

Credit Analysis

Moody's Global Corporate Finance

November 2007

Investor AB

Stockholm, Sweden

Corporate Profile

Portfolio Diversification, Asset Liquidity and Conservative Leverage Strategy Underpin Current Rating

Investor AB ("Investor", rated A1 with a stable rating outlook) is the largest industrial holding company in the Nordic region. The company's business strategy is to generate attractive long-term returns on investment, to create value by building companies in sectors where it is deemed to have a strong knowledge and networking advantage and thus to grow Investor's net asset value in excess of market cost of capital over a business cycle. It manages total assets of around €19 billion.

Figure 1 – Portfolio Highlights

Portfolio in SEK million	Sep 30, '07	Dec 31, '06	Dec 31, '05*	Dec 31, '05	Dec 31, '04
Core Investments	145,100	135,274	115,419	115,419	87,643
Private Equity Investments	17,223	15,181	15,478	n.a.	n.a.
Operating Investments	11,477	5,981	2,757	n.a.	n.a.
Financial Investments	2,623	3,008	1,380	n.a.	n.a.
New Investments	n.a.	n.a.	n.a.	16,858	10,820
Other Net Assets	(203)	(540)	(631)	2,126	7,054
Total Assets**	176,220	158,904	134,403	134,403	105,517
Net (Debt)/Cash***	(1,587)	416	(1,442)	(1,442)	(15,551)
Net Asset Value	174,633	159,320	132,961	132,961	89,966
Net Debt/Total Assets %	0.9%	-0.3%	1.1%	1.1%	14.7%

* New segment organization

** At market value

*** In addition, Investor has guaranteed SEK10.5 billion loans to mobile broadband operator 3Scandinavia pro-rata to its 40% shareholding (around: SEK4.2 billion), adjusted leverage as of Sep 2007 is 3.2%

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Analyst Contacts:

Frankfurt 49.69.707.30.719

Wolfgang Draack

Senior Vice President

Matthias Hellstern

Vice President/Senior Credit Officer

Johannes Wassenberg

Team Managing Director

This Credit Analysis provides an in-depth discussion of credit rating(s) for Investor AB and should be read in conjunction with Moody's most recent Credit Opinion and rating information available on Moody's website. [Click here to link.](#)



Moody's Investors Service

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Investor operates its holdings in four different segments: Core Investments, Private Equity Investments, Operating Investments and Financial Investments. Core Investments have traditionally dominated Investor's activities and we expect these to continue to exceed 75% of total assets (83% as of 30 September 2007). Core Investments at 30 September 2007 consisted of ten mostly Swedish-based, multinational companies to which Investor acts as a committed shareholder, participating actively in their development. In September 2007, Investor agreed to a bid by Borse Dubai for its stake in OMX, valuing it at around SEK3.4 billion. Of the remaining nine Core Investments, the largest companies are SEB (rated Aa3, 16% of total assets), ABB (Baa1, 16%), Ericsson (Baa1) and Atlas Copco (A3), each accounting for 12%.

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Management Strategy

After many years of relative stability, since 2006 we have seen a preparedness to sell and/or restructure investments when value can be created. Of originally 11 Core Investments at the beginning of 2006, two were sold (WM-Data and OMX, in process), one, Gambro was taken private and is now held as an operating investment, and one, Electrolux was split in two, by the listing of its spin-off Husqvarna, which is now a core holding in itself. In addition, there are ongoing efforts to maximise value in Scania, which is majority-owned by Volkswagen AG (A3). A potential outcome is that Scania participates in the consolidation of the truck and bus industry. Considering these transactions, Investor's Core Investments portfolio may well see more change in future and the percentage of listed investments in total assets may gradually decrease. Management has a stated ambition to grow the share of unlisted investments to 25% in the next five years, though not materially above that. A high share of listed investments provides access to liquidity in stress situations and is a key rating driver.

The Private Equity segment accounts for 10% of total assets and is dedicated to smaller start-up or mature companies to support the launch of new products or to accelerate restructuring. Since its inception in 1988, this segment has met and exceeded its goal of a 20% average annualised internal rate of return.

In addition, Investor is building a portfolio of companies in which Investor has a controlling interest or minority position with significant influence. These are accounted for at equity and not fully consolidated in Investor's consolidated financial statements. The main items in the SEK11.5 billion portfolio are Mölnlycke Health Care (surgical and wound care products accounting for 46% of this business segment), Gambro Holding (32%, renal products and blood cloth technology) and the Grand Group (13%, hotel). Included is also a 40% stake in 3Scandinavia, the remainder being held by Hutchison Whampoa Ltd (rated A3), which operates third-generation (3G) wireless networks in Sweden and Denmark, and holds a licence in Norway.

This portfolio has grown fourfold since early 2006 and further additions can be expected. The common strategy lies in nurturing medium-sized Northern-European operations to an internationally competitive scale. However, should the investments be outside of Investor's core focus areas, an increased diversity of operations, could lead to a certain challenge in managing them to maximum efficiency.

Management's strategy is to maintain high financial flexibility to be able to seize investment opportunities as they arise. The ceiling for Investor's leverage (net debt/total assets) has been set at 25% and may only be exceeded on a short-term basis. It is management's intention to distribute a high share of dividends received from core investments and keep the total dividends rising.

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Positioning per Global Investment Holding Company Rating Methodology

Investor's rating maps to a weak A1 rating under Moody's methodology for global investment holding companies (see Key Rating Factors table below)¹. This compares relatively well with its current rating of A1, which, however, is more solidly positioned in its rating category because of: (i) the strong liquidity of its portfolio, with more than three quarters of assets listed on stock exchanges; (ii) management's track record of protecting its leverage ceiling by selling assets even in times of a stock price downturn; and (iii) transparent asset valuations, investment strategies and performance checks.

Moody's methodology focuses on financial investors holding a diversified portfolio of equity interests. Investor pursues both an investment management strategy for the minority-owned core holdings with board representation, but limited influence on operations, and an operating management strategy for the operating investments. Like the other rated holding companies, Investor funds its investment at the parent company level without cross default clause with subsidiary borrowings. The loan guarantee for 3Scandinavia is the only example of direct funding of a subsidiary's operations. Within the private equity business funds managed by EQT lever up their holdings substantially on their own merits. Venture capital subsidiary Investor Growth Capital very rarely uses debt to fund the development of the holdings..

Figure 2 – Investment Holding Company Industry Rating Factor Analysis

Investment Holding Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Asset Quality (30%*)			X				
a) Assets concentration				X			
b) Geographic diversity	X						
c) Business diversity			X				
Factor 2: Management discipline and group transparency (10%)		X					
a) Dividend payout policy		6					
b) Public transparency of financial policy		6					
c) Group complexity		6					
Factor 3: Market value-based leverage (20%)	3.60%						
Factor 4: Cash Coverage (10%)					2.3x		
Factor 5: Liquidity (15%)			X				
a) Degree of influence over dividends of investees					32%		
b) Adjusted liquidity ratio	212x						
Factor 6: Portfolio Risk (15%)			X				
Methodology Rating			A1				
Actual Rating			A1				

* Weight of factor in aggregated model rating.

¹ See also Moody's Global Investment Holding Companies Industry Methodology, published October 2007

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Rating Factor 1: Asset Quality (30% weight)

An investment holding company will meet its debt service obligations from cash flow received (dividends and interest income) and/or from monetisation of investments. The ability to realise meaningful prices and monetise at all is correlated with the diversity of the portfolio. We measure diversity with regard to asset concentration, geographic and business diversification.

Investor's portfolio is relatively concentrated with the three largest holdings (SEB, Ericsson and Atlas Copco) making up 45% of total assets as of end-2006, which maps to a Baa rating. By September 2007, this percentage has not materially changed, but ABB has joined the top three with 16%, displacing Ericsson with 12%. The company does, however, score full marks, an indication of Aaa, for geographic diversity, since virtually all core investments are multinational corporations with global business exposure. While Investor reports its core holdings in only four balanced industries (Engineering, Technology, Financial Services and Healthcare), we have quantified the number of distinct business segments at nine, separating the engineering segment into four industries reflective of the end-user groups, and splitting technology and healthcare into two each, i.e. into telecom equipment and defence systems and pharmaceutical and medical products, respectively.

Figure 3 – Asset Quality by Rating

Senior Ratings	Sep. 30, '07	% of Rated Holdings	% of Total Holdings
ABB	Baa1	23%	16%
SEB	Aa2	24%	16%
Ericsson	Baa1	17%	12%
Atlas Copco	A3	17%	12%
Astra Zeneca	A1	14%	9%
Electrolux	Baa2	4%	3%
Total Rated Holdings	n.a.	100%	68%
Weighted Avg. Rating	A2	6.25	n.a.

We have also considered the credit quality of assets, which may add price stability in a stock market crunch – although this was not particularly effective in 2002, when both ABB and Ericsson experienced heavy stock price slumps as a result of individual credit issues. Nevertheless, more than two thirds of Investor's holdings are rated investment grade. The weighted average rating of this part of the portfolio is a high A2. These metrics are far above the measures for the other companies in the peer group.

Rating Factor 2: Management Discipline and Group Transparency (10%)

Moody's scores the aspect of management orientation towards shareholder value versus creditor protection by three measurable criteria: dividend payouts, transparency of financial policy and group complexity.

The dividend payout policy of Investor scored a 6, reflecting a level of less than 20% of distributable income paid out as dividend. In our calculation of a 6% ratio, we have compared the dividends paid in 2006 to the net income of 2005. The same ratio for the following year amounts to 20%, signalling already the high volatility in this ratio, as net income includes unrealised changes in the market value of the company's investments. Hence, this factor is very sensitive to stock market trends. Investor's actual dividend policy is to distribute a high share of dividends received from core investments and equity such as return on private investments, with the goal of a steadily rising annual dividend.

Investor's strategies are very clearly communicated. This includes investment policies and return targets for the portfolio segments, for instance, the risk-free interest rate plus risk premium, currently 8%-10%, for the core investment. Equally, management has indicated a dividend payout strategy and a leverage ceiling. The latter, net debt as a percentage of total assets at a maximum of 25% implies that management will start liquidating assets when asset values still cover net debt 4x. Indeed, management did so in September 2002, when leverage approached 25% and was restored the following quarter.

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In the same fashion, Investor maintains a clean corporate structure, without, to our knowledge, cross-subsidies or funding between the subsidiaries. All debt is raised centrally and its financial reports follow internationally recognised IFRS standards.

Rating Factor 3: Market Value based Leverage (20%)

Moody's methodologies measure and rank orders for this factor using the average of the past two years' actual leverage; that is net debt including Moody's adjustments divided by the market value of portfolio assets.

Figure 4 – Market Value Based Leverage

Amounts in SEK million	2006	2005
Shares and participations	152,219	131,648
Investments in associates	3,713	463
Active portfolio management	1,549	1,410
other*	1,477	1,505
Portfolio assets at market value	158,958	135,026
Reported debt	18,299	24,553
Pension	199	221
Operating leases	150	186
Financial guarantees	4,324	4,327
Total debt	22,972	29,287
Cash and short term securities	18,653	23,111
Net debt	4,319	6,176
Leverage	2.7%	4.6%
Average leverage	3.6%	

* primarily book value of Grand Hotels which is consolidated

Investor scores highly, mapped to an Aaa-rating, in this category. The company's net debt levels have been very low over the past two years. Management has used the stock price run-up since 2002 to accumulate cash and reduce debt. Realisations of capital gains and re-investments have been moderate. We would expect Investor to maintain that strategy although new investments in private equity or other industrial operations are likely.

Actually, the fact that Investor shows net debt at all in our two-year average calculation is due entirely to Moody's debt adjustments, in this case reflecting primarily a loan guarantee for investment company, 3Scandinavia, which is building and operating mobile phone networks in Sweden and Denmark.

Rating Factor 4: Cash Coverage (10%)

Cash coverage assesses to what extent a company is able to fund its debt service (interest expense) from regular streams of cash flows (dividends and interest income), or whether it relies on asset monetisation to pay its expenses.

Investor's portfolio companies have an average pay-out ratio of 35%-45% of earnings. The rate of distribution is gradually increasing and extraordinary and tax-advantaged distributions are encouraged by Investor when special situations warrant it. Two companies, Atlas Copco and Scania, paid extraordinary distributions in 2006.

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Figure 5 – Dividend Payout Ratios

Per Share data in SEK	2006			2005			2004		
	EPS	Dividend per share	Payout ratio	EPS	Dividend per share	Payout ratio	EPS	Dividend per share	Payout ratio
SEB	18.72	6.00	32%	12.58	4.75	38%	10.29	4.35	42%
Ericsson	1.65	0.50	30%	1.53	0.45	29%	1.11	0.25	23%
Astra Zeneca	3.86	1.72	45%	2.91	1.30	45%	2.01	0.94	47%
Atlas Copco	24.48	44.75	183%	10.43	4.25	41%	7.41	3.00	40%
ABB	0.63	0.24	38%	0.36	0.12	33%	(0.02)	-	0%
Scania	29.70	50.00	168%	23.33	15.00	64%	21.57	15.00	70%
Electrolux	9.17	4.00	44%	6.05	7.50	124%	10.92	7.00	64%
Husqvarna	6.29	2.25	36%			0%			0%
Saab AB	11.78	4.25	36%	10.89	4.00	37%	11.91	3.75	31%
OMX	7.64	6.50	85%	4.66	9.50	204%	3.31	-	0%
Average*			43%			41%			35%

* Adjusted for outliers

The aggregate rate of dividends accrued to Investor has increased significantly in recent years, not only because of a higher payout-ratio but also due to overall improving profitability in the portfolio supported by a generally benign market environment for these companies.

Figure 6 – Cash Coverage

Amounts in SEK million	2006
Dividends received (5-year average)	2,213
Cash Interest Received	631
Gross Interest Paid	1,196
Adjustments*	19
Adj. Interest expense	1,215
Interest Cover	2.3x

* For leasing and pension obligations

For the mapping to the methodology, we have calculated the five-year historic average of dividends collected to normalise the amount. In fact, Investor is actively encouraging the portfolio companies, many of which are in mature industries, to gradually increase dividend payouts and we expect interest cover to increase going forward. We also note that share redemptions, a form of shareholder distribution that is becoming increasingly popular, are not captured in this ratio, because they are less reliable than dividends. Yet they still create value for the company.

Rating Factor 5: Liquidity (15%)

Moody's gauges the liquidity profile of an investment holding company by two aspects: (i) the control/influence on dividend distribution levels of investees, which are effectively the cash inflows of the holding company; and (ii) the liquidity strategy of management reflected in cash balances, committed credit lines and the term structure of its debt.

Among the investments where Investor holds more than 20% of voting rights, which is the threshold for Moody's definition for significant controlling interest, we have considered Atlas Copco (21% of voting rights), Scania (20% even though Volkswagen holds the majority), Electrolux (28%), Saab AB (38%), and Husqvarna (29%). We have also considered the operating investments of which Investor holds between 40% and 100% but not the private equity investments, which are not likely to deliver regular dividends.

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As a result, around 32% of the total portfolio values are represented by companies where Investor can exercise significant influence over their distribution strategy. We do understand that Investor plays strong advisory roles for all of its core investments, regardless of voting stakes, which gives additional leverage on business and distribution strategy of these affiliates.

Figure 7: Adjusted Liquidity Ratio

Amounts in SEK million	2006	2005
Total asset book value (1)	180,940	162,133
Haircut listed assets (default 25%)	33,819	28,855
Haircut non listed assets (default 50%)	11,104	9,051
Haircut PP&E (default 50%)	1,245	1,211
Haircut on short-term securities (default 10%)	1,305	1,889
Haircut on cash (default 0%)	0	0
Haircut on remaining assets (default 100%)	2,317	3,079
Total Haircuts on assets (2)	49,788	44,085
(3) Liquid Net Assets (1) - (2)	131,152	118,048
(4) Committed credit lines (no covenants)	10,000	10,000
(5) Adjusted liquidity (3) + (4)	141,152	128,048
(6) Short term financial debt	666	3,998
(7) Current portion of long term financial debt	0	0
(8) Total short term financial debt (6) + (7)	666	3,998
(9) Adjusted Liquidity Ratio (5) / (8)	212x	32x

For the adjusted liquidity ratio, we have applied a conservative, but consistent 25% haircut to listed securities, and subtracted half from unlisted investments, fixed and other assets. The resulting SEK131 billion of assets was complemented by the SEK10 billion, seven-year syndicated credit facility due 2012, with neither financial covenants nor repeating MAC (material adverse change) clauses. Management is committed to extend or refinance the facility well ahead of its maturity and to keep the facility amount at a sizeable proportion of total assets. The adjusted liquidity reserve of SEK141 billion represents a high multiple of marginal, SEK666 million short-term debt maturities as of fiscal year end-2006 and provides very strong cushions for unexpected liquidity needs. This is reflected in a Aaa score for the adjusted liquidity ratio.

Rating Factor 6: Portfolio Risk (15%)

The portfolio risk factor captures the volatility of asset values and particularly, the worst-case scenario that historic peak share price declines in the company's respective market are repeated and management, in keeping with its own leverage comfort zones, is forced to liquidate holdings in a down market. The metrics then estimate the probability of the portfolio value falling below the total of the company's liabilities (assuming the target leverage) or the corresponding expected losses for debt holders in such events and map the expected losses to ratings in line with Moody's rating definitions.

In the case of Investor, we have derived the volatility measure from the history of stock prices at the OMX exchange. All of Investor's core investments are listed there, but many are international companies and are listed on additional exchanges. The volatility measure is the average of the maximum index volatility over three historic periods, i.e. three months, one year and five years. The volatility metric for OMX at 37% is one of the highest of the EMEA exchange indexes analysed (exceptions: Saudi Arabia and Turkey), but not out of line with other European exchanges, e.g. Amsterdam (38%), Paris (34%), or FTSE Eurofirst 300 (33%). We do not see the 20%-25% "leverage ceiling" of management as its target, rather we have observed leverages around zero in the past two, almost three, years and have applied the middle of actual and ceiling leverage, i.e. 10% to the methodology model. Mapping the 37% volatility rate against this 10% interpretation of management's leverage strategy results in an A2 rating for this sub-factor (see Appendix C in methodology).

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Putting it all together...

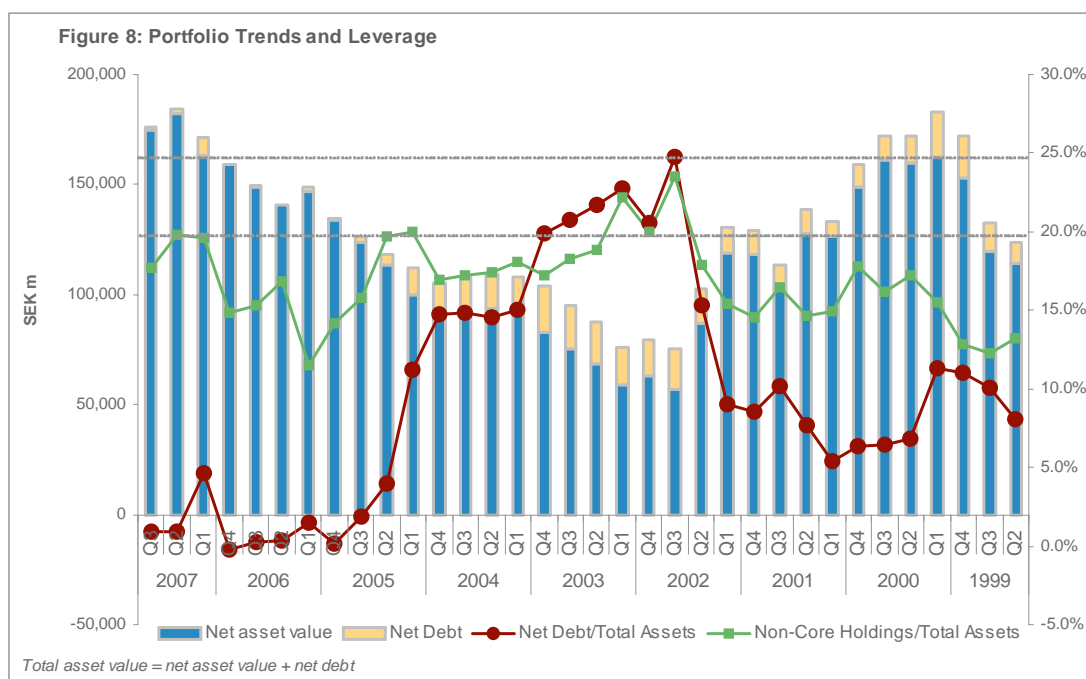
Aggregating all the methodology sub-factors with the appropriate weights produces an A1 model rating for Investor. However, the rating is weakly positioned in the category and sensitive to adverse changes in just one subcategory with a 10% weight. For instance a SEK250 million increase in interest expense (which is equivalent to 1.5 percentage points of the 2006 gross debt level) would ceteris paribus reduce cash coverage (10% weight) to 1.9x and into the B category for the sub-factor, driving the overall model rating down to A2. Similarly, the dividend payout policy (one third of management discipline factor with 10% weight), as currently assumed, is critically reliant on increases in market value, which are included in distributable income and thus boost the numerator in the coverage ratio. A relatively lower contribution in 2007 than in 2006 can push the factor Management Discipline into the single A category. However, this weak positioning in the methodology is mitigated by some qualitative features, which the model cannot capture.

Other Rating Considerations

In addition to the methodology outcome, Moody's rating committee has considered positively a number of factors specific to Investor, foremost: (i) the active portfolio management of Investor with a committed and proven leverage ceiling; (ii) the quality and liquidity of its holdings, comprising stakes in large, international corporations listed on the world's largest exchanges.

Management has taken measures in 2002 to protect its leverage ceiling

While Investor has been operating with very low leverage for the past three years, there was a period in 2002 and 2003 when collapsing share prices placed management's leverage ceiling (Net Debt/Total Assets not to exceed 20%-25%) under pressure. In September 2002, leverage had reached almost 25%, and management subsequently liquidated core holdings (0.5% of AstraZeneca for SEK3 billion) and non-core holdings (e.g. Syngenta, Volvo) in order to gain flexibility. Management's proven discipline to sell in a down market well before leverage could reach a critical level, in line with a leverage strategy that was repeatedly reconfirmed, is a key consideration of Investor's rating



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More than three quarters of portfolio assets are very liquid

One other factor that distinguishes Investor from its peers is the high share of listed investments that has been maintained well above 75% over the years. This asset liquidity cannot be fully reflected by the methodology that assigns highest marks if short-term debt maturities are covered six times by liquid assets. In effect, the listed nature of most of the portfolio gives management the flexibility to protect its leverage by selling share to the markets. Even though segments of the capital markets have occasionally experienced disruptions (e.g. structured commercial paper currently), the scenario where all major stock exchanges were ineffective is currently highly unlikely.

The good credit quality of Investor's holdings may slow down share price declines, but cannot prevent them, as seen by the experience of the ABB and Ericsson shares in 2002, when both valuations and ratings declined precipitously.

Rating Positioning & Peer Comparison

Though investment holding companies do not actually compete with one another they may pursue similar investment strategies and all are exposed to the key risk or erosion of invested values.

In the methodology we have compared five international holding companies with ratings ranging from Aaa to Ba2. Mapped to an A1 rating, Investor distinguishes itself by a clear and transparent management approach, very low leverage currently, and high portfolio liquidity tempered somewhat by low coverage of interest expense by ongoing, predictable cash inflows and limited influence on the distribution policy of its investees.

Figure 9: Peer Comparison – Methodology Metrics

Company	Public Rating	Model Indicative Rating	Asset Quality	Management Discipline and Group Transparency	Market Value Based Leverage	Cash Coverage	Liquidity	Portfolio Risk
			30%	10%	20%	10%	15%	15%
Haniel	Baa1	A2	Ba	Baa	Aa	Aa	Aa	Aaa
Investor AB	A1	A1	A	Aa	Aaa	Ba	A	A
NIG	Baa2	Baa3	Baa	A	Baa	B	Ba	Ba
Oyak	Ba2	Ba1	B	Baa	Ba	A	Aa	B
Temasek	Aaa	Aa2	Aa					Aaa
	Positive Outlier							
	Negative Outlier							

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Appendix 1: Shareholder Structure

Investor's 15 largest shareholders as of 30 June 2007*

Owner	% of votes	% of capital
Knut och Alice Wallenberg Foundation	39.97	18.61
SSB CL OMNIBUS AC	0.94	3.40
Alecta	1.70	2.67
AMF	1.16	2.37
SEB-Stiftelsen	4.91	2.28
JP Morgan Chase Bank	1.36	2.26
Skandia	3.89	2.25
Marianne & Marcus Wallenberg Foundation	4.20	1.96
Third Avenue Value Funds	2.99	1.39
Stiftelsen Marcus och Amalia	2.80	1.30
The Second Swedish National Pens Fund	0.32	0.99
State of New Jersey Com Pens Fund	0.21	0.98
Spyder Lending Account	0.65	0.91
The Sixth Swedish National Pens Fund AP6	0.19	0.90
Svenska Handelsbanken	0.33	0.86

* Directly registered or registered in the name of nominees.

The Wallenberg Foundations jointly own 47% of the voting rights and 21.9% of share capital.

Investor AB

Moody's Related Research

Methodology:

- Global Investment Holding Companies, October 2007 (104817)

Analysis:

- AstraZeneca, September 2007 (104625)
- Electrolux, August 2007 (104368)
- Telefonaktiebolaget LM Ericsson, July 2007 (103865)
- Atlas Copco AB, February 2007 (102246)
- SEB AB, December 2006 (101425)

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Author	Senior Associate	Editor	Production Specialist
Wolfgang Draack	Jiming Zou	Gordon Beveridge	Nita Desai

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