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Research Update:

France-Based Wendel Downgraded To 'BBB-/A-3' From 'BBB/A-2'; All Ratings Still On Watch Neg

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Rationale

On Jan. 25, 2008, Standard & Poor's Ratings Services lowered its long- and short-term corporate credit ratings on French investment holding company Wendel to 'BBB-/A-3' from 'BBB/A-2'. The ratings remain on CreditWatch with negative implications.

The downgrade follows Wendel's increasing financial leverage, which is no longer in line with a 'BBB' rating. Wendel's corporate communication to date is a further rating constraint, given the quality and frequency of the company's public disclosures, notably on the Compagnie de Saint-Gobain (SG; BBB+/Stable/A-2) transaction. The rating action also reflects our opinion that the company's financial flexibility remains adequate and that all ratings on Wendel, including the bond ratings, remain investment grade.

Financial market turbulence and the decline in the share prices of most of Wendel's assets have put pressure on the company's portfolio gross asset value in the past weeks, and notably on its stakes in vehicles owning the 17.9% SG stake. SG's share price is now down about 25% on the average purchase price announced by Wendel in November 2007. These vehicles are highly leveraged, and part of the financing arrangements includes margin calls. Wendel meets these margin calls either by pledging cash or shares. These structures' leverage increases the volatility of Wendel's portfolio and accelerates the deterioration in the company's capital structure when share prices fall.

In addition, although of less concern now, significant additional asset pledges could create a situation of subordination, resulting in bond ratings that would be lower than the corporate credit rating.

In resolving the CreditWatch, we could lower the ratings further. That said, Wendel retains enough flexibility to maintain the current ratings if the value of its assets stabilizes. We will consider in particular market conditions in the coming weeks; the evolution of Wendel's and/or the vehicles' liquidity and capital structures; and the quality and frequency of Wendel's disclosures.

The ratings on Wendel continue to reflect the group's selective strategy of focusing on assets with solid business risk profiles, albeit sometimes with highly leveraged capital structures; and the group's still considerable financial flexibility.

Liquidity

Wendel's liquidity remains adequate. The long-term nature of Wendel's debt and current ample cash balances mitigate the reduction of leeway on financial

covenants--which only apply to an undrawn bank line--and the depressed financial environment, which may constrain asset sales.

We understand that Wendel now has about €1.4 billion in available cash and an available undrawn committed bank facility of €1.25 billion maturing in 2012, with two options to extend by one year each. We expect the Dec. 31, 2007, financial covenants in the syndicated facility to have been met. Bonds outstanding are free of any covenants, cross defaults, or ratings triggers. They do not benefit from any negative pledge. The earliest debt maturity falls in 2009.

Ratings List

Downgraded

	To	From
Wendel		
Corporate Credit Rating	BBB-/Watch Neg/A-3	BBB/Watch Neg/A-2
Senior Unsecured		
Local Currency	BBB-/Watch Neg	BBB/Watch Neg

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