

RESEARCH

Research Update:

Sweden-Based Investor AB Outlook Revised To Stable; Ratings Affirmed

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Rationale

On Dec. 12, 2006, Standard & Poor's Ratings Services revised its outlook on Sweden-based investment holding company Investor AB to stable from negative. At the same time, Standard & Poor's affirmed its 'AA-' long-term corporate credit and senior unsecured debt ratings and its 'A-1+' short-term corporate credit and CP ratings on Investor. The 'K-1' Nordic scale rating was also affirmed.

The outlook revision follows Standard & Poor's review of Investor's portfolio, investments, and risk-management strategies and policies. Based on the review, we believe that Investor will pursue risk management strategies in line with the 'AA-' rating. Investor is expected to maintain the majority of its portfolio in listed and creditworthy companies, so that its investment portfolio quality is preserved.

The ratings on Investor reflect its strong capital structure and excellent financial flexibility. At Sept. 30, 2006, Investor could have covered its net debt (including its Swedish krona {SEK} 4.2 billion loan guarantee to mobile operator 3 Scandinavia) 28x by liquidating its core investments. At the same date, the company had total on-balance-sheet debt of about SEK18.6 billion (€2 billion).

Investor principally comprises a portfolio of listed shares, together with a smaller share of unlisted equity holdings. At Sept. 30, 2006, the company's portfolio of 10 listed core investments had a market value of SEK127 billion, representing about 85% of Investor's total investment portfolio. The core investments are largely international companies, predominantly with investment-grade ratings, that are only modestly exposed to economic conditions in Sweden. Furthermore, the core investments include shares in companies spanning different industries. These holdings enjoy strong liquidity, being 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. This provides the company with very strong financial flexibility to compensate for its weak operating cash flow (mainly dividends received).

The company's operating and private-equity investments (primarily in technology and health care) are relatively illiquid and higher-risk (although the portfolio is spread across a large number of holdings). Although these investments heighten portfolio risks, we do not expect these types of investments to represent more than 25% (about 14% at the end of September 2006) of the company's total portfolio for the ratings. Investor's current ownership structure--with the 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, with net debt unlikely to exceed 25% of the investment portfolio's estimated market value. The company is currently very strongly capitalized and was virtually (net) debt free at Sept. 30, 2006, reflecting strong equity markets and large net divestments. That said, the company's net debt to portfolio value was 3% (including guarantees).

Short-term credit 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 SEK18 billion in cash and equivalents at end-September 2006 and a SEK10 billion, syndicated backup facility due in 2012, which is currently undrawn. This compares with only about SEK2.3 billion in debt maturing until 2009. 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 very high financial flexibility in relation to its debt. We do not expect the company's net debt to exceed 25% of its estimated portfolio value. If it does, because of a large investment opportunity, this is expected to be marginal and only for a temporary period. Maintenance of the rating is also dependent on the investment portfolio's quality, including factors such as liquidity, the risk profile of investments, and diversification, balanced with a sound financial structure.

Higher exposure to wholly or majority-owned companies or a reduction in overall portfolio quality would likely exert pressure on the ratings, while upside potential is constrained due to the limited additional positive ratings implications of further diversification or debt reduction.

Ratings List

	To	From
Investor AB		
Corporate credit rating	AA-/Stable/A-1+	AA-/Negative/A-1+
Nordic rating scale		
CP	K-1	K-1
Nordic CP	A-1+	A-1+
Senior unsecured debt	K-1	K-1
	AA-	AA-

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