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Press Release: Rating Action

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JCR Downgrades Ratings on Renault to A- from A

The Outlook: Negative

Issuer : Renault SA (France)

<i>Issues (Renault Japanese Yen Bonds)</i>	<i>Amount (bn.)</i>	<i>Issue Date</i>	<i>Due Date</i>	<i>Coupon</i>	<i>Rating</i>
Yen Bonds 3rd Series	JPY 25	Dec. 15, 2004	Dec. 15, 2009	0.98% p.a.	A-
Yen Bonds 4th Series	JPY 25	Dec. 15, 2005	Dec. 15, 2010	1.12% p.a.	A-
Yen Bonds 5th Series	JPY 10	Dec. 15, 2005	Dec. 14, 2012	1.48% p.a.	A-
Yen Bonds 6th Series	JPY 50	Dec. 14, 2006	Dec. 14, 2011	1.77% p.a.	A-
Yen Bonds 7th Series	JPY 32.5	Jan. 23, 2008	Jan. 24, 2011	1.70% p.a.	A-
Yen Bonds 8th Series	JPY 5.0	Jan. 23, 2008	Jan. 23, 2013	2.09% p.a.	A-
Floating Rate 1st Series	JPY 12.5	Jan. 23, 2008	Jan. 24, 2011	6M LIBOR+80bp	A-

Foreign currency long-term senior debts (FC) A-/Negative

JCR downgraded its rating on Renault S.A. to A- from A and kept its outlook negative.

The downward revision primarily reflects Renault's significant worsened financial position, declining profitability, weak cash flow generation and a sharp increase in net financial debt in the automotive sector resulting from the severe and rapid deterioration of the global auto market environment.

The rating outlook was kept negative. The European auto market, Renault's main business area, contracted 7.8% year-on-year in 2008, the steepest fall since 1993. With the recession expected to continue throughout 2009, the slump of car sales is likely to persist for some time to come. Car sales in the emerging market, which had posted double-digit growth rates till the first half of 2008, suffered drastic setbacks in the second half, with few recovery expected in the course of 2009. Renault has projected that global auto sales in 2009 will fall 14% to 55 million units. This negative projection indicates that Renault sees it harder to improve its financial position in 2009 under such a severe business environment. However, it is noteworthy that Renault has enough liquidity it may need immediately as it has secured soft loans from both the government and government-affiliated financial institutions as well as credit lines from commercial banks. JCR will watch carefully how Renault can recover its free cash flow, its priority target for 2009, through cost reduction and production adjustment. JCR holds that Renault's ratings may come under downward pressure if the main financial figures such as free cash flow or net financial position will be worsen faster than the current JCR's expectation.

(1) Falling profitability amid worsening market environment

Renault achieved a 4.1% consolidated operating margin in the first half of 2008, close to its 4.5% target for the year. However, the full-year margin plunged to 0.6%. The setback came from a sharp decline in car sales, increased sales promotion costs necessitated by inventory adjustment (a 28% cutback from the peak level in June 2008), production adjustment (down 45% from the year before), an extraordinary loss resulting from restructuring and increased provisions to cover drops

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in the residual value of used cars.

The car sales market in Europe has been substantially shrunk in 2008. Car sales in 2008 fell 8.6% in Western Europe and 7.8% in Enlarged Europe (EU 27), both the sharpest declines since 1993. With the recession expected to engulf not only Western Europe but whole Europe in 2009, there will be a further plunge in auto sales for the year. Renault managed to expand its sales until the first half of 2008 despite sluggish new car registrations across Western Europe. But it suffered a 21% year-on-year setback in the 4th quarter of the year. In 2009, Renault plans to launch 8 new car models including its flagship “Mégane” series and middle- and small-size cars designed to meet stricter CO2 emission regulations. But its sales in Western Europe are likely to stay weak, given the current severe market environment. The French government has announced an indirect incentive in the form of subsidies for consumers who buy new cars that clear the CO2 emission controls. However, whether this will prove effective may depend largely on the country’s economic recovery. Rapidly growing car sales in emerging markets lost steam to register a substantial fall after October 2008 but have been gradually picking up since the turn of the year. However, considering the downward revision of economic growth forecasts in many countries, car sales in emerging markets are also likely to stay stagnant throughout 2009. To cope with this severe business environment, Renault needs to structure an efficient production system compatible with the shrinking car demand through further inventory adjustment and improvement of the cost structure under its comprehensive tie-up with Nissan Motor. As part of its restructuring efforts, an extraordinary loss totaled 489 million euro in 2008, which was including workforce restructuring and line-up restructuring expenses. It plans to continue the workforce retrenchment in 2009. But there may be limits for further restructuring because it cannot close its factories and dismiss employees in France as it has received financial support from the government. JCR will closely watch its future restructuring and cost reduction plans. As far as production adjustment is concerned, Renault managed to cut production to a bigger extent than other European automakers in 2008. But it may take longer to rationalize its production system. Therefore, improving the operating margin and making free cash flow positive seems to be difficult in the short term. Renault’s profitability may stay lower in 2009 as there will be a substantial decline in equity earnings and cash dividend from Nissan and other subsidiaries which have so far bolstered its net profit and cash flow generation.

(2) Immediate challenge is how to cut growing net financial debt in automotive sector.

Net financial debt in the automotive sector had swollen to 7.944 billion euro by the end of 2008 from 2.088 billion euro at the end of 2007. This was due mainly to a major deterioration of the free cash flow caused by increased working capital requirements, volatile exchange rate fluctuations and investment in AvtoVAZ, the biggest car manufacturer in Russia. As the free cash flow is unlikely to turn positive in the first half of 2009, the net financial debt may further increase. Renault plans to ease its negative impact on the cash flow by reducing R&D expenses (by 15% from 2007), trimming accounts payable through production adjustment and cutting back on new investment (by 24% from 2007 including postponement of investment in the Chennai factory in India). JCR will closely follow how effective these measures will prove.

(3) Liquidity secured thanks to government support

In February 2009, the French government decided to extend low-interest loans totaling 3 billion euro to Renault. Société de Financement de l’Economie Française (SFEF) offered an additional 500 million euro loan to RCI Banque, a wholly owned automotive financing unit of the



Renault group. In addition, Renault will benefit from a liquidity provision scheme of the European Investment Bank (EIB). Against the automotive sector's refinancing needs totaling 3.5 billion euro in 2009, Renault has secured liquidity totaling 4.8 billion euro – 1.1 billion euro in cash and 3.7 billion euro in credit lines. The amount comes to 7.8 billion euro when the government support is included. Against RCI Banque's funding needs totaling 3 billion euro, a total of 7.5 billion euro has been secured -- 0.5 billion euro in cash, 1.5 billion euro in borrowing facility and 4.5 billion euro in credit lines from ECB and 1 billion euro in loans from SFEF. Thus, the Renault group has enough liquidity to cover its immediate refinancing needs. However, it needs to recover its positive free cash flow at the earliest possible date.

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