STANDARD & POOR'S

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Wendel

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Major Rating Factors

Corporate Credit Rating
BB/Negative/B

Strengths:

- Generally good creditworthiness of key investments.
- Long-dated debt maturity structure and adequate liquidity position.
- Financial flexibility provided by listed and, to some extent, unlisted shareholdings.
- Improved corporate governance, less aggressive risk tolerance, and reduced group complexity.

Weaknesses:

- High financial gearing.
- Dependence of portfolio values on volatile and unpredictable stock markets.
- Margin call exposure through structured transaction involving Saint-Gobain shares.
- Expected cash flow deficits in 2010.
- Weak credit quality of unlisted investments.

Rationale

The ratings on France-based operating holding company Wendel are constrained by its relatively high financial gearing, concentration on three large investments, significant exposure to a structured investment in Compagnie de Saint-Gobain (Saint-Gobain; BBB/Stable/A-2) shares, and, in our opinion, the continued unpredictability of equity market conditions. We believe these weaknesses are balanced by the company's portfolio of listed equity investments, which provide financial flexibility, and less aggressive risk tolerance following a change of CEO. In addition, we believe that the three largest investments are of sound credit quality, and that Wendel's refinancing risk is relatively low as a result of long average debt maturities and significant cash balances on hand.

Wendel's investment portfolio is concentrated on three listed assets--Saint-Gobain, Bureau Veritas (BV; not rated), and Legrand S.A. (BBB/Stable/A-2)--which dominate Wendel's portfolio by value. These entities, however, have solid credit profiles and we believe these equity stakes are very liquid--factors that support Wendel's credit quality. However, Wendel could be unwilling to sell large blocks of shares in these entities because in doing so it may lose its control or significant influence. As a significant or controlling shareholder, Wendel has more influence over the dividend policies of its holdings.

Key business and profitability developments

Wendel recently increased its economic exposure to Saint-Gobain by partly unwinding a put option structure protecting part of this large investment. According to the company, €163 million worth of puts had been sold as of Dec. 3, 2009, which, combined with cash resources, had been used to repay €463 million in debt financing (without margin calls) on Saint-Gobain shares. As a result, Wendel had 73% economic exposure on its 89.8 million Saint-Gobain shares, up from 64% previously. At the same time, €276 million worth of Legrand shares were disposed of. This disposal offsets the effects of the increase in economic exposure to Saint-Gobain following the unwinding of the Saint-Gobain put options. This further increased Wendel's concentration on Saint-Gobain, which now represents almost 40% of Wendel's adjusted portfolio.

Nevertheless, we believe that Wendel's governance structure has strengthened, that its previously very aggressive risk tolerance has been tempered, and that Wendel is willing to continue to reduce its investment activity until a balanced credit profile is restored.

Key cash flow and capital-structure developments

After a weak 2008 and first quarter of 2009, the share prices of Wendel's main listed investments have recovered in line with a general stock market recovery. Wendel's unlisted, wholly-owned portfolio companies, however, have continued to struggle under a significant debt burden and weak industry conditions. Consequently, the value of these assets decreased significantly during 2009. It has also led to debt restructuring and/or the negotiation of new lending terms, and we understand that Wendel has also supported some of these entities with fresh equity or other means of shareholder support. Wendel could inject additional equity into its unlisted entities (such as Deutsch Group and Stahl International BV) in the next few quarters.

High gearing remains a major rating constraint. A large debt-funded investment in Saint-Gobain in 2007 has continued to weigh on Wendel's financial profile since a substantial decline in Saint-Gobain's share price in 2008 and early 2009. Despite a recovery in the Saint-Gobain share price since then, Wendel's financial flexibility remains impaired and Wendel's market value gearing remains high compared with its European peers. Our adjusted loan to value (LTV) for Wendel was around 55% as of Nov. 30, 2009, which takes into account the recent transactions in Saint-Gobain and Legrand shares. Although Wendel's LTV was above our 50% rating threshold at end-2009, we believe that recent debt maturity extensions support a slight and temporary deviation from our original expectations. We further believe that the company will continue to take action to reduce its debt levels in 2010 and bring them into line with our rating requirements.

Liquidity

The short-term rating is 'B'. Wendel's liquidity is adequate and, in our view, improved throughout 2009, underpinned by the medium- to long-term nature of the company's debt and ample cash balances. According to a public disclosure, Wendel had €2.2 billion of cash on Dec. 2, 2009, of which €1.5 billion was unpledged. We understand the next bond maturity (€466 million) is due only in February 2011, while a large part of the company's debts relating to the Saint-Gobain transaction have been extended recently. Part of the Saint-Gobain debt protected by puts remains due in 2011, but we understand that Wendel is seeking to extend these maturities also. Nevertheless, Wendel's efforts to extend its debt maturities have improved the company's financial flexibility, which is key to the ratings.

Wendel has an undrawn €1.2 billion committed bank facility maturing in 2013. The use of this facility is restricted by covenants related to the market value gearing of its portfolio. Following recent stock market improvements, we understand the company is now in compliance with these covenants. In addition, Wendel has €900 million available under the Saint-Gobain structures containing margin calls, which could be used to refinance or manage its Saint-Gobain exposure.

We believe that Wendel will maintain adequate liquidity to cover any additional margin calls linked to the Saint-Gobain investment and to cover debts maturing in the medium to long term. Outstanding bonds are free of financial covenants, cross-defaults with its subsidiaries' debt, and ratings triggers. They do not benefit from any negative pledges.

Recovery analysis

Wendel's €2.7 billion bonds and €1.2 billion revolving credit facility are rated 'BB', the same level as the corporate credit rating. The recovery rating is '3', indicating our expectation of meaningful (50%-70%) recovery in an event of payment default.

Recovery expectations are underpinned by a stressed valuation of the company's investments, allowing for a decline in the portfolio value of about 45%-50% from the current level and an increase in the level of margin calls on the structured investment in shares Saint-Gobain. Our hypothetical path to default envisages deterioration in the company's financial position leading to difficulty refinancing debt maturing in 2014, both at the Wendel level and at the level of the holding companies that are borrowers under the Saint-Gobain acquisition facilities. We have revised our hypothetical default year to reflect the current cash position of the company with about €2.2 billion in cash potentially available for debt repayment, of which €1.5 billion is unpledged.

The recovery rating is based on the existing portfolio and does not take account of asset rotations that may occur in the future due to the material uncertainties involved. Further, we have not assumed any drawings on the revolving credit facility on the basis that covenants will limit access to the facility if the portfolio value declines. We assume, however, that the revolver maturing in 2013 would be extended by one year. This assumes static debt levels. Further, we have ascribed negligible net value to the Saint-Gobain stake in determining recovery prospects.

As part of our recovery analysis we have reviewed the documentation for the company's main debt facilities. However, in this case we have not reviewed the documentation relating to the Saint-Gobain acquisition financing, which comprises a highly material element in the group's financing structure.

For our full recovery analysis, see "Recovery Report: Wendel's Recovery Rating Profile", to be published shortly on RatingsDirect.

Outlook

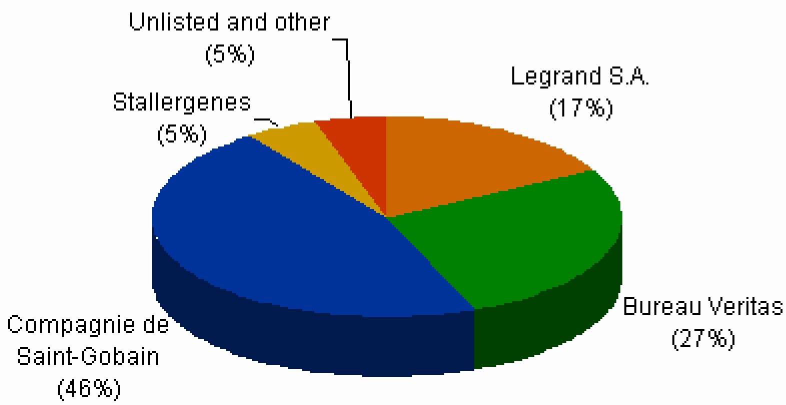
The negative outlook reflects our view that, for an extended period, Wendel's LTV has exceeded levels we consider to be commensurate with the current ratings, and uncertainty with regards to the direction of equity markets in the quarters ahead. A deterioration in the share prices of Wendel's key investments could weaken the credit metrics further beyond what is incorporated in the current ratings, which would likely lead to a downgrade. This is barring any disposals potentially undertaken by Wendel to mitigate such negative share price movements.

We will focus on Wendel's continued efforts to reduce leverage in accordance with our expectations, as well as financial market trends. We could lower the ratings by one notch if the adjusted LTV ratio appears likely to remain above 50% in the coming quarter. Alternatively, we could affirm the ratings if the company successfully takes action to deleverage and bring its LTV below 50% in the first quarter, and reduces it further to below 45% on a sustainable basis in the first half of 2010.

Business Description

Wendel is a listed holding company, controlled by the Wendel family through Wendel Participations, a French family holding company that holds a 34.8% stake and 45.8% of the voting rights.

Wendel Equity Portfolio Breakdown



As of Nov. 30, 2009. Based on company figures.

Rating Methodology: Focuses On Financial Flexibility

We classify Wendel as an operating holding company, with investments in operating subsidiaries (where Wendel retains significant management influence), supplemented by financial-type investments (varying degree of influence).

For operating holding companies, equity risks dominate

In our view, equity investments (such as ordinary shares) are generally high risk; the basic risk being that, if the underlying company becomes insolvent it could lead to a total loss of that investment because equity is subordinate to most other liabilities in a liquidation scenario. Equity instruments also fluctuate significantly in value as a function of company performance, investor appetite, stock liquidity, and macroeconomic factors such as interest rates and economic outlook. This can lead to highly volatile and often unpredictable swings in asset values. Accordingly, the ratings on investment and operating holding companies reflect (among other things):

- Portfolio liquidity (that is, ease of liquidating assets in a very short period without significant discounts to asset value);
- Portfolio diversification (the number of stocks, size of individual holdings, companies operating in different industries, and geographic exposure); and
- Portfolio quality (risk of default, generally measured by assessing the creditworthiness of companies in the portfolio).

Other important factors are a company's willingness to sell assets, if needed, and its ability to manage and profit from the portfolio.

Business Risk Profile: Investment Portfolio Focused On Three Listed Assets With Good Credit Quality

The major supports for the satisfactory portfolio risk profile are:

- The listed nature and generally good creditworthiness of Wendel's three key investments;
- Its significant influence over key decisions in subsidiaries and, to some extent, in its listed investments; and
- Less aggressive risk tolerance.

These supports are partly offset by:

- Exposure to volatile equity markets;
- Weak credit profiles of unlisted investments;
- Significant asset concentration; and

Adequate portfolio liquidity but significant concentration to three assets

Wendel has high concentration on its three largest assets, with the exposure to Saint-Gobain dominating. This is a restricting credit factor. Its unlisted portfolio adds some diversity, however, and its investments have significant end-markets, and geographic coverage. Wendel's holdings feature an array of different industries with broad geographic coverage: low-voltage electrical applications (Legrand); verification, testing, and certification services (Bureau Veritas); diversified building materials and distribution (Saint-Gobain and Materis); drugs (Stallergènes S.A.); performance coatings (Stahl), and electronic connectors (Deutsch).

Rating support is provided by the listed nature of the bulk (about 90%) of Wendel's portfolio. However, this high level of listed assets in the portfolio could change in the long term, because Wendel has previously sought to reduce the listed assets in its portfolio. Greater exposure toward nonlisted assets would negatively affect our assessment of portfolio quality, as we deem such investments to have less intrinsic liquidity. In addition, Wendel has, at times, pledged substantial amounts of listed shares to recollateralize the Saint-Gobain special purpose vehicles, which has reduced portfolio liquidity.

Average asset quality support portfolio risk

We assess Wendel's asset quality as average, based on the solid creditworthiness of its main holdings, Bureau Veritas, Saint-Gobain, and Legrand, which account for almost all of the market value of the company's portfolio.

The company's other industrial holdings enjoy niche leadership positions. However, Wendel's unlisted investments are challenged by typically high debt leverage and, consequently, the weaker credit profiles weigh negatively on the portfolio's overall credit profile. In addition, although we do not expect any large new investments in the short term, portfolio growth could continue to be mainly in investments in companies acquired through leveraged transactions. This could weaken portfolio quality over time.

Financial Risk Profile: High Gearing Mitigated By Adequate Liquidity And Relatively Long Debt Maturity Profile

The main constraints of the aggressive financial risk profile are:

- High volatility in asset values;

- Relatively high gearing;
- Exposure to margin calls in non-recourse debt; and
- Expectations of negative cash flows in 2010.

These constraints are moderated by:

- Relatively long debt maturity structure;
- Adequate liquidity position, with access to €1.5 billion in unpledged cash (as of Dec. 2, 2009); and
- Continued focus on debt reduction.

Corporate governance/Risk tolerance/Financial policies

In 2009, Wendel significantly improved quality, transparency, and disclosure in its public reports, which has reduced information risk and its previous negative influence on the ratings.

We believe the risk culture has grown less aggressive following the appointment of a new CEO early in 2009. His efforts to reduce group complexity and leverage to date have had a positive effect on our assessment of Wendel's credit risk profile.

Wendel's policy of maintaining adequate financial flexibility and liquidity through the use of long-dated debt and significant levels of on-balance-sheet cash supports the ratings. In addition, Wendel made multiple asset disposals during 2009 which have reduced debt and strengthened liquidity. These actions have been important in averting further rating downgrades. However, gearing remains relatively high and the company's exposure to the Saint-Gobain structure is a contingent liability, as it contains margin calls. The portion protected by put options remains a further contingent liability, as we believe the entire Saint-Gobain stake is strategically important to Wendel in the long term.

Cash flow adequacy

Wendel's primary sources of cash inflows are dividend receipts from its holdings, interest income generated by the company's significant cash position, and periodic asset sales.

Following the disposal in 2009 of the energy activities of Oranje Nassau Groep B.V., which was a large dividend contributor, we believe Wendel's operating cash flows will be negative in 2010. However, any deficit, which we believe would be marginal, could easily be covered by Wendel's significant cash balance.

Dividends paid were cut by half to €50 million in 2009, and are expected to remain limited in the years ahead.

Table 1

Wendel Cash Flow Statistics*

	--Year ended Dec. 31--			
(Mil. €)	**2009e**	**2008**	**2007**	**2006**
Dividend income	210	291	235	141
Net interest expense	324	171	177	84
Net operating expenses and taxes	40	41	17	11
Dividends paid	50	100	100	98
Fixed charge cover (x)	0.6	1.4	1.2	1.5
Total charge cover (x)¶	0.5	0.9	0.8	0.7

e--Estimate. *Holding company and subholdings. ¶Includes dividends paid.

Capital structure/Asset protection

High gearing is a key rating constraint. Maintaining a strong capital structure is essential to the ratings on Wendel because the group's structure and leverage could change rapidly and significantly over time, due to volatile equity values and Wendel's investment cycles.

Wendel made significant asset disposals in 2008 and 2009, including the sale of several unlisted subsidiaries and large blocks of listed shares (mainly in Legrand and Bureau Veritas). This has reduced debt levels and, combined with a recovery in share prices, has led to a gradual improvement in Wendel's gearing. However, these efforts have been partly offset by the reduction in the value of Wendel's unlisted assets, whose values decreased in 2009. We continue to expect management to take actions in the short term to reduce debt levels so that Wendel's LTV ratio returns to below 45% in the first half of 2010.

Financial Statistics/Adjustments

Accounting

Wendel reports under International Financing Reporting Standards. Like other European holding companies, Wendel has an asset structure made up largely of shareholdings in listed and nonlisted companies.

Wendel aims to insulate the parent company from the credit risks at subsidiary level by issuing subsidiaries' debt without recourse to Wendel. This debt is also not cross-default linked with Wendel's own debt. Thus, in line with Wendel's investment-holding nature, Standard & Poor's uses credit ratios based on holding figures: including debt at Wendel, but excluding debt at operating subsidiaries (as long as this debt is contractually and effectively nonrecourse to Wendel).

Nevertheless, because part of the debt used to finance the acquisition of the stake in Saint-Gobain is subject to margin calls (about €3 billion in gross debt), we consolidate this debt in our LTV computation. We do not consolidate, however, the €1.6 billion financing used for the Saint-Gobain acquisition debt that is economically fully hedged through put options, as it is contractually nonrecourse to Wendel and is not subject to margin calls. Correspondingly, we consolidate the market value of the Saint-Gobain shares held, except those financed with debt not subject to margin calls, and the nominal value of the put options valued at purchase cost (€0.3 billion) on the asset side.

Table 2

Wendel 2009 Peer Comparison

(Mil. €)	Wendel¶	Investor AB	EXOR SpA	Franz Haniel & Cie GmbH
Country	France	Sweden	Italy	Germany
Corporate credit rating*	BB/Negative/B	AA-/Stable/A-1+	BBB+/Negative/A-2	BBB-/Negative/A-3
Data as of	30-Nov-09	30-Sep-09	24-Nov-09	30-Sep-09
Investment portfolio (estimated portfolio value)	6,232	13,392	6,739	7,810
No. of stocks in core holdings	8	8	11	5
Three largest holdings/investment portfolio (%)	About 85%	46	79	87
Market value of listed holdings	5,596	10,323	5,976	6,471
Portfolio diversification	Weak	Very strong	Weak	Weak
Level of liquidity	Adequate	Strong	Weak	Moderate
Weighted-average credit quality of portfolio holdings	Strong	High	Medium	Average (BBB-/BB+)

Table 2

Wendel 2009 Peer Comparison (cont.)				
Majority-owned companies as % of portfolio	About one-third	Threshold at 25%	63	41
Financial risk profile				
Net debt (cash)	3,457	300§	978	2,604
Net debt/investment portfolio (%)	55	2.2§	16	33%
Net debt/investment portfolio listed holdings (%)	62	2.9§	20	40%
Net debt ceiling as % of investment portfolio	45 (by first half 2010)	25	20	35

*As of Jan. 8, 2010. ¶Adjusted for Saint Gobain-related debt and assets with cash margin calls in a non-consolidated special purpose vehicle. §Including guarantees.

Ratings Detail (As Of January 8, 2010)*	
Wendel	
Corporate Credit Rating	BB/Negative/B
Senior Unsecured (6 Issues)	BB
Corporate Credit Ratings History	
12-Feb-2009	BB/Negative/B
09-Oct-2008	BB+/Watch Neg/B
13-Aug-2008	BBB-/Negative/A-3
25-Jun-2008	BBB-/Watch Neg/A-3
17-Apr-2008	BBB-/Negative/A-3
25-Jan-2008	BBB-/Watch Neg/A-3
21-Jan-2008	BBB/Watch Neg/A-2
08-Nov-2007	BBB/Stable/A-2
27-Sep-2007	BBB+/Watch Neg/A-2
Business Risk Profile	Satisfactory
Financial Risk Profile	Aggressive
Debt Maturities	
As of Dec. 3, 2009*: 2009: -- 2010: -- 2011: €1,673 mil. 2012: €658 mil. 2013: €499 mil. 2014: €1,695 mil. Thereafter: €2,761 mil. *Includes debt related to a structured transaction in Saint-Gobain shares (with and without margin calls)	

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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