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FITCH TAKES EURO AUTO RTG ACTIONS: REBASED PROFILES, SELECTED D/GRDS, 09 SECTOR LIQUIDITY ADEQUATE

Fitch Ratings-London/Paris/Frankfurt-25 March 2009: Following a review by Fitch Ratings of its five publicly rated European car manufacturers, the ratings of one manufacturer are affirmed with the Outlook revised to Negative from Stable, three downgraded and the ratings of one remaining on Rating Watch Negative. A full list of the rating actions follows below.

The rating actions reflect Fitch's revised forecasts for European car manufacturers and expectations for industry growth over the next two years. These, in turn, are driven by the agency's macro-economic assumptions for economic growth in 2009 and 2010. Fitch is increasingly concerned about the extent of manufacturers' falling profitability and the potential for accelerated cash consumption in the next two years, and the consequent potential for heightened volatility in financial metrics. While Fitch has employed conservative forecasts, the distribution of possible outcomes for revenues and operating cash flow is still biased towards the downside.

- Daimler AG:
Outlook changed to Negative from Stable, Long-term Issuer Default Rating (IDR) and senior unsecured debt affirmed at 'BBB+', Short-term IDR affirmed at 'F2';

- Fiat Spa:
Long-term IDR and senior unsecured debt downgraded to 'BB+' from 'BBB-' (BBB minus), Short-term IDR downgraded to 'B' from 'F3', all removed from Rating Watch Negative. A Negative Outlook is assigned;

- Peugeot SA:
Long-term IDR and senior unsecured debt downgraded to 'BB+' from 'BBB-' (BBB minus), Short-term IDR downgraded to 'B' from 'F3', Outlook Negative;

- Renault SA:
Long-term IDR and senior unsecured debt downgraded to 'BB' from 'BBB-' (BBB minus), Outlook Negative;

- Volkswagen Group:
Long-term IDR and senior unsecured debt: 'BBB+', Short-term IDR: 'F2'- all remain on Rating Watch Negative.

In particular, Fitch's analysis has focused on the companies' expected relative 'exit' profiles from the current downturn, including expected increases in leverage and their capacity to take advantage of a return to trend-levels of economic growth. Fitch is concerned that financial profiles for some companies will be structurally weaker at the end of a long period of recession, with recovery to prior levels of financial strength potentially a medium- or longer-term prospect. Fitch will issue reports on the above-mentioned companies in the coming days to comment further on rating rationales and guidelines.

While issuer-specific concerns exist, the predominance of Negative Outlooks relates to factors common to all industry participants.

Market environment -
Car sales are expected to decline by more than 15% in Europe in 2009 and are likely to continue falling in 2010, although to a much lesser extent. The picture is similar in the US, with sales expected to fall 20% to 10.5m units in 2009. While emerging markets had a supporting effect on global car sales in 2007 and 2008, they are expected to suffer substantially in 2009, with

double-digit declines in Russia or Brazil for example. In addition, lower availability of credit is expected to compound the underlying lower demand for cars from lower consumer spending and confidence. The effect of scrapping incentives for old cars implemented in several countries in Europe may mitigate the severity of negative underlying demand for new vehicles and should limit the extent of the downturn in the short term. However, Fitch believes that demand is brought forward rather than stimulated in absolute terms. Looking at previous experiences in the US or Europe, a pay-back effect is likely when incentives stop.

Liquidity -
Despite forecasting an aggregate 2009 negative free cash flow for industrial operations of over EUR12bn for the rated groups, cash and cash equivalent, credit lines, current or expected renewals of bank debt are deemed sufficient at this point to cover short-term liquidity needs and projected cash burn for the industry.

Profitability will be negatively impacted by the declining demand because of lower fixed cost absorption and by the expected lower product mix. In addition, car manufacturers are likely to suffer collectively from increasing pressure on and rising default risks from automotive suppliers. Direct cash injection into distressed suppliers or more favourable payment terms will have a negative impact on auto manufacturers' working capital and cash-flows. Despite the benefits of production cuts, companies could thus face further negative working capital changes as a result of weaker trade credit terms, extension for support to suppliers, lower payables and/or increased inventories.

Financial services (FS) subsidiaries are also expected to contribute much less to manufacturers' earnings and cash generation in 2009 and 2010. On the contrary, rising refinancing costs and reduced access to capital markets may pose refinancing issues for the weakest groups. Fitch notes that continued extension of liquidity by the ECB against asset-backed instruments is a partial mitigating factor in this regard. Several FS operations will nonetheless suffer from falling residual values on leased vehicles and post further provisions, hurting their operating margins in the short term and their cash generation in the medium term as the risk materialises.

Although liquidity risk remains a concern for manufacturers' FS operations, Fitch has not identified a particular near-term risk of default for any of the European original equipment manufacturers. The agency believes also that FS operations can reduce their loan books to improve their refinancing needs. Maturing FS short-term assets also cover a large part of the FS short-term debt. However, access of FS subsidiaries to liquidity remains exposed to a variety of key risks, including further deterioration in bank credit availability and any variation in policy measures for asset-backed instruments by the ECB.

Government support thus far has supported groups' liquidity, but has not, and is not guaranteed in the future, to fully mitigate the relative deterioration in underlying profiles. Fitch will review and assess the impact of government support in a coming special comment.

Outlook -
Not all companies will be affected to the same extent, and this relative position is reflected in today's rating actions. Further cost saving efforts and restructuring measures will be essential to limit the extent of the downside. All companies have announced a clear focus on cash preservation in 2009, including cuts in capex, reduced or no dividends for 2009 and asset disposals to boost liquidity. New alliances and/or strategic co-operations are likely to materialise, reshaping the sector in the next 2-3 years. The impact on credit profiles from such developments is as yet uncertain and will be assessed on a case-by-case basis.

Details of an accompanying teleconference on Thursday 26 March 2009 will be announced later today.

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Note to Editors: Marc Ladreit de Lacharriere, Fitch's Chairman and member of the board,is also a member of Renault's board. Mr. Ladreit de Lacharriere does not participate in any rating committees, including Renault."

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