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Investor AB

ISSUER CREDIT RATING

Investor AB

Corporate Credit Rating AA-/Stable/A-1+

AFFIRMED RATINGS

Investor AB

Sr unsecd debt	AA-
CP	A-1+
Sub debt	
Foreign currency	A+

Debt Maturities:

At Sept. 30, 2005
2005: Skr1.3 bil
2006: Skr3.8 bil
2007: Skr1.5 bil
2008: Skr3.2 bil
2009: Skr1.4 bil
Thereafter: Skr13.2 bil

Collateralization:

None

Total rated debt:

An equivalent of Skr21.6 billion at Sept. 30, 2005

Corporate credit rating history:

Dec. 16, 1997	AA-/A-1+
Jan. 24, 1994	A/A-1

Major Rating Factors

Strengths

- A portfolio consisting of (predominantly listed) securities with high liquidity, which provides excellent financial flexibility;
- Expectations of low leverage over the cycle (below 25% net debt to portfolio value); and
- An ownership structure that provides stability, with Wallenberg Foundations controlling almost 50% of voting rights.

Weaknesses

- Exposed to volatile and unpredictable stock markets; and
- Heavy exposure to a few large holdings from time to time.

Rationale

The ratings on Sweden-based publicly held investment holding company Investor AB reflect its strong capital structure and excellent financial flexibility. At Sept. 30, 2005, Investor could have covered its net debt (including its Swedish krona [Skr] 4.2 billion loan guarantee to Hi3G) 16x by liquidating its core holdings. At the same date, the company had total on-balance sheet debt of about Skr24.8 billion (\$3.2 billion).

Investor principally comprises a portfolio of listed shares. At the end of September 2005, the company's portfolio of 11 listed core holdings had a market value of Skr106 billion, representing about 84% of its total investment portfolio. The listed core holdings enjoy strong liquidity, as they are among the most traded stocks on the Stockholm Stock Exchange. In addition, several holdings are listed on foreign stock exchanges.

Although Investor regards most of its holdings as strategic, they can be sold if necessary, providing the company with very strong financial flexibility to compensate for its weak operating cash flow. For example, during the first nine months of 2005, the company sold shares for a total of about Skr7.4 billion in its core holdings. Investor's portfolio of listed core holdings consists of international companies that are only modestly exposed to economic conditions in Sweden. Furthermore, the core holdings include shares in companies spanning different industries.

The company's private equity investment portfolio (primarily in technology and health care) and its 40% stake in mobile communications operator Hi3G are relatively illiquid and high-risk (although they are spread over a large number of holdings). Nevertheless, Standard & Poor's Ratings Services does not expect these types of investments to represent more than 20%-25% (currently 16%) of Investor's total portfolio, which is consistent with the rating on the company. Investor's current ownership structure—with Wallenberg Foundations controlling almost 50% of voting rights—provides long-term stability for the company and supports the ratings.

We expect Investor to maintain relatively low leverage in the long term, and we do not expect net debt to exceed 25% of the investment portfolio's estimated market value. The company's net debt-to-portfolio value was a strong 2% at Sept. 30, 2005 (5% including guarantees), based on Investor's portfolio market value estimate, reflecting relatively strong equity markets and net divestments.

Short-term rating factors

The short-term rating on Investor is 'A-1+', reflecting a large portfolio of listed, very liquid holdings, which provides a high degree of financial flexibility. The company's liquidity is very strong, with Skr22 billion in cash and equivalents at the end of September 2005, and a recently signed Skr10 billion syndicated back-up facility due in 2012, which is currently undrawn. This compares with about Skr1.3 billion in debt maturing in the last quarter of 2005. In addition, the company has no financial covenants that could restrain its borrowing capacity in the event of a stock market decline.

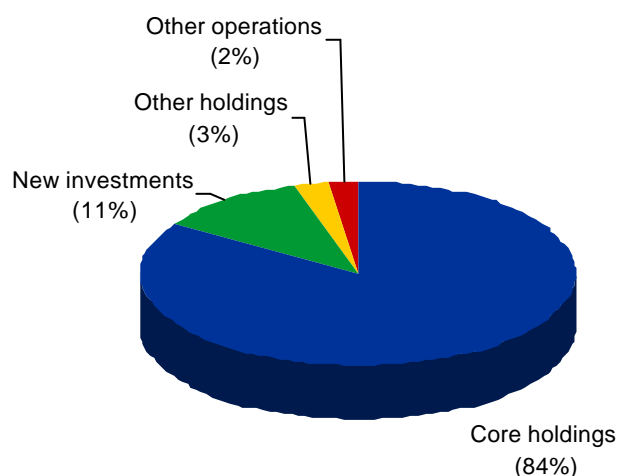
Outlook

The stable outlook assumes that Investor will maintain a very high level of financial flexibility, provided by its large portfolio of listed shares, in relation to its debt. If net debt to estimated portfolio value were to exceed 25%, we expect that this would only be for a temporary period. Furthermore, the rating is based on Investor's current portfolio structure, with only a small portion of wholly or majority owned holdings. Higher exposure to wholly or majority-owned companies is likely to exert ratings pressure, while upside potential is restricted due to the limited additional positive ratings implications of further diversification or debt reduction.

Business Description

Investor is a publicly held holding company listed on the Stockholm stock exchange, and is made up mainly of a portfolio of listed core holdings, which was worth about Skr106 billion at the end of September 2005. In addition, Investor also had about Skr17 billion invested in private equity investments (venture capital and buyout; including its investment in mobile phone operator Hi3G). The Wallenberg Foundations are Investor's largest shareholders, with almost 50% of voting rights and 20% of share capital.

Investor AB's Total Investment Portfolio (At Sept. 30, 2005)



Business Risk Profile

Investor's high creditworthiness is based largely on its portfolio size, as well as high portfolio liquidity, which offer very strong financial flexibility. The assessment of the credit quality of investment holding companies, such as AB Industrivärden (A+/Stable/A-1), IFIL SpA (BBB+/Stable/A-2), and Wendel Investissement S.A. (BBB+/Stable/A-2), is primarily based on an evaluation of the entities' financial flexibility, and in particular on their ability to sell assets at short notice (see the article "Rating Methodology for European Investment Holding and Operating Holding Companies," published on May 28, 2004, on RatingsDirect). Furthermore, it is difficult to separate an investment holding company's business profile from its financial profile.

Core holdings

Investor's listed core holdings are among the most traded on the Stockholm Stock Exchange, and several of Investor's holdings are also listed on foreign stock markets. Although Investor regards most of its core holdings as strategic, they can be sold entirely or in part if necessary, thereby contributing to the company's financial flexibility. Investor actively manages its portfolio of core holdings, and several changes have occurred over the past few years. Investor's flexibility with regard to the timing of the sale of different listed shares is an advantage that enhances the portfolio's value. For example, AstraZeneca PLC (AA+/Stable/A-1+) shares were sold for Skr3.5 billion in the first nine months of 2005.

Another important factor in Investor's creditworthiness is the level of diversification within the portfolio. At Sept. 30, 2005, the core holdings consisted of 11 stocks, of which the three largest shareholdings were: Ericsson (Telefonaktiebolaget L.M.) (BBB-/Stable/A-3; Skr23 billion); AstraZeneca PLC (Skr19 billion); and Skandinaviska Enskilda Banken AB (A/Positive/A-1; Skr17 billion). Although the portfolio consists of shares in companies operating in different industries, it has from time to time been relatively concentrated on one industry (for example, health care represented about 40% at year-end 2003), because of heavy fluctuations in equity values of its core holdings. The core holdings consist of shares traded on the Stockholm Stock Exchange, but these companies are highly international, which limits Investor's portfolio exposure to domestic conditions. Investor is not limited to the Stockholm Stock Exchange, but could invest in other stock exchanges or regions, although it is likely to retain a Swedish focus.

As a result of a differentiation in Sweden between the voting rights of different classes of shares in a company, a small percentage of shares with strong voting rights can give the owner considerable influence. Investor's large investments in its core holdings, often in shares with high voting rights, give Investor representation on these companies' boards, which is in line with Investor's strategy of being an active and long-term owner. Such holdings, therefore, would likely be sold at a premium.

Table 1

Investor AB's Core Holdings			
At Sept. 30, 2005	Market value (Skr mil.)	Share of total assets (%)	Corporate credit rating (at Nov. 17, 2005)
<i>Technology</i>			
Ericsson	22,780	18	BBB-/Stable/A-3
Saab AB	2,831	2	Not rated
WM-data	1,468	1	Not rated
Subtotal	27,079	21	
<i>Healthcare</i>			
AstraZeneca	18,597	15	AA+/Stable/A-1+
Gambro	8,045	6	Not rated
Subtotal	26,642	21	

Table 1

Investor AB's Core Holdings			
At Sept. 30, 2005	Market value (Skr mil.)	Share of total assets (%)	Corporate credit rating (at Nov. 17, 2005)
<i>Engineering</i>			
Atlas Copco	14,155	11	A-/Stable/A-2
ABB	9,398	7	BB+/Watch Pos/B
Scania	5,975	5	A-/Stable/A-2
Electrolux	4,300	3	BBB+/Stable/A-2
Subtotal	33,828	26	
<i>Financial Services</i>			
SEB	17,470	14	A/Positive/A-1
OMX	1,240	1	A/Stable/A-1
Subtotal	18,710	15	
Total	106,259	83	

Credit risk in Investor comes from its exposure toward equities, a highly volatile asset class. This is mitigated by low debt levels relative to asset values, providing adequate headroom for falling equity values. Although the company is expected not to wholly own or control any of its core holdings, Investor might decide to take majority interest in one of its smaller core holdings, which would lead to a higher risk profile, as that would expose Investor to that company's operating risks. This would likely lead to a lower rating.

Hi3G and venture capital investments

Hi3G is a mobile phone operator providing 3G mobile services in Sweden and Denmark, which are highly competitive markets. Hi3G is 40% owned by Investor and 60% by Hutchison Whampoa Ltd. (A-/Negative/—). Investor's total investment (equity and shareholder loans) in the company was about Skr2.5 billion at Sept. 30, 2005. Investor predicts that its total investment in Hi3G will total between Skr4 billion-Skr5 billion at its peak, in order to support growth. Although this is a fairly high-risk investment, it is still a very small investment compared with total assets. Furthermore, Investor has provided guarantees, pro rata its ownership, on about Skr10.5 billion in external loans made to Hi3G.

New Investments is Investor's private equity operations, which invest in small and medium-sized companies globally. In this division, Investor makes investments for its own portfolio (Investor Growth Capital) or through partly-owned, but self-managed, funds such as EQT and Investor Capital Partners. Management of the fund investments are separate from Investor's core operations, and Investor earns management and transaction-based fees through a part-owned management company. Return on these investments is highly uncertain, and they require a great deal of active management. Nevertheless, the private equity markets have been generally favorable over the past year, and Investor has sold off a number of its holdings at a gain.

Trading portfolio

Investor's trading activities comprise short-term trading in shares and share-related derivatives. Operations are conducted in accordance with a restricted investment mandate and are subject to strict risk controls.

Financial Risk Profile

As investment holding companies such as Investor have asset structures made up largely of shareholdings in listed stocks, the traditional ratio analyses should be interpreted with caution.

Given Investor's goal of obtaining the highest possible return for shareholders through investments in listed stocks and wholly or partly owned companies, turnover in its asset portfolio is relatively high and group structure and leverage change over time. Leverage has further decreased in 2005, due to lower debt levels and strengthening share prices, and, at Sept. 30, 2005, net debt to total investment portfolio market value was estimated at a very low 2% (5% including guarantees). The group ceiling for this ratio is 25%, but Investor is expected to operate at lower levels on a normalized basis, as that provides the company with flexibility to invest in new assets without having to make large disposals. If leverage were to exceed 25%, this would only be expected to be for a temporary period. The ratings incorporate expectations that Investor will take action to restore the capital structure quickly if share prices were to decline significantly over an extended period.

Investor's core sources of cash income are from stock dividend payments; cash flow generated by the operations of consolidated subsidiaries; trading activities; and periodic asset sales. Operating cash flow represents only a minor source of cash income. As Investor's dividend policy is to distribute a large portion of the dividends received in the form of an ordinary dividend to shareholders, it is expected that the company will from time to time be dependent on cash income from asset sales and trading activities to cover net financial expenses and administrative costs. The weak operating cash flow is compensated by Investor's liquid investment portfolio, which provides the company with very strong financial flexibility. Swedish tax law changes in 2003 provided Investor with greater dividend flexibility, which were positive for the ratings.

Accounting

Since Jan. 1, 2005, Investor has implemented IFRS accounting. Significant areas of change included:

- IAS 39—financial instruments. All Investor's investment assets will be accounted for at market value, including non-listed equity investments. Furthermore, the accounting treatment of Investor's financial instruments (that is, the loan portfolio) was affected. Investor has adopted hedge accounting of its debt portfolio (if the hedges qualify for hedge accounting) instead of its historical amortized cost treatment. The credit assessment of Investor was already based on the estimated value of the company's financial instruments, so these changes did not have any impact on Standard & Poor's assessment of Investor's credit quality.
- IFRS 2—share-based payment. Investor's earnings are reduced for the fair value of share-based payments, including employee share options, amortized over the life of the program.

Corporate governance/Risk tolerance/Financial policies

Investor's corporate governance practices are based on Swedish law and relevant rules and recommendations issued by various Swedish authorities. With the appointment of a new CEO during 2005, the Wallenberg family has distanced itself from the day-to-day operations of Investor, although the family retains a strong grip on the board of directors. Only two out of eight board members are seen as independent. Overall, however, the Wallenberg family's influence on Investor is seen as positive, as they provide stability and long-term focus for Investor's operations.

Table 2

Investor AB Peer Comparison			
(€mil.)	Investor AB	Industrivärden AB	IFIL SpA
Country	Sweden	Sweden	Italy
Corporate credit rating	AA-/Stable/A-1+	A+/Stable/A-1	BBB+/Stable/A-2
Date of figures	Sep. 30, 2005	Nov. 4, 2005	Oct. 4, 2005
<i>Business Profile</i>			
Investment portfolio (estimated portfolio value)	13,542	5,260	5,396
No. of stocks in core holdings	11	9	6
Three largest holdings/investment portfolio (%)	47	65	96
Investment portfolio (market value of listed holdings)	11,399	5,229	5,292
Portfolio's diversification	Very strong	Strong	Weak
Level of liquidity	Very strong	Very strong	Moderate
<i>Financial profile</i>			
Net debt (cash)	698	364	(352)
Net debt/investment portfolio (%)	5*	7	N.M.
Net debt/investment portfolio listed holdings (%)	6*	7	N.M.
Net debt ceiling as percentage of investment portfolio (%)	25	20	20%
Shareholders' equity	13,294	4,685	4,629

*Including guarantees N.M.—Not meaningful

Table 3

Investor AB Financial Statistics						
(Skrbil.)	9M/2005* (IFRS)	2004 (IFRS)	2003	2002	2001	2000
Estimated investment portfolio (market value)	126	109	104	79	129	155
Market value of listed core holdings	106	87	86	63	111	131
Dividends received	2.4	1.7	1.7	2.0	2.6	2.7
Dividends paid	1.7	1.7	1.7	2.6	4.2	4.2
Operating costs	0.4	0.5	0.5	0.6	0.7	N.A.
Total debt¶	24.8	28.0	30.1	21.5	14.3	15.7
Net debt/estimated investment portfolio (%)§	5	15	20	20	8	5

*For the first nine months ended September 30. ¶Excluding guarantees. §Including guarantees Skr—Swedish krona. N.A.—Not available

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