

October 9, 2008

Research Update:

**Wendel Long-Term Rating Lowered
To 'BB+', On Watch Negative;
Short-Term Rating Lowered To 'B'**

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Research Update:

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Rationale

On Oct. 9, 2008, Standard & Poor's Ratings Services lowered its long-term ratings on French investment holding company Wendel, including the long-term corporate credit rating, to 'BB+' from 'BBB-'. These ratings were also placed on CreditWatch with negative implications. We also lowered the short-term rating on the company to 'B' from 'A-3'.

The rating actions reflect the continued decline of equity markets and the immediate negative effects on Wendel's loan-to-value (LTV) ratio, based on spot values. The exceptionally challenging financial market conditions have weakened the company's financial profile beyond what is tolerable for an investment-grade rating. Wendel's liquidity position remains strong, however, resulting from a long average debt maturity structure and significant cash balances at hand.

Continued sharp deterioration of share prices, including Wendel's key listed holdings--Compagnie de Saint-Gobain (BBB+/Stable/A-2) and Bureau Veritas (not rated)--have mechanically increased Wendel's leverage (as measured by the adjusted LTV ratio). This ratio is significantly above the 35% threshold previously expected for an investment-grade rating. However, we still expect Wendel to take further action to restore its LTV ratio in the near term. The ratings incorporate the expectation of an LTV ratio below 40%, which is in line with the 'BB+' rating based on the company's current portfolio composition.

The 'BB+' rating also reflects our expectation that Wendel will adopt a more cautious investment strategy and our opinion that the company's financial flexibility and liquidity remain adequate. Wendel's investment portfolio has an adjusted value of €6.8 billion as estimated by Standard & Poor's, with the bulk of it (81%) now invested in three listed assets: Saint-Gobain (26%), Bureau Veritas (34%), and Legrand S.A. (17%), which all have solid business profiles and are liquid assets--factors that support credit quality.

Liquidity

The short-term rating on Wendel is 'B'. The company's liquidity remains adequate, underpinned by the long-term nature of its debt and current ample cash balances (an estimated €1.4 billion of available cash). The earliest debt maturity is not until 2009, and the next bond maturity is in 2011. Wendel also has an undrawn €1.2 billion committed bank facility maturing in 2013 and, despite the falling share prices, the company has sufficient headroom within the financial covenants.

We expect Wendel to maintain an adequate level of liquidity in order to

cover any significant additional margin calls linked to the Saint-Gobain investment. Bonds outstanding are free of covenants, cross defaults, and ratings triggers. They do not benefit from any negative pledge.

Recovery analysis

The issue ratings on Wendel's unsecured debt, comprising the revolving credit facility and bonds, were also lowered to 'BB+' and placed on CreditWatch with negative implications, in conjunction with the corporate credit rating. We have not yet assigned recovery ratings to these issues, pending the resolution of the CreditWatch listing.

When we do assign the recovery ratings, the issue-level ratings could remain equal to the corporate credit rating on Wendel, or we may lower them. This is due to the potential volatility of the asset base, along with the structural subordination of debt at the Wendel level. Furthermore, Wendel is based in France, a jurisdiction we consider relatively creditor unfriendly.

CreditWatch

The CreditWatch placement reflects the current excessive leverage and potential additional deterioration of financial markets in the coming weeks, which could further weaken the credit metrics beyond what is incorporated in the current ratings. In resolving the CreditWatch listing, we will focus on actions taken by the company to reduce leverage, as well as financial market trends. Ratings could be lowered by another notch if the adjusted LTV ratio remains above 40%, or if share price performance continues to decline significantly. Alternatively, ratings could be affirmed if the company successfully takes action to deleverage so that its LTV returns to below 40%.

Ratings List

Downgraded; CreditWatch Action

	To	From
Wendel		
Corporate Credit Rating	BB+/Watch Neg/B	BBB-/Negative/A-3
Senior Unsecured	BB+/Watch Neg	BBB-

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