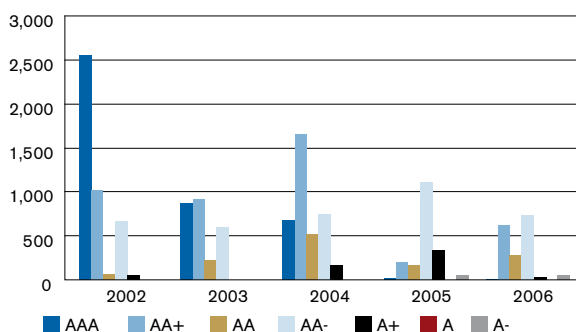
To reduce the credit risks, we make demands on the credit rating of our counterparties. The Debt Office only enters into transactions with counterparties with a high credit rating. We also set limit for the maximum size of credit exposures. In derivative transactions, we also make demands on agreements that substantially assist us to limit the risk. In line with best market practice, we make demands for agreements on netting, exchange of collateral to cover exposures (Credit Support Annex, CSA) and agreements which mean that we can conclude the transaction if a counterparty's credit rating falls below a certain level (rating-trigger).

The credit exposure continued to decrease during 2006 and is now only a fifth of what it was in 2002; see Figure 18. This is mainly a result of the introduction of CSA agreements. None of our counterparties had their credit rating reduced in 2006, on the contrary a number of credit ratings were raised. Over 90 percent of the exposure is among counterparties with the four highest credit ratings.

Figure 18

Exposure and credit rating at the Debt Office's counterparties

SEK million



During the year, we undertook a review of counterparty risks. This review resulted in the Board deciding on new more appropriate rules for management. The decision does not entail any change of the level of risk. The new rules apply from and including 2007.

Operational risks

Active management of operational risks

The Debt Office analyses operational risks annually at all departments in connection with operational planning. Measures to reduce the identified risks therefore also affect operational planning.

These risk analyses are based on a method for self-evaluation of the operation. With the support of this method, we have identified and evaluated our operational risks. On the basis of this evaluation, we have subsequently prioritised measures to reduce the risks. The analyses have also been followed up on two occasions during the year, whereupon a new evaluation of the risks has been made taking into consideration the measures undertaken.

To obtain a total picture of the Debt Office's operational risks, deviations are also reported and summarised in our activity. These deviations are connected with the risk analysis produced and evaluated with the same method. The measures undertaken are followed up a new risk evaluation can be undertaken.

The departments' risk analyses have been compiled and reported to the Board during the year. Deviations which have had a greater impact are also reported.

Readiness for emergencies

The Debt Office is a key part of the state's total economic system, and there is a great demand that we should be able to continue to perform our work in a crisis situation. To safeguard our activity, we work therefore with continuity planning, among other activities. This is intended to counteract discontinuity in the organisation and to protect our critical processes against the effects of serious disruptions or disasters.

In 2006, we started to survey and make a risk assessment of the reserve plans for our most critical processes. This started with an exercise to identify the most important processes from a continuity perspective. The project will be concluded with a major exercise during 2007.

From 2006, the Debt Office is represented in the steering group for the project "The Financial Sector's Private-Public Collaboration Project" (FSPOS) carried out under the leadership of the Swedish Financial Supervisory Authority. We also take part in "The Collaboration Project for Economic Security" (SOES). The experience and knowledge exchanged in these groups contributes to co-ordinating our own continuity planning with the surrounding environment.

Goal performance

The goal for financial and operational risks has been complied with. The methods and models used to manage both financial and operational risks are considered to be in line with market practice. All in all, the Debt Office meets the relevant requirements made on good risk management.

The goal for the area "Economic Security" has been partly complied with. The measures we need to undertake to strengthen our capacity were shown in the vulnerability analysis we sent to the Government in February 2006. We are working on implementing these measures.



Astrid Lindgren • 1907–2002

Give children love, and more love still – and their manners will come with time.

Personnel and competence

Our operations require that we have a high level of competence and that we are well prepared to secure the short and long term provision of competence.

Goal

The Debt Office should be an attractive workplace with a high level of competence and a stimulating and motivating working environment.

Important events in 2006

- Refurbishment of premises to further improve the working environment and reflect our trademark.
- Leadership training for all managers.
- Policy and plans for the working environment, equality, diversity and accessibility revised/ documented.

Investment in the provision of competence

Competent and skilled employees are the most important prerequisite for efficient operations. Today, we have a high level of competence, which we wish to retain and develop. Over 70 percent of our staff have university education. Apace with increased competition in the labour market, it is even more important that we are able to attract, recruit, develop and retain employees. Among other things, we therefore maintained the focus on competence development and leadership training and have reviewed the compensation and benefits programme. We started to produce a strategy for the provision of expertise.

The labour market has improved and our recruitment situation has thus become more difficult compared with 2005. None the less, we were able to fill all vacancies with staff with the right skills.

Investments in skills development

During 2006, the Debt Office invested SEK 22,140 per employee in advanced skills development. Many staff members took part in seminars and courses to develop their specialist expertise. Moreover, seminars were arranged for the whole of the Debt Office on public access, secrecy, and the Public Procurement Act.

All staff had at least one career development dialogue during the year when individual development plans were worked out in discussion between the employee and his or her superior.

Good leadership skills

We believe that a continuous focus on management development is an important factor for success. We therefore carried out an extensive customised leadership development programme mainly addressed to managers. The focus in the programme was to develop personal leadership, the team and the organisation. Support is also offered in the form of supervision and mentors. One purpose of the programme was also to increase the transfer of knowledge and exchange of experiences between managers.

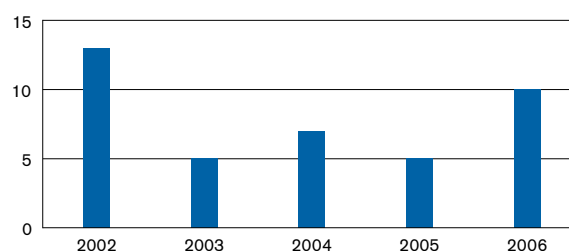
Increased mobility in the labour market

Employee turnover increased to ten percent, which is five percentage points higher than in 2005, see Figure 19. Personnel turnover was higher during the first half of the year than the latter half. The increased employee turnover is partly due to staff retiring, and partly due to an increase in demand on the labour market for qualified economists.

Figure 19

Personnel turnover

Percent



Low average age

The Debt Office had 162 employees at the end of 2006. The average period of employment in 2006 was 9.9 years and the average age 43.4. Corresponding figures for 2005 were 10.4 and 43.7 years respectively. The age distribution is shown in Table 12.

Table 12

Age distribution 2006

	Younger than 30	30–49 år	50 and older
No. of persons	14	101	47

Focus on working environment and keeping healthy

The working environment in our centrally located premises is of a high standard. During the year, the premises have been refurbished. The objective was to further improve the working environment and to increase communication, openness and collaboration between co-workers and departments.

We have a close collaboration with the health care services and regard it as important to have ergonomically correct workplaces. We invest a lot in preventive health care. We offer, for instance, subsidised gym cards and massage, health check-ups and seminars on keeping healthy.

Low level of sick leave

In the past few years, we have had a low level of sick leave at the Debt Office and in 2006 there was a further decrease. Sick leave totalled 2.3 percent and short-term sick leave was particularly low; see Table 13. The majority of the long-term sick were women. Active rehabilitation measures together with support from the health care services has contributed to this reduction.

Table 13

Sick leave

Personnel group	percent ¹ 2005	percent ¹ 2006
Women	5.5	3.3
Men	1.3	0.9
Employees younger than 30	1.7	1.2
Employees 30–49	1.9	2.6
Employees 50 and older	7.9	1.9
Total all employees	3.8 ²	2.3 ²

¹ Sick leave period/ordinary hours for respective group.

² Of the total sick leave, 51 percent was long-term sick leave of 60 days.

As many men in managerial positions as women

Of the employees 56 percent are women and 44 percent are men. Among the senior executives, 50 percent are women and 50 percent men. Work on diversity and equality-related issues is taking place in collaboration with the trade union organisations. Wage investments during the year entailed that irrelevant differences between men and women with similar competence have more or less wholly disappeared. More men than before made use of their entitlement to parental leave.

Achievement of objectives

The Debt Office has achieved the goal for the provision of competence in 2006. We have built a good platform and the development that has been started will continue in the years ahead.

Plans for ensuring future provision of competent personnel

To achieve the objective of being an attractive, working place, we are focusing on offering interesting work assignments, development opportunities, competent management, good working environment and activities to promote keeping healthy.

During 2007, the work on the strategic provision of expertise and resource planning will continue, due to a long-term strategy for the provision of expertise.



Ingrid Bergman • 1915–1982
Happiness is good health and a bad memory.

Financial report

The Annual Report has been prepared in accordance with the Ordinance on Annual Accounts and Budget Data (SFS 2000:605). The central government debt is reported in accordance with the principles in the Debt Office's report to the Government (Fi2002/2930). This was decided upon by the Government in the Debt Office's appropriation directions for the 2003 fiscal year. The financial documents consist of the income statement, the balance sheet, appropriation report, funds statement and notes.

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The Income Statement reports all of the Debt Office's expenses and income in summary form. The Balance Sheet reports the Debt Office's assets, liabilities and the agency capital in summary form. The Appropriation Report includes the Debt Office's report in relation to the expenditure appropriations and income titles in the state budget. The Funds Statement shows how the activity has been financed and changes in the liquid position of the Debt Office.

Exceptions from the financial administrative rules

Guarantee operations are exempted from the rules in section 23 of the Capital Provision Ordinance (SFS 1996:1188) with respect to the procedural provisions in the event of more than 10 percent accumulated surplus in the turnover of fee-based activities. Guarantee operations and the Cash Management Department are not subject to section 7 of the Fees Ordinance (SFS 1992:191) on the obligation to consult on fees.

Rounding-off statistical information

All figures are rounded-off in the annual report according to the customary principle. Sub-totals in tables and

formats have not been adjusted to make the total sums match. There can therefore be discrepancies in the total sums when totalling rounded-off sub-totals in tables and formats.

Cut-off date

The cut-off date, when the current accounts for 2006 were closed, was 10 January 2007.

ACCOUNTING AND VALUATION PRINCIPLES

Accounting principles

The Debt Office applies accounting-based reporting in the income statement. Appropriation accounting takes place in accordance with expenditure-based principles. Since settlement against appropriations takes place on an expenditure basis, there is an accrual effect, where unrealised exchange gains, accrued interest expense etc. is not deducted from the appropriation but which affects the change in capital for the year. A third accounting principle is the cash principle. The borrowing requirement is produced in accordance with cash-based principles. The outcome for the appropriation Interest

on central government debt therefore differs between the presentations of the appropriation account and the borrowing requirement. See the Debt Office's expenses and appropriations in the income statement.

Trade date accounting

The Debt Office applies trade date accounting. This means that transactions affect the reported central government debt on the trade date, i.e. a contract has been entered into and not when payment takes place. On maturity, these transactions are deducted from the central government debt on payment date.

Issue premiums and discounts

Premiums and discounts arise when we issue bonds in existing fixed-interest loans and the market interest rate differs from the bond's coupon rate. If the market interest rate is higher than the coupon rate according to the loan conditions, the loan is issued at a discount that is the lender pays a lower amount than the nominal amount of the bond. And vice versa, if the market interest rate is lower than the coupon rate. The premiums and discounts are entered in the income statement and settled against the appropriation interest on the central government debt. Premiums and discounts are also balanced as a cut-off item and taken up as revenue or expensed in the income statement, distributed over the time to maturity of the loan. Premiums and discounts are not included in the central government debt.

Interest on issue

When the Debt Office issues bonds, interest payment is normally included in the amount paid. The part of the amount consisting of interest refers to the period from the most recent interest payment to the time of issue. The interest is taken up as income in the income statement and settled against the appropriation interest on the central government debt. Interest is balanced as a liability, but not included in the central government debt.

Valuation of receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at closing date exchange rates.

Unrealised exchange rate changes

Unrealised exchange rate changes are the difference between the acquisition value for the receivables and liabilities in foreign currency which is reported in Swedish kronor and the valuation made at current exchange rates. The change is reported as an unrealised change in exchange rate in the income statement.

Realised exchange rate changes

When a receivable or liability in foreign currency falls due for payment, the difference between the acquisition

value for the receivables and liabilities in Swedish kronor and the payment is reported as a realised exchange rate change in the income statement.

Tangible fixed assets

Fixed assets are recorded at acquisition value and depreciated on a linear basis at 3, 5 or 10 years based on their economic lifetime. The total acquisition value of the investment is also to exceed SEK 10,000 to be reported as a fixed asset. Refurbishment of property belonging to others whose value amounts to at least SEK 100,000 is also treated as a tangible fixed asset.

Intangible fixed assets

Development costs which are of substantial value for the Debt Office's operations in future years are reported as intangible fixed assets. Systems, licences and similar rights as well as consultancy expenses for projects which we expect to benefit from for at least three years are also counted as intangible fixed assets.

Valuation of other receivables and liabilities

Other assets and liabilities, that is other asset and liability items than those described above, are reported at acquisition value. Receivables are taken up at the amount expected to be received.

Funds Statement

The Funds Statement complies with the format pursuant to the Annual Accounts and Budget Data Ordinance adapted to the operations of the Debt Office. In the Funds Statement for the Debt Office, certain flows are reported in accordance with what is known as the indirect method, which means that the cash flow is produced by all income and expenses according to the Income Statement being corrected for changes of receivables and liabilities. Certain actual payments are reported according to the direct method, for instance, interest on central government debt. The Funds Statement can therefore not be directly reconciled with the items in the Income Statement and changes in the balance items.

Internal receivables and liabilities

Receivables and liabilities in relation to the Cash Management Department at the Debt Office, which manages the interest-bearing accounts and loans for fixed assets of all agencies (including the Debt Office's), have not been eliminated. This principle has been applied since 1999 and means that information on the Debt Office's own interest-bearing accounts and loans to fixed assets are transparent in the annual account (see Notes 16, 23 and 28).

Income Statement (Note 1)

SEK thousand	Note	2006	2005
Operating income			
Income from appropriations	2	51,035 958	32,675,819
Income from fees	3	213,867	194,719
Income from grants		2,074	0
Interest income		56,544	41,065
Total operating income		51,308,442	32,911,603
Operating expenses			
Financial expenses for central government debt management			
Interest expense	4	-78,404,330	-76,331,721
Interest income	4	35,582,314	34,629,649
Issue premiums/discounts	5	7,462,934	6,654,761
Realised price changes	6	-5,929,318	-7,615,339
Realised exchange rate changes	7	-6,336,433	10,227,898
Unrealised exchange rate changes	7	23,494,804	-29,577,518
Expired bonds, coupons and prizes reported as income	8	17,617	-7,493
Commissions to banks, etc.	9	-92,930	-97,258
Total		-24,205,343	-62,117,021
Other operating expenses			
Personnel costs	10	-99,777	-91,181
Costs of premises		-18,033	-21,779
Expenses of guarantee operations	11	46,758	176,826
Other operating expenses	12	-262,085	-225,623
Interest expense		-385	-165
Depreciation	15	-10,584	-9,894
Total		-344,105	-171,815
Total operating expenses		-24,549,448	-62,288,836
Results of operations		26,758,995	-29,377,233
Revenue collection work			
Income from fees etc. not at the disposal of the agency		6,864	14,783
Income from revenue collection		3,417,221	3,690,987
Funds paid to the state budget from revenue collection		-3,424,004	-3,706,774
Total revenue collection work		82	-1,004
Change in capital for the year	13	26,759,077	-29,378,237

Balance Sheet

SEK thousand	Note	31.12.2006	31.12.2005
ASSETS			
Intangible fixed assets	14	16,472	14,048
Capitalised expenditure for development		7,471	4,814
Rights and other tangible fixed assets		9,001	9,234
Tangible fixed assets	15	19,777	14,205
Improvement expenses on property belonging to others		9,317	15
Machinery, equipment, fixtures, etc.		10,460	14,190
Financial fixed assets		256,901,936	244,495,399
Other long-term holdings of securities		650,946	844,066
Long-term receivables from other agencies	16	242,616,628	232,447,383
Other long-term receivables	17	13,634,363	11,203,951
Receivables		1,862,883	3,122,443
Accounts receivable	18	17,746	25,739
Receivables from other agencies	19	1,505,687	1,613,575
Other receivables	20	339,450	1,483,130
Cut-off items		21,697,986	20,602,957
Prepaid expenses	21	9,674,586	9,081,606
Other accrued income	22	12,023,400	11,521,351
Settlement with the government		1,043,582,592	1,088,954,493
Settlement with the government	23	1,043,582,592	1,088,954,493
Short-term investments		26,032,397	22,186,554
Securities and participation rights		26,032,397	22,186,554
Cash and bank		3,081,293	4,119,408
Cash and bank	24	3,081,293	4,119,408
TOTAL ASSETS		1,353,195,336	1,383,509,507
CAPITAL AND LIABILITIES			
Agency capital		-50,661,983	-76,198,626
State capital	25	1,810,387	3,032,820
Change in capital brought forward		-79,231,447	-49,853,209
Change in capital according to the income statement	13	26,759,077	-29,378,237
Allocations		2,210,000	2,254,000
Provision for future guarantee losses	26	2,210,000	2,254,000
Central government debt	27	1,269,957,334	1,308,572,111
Liabilities in Swedish kronor		1 003,933,564	1,005,975,358
Liabilities in foreign currency		266,023,770	302,596,753
Liabilities, etc.		85,451,257	98,835,727
Liabilities to other agencies	28	70,942,761	85,564,790
Accounts payable		19,272	33,423
Other liabilities	29	14,489,223	13,237,515
Cut-off items		46,238,728	50,046,296
Accrued expenses	30	23,823,590	24,940,387
Other prepaid income	31	22,415,138	25,105,909
TOTAL CAPITAL AND LIABILITIES		1,353,195,336	1,383,509,507
Contingencies			
Guarantee commitments	32	78,081,268	83,277,568
Debt instruments	33	6,201,089	6,698,574
Registered saving and lottery bonds	34	1,079	1,079

Funds statement

The Funds Statement shows how operations have been funded and changes in the Debt Office's liquid position.

SEK thousand	2006	2005
Operations		
Expenses		
Interest on the central government debt etc.	-105,360,399	-103,817,090
Management expenses	-381,928	-414,575
Redemption of guarantees	-54	-212
Guarantee subsidies	-86,400	-71,392
EU fees	-26,672,009	-25,742,369
	-132,500,790	-130,045,638
Funding by income and fees		
Interest on the central government debt etc.	55,915,755	71,486,530
Recovered guarantees	13,536	10,481
Fees for provision of guarantees and interest from interest account	269,029	235,065
Other income	1,386	719
EU fees from agencies, income	27,044,475	26,090,653
	83,244,181	97,823,448
Funding from the state budget		
Appropriation funds received for operations	51,024,297	32,666,436
Increase(+)/decrease(-) in state capital	-1,222,433	314,264
	49,801,864	32,980,699
Funding by debt allocations		
Increase(-)/decrease(+) in short-term receivables	200,618	309,923
Increase(+)/decrease(-) in short-term liabilities	1,064,714	-3,391,980
	1,265,333	-3,082,057
Cash flow from operations	1,810,587	-2,323,548
Investments in		
- tangible fixed assets	-13,516	-2,042
- intangible fixed assets	-5,064	-9,775
Total investment expenditure	-18,580	-11,817
Funding		
Loans from the Debt Office	13,296	23,164
- amortisation	-11,661	-9,383
Appropriations received for amortisation	11,661	9,383
	13,296	23,164
Cash flow for investing activities	-5,284	11,346

Funds Statement continued

SEK thousand	2006	2005
Loan operations		
Coverage of deficits in Government central account	92,653,221	11,122,221
Increase (-)/decrease (+) of interest account balances	3,787,099	9,323,960
Deposits and loans		
Increase (+)/decrease (-) of deposits	-14,901,913	2,015,305
Increase (-)/decrease (+) of loans	-12,599,657	-16,994,728
	-27,501,570	-14,979,423
Funding by borrowing		
Increase (+)/decrease (-) of borrowing		
– government bond loans	20,236,415	19,707,752
– T-bills	-38,614,844	25,536,866
– overnight loans	0	-3,192,000
– lottery bonds	-1,100,000	4,100,000
– National Savings Account	0	-1,442,094
– National Debt Savings	1,297,257	1,353,527
Borrowing in Swedish kronor	-18,181,171	46,064,051
Borrowing in foreign currency	-21,782,189	1,328,440
Funding by debt allocations		
Increase (-)/decrease (+) of		
– bonds bought back	193,120	-6,928
– housing bonds	0	1,817,750
– overnight loans and investments	-3,925,817	-21,942,000
Increase (+)/decrease (-) of		
– debt management measures	-60,914	46,820
– other short-term liabilities	-114,404	-268,650
	-3,908,014	-20,353,008
Effect of exchange rate changes	23,530,090	-29,493,496
Cash flow from loan operations	48,597,467	3,012,746
Revenue collection work		
Income from fees etc. and other income which is not at the disposal of the agency	6,864	14,783
Revenue received	3,417,221	3,690,987
Change in short-term receivables and liabilities	-82	1,004
Funds supplied to the state budget from collection work	-3,424,004	-3,706,774
Cash flow from collection work	0	0
Change in liquid assets	50,402,770	700,544
Specification liquid assets		
Liquid assets on 1 January	72,696,275	71,995,731
Increase (+)/decrease (-) of		
– cash and postal giro	-1,601,167	1,563,806
– interest account balance	207,396	128,517
– bank balances	355,657	183,366
Increase (+)/decrease (-) of		
– receivable to state	51,440,885	-1,175,145
Change in liquid assets	50,402,770	700,544
Liquid assets on 31 December	123,099,045	72,696,275

Appropriation Account

The Appropriation Account contains an account and specification of the outcome of the income titles and appropriations on the state budget that the Debt Office has had at its disposal during the fiscal year.

Account against the state budget income titles (SEK thousand)

Income title	Designation	Outcome 31 Dec 2006
2124	Surplus from the Debt Office's guarantee operations paid in	746
2153	Surplus from AB Svenska Spel paid in	3,417,221
2557	Fees at Cash Management Department at Debt Office	6,037
Total		3,424,004

Accounting against the state budgets appropriations (SEK thousand)

Appropriation	Opening transfer account	Appropriation for the year according to appropriation directions	Redisposed appro- priation amounts	Utilised portion of permitted budget overdraft	Withdrawn	Totalt disponibelt amount	Expenses	Balance 31 Dec 2006
26 92:1 Interest on the central government debt ¹	6,039,199	43,000,000		6,374,070	-6,039,199	43,000,000	-49,374,070	0
26 92:3 Commission charges in connection with borrowing and debt management, appropriation item 1 ¹	65,053	160,000			-65,053	160,000	-88,404	71,596
2 2:3 Debt Office: Management expenses, appropriation item 1	1,041	267,805	13,763		-6,884	275,724	-264,650	11,075
Guarantee operations								
2 2:5 Provision for guarantee operations, appropriation item 2		1,400				1,400	-1,400	0
22 36:4 National Rail Administration: Track maintenance and sector tasks, appropriation item 6	490	84,000	1,000			85,490	-85,000	490
Total	6,105,783	43,513,205	14,763	6,374,070	-6,111,136	43,522,614	-49,813,524	83,160

¹ The Debt Office has the right to exceed the appropriation. The appropriation is not subject to the expenditure ceiling. Any unused funds may not be carried forward to the following fiscal year.

Income from appropriations in the Income Statement compared with appropriation outcome

According to the appropriation account, the total appropriation charge is SEK 49,813.5 million.

According to the income statement, net income from appropriations is SEK 51,036.0 million, a difference of SEK 1,222.4 million.

The difference is explained by the appropriation income for deposits being reported against state capital, see also Note 25.

Interest on the central government debt (appropriations 26 92:1)

	31.12.2006	31.12.2005
Central government debt management, interest on loans in Swedish kronor	-37,914,466	-39,491,805
Central government debt management, interest on loans in foreign currency	-10,511,746	-11,349,456
Cash Management Department, interest on deposits and loans	6,111,259	6,940,903
Total	-42,314,953	-43,900,358
Central government debt management, issue premiums and discounts	3,966,584	9,048,755
Exchange rate changes	-6,336,433	10,227,898
Price changes	-5,929,318	-7,615,339
Other (deposits etc.)	1,240,050	-321,757
Total	-7,059,117	11,339,557
Total interest etc., settled against appropriations	-49,374,070	-32,560,801

Notes (SEK thousand)

Note 1 • Income Statement per branch of operations

	Cash Management Department	Central Govt Debt Management	Guarantees and loans	Total
Operating income				
Income from appropriations ¹	-6,112,306	57,061,864		51,035,958
Income from fees ²	203	381	213,283	213,867
Income from grants	369	1,337	369	2,074
Interest income	123	407	56,013	56,544
Total operating income	-6,111,610	57,063,989	269,664	51,308,442
Operating expenses				
Financial expenses for management of the central government debt				
Interest expense	-2,109,643	-76,294,687		-78,404,330
Interest income	8,282,692	27,299,622		35,582,314
Issues premiums/discounts	-363	7,463,297		7,462,934
Realised price losses	34,996	-5,964,314		-5,929,318
Realised exchange rate changes	8,231	-6,344,664		-6,336,433
Unrealised exchange rate changes	60,914	23,433,890		23,494,804
Prescribed bonds, coupons and prizes taken up as income		17,617		17,617
Commission to banks etc.		-92,930		-92,930
Total	6,276,827	-30,482,170	0	-24,205,343
Other operating expenses				
Employee expenses	-19,707	-61,983	-18,087	-99,777
Costs of premises	-3,467	-11,179	-3,387	-18,033
Expenses in guarantee operations			46,758	46,758
Other operating expenses	-17,427	-144,669	-13,589	-262,085
Interest expense	-73	-238	-73	-385
Depreciation	-2,371	-5,851	-2,362	-10,584
Total	-43,045	-223,920	9,260	-344,105
Total operating expenses	6,233,783	-30,706,090	9,260	-24,549,448
Operating outcome	122,172	26,357,898	278,924	26,758,995
Revenue collection work				
Income from fees etc. which are not at the disposal of the agency	6,118		746	6,864
Income from collection		3,417,221		3,417,221
Funds supplied to the state budget from collection work	-6,037	-3,417,221	-746	-3,424,004
Total collection work	82	0	0	82
Change in capital for the year	122,254	26,357,898	278,924	26,759,077

¹ The total for the Debt Office includes SEK 86,400,000. This amount can be found as income from appropriations and as other operating expenses. The Debt Office's result is not affected. The subsidy is paid to the guarantee reserve (guarantee interest-bearing account) and is reported in guarantee and loan operations as income from fees with an effect on the result.

² Of which SEK 181,920,000 refers to subsidised fees from the state budget. SEK 171,400,000 has been paid in in 2006 and the rest in previous years but relates to 2006.

Note 4 continued

Note 2 • Income from appropriations

	2006	2005
Income from appropriations	50,949,558	32,604,427
Income from appropriations for guarantee subsidies	86,400	71,392
Total	51,035,958	32,675,819

Income from appropriations consists of the appropriations interest on central government debt, commission expenses and management expenses.

The difference between income from appropriations and expenditure in accordance with the appropriation account is explained by the appropriation income for deposits for futures being reported against state capital, see also Note 25.

Note 3 • Income from fees

	2006	2005
Income from fees from guarantees and loans	213,139	194,230
Other management fees	727	489
Total	213,867	194,719

Income from fees pursuant to section 4 of the Fees Ordinance totalled SEK 16,000.

Fees for copying pursuant to section 15 of the Fees Ordinance totalled SEK 3,000.

Note 4 • Interest expense/interest income

Realised interest expense arises, for interest, in coupon payments but also when we buy back bonds or T-bills. The Debt Office then pays interest until the buyback date. Interest expense is accrued as current during the interest period to obtain an even interest expense, unrealised interest expense or interest income.

Interest income arises when the Debt Office issues coupon bonds, the buyer then pays the interest computed until the issue date. The realised interest income in retail market borrowing consists of prizes on the Debt Office's own holding of lottery bonds.

The amounts paid are charged to the appropriation.

Realised interest expense/ income	2006	2005
Central government debt management, institutional borrowing		
Interest expense in Swedish kronor	-50,683,690	-50,502,065
Interest income in Swedish kronor	14,315,780	13,257,351
	-36,367,910	-37,244,715
Interest expense in foreign currency	-23,310,883	-23,565,756
Interest income in foreign currency	12,763,760	12,150,965
	-10,547,123	-11,414,792
Central government debt management, retail market borrowing		
Interest expense in Swedish kronor	-1,531,955	-2,204,246
Interest income in Swedish kronor	20,776	20,652
	-1,511,179	-2,183,593
Cash Management Department, deposits and lending to central government agencies		
Interest expense in Swedish kronor	-630	-440
Interest expense in Swedish kronor, intra-state	-1,860,959	-1,348,000
Interest income in Swedish kronor	429,071	390,176
Interest income in Swedish kronor, intra-state	7,550,960	7,901,006
	6,118,443	6,942,742
Realised interest expense/ income (92:1)	-42,307,769	-43,900,358
Unrealised interest expense/ income		
Central government debt management, institutional borrowing		
Interest expense in Swedish kronor	-1,392,355	623,437
Interest income in Swedish kronor	36,176	324,232
	-1,356,179	947,669
Interest expense in foreign currency	547,492	27,918
Interest income in foreign currency	163,415	357,851
	710,907	385,769
Central government debt management, retail market borrowing		
Interest expense in Swedish kronor	76,703	885,292
Interest income in Swedish kronor	-285	-70,967
	76,418	814,324
Cash Management Department, deposits and lending, central government agencies		
Interest expense in Swedish kronor	-7,184	0
Interest expense in Swedish kronor, intra-state	-17,795	16,855
Interest income in Swedish kronor	36,313	9,393
Interest income in Swedish kronor, intra-state	40,696	33,041
	52,030	59,290
Interest expense in foreign currency	-223,075	-264,716
Interest income in foreign currency	225,652	255,950
	2,577	-8,766
Unrealised interest expense/ income	-514,247	2,198,286
Total interest expense	-78,404,330	-76,331,721
Total interest income	35,582,314	34,629,649
Total interest expense/income	-42,822,016	-41,702,072

Note 5 • Issues premiums/discounts

Realised premiums/discounts	2006	2005
Central government debt management, institutional borrowing		
Premiums in Swedish kronor	5,558,819	9,368,807
Discounts in Swedish kronor	-1,592,196	-320,024
	3,966,623	9,048,783
Premiums in foreign currency	139,589	73,813
Discounts in foreign currency	-139,628	-73,841
	-38	-28
Total realised premiums/discounts (92:1)	3,966,584	9,048,755
Unrealised premiums/discounts		
Central government debt management, institutional borrowing		
Premiums in Swedish kronor	2,534,502	-1,677,784
Discounts in Swedish kronor	924,941	-695,314
	3,459,443	-2,373,097
Premiums in foreign currency	-4,755	62,974
Discounts in foreign currency	39,749	-86,285
	34,995	-23,312
Central government debt management, retail market borrowing		
Premiums in Swedish kronor	2,275	2,434
	2,275	2,434
Cash Management Department		
Premiums in Swedish kronor	950	166
Discounts in Swedish kronor	-1,313	-186
	-363	-19
Total unrealised premiums/discounts	3,496,350	-2,393,994
Total issue premium/discount	7,462,934	6,654,761

A premium or discount arises when the market interest rate deviates from the coupon rate in issues in existing coupon loans. The realised premium or discount is settled against the appropriation directly, although it is accrued as an expense on a linear basis over the time to maturity of the loan. Cost base accruals are unrealised.

Note 6 • Realised price changes

Central government debt management, institutional borrowing	2006	2005
Realised price gains in Swedish kronor	478,405	2,738
Realised price losses in Swedish kronor	-6,856,017	-6,985,954
	-6,377,612	-6,983,216
Realised price gains in foreign currency	2,817,305	5,140,133
Realised price losses in foreign currency	-2,400,820	-5,767,463
	416,485	-627,330
Central government debt management, retail market borrowing		
Realised price gains in Swedish kronor	873	239
Realised price losses in Swedish kronor	-4,060	-8,119
	-3,187	-7,880
Cash Management Department		
Realised price gains, intra-state	34,961	3,086
Realised price losses, intra-state	-462	0
	34,499	3,086
Realised price gains, non-state	497	0
	497	0
Realised price changes (92:1)	-5,929,318	-7,615,339

Realised price gains or losses arises when we buy back bonds and T-bills and are due to the market interest rate deviating from the coupon rate.

Note 7 • Exchange rate changes

Realised exchange rate changes	2006	2005
Central government debt management, institutional borrowing		
Realised exchange gains in foreign loans	194,167	6,883,960
Realised exchange losses in foreign loans	-1,353,820	-437,282
	-1,159,653	6,446,678
Realised exchange gains in debt management instruments	11,563,963	15,880,848
Realised exchange losses in debt management instruments	-16,748,974	-12,124,164
	-5,185,011	3,756,684
Cash Management Department		
Realised exchange losses in foreign loans	-20,981	-5,037
Realised exchange gains in debt management instruments	29,212	29,573
	8,231	24,536
Realised exchange rate changes (92:1)	-6,336,433	10,227,898
Unrealised exchange rate changes		
Central government debt management, institutional borrowing		
Unrealised exchange rate changes in foreign loans	14,816,248	-21,712,621
	14,816,248	-21,712,621
Unrealised exchange rate changes in debt management instruments	8,617,642	-7,818,077
	8,617,642	-7,818,077
Cash Management Department		
Unrealised exchange rate changes in debt management instruments	60,914	-46,820
	60,914	-46,820
Unrealised exchange rate changes	23,494,804	-29,577,518
Total exchange rate changes	17,158,371	-19,349,620

The realised exchange rate changes have arisen when the Debt Office repays foreign loans and the exchange rate differs from the exchange rate when the loan was raised by the Debt Office.

The unrealised exchange rate changes have arisen in connection with the valuation made by the Debt Office of liabilities and receivables in foreign currency at closing date rates. In addition to the central government debt, foreign currency accounts and investments of funds according to what are known as CSA agreements (Credit Support Annex) etc. are also valued.

The following table describes the distribution of the total unrealised exchange rate changes on the central government debt and other items. Central government debt accounted for SEK 23,281.7 million of the year's change in the foreign currency valuation.

SEK million	Opening balance	Closing balance	Change in the Income Statement
Central government debt (Note 27)	13,829.0	-9,452.7	23,281.7
Other items ¹	2,838.6	2,625.5	213.1
Total	16,667.5	-6,827.3	23,494.8

¹ The foreign currency accounts (Note 24), Receivable CSA agreements and Deposits for trading with futures (Note 20), Liability CSA-agreements and Options issued (Note 29).

Note 8 • Expired bonds, coupons and prizes recorded as income

	2006	2005
Expired lottery bonds	23,378	-1,565
Other expired bonds and loans	-57	-258
Total expired bonds and loans	23,321	-1,823
Expired interest	560	374
Expired lottery prizes	-6,264	-6,044
Total	17,617	-7 493

Lottery bonds issued by the Debt Office expire in ten years after their maturity date if the holder has not redeemed them. On that date, the Debt Office removes them as a liability and reports them as a profit in the result. In practice, the Debt Office redeems lottery bonds until 20 years after maturity. Redemptions after the expiry date, 11–20 years after bond maturity, are reported as an expense in the Income Statement. During the past year, loan 86:2 has expired and the Debt Office has reported income of SEK 25.9 million. The Debt Office treats lottery prizes correspondingly.

Note 9 • Commission to banks, etc.

Central government debt management, institutional borrowing	2006	2005
Sales commissions	-31,652	-25,499
Futures commissions	-12,849	-16,392
Management commissions	-7,808	-10,850
Redemption commissions	-5,095	-2,347
Currency borrowing commissions	34	0
Total (92:3)	-57,370	-55,087
Accrued commission expenses	-3,000	0
Fees to banks	-1,526	-2,311
Total (2:3)	-1,526	-2,311
Central government debt management, retail market borrowing		
Sales commissions	-27,900	-35,451
Prize payment commissions	-269	-435
Redemption commissions	-1,990	-2,973
Other commissions	-875	-1,000
Total (92:3)	-31,034	-39,860
Total	-92,930	-97,258

The accrued commissions refer to management commissions. Since these are accrued, no settlement against appropriation has been made.

Note 10 • Personnel costs

	2006	2005
Wages, fees and social security contributions	-94,254	-85,317
Training	-2,648	-2,969
Other employee expenses	-2,875	-2,895
Total	-99,777	-91,181

The wage costs totalled SEK 60.6 million in 2006, SEK 56.5 million in 2005.

In 2006, the Debt Office adjusted the wages level in order to become more competitive in competition in the labour market. This adjustment has contributed to the relatively large increase in wage costs compared with 2005.

Note 11 • Expenses in guarantee operations

	2006	2005
Revaluation of loans with credit risk	0	10,000
Revaluation of guarantee receivables	2,758	6,340
Repayment of subsidised guarantee fees ¹	0	-56,514
Provision for anticipated guarantee losses	44,000	217,000
Total	46,758	176,826

¹ Repayment relating to Nordic Investment Bank, NIB, 2005, EUR 6 million.

Note 12 • Other operating expenses

	2006	2005
Cost for payment av guarantee subsidies	-86,400	-71,392
Payment to banks, etc.	-26,149	-24,094
Marketing expenses	-50,316	-58,583
Selling expense retail market borrowing	-6,881	-7,361
Purchase of short-term equipment	-42,060	-36,401
Services purchased	-32,809	-26,138
Travel costs	-1,864	-1,824
Post and telecommunications	-8,790	-8,560
Administrative expenses	-6,118	-5,361
Accrual of costs for lottery bonds	-698	14,091
Total	-262,085	-225,623

The change in Cost for payment from guarantee subsidies is due to increased subsidies for the Öresund Bridge.

The item accrual of costs for lottery bonds has decreased compared with 2005. The costs incurred by the Debt Office in connection with issue of lottery bonds have been accrued over the time to maturity. The expenditure is charged to the appropriation although the cost is accrued until the bond matures. The difference between the years is due to the costs incurred by the Debt Office for issue during 2006 being lower than the costs in 2005 at the same time as the accrued costs have been greater, see also Note 21.

Note 13 • Change in capital for the year

	2006	2005
Premiums/deficits, guarantees and loans	278,924	381,568
Other change in capital	26,480,153	-29,759,806
Total	26,759,077	-29,378,237

The change in capital shows how the agency capital has changed during the year. For central government agencies, the change in capital is not a measure of whether an activity is performing well or not. Expenditure and income provide, through the appropriations, a corresponding income from the appropriation or a reduction of income from the appropriation, i.e. the net in the income statement will be zero. However, the appropriations are not settled for accruals, for instance, accrued interest expense or unrealised exchange rate fluctuations.

Changes in capital for the year consist of accrual items in the Debt Office's appropriation-financed activity.

Note 14 • Intangible fixed assets

Capitalised expenditure for development	31.12.2006	31.12.2005
Previous year's acquisitions, accumulated	5,182	0
New acquisitions during the year	4,048	5,182
Depreciation for previous years, accumulated	-368	0
Depreciation for the year	-1,391	-368
Closing balance	7,471	4,814
Rights and other tangible fixed assets		
Previous years acquisitions, accumulated	10,384	5,791
New acquisitions during the year	1,017	4,593
Depreciation for previous years, accumulated	-1,150	0
Depreciation for the year	-1,249	-1,150
Closing balance	9,001	9,234
Closing balance tangible fixed assets	16,472	14,048
Depreciation for the year tangible fixed assets	-2,640	-1,518

In 2006, the item Intangible fixed assets has been divided into two items. Comparative figures have therefore been adjusted.

Note 15 • Tangible fixed assets

Improvement expenses at property belonging to others	31.12.2006	31.12.2005
Previous years acquisitions, accumulated	1,106	1,106
New acquisitions during the year	9,873	0
Depreciation for previous years, accumulated	-1,091	-859
Depreciation for the year	-571	-232
Closing balance	9,317	15
Machinery, equipment, fixtures etc.		
Previous years acquisitions, accumulated	62,568	60,526
New acquisitions during the year	3,643	2,042
Depreciation for previous years, accumulated	-48,378	-40,235
Depreciation for the year	-7,373	-8,143
Closing balance	10,460	14,190
Closing balance tangible fixed assets	19,777	14,205
Depreciation for the year tangible fixed assets	-7,944	-8,375
Total depreciation tangible and tangible fixed assets	-10,584	-9,894

In 2006, the item Tangible fixed assets has been divided into two. Comparative figures have therefore been adjusted.

Note 16 • Long-term receivables from other agencies

	31.12.2006	31.12.2005
Current loans	14,962,445	21,760,235
Operating capital, fixed term	5,780,073	2,059,700
Investment loans	40,798,421	37,254,411
Interest-bearing account with loan (management expenses)	4,326,624	6,837,884
Interest-bearing account funds, long-term loans	650,000	751,151
Interest-bearing account with loan (other)	9,650,927	4,024,207
Loan with inflation-linked interest	1,880,399	2,090,193
Loan with nominal interest	3,900,000	3,900,000
PPM funds	-35,106	0
Swedish National Board of Student Aid	143,033,807	136,863,974
Loan to fixed assets for management purposes	17,669,037	16,905,627
Total	242,616,628	232,447,383

The Debt Office itself is to borrow for investments in assets for management purposes. The Debt Office's own loans to investments in fixed assets, SEK 22,497,000, are included in the item Loans for fixed assets for management purposes (SEK 20,862,000 in 2005).

Note 17 • Other long-term receivables

	31.12.2006	31.12.2005
Botniabanan AB ¹	10,140,000	7,795,000
Svensk-Danska Broförbindelsen AB ^{1,2}	4,076,000	3,886,000
A-Train AB ^{1,2}	1,000,000	1,000,000
AP fund	129,848	130,925
Other ¹	288,515	392,026
Revaluation ²	-2,000,000	-2,000,000
Total	13,634,363	11,203,951

¹ Loans with a credit risk in the area of Guarantees and loans.

² Loans to Svensk-Danska Broförbindelsen AB and A-Train have been written down by SEK 1,900 million and SEK 100 million respectively.

Note 18 • Accounts receivable

	31.12.2006	31.12.2005
Invoiced interest and fees in Cash Management Department	13,389	25,060
Other accounts receivable	4,357	679
Total	17,746	25,739

Invoiced interest and fees in the Cash Management Department has decreased compared with 2005 due to customers' gradual changeover to the Cash Management Department's internal direct debit.

Note 19 • Receivables from other agencies

	31.12.2006	31.12.2005
Invoiced interest and fees in Cash Management Department	1,281,787	1,426,883
Value-added tax	7,127	8,394
Accounts receivable from government agencies	33,098	10,019
Other intra-state receivables	183,675	168,279
Total	1,505,687	1,613,575

Invoiced interest and fees at the Cash Management Department have decreased compared with 2005 due to the agencies' gradual changeover to the Cash Management Department's direct debit.

Note 20 • Other receivables

	31.12.2006	31.12.2005
Lottery bond prizes	632	0
Lottery bonds	9,761	9,717
Deposits for trade with futures	311,535	1,498,682
Recourse receivables from indemnified guarantees	16,918	18,146
Receivable, tax account	6	0
Receivable CSA agreement	0	16,907
Forward contracts, Cash Management Department	596	-60,318
Receivables relating to personnel	2	-3
Total	339,450	1,483,130

Comparative figures for Forward contracts, Cash Management Department and Receivables relating to personnel have been adjusted since they have been moved from the item Other liabilities. The trade date accounting settlement account is under the item Other liabilities.

Deposits for trading with futures

A daily settlement of profit or loss as a result of futures contracts is made. This means that the holder of a forward contract pays or receives a variation collateral demand every day and thus also a deposit. In 2006, we have used futures contracts to a smaller extent in debt management and thus also reduced the deposited funds.

Receivable CSA agreement

Refers to collateral paid in connection with the market value of the derivative instrument changing.

Note 21 • Prepaid expenses

	31.12.2006	31.12.2005
Prepaid expenses	5,040	4,690
Prepaid expenses, lottery bonds	135,921	136,619
Prepaid discounts, borrowing in Swedish kronor	4,201,246	3,377,372
Prepaid discounts, borrowing in foreign currency	341,180	346,748
Prepaid discounts, Cash Management Department	2,188	3,501
Discounts, the central government debt at nominal amounts in Swedish kronor	4,989,012	5,184,016
Discounts, the central government debt at nominal amounts in foreign currency	0	28,660
Total	9,674,586	9,081,606

Prepaid expenses lottery bonds

Expenses for issues in lottery bonds. Costs are accrued over the period to maturity of the bond.

Prepaid discounts

Discounts arise when we issue bonds and the market value is lower than the nominal value. The difference is recorded as a discount and accrued over the period to maturity of the loan.

Discounts, the central government debt at nominal amounts

The nominal amount is included in the central government debt – the amount paid on maturity – on zero coupon loans and T-bills. The difference between the acquisition value and the nominal amount, interest compensation, is recorded as discounts and accrued over the period to maturity of the loan, see also Note 27.

Note 22 • Other accrued income

	31.12.2006	31.12.2005
Interest income, debt management instruments	10,771,206	10,345,897
Interest income, bond buybacks in Swedish kronor	2,234	2,519
Interest income, currency accounts	119	8
Interest income, CSA	0	177
Interest income, Cash Management Department	1,096,841	1,034,589
Inflation, Cash Management Department	150,388	135,631
Accrued fees, Cash Management Department	2,613	2,532
Total	12,023,400	11,521,351

Interest income debt management instruments and bond buybacks

Refers to interest income associated with central government debt which has been earned during the year but not yet paid in.

Interest income, CSA

Refers to interest income on CSA agreements and collateral on derivative instruments which has been earned during the year but not yet paid in.

Interest income, Cash Management Department

Refers to interest income on deposits and loans in the Cash Management Department which has been earned during the year but not yet paid in.

Inflation, Cash Management Department

Refers to inflation on loans in Cash Management Department which has been earned during the year but not yet paid in.

Note 23 • Settlement with the government

	31.12.2006	31.12.2005
Settlement with the government – opening balance	1,088,954,493	1,110,886,814
Settled against state budget income titles		
2124 Surplus from The Debt Office's guarantee operations	-746	-9,128
2153 Surplus from AB Svenska spel	-3,417,221	-3,634,473
2557 Fees at Cash Management Department at Debt Office	-6,037	-6,660
2811 12 Repayment of guarantee fees from Nordic Investment Bank	0	-56,514
	-3,424,004	-3,706,774
Settled against state budget appropriations		
26 92:1 Interest on the central government debt	49,374,070	32,560,801
26 92:3 Commission charges	88,404	94,947
2 2:3 Management expenses	264,650	262,942
2 2:5 Provision for guarantee operations, Dom shvetsii	1,400	1,392
22 36:4 National Rail Administration: Track maintenance	85,000	70,000
	49,813,525	32,990,082
Settled against government cheque account		
Withdrawals	-875,980,161	-767,762,219
Deposits	787,979,419	760,219,659
Payment authority	-173,407,659	-164,446,066
Nordea	-52,375,716	-79,490,092
SEB	-25,956,332	-949,550
The Debt Office	85,558,810	45,554,641
Swedbank	-11,013,861	-8,814,494
EU payments	372,465	348,283
	-264,823,035	-215,339,838
Single-occasion direct settlements with the Government		
Housing bonds	0	-100,685
	0	-100,685
Outgoing/incoming payments of appropriations		
Appropriation funds on appropriation frame	174,499,464	166,666,444
Appropriation funds on appropriation frame, The Debt Office	-274,684	-246,779
Funds from interest-bearing account, assigned to income title	-1,167,887	-2,244,602
Funds from interest-bearing account, assigned to income title, Debt Office	0	56,514
Opening value of interest-bearing account	4,721	-6,683
	173,061,614	164,224,894
Settlement with Government – closing balance	1,043,582,592	1,088,954,493

Settlement with Government reflects the link between the agency and the state budget. The item consists on the one side of settlement against appropriations and income titles, and on the other side net payments on the Government central account. The total flows through the state budget are shown in the Debt Office's balance sheet and accordingly, Settlement with the Government does not only contain our own payments and settlements of appropriations/income titles and EU payments but the payment flows of all agencies which have affected the Government's central account.

Note 24 • Cash and bank

Cash and bank, Swedish kronor	31.12.2006	31.12.2005
Bank giro accounts	469,210	187,055
Interest-bearing account, management operations	28,344	32,494
Interest-bearing accounts, guarantees	1,949,249	1,748,231
Interest-bearing accounts, guarantees, Venantius	561,516	550,987
Other bank accounts	-1,811	1,599,490
Total cash and bank, Swedish kronor	3,006,508	4,118,257
Cash and bank, foreign currency		
Currency account Nordea	74,328	455
Currency account Euroclear	436	659
Currency account Cedel	22	37
Total cash and bank, foreign currency	74,785	1,151
Total	3,081,293	4,119,408

Fees for guarantees are invested as a guarantee reserve on an interest-bearing account at the Debt Office. A special guarantee reserve has been set up for loan guarantees for Venantius.

Note 25 • State capital

	31.12.2006	31.12.2005
Deposits for trading with futures	1,810,387	3,032,820
Total	1,810,387	3,032,820

State capital is the capital which corresponds to the value of the assets financed by appropriations. When the agency reports an expenditure, an income from appropriations is also normally reported in the income statement. When a deposit (for marginal securities for trading with futures) is provided, the income from the appropriation is reported as state capital in the Balance Sheet instead of the Income Statement. State capital corresponds to the value of the deposit, see also Note 20, which is financed by appropriations. When the marginal security is realised, expenditure is also reported in the Income Statement and the state capital is reduced by a corresponding amount.

Note 26 • Provision for future guarantee losses

	31.12.2006	31.12.2005
Opening balance	2,254,000	2,471,000
Provision in the period for future guarantee losses	-44,000	-217,000
– of which provision for guarantees, excluding Venantius	-42,000	-177,000
– of which provision for Venantius	-2,000	-40,000
Closing balance	2,210,000	2,254,000
– of which guarantees, excluding Venantius	2,208,000	2,244,000
– of which Venantius	2,000	10,000

The size of the commitments at the end of the periods for which provisions have been made for future guarantee losses are shown below. These commitments are not reported as contingencies (memorandum items). The Debt Office's other guarantee commitments are shown in Note 32.

	31.12.2006	31.12.2005
Guarantees that form part of the ordinary guarantee reserve		
Infrastructure projects		
– The Öresund Link ¹	25,243,965	28,687,299
Funding and properties		
– SBAB	6,000,000	7,000,000
– Other	1,176,000	1,176,000
Pension commitments ²		
– Försäkringsbolaget Pensionsgaranti	5,836,061	5,841,657
– Posten	3,236,954	3,236,957
– Other	418,191	426,255
International projects		
– Nordic Investment Bank	6,412,764	6,609,282
– Other	73,679	198,551
Other commitments	77,221	95,284
Total	48,474,835	53,271,281
Guarantees for Venantius (special guarantee reserve)	4,373,033	4,750,379
Total	52,847,868	58,021,659

¹ This commitment is shared with the Danish state. The commitment is based on the nominal value of the liabilities with a supplement for the amount which Öresundsbro Konsortiet, ÖSK, can be liable to pay for swaps entered into. This differs from ÖSK's accounts that show the market value of liabilities and swaps.

² The figures relate to 31 December 2005.

Note 27 • Central government debt

Nominal debt in Swedish kronor	31.12.2006	31.12.2005
Nominal government bonds	550,310,750	563,412,360
Nominal government bond loans taken over	3,600,000	3,900,000
Interest and currency swaps	-239,000,000	-228,500,000
T-bills	254,685,055	288,301,385
Interest swaps	94,250,000	85,500,000
Retail market loans	63,553,634	63,265,505
Liquidity management instruments	44,928,250	22,778,583
Forward contracts in Swedish kronor	14,335,524	-455,270
Total nominal debt in Swedish kronor	786,663,213	798,202,563
Inflation-linked debt in Swedish kronor	217,270,351	207,772,795
Total debt in Swedish kronor	1,003,933,564	1,005,975,358
Liabilities in foreign currency		
Bonds etc. in foreign currency	138,031,610	153,065,785
Currency swaps	141,303,404	149,263,543
Forward contracts. etc.	-13,311,244	267,425
Total debt in foreign currency	266,023,770	302,596,753
Central government debt	1,269,957,334	1,308,572,111

Central government debt is reported in Swedish kronor at nominal amounts, including accrued inflation up to and including closing date. Instruments in foreign currency are valued at closing date exchange rates. The fluctuation from the original exchange rate is exchange rate differences, fluctuation for the year, see Note 7.

The meaning of central government debt being reported at nominal amounts is that zero coupon loans and T-bills are recorded at the amounts paid on maturity date and not at the amounts paid in. The difference between the paid and the nominal amounts is reported as prepaid expenses, see Note 21. These are accrued and expensed during the period to maturity as an interest expense.

Investments in overnight loans and other's securities, options, futures and the Debt Office's own holding of lottery bonds are not included in the central government debt.

The Debt Office buys back government bonds and T-bills. These purchases in loans issued by the Debt Office are treated as early amortisation and reduce the loan in question under the central government debt. Lottery bonds, which we have bought back are reported as a fixed asset until maturity. When bonds are bought back, the difference between the amount paid and the book debt is reported as a price gain or loss.

The cost of the central government debt is shown in Notes 4–7.

Nominal government bonds

Coupon loans mean that a fixed interest is paid once a year to the customer during the time to maturity. On maturity, the same amount is repaid as the Debt Office originally borrowed.

Assigned nominal government bond loans

The Debt Office has assumed responsibility for loans from other issuers. These loans are reported in the same way as equivalent own bonds.

Swaps

Swaps are made to change the composition and interest rate refixing period of the central government debt. The Debt Office first makes an interest rate swap, where one part is swapped for government bonds. We receive a fixed interest which is higher than the government bond yield (= swap spread). The other part in the interest swap is for T-bills. There we pay a floating rate. In the next step we decide to swap a part of the interest swaps which is for government bonds against currency swaps. Floating interest in kronor is swapped for floating interest in foreign currency.

Note 27 continued

T-bills

T-bills are short-term borrowing up to a year, although not liquidity bills. T-bills have no coupon but the amount paid is lower than the nominal amount and the yield is the difference.

Retail market loans

Lottery bonds and National Debt Savings at nominal amounts.

Liquidity management instruments

Repos, liquidity bills and short-term bank investments as well as overnight loans.

Forward contracts

The Debt Office buys or sells currencies at a predetermined price, quantity and delivery date. The transaction consists of a debt and a receivable, which means that the central government debt is not affected by the currency valuation that takes place at closing date exchange rates and which changes the distribution between Swedish kronor and foreign currency.

Inflation-linked

Inflation-linked government bonds with coupons and zero coupons and National Debt Savings at inflation-linked amounts. As well as interest, payment is also made for the inflation that has taken place during the time to maturity of the loan. Inflation is included in the central government debt.

Liabilities in foreign currency

Public bonds, private investments, T-bills and overnight loans in foreign currency. Swaps and forward contracts valued at closing date exchange rate. The currency valuation, on closing date, of the central government debt decreased the debt by SEK 9.4 billion this year.

Zero coupon instruments

Government bonds with zero coupons, T-bills in Swedish kronor and in foreign currency and National Debt Savings are reported at nominal value as prepaid expenses and expensed on payment date. Since there is no coupon, no premiums or discounts arise at the time of issue.

Note 28 • Liabilities to other agencies

	31.12.2006	31.12.2005
Floating credits	7,017,594	3,937,816
Current loans	1,388,081	1,387,058
Interest-bearing account with credit facilities (management expenses)	32,731,049	28,328,494
Interest-bearing account with credit facilities (other)	6,317,172	5,306,759
Spot funds	12,822,123	33,766,739
Restricted funds 1 year and longer	10,200,300	11,978,533
Restricted funds less than 1 year, interest-bearing account funds	0	467,129
Spot funds, other accounts	91,981	98,113
Total deposits	70,568,300	85,270,641
Interest due on deposits	150,736	86,408
Tax liabilities	1,922	1,725
Accounts payable to state agencies	903	1,478
Loans for fixed assets	22,497	20,862
Other liabilities	198,403	183,675
Total	70,942,761	85,564,790

The Debt Office's own loans for investments in fixed assets totalled SEK 22,497,000 (SEK 20,862,000 for 2005).

New borrowing took place at the Debt Office for SEK 13,296,000, while SEK 11,661,000 has been amortised.

Note 29 • Other liabilities

	31.12.2006	31.12.2005
Matured bonds	665,196	861,052
Unredeemed VPC lottery bonds and prizes	58	55
Matured bonds, prizes, interest	665,254	861,107
Staff preliminary tax	2,101	1,810
Preliminary tax, National Debt Savings	76,746	59,910
Tax liability	78,847	61,720
Options issued	213,414	267,247
Settlement accounts, trade date accounting	500	0
Liabilities CSA agreement	8,881,737	7,635,478
EU fees	3,560,281	3,187,816
Returned funds	64,722	84
Other short-term liabilities	1,900	1,926
Diverse liabilities	12,509,140	10,825,304
Spot funds	1,022,564	1,222,136
Unaccounted deposits	4	0
Total	14,489,223	13,237,515

The comparative figures for Settlement accounts, trade date accounting, have been adjusted since they have been moved from the item Other receivables. Forward contracts, Cash Management Department and Liabilities relating to staff are under the item Other receivables.

Matured bonds, prizes and interest

Refers to bonds, prizes and interest on bonds that have been matured but not been redeemed.

Options issued

Refers to contracts between two parties where the Debt Office sells an option on an underlying good – currency or interest. The Debt Office has an obligation to purchase/sell the underlying good on or before an predetermined date, if our counterparty so wishes.

Forward contracts, Cash Management Department

Refers to currency hedging of foreign payments on behalf of other agencies.

Spot funds

Refers to liquid assets in deposits and loans at the Cash Management Department.

Settlement account, trade date accounting

Before a transaction is in the money, the liquid amount is in the settlement account.

All of the year's payments to the EU Commission are included in the following summary SEK 3,560,281,000 are funds for the EU fees which have been credited to the EU Commission's account at the Debt Office although not yet paid from the Government central account.

Opening balance of funds entered as a liability at the Debt Office	3,187,816
EU fees for the year	
Agriculture fees	144,640
Customs fees (including penalty interest)	3,539,908
Sugar fees	24,711
VAT-based fee	4,227,198
GNI-based fee	17,690,988
United Kingdom fee	260,774
Provisions for guarantees etc.	33,278
Deposit from EU Commission to cover deficit	-25,549,032
Change in account	372,465
Closing balance at the Debt Office	3,560,281

Options and futures contracts

	31.12.2006	
	Acquisition value	Market value
Currency options purchased	27,203	26,531
Currency options issued	-23,472	-22,750
Total	3,731	3,781
Swap options purchased	140,297	138,049
Swap options issued	-196,947	-190,664
Total	-56,650	-52,614
Total options	-52,919	-48,834
Total market value, futures contracts		866,217
Total market value options and futures contracts		817,384

Premiums for purchased options reported under Securities and participation rights.

Futures contracts are not reported in the Balance Sheet.

Options issued

Refers to contracts between two parties where the Debt Office sells an option on an underlying good – currency or interest. The Debt Office has an obligation to buy or sell the underlying good on or before a predetermined date, if our counterparty so wishes.

Swap option and currency option

In a currency option, the underlying good is the currency, while the underlying good in a swap option is interest.

Futures contract

The instrument is a future without delivery. We buy or sell currency at a predetermined price and quantity. A daily settlement is made of the gain or loss as a result of the contract entered into.

Note 30 • Accrued expenses

	31.12.2006	31.12.2005
Interest expense, borrowing in Swedish kronor	15,914,642	16,979,153
Interest expense, borrowing in foreign currency	3,663,540	3,742,144
Interest expense, Cash Management Department	172,926	155,131
Interest expense, debt management instruments	4,057,229	4,052,900
Accrued holiday pay compensation	12,253	11,059
Accrued commission expenses	3,000	0
Total	23,823,590	24,940,387

Interest expense, borrowing and interest expense as well as debt management instruments

Refers to interest expense associated with the central government debt which has been expensed but not yet paid out.

Interest expense, Cash Management Department

Refers to interest expense which has been expensed but not yet paid out.

Accrued holiday pay compensation

Refers to holiday pay compensation to the Debt Office's staff which has been earned but not yet paid out.

Accrued commission expenses

Refers to expenses for commission to external managers for 2006 which has not yet been invoiced.

Note 31 • Other prepaid income

	31.12.2006	31.12.2005
Prepaid fees for guarantees issued	11,410	12,303
Prepaid subsidy fees guarantee	36,000	46,520
Prepaid premiums, borrowing in Swedish kronor	22,069,216	24,704,785
Prepaid premiums, borrowing in foreign currency	285,982	326,544
Prepaid premiums, credit provision	9,208	10,158
Prepaid discounts, repurchased lottery bonds	3,323	5,598
Total	22,415,138	25,105,909

Prepaid fees, guarantees

Fees for guarantees issued which we have invoiced in 2006 but which relate to 2007 and which are to be recorded as income then.

Prepaid premiums

Premiums arise when we issue bonds and the market value is higher than the nominal value. The difference is recorded as premium and accrued during the time to maturity of the loan.

Prepaid discounts, repurchased lottery bonds

The discounts arose when we repurchased lottery bonds at a value that was below the nominal value. The discount is accrued during the time to maturity of the loan.

Note 32 • Guarantee commitments

The commitments where the Riksdag has decided on special arrangements (guarantee capital for international financial institutions and the capital coverage guarantee for Arlandabanan Projekt AB) are reported as memorandum items. No provision has been made for future guarantee losses.

These commitments are reported below together with guarantees issued by public enterprises and a guarantee issued by other agencies unsupported by government decisions, where no provision either has been made for anticipated guarantee losses.

Guarantees to international financing institutions (special guarantee reserve)

	31.12.2006	31.12.2005
– Guarantee capital issued by The Ministry of Finance	69,994,909	74,289,174
– Guarantee capital issued by The Ministry for Foreign Affairs	6 446,548	7,354,378
Total	76,441,456	81,643,552

Other guarantees¹

– Guarantees issued by public enterprises	439,812	434,016
– Guarantees issued by other agencies not based on government decisions	1,200,000	1,200,000
Total	1,639,812	1,634,016
Total	78,081,268	83,277,568

¹ No values have been calculated for the capital coverage guarantee for Arlandabanan Projekt AB, issued by the Swedish National Rail Administration and the Swedish Civil Aviation Administration.

Note 33 • Debt instruments

	31.12.2006	31.12.2005
African Development Bank, AfDB	1,937,098	1,811,901
Asian Development Bank, AsDB – Fund Account	72,054	151,828
Common Fund for Commodities	8,277	8,625
European Bank for Reconstruction and Development, EBRD	0	1,382
Inter-American Development Bank, IDB	17,094	17,094
International Bank for Reconstruction and Development, IBRD-GEF	1,393,460	707,755
International Development Association, IDA	2,513,905	3,990,963
International Fund for Agricultural Development, IFAD	251,400	0
Multilateral Investment Guarantee Agency, MIGA	7,800	9,026
Total	6,201,089	6,698,574

On behalf of the Government, the Debt Office issues debt certificates for payments from appropriations to capital increase in international financing institutions. The debt instruments are kept at the Riksbank from where the institutions concerned can withdraw the appropriated amounts. The above table shows the appropriated amounts that have still not been paid from the debt certificates.

Note 34 • Registered saving and lottery bonds

	31.12.2006	31.12.2005
Registered lottery bonds	893	893
Registered savings bonds	185	185
Registered savings and lottery bonds	1,079	1,079

Summary of important information

	2002	2003	2004	2005	2006
Loan framework at the Debt Office					
– loan frame granted	10,000	20,000	27,000	36,000	45,000
– loan frame utilised	8,960	11,204	7,081	20,862	22,497
Overdraft facilities at the Debt Office					
– overdraft facilities granted	25,000	25,000	25,000	25,000	25,000
– maximum overdraft during the year	–	–	–	–	–
Balance on interest-bearing account	1,327,624	1,515,576	2,203,196	2,331,713	2,539,109
– of which appropriations	89,803	41,662	30,964	32,494	28,344
– of which fees	1,237,821	1,473,914	2,172,232	2,299,219	2,510,765
Interest income, interest-bearing account	74,041	64,853	48,336	41,065	56,544
Interest expense, interest-bearing account	–	–	–	–	–
Fee income, budget	720,000	365,420	304 522	242,735	282,955
– at the disposal of the Debt Office	20,000	345,120	297,522	236,735	265,255
– not at the disposal of the Debt Office	700,000	20,300	7,000	6,000	17,700
Fee income, outcome	147,750	241,421	214,509	209,502	220,731
– at the disposal of the Debt Office	147,750	293,250	198,567	194,719	213,867
– not at the disposal of the Debt Office	–	–51,829	15,942	14,783	6,864
Appropriation credit					
– granted appropriation credit	7,600	3,751	3,920	1,162,800	1,302,876
– appropriation credit used	–	–	–	–	–
Appropriation saving	65,940	22,649	17,204	1,041	11,075
Reserved for future commitments	–	–	–	–	–
No. of yearly employees	137	128	131	131	138
Average no. of employees	141	141	143	149	153
Operating expense per yearly employee	2,178	2,234	2,022	2,116	2,125
Capital change for the year (SEK million)	21,339	14,012	9,187	–29,378	26,759
Capital change carried forward (SEK million)	–95,340	–73,053	–59,041	–49,853	–79,231

Remunerations and other benefits to leading executives at the Debt Office

Pursuant to Chapter 7, section 2, of the Annual Accounts and Budget Data Ordinance (SFS 2000:605), the Debt Office shall report on the taxable emoluments and benefits paid to the Director General of the Debt Office and to every member of the Board of the Debt Office.

During the 2006 fiscal year, the following emoluments and taxable benefits have been paid to the Director General:

Bo Lundgren	1,160,765
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Other commissions:

Board member University College of Physical
Education and Sports in Stockholm
Member of the Council of the National Financial
Management Authority

During 2006, the Debt Office has paid the following fees to each of the board members as below:

Current members:	
Lars Eric Ericsson (chairman)	90,000
Åsa Mindus Söderlund	65,000
Göran Robertsson	45,000
Ingrid Bonde	45,000

Previous members:	
Ingemar Hansson	37,500
Nina Lundström	45,000
Per-Olof Svensson	45,000

Total	372,500
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Other commissions of the Board of Directors

Lars Eric Ericsson

Chairman of the Board of Gävle University College
Chairman of Hillsta Gård AB

Åsa Mindus Söderlund

Board member A-COM

Ingrid Bonde

Board member S:t Eriks Ögonsjukhus (Eye Hospital)
Board member Posten

Per-Olov Svensson

Chairman of the Board of Belastningsskadecentrum
Deputy Chairman of the Premium Pension Authority
Board member of Swedbank västra Hälsingland

Mats Dillén is a member of the Board of the Debt Office from 2007.

The Board of the Debt Office decided at its meeting on
19 February 2007 to submit this annual report

LARS ERIC ERICSSON
Chairman

INGRID BONDE

MATS DILLÉN

GÖRAN ROBERTSSON

ÅSA MINDUS SÖDERLUND

BO LUNDGREN
Director General of the Debt Office



Anna Maria Lenngren • 1754–1817

With reading do not waste the time – our gender scarcely needs it, and shall you read, do make it short. To keep the sauce from boiling o'er!
Theories by V. Benedictsson, C. Sjöblad, ed, V. Moberg, trans.

Organisation

The Government appoints the Board of the Debt Office and gives general directions in the appropriation directions. The Government also appoints the Director General of the Debt Office, who leads the operations in accordance with the guidelines decided upon by the Board.

The Board is responsible for the operations of the Debt Office. The Board has five members from 1 January 2007. The Board has a committee for internal audit.

Chairman

Lars Eric Ericsson, Director General, Ministry of Finance, appointed in 2005

Deputy Chairman

Åsa Mindus Söderlund, M.Sc (Economics and Business), Atos Consulting AB, appointed in 2003

Members of the Board

Ingrid Bonde, Director General, Financial Supervisory Authority, Finansinspektionen, appointed in 2005

Mats Dillén, Director General, National Institute of Economic Research, appointed in 2007

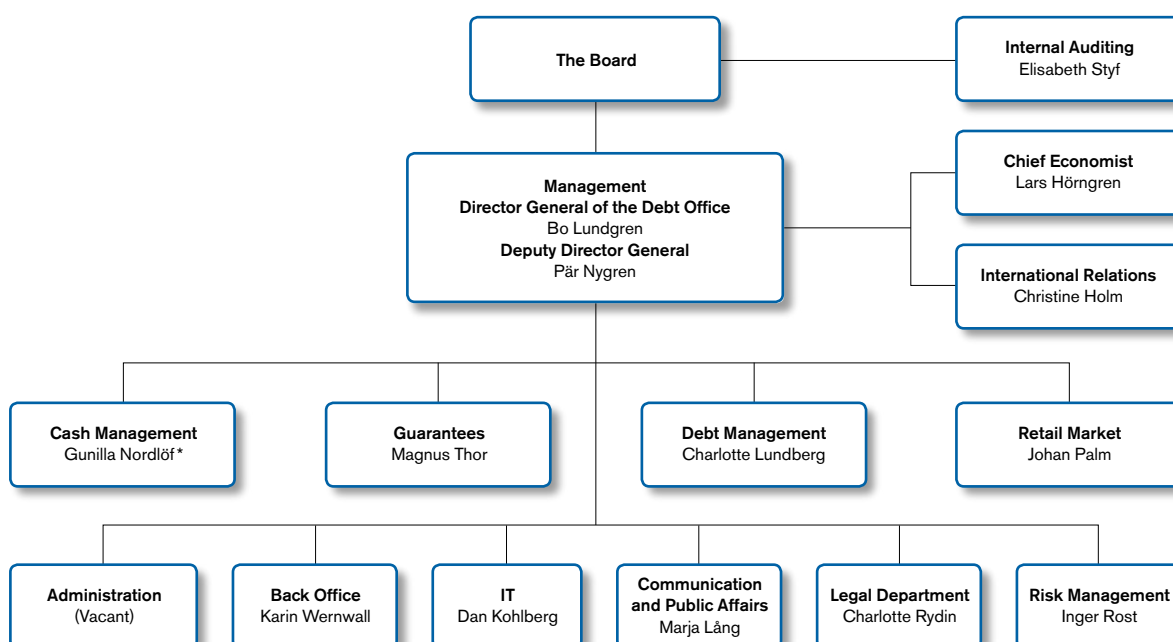
Göran Robertsson, PhD, Swedish Institute for Financial Research, appointed in 2005

Other members during 2006 were

Ingemar Hansson, Director General, National Institute of Economic Research, resigned in October 2006

Nina Lundström, Member of Parliament for the Liberal Party, resigned on 31 December 2006

Per Olof Svensson, Member of Parliament for the Social Democratic Party, resigned on 31 December 2006.



This organisation chart applies from February 2007.

** From 1 March 2007.*



Carl Michael Bellman 1740–1795

The sun is shining bright and round – the water looks like a mirror! By and by a wind blows up into the slacking sails.
Epistle no. 48 Translation by Eva Toller, 2004.

Glossary

Appropriation • Money which the Riksdag decides to set aside for a particular specified purpose.

Average interest rate refixing period • The average time until the remaining cash flows that a security gives rise to are to be paid. Cash flows arise when interest rates and loans fall due for payment. Used as a measure of time to maturity.

Bond • Current (transferable) debt instrument that provides one or more payments of agreed amounts. The agreed amounts can be fixed in kronor or depend on some factor, for instance, inflation; see *inflation-linked bond*. Certain bonds have a number of payments in the form of recurrent interest payments and are then referred to as coupon bonds. A bond without interest payments is called a zero coupon bond. See also *T-bill*.

Break-even inflation • The difference between the nominal and inflation-linked interest rate at the time of issue of an inflation-linked loan. It states how inflation must be on average for the cost of an inflation-linked and a nominal loan to be of equal size. If inflation is higher than break-even inflation, the inflation-linked loan will be more expensive for the state and vice versa.

Commission • Amounts which are reserved (set aside) in the Balance Sheet to cover anticipated losses in the future.

Interest rate swap • Agreement between two parties on an exchange of interest payments during a particular time to maturity, for instance replacement of fixed interest by floating interest.

Credit market • The market for borrowed capital. An umbrella term for the bond and money market.

Credit risk • The risk that the counterparty does not perform his obligations in a transaction.

Currency hedging • A currency hedging guarantees a particular exchange rate for a specified amount on a specified date. The Debt Office assumes, for instance, the agencies' currency risks and provides or receives the foreign currency on the due date. The agency receives a predetermined price for the currency on a particular due date. In this way, the agency knows exactly how much it is to pay in kronor despite the actual payment taking place in the future when the exchange rates may have changed.

Deposits • Short-term investment in a bank on the overnight market. See *overnight loans*.

Derivative instrument • Financial asset, the value of which depends on the value of another asset. The most common derivative instruments are options, futures and swaps.

Discount • Calculating the present value of a future payment. See also *present value*.

Discount (bond trading) • A bond is traded at a discount when the bond's price is lower than the nominal amount. This happens when the market rate is higher than the bond's set yield (coupon rate). See also *premium*.

Duration • Measure of the time to maturity of a bond which takes into consideration both the time to maturity and the coupon rate. Shorter time to maturity and higher coupon rate gives a lower duration. Duration can also be regarded as a risk measure, which measures how much the market value of an interest security is affected by a change in the market rate.

Expenditure ceiling in the state budget • A maximum level for the central government expenditure in the state budget which is set by the Riksdag. The expenditure ceiling applies to all appropriations on the state budget except interest on the central government debt.

Financial risk • Consists of market risk and credit risk. See *credit risk*.

Float • The time from when money has been withdrawn from an account until it has been deposited in the account that it has been sent to. The banks can use the money during this time to earn interest.

Future • Standardised and traded agreement on purchase or sale of securities or currencies where the price is determined now but delivery and payment take place at some specified future time.

Government bonds • Umbrella term for the bonds that the Debt Office issues on the bond market. There are both inflation-linked and nominal bonds.

Inflation-linked bond • A bond where the holder receives a fixed interest rate and compensation for inflation during the time to maturity. This means that inflation does not undermine the value of the bond.

Inflation-linked interest • Interest which is hedged against inflation. See also *inflation-linked bond*.

Limit • Quantitative limit of amounts or risks.

Liquidity bill • T-bill with customised time to maturity.

Loan framework • A loan promise in the form of a framework for how much money an agency may borrow at the Debt Office. The loan framework is decided upon by the Riksdag or the Government.

Netting • Possibility to set off liabilities and receivables in derivative transactions against a counterparty in a bankruptcy. If, for instance, we make two derivative transactions, where in the one transaction we owe the opposite party SEK 90 and in the other have a receivable of SEK 100, we can "net" the transactions. If the counterparty goes bankrupt, we then lose SEK 10. Without "netting", we would instead lose SEK 100. "Netting" thus means that we do not have to pay the SEK 90 we owe the counterparty.

Nominal bond • A bond which gives a predetermined amount in kronor on maturity. Nominal government bonds also give a fixed annual payment, a coupon rate.

Operating risk • The risk of losses which depend on deficiencies in internal processes, human errors or external events.

The concept includes legal risks but not strategic risks.

Ordinance • A law decided by the Government which is used, for instance, to control the activities of central government agencies.

Overnight loan • A loan with a time to maturity of up to five days. Used to finance short-term deficits in the state's cash holding. See also *deposit*.

Present value • The value today of a future payment, discounted with a suitable interest rate. A krona tomorrow is less valuable than a krona today, since a krona today can be invested and generate a yield.

Premium • A bond is traded at a premium when the price of the bond is higher than the normal amount. This happens when the market rate is lower than the established bond rate. See also *discount*.

Rating trigger • Agreement which means that the Debt Office can terminate transactions if the counterparty's rating falls below a particular level.

Repo (repurchase agreement) • Agreement on sale of a security, where the seller at the same time undertakes to repurchase the security at a particular time at an agreed price. The repo can be a reversed, i.e. a purchase agreement with a future sale.

Riksbank's repo rate • The Riksbank's most important policy rate. The repo rate affects the short market rates.

T-bill • A short-term government security without interest during the period to maturity. The yield consists of the difference between final payment and the payment the T-bill is purchased for.

Swap • Agreement between two parties on exchanging flows with one another during an agreed period, for instance, exchange of fixed interest for floating interest.

Value at Risk • A risk measure that estimates future losses given a particular probability and during a defined period. The measure can, for instance, say that there is a five percent probability that the loss from today to tomorrow will be SEK 50 million or greater.

Volatility • A measure that describes how much interest and exchange rates vary. The more these move up and down, the higher the volatility.

riksgalden.se



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