

## Ratings

Category	Moody's Rating
Outlook	Positive
Corporate Family Rating	Ba1
Senior Unsecured	Ba1
Subordinate MTN -Dom Curr	(P)Ba2
Commercial Paper -Dom Curr	NP
Other Short Term -Dom Curr	(P)NP
<b>RCI Banque Sucursal Argentina</b>	
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
<b>RCI Banque</b>	
Outlook	Positive
Bank Deposits	Baa2/P-2
Senior Unsecured	Baa2
Subordinate -Dom Curr	Baa3
Commercial Paper	P-2
Other Short Term -Dom Curr	(P)P-2
<b>Diac</b>	
Outlook	Positive
Bank Deposits -Dom Curr	--/P-2
Senior Unsecured MTN -Dom Curr	(P)Baa2
Commercial Paper	P-2

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## Key Indicators

Renault S.A.[1]	6/30/2010(L)	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Debt / EBITDA	4.2x	-126.3x	4.9x	2.2x	2.6x
Debt / Book Capital	49.5%	52.8%	43.0%	34.9%	39.9%
(Cash & marketable securities) / Debt	50.3%	43.2%	19.0%	47.7%	53.6%
EBITA / Margin	3.8%	-6.8%	1.2%	6.5%	6.3%
EBITA / Avg Assets	3.2%	-5.1%	1.0%	5.4%	5.3%
FCF / Debt	16.6%	12.3%	-36.0%	-0.2%	-5.2%
RCF / Debt	15.8%	5.2%	7.2%	24.8%	13.3%
RCF / Net Debt	31.7%	9.2%	8.9%	47.4%	28.7%
EBIT / Interest Expense	1.8x	-3.5x	0.7x	4.6x	5.1x

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. Source: Moody's Financial Metrics.

Note: For definitions of Moody's most common ratio terms please see the accompanying [User's Guide](#).

## Opinion

### Corporate Profile

Headquartered in Boulogne-Billancourt, France, Renault S.A. ("Renault", rated Ba1/NP/positive) is one of Europe's leading car manufacturers. The two other brands offered by Renault are Dacia (Romania) and Renault Samsung Motors (South Korea). In addition, Renault provides financing to dealers and end-customers through its wholly owned finance company, RCI banque. In fiscal year 2009, the group sold 2.6 million vehicles and reported total group revenues of EUR 39.0 billion.

## SUMMARY RATING RATIONALE

On 11 February 2010, Moody's affirmed Renault's Ba1 corporate family rating (CFR) and revised the rating outlook to positive from stable.

The outlook change to positive acknowledges the stronger than anticipated recovery in Renault's financial metrics in 2010, which benefitted from a EUR3.0 billion cash inflow resulting from the sale of its B-shares in AB Volvo, an improvement in operating performance and solid free cash flow generation (FCF). FCF was supported by a tight control of capital expenditures (capex), working capital and the omitted dividend payment.

Going forward, we expect the company to materially improve the profitability in its core automobile division with a moderate downside risk linked with a weak outlook for passenger car demand in Europe as well as intensifying price competition in the industry that could delay a recovery.

The Ba1 rating is supported by the group's business profile with solid market positions in various regions, the successful introduction of its entry level range and the benefits from its alliance with Nissan (Baa2/stable). The current rating also considers the group's conservative financial policy with a healthy liquidity and balance debt maturity profile.

However, the rating is constrained by Renault's inability to return to positive operating income after restructuring expenses in its automobile division in 2010 despite strengthening industry conditions.

More fundamentally, Renault remains reliant - although to lesser extent than in the past - on a few successful models and geographical diversification is still limited with approx. 70% of revenues being generated in Europe. This leaves Renault vulnerable to declining passenger car demand in France and a slow recovery in Western Europe in 2011.

Moody's cautions about the risk that pressure from rising R&D needs, intense price competition in Europe, and increased raw material costs might partially offset improvements in profitability and FCF generation in the near term.

## DETAILED RATING CONSIDERATIONS

Challenged to reduce reliance on European market and success of few new model launches

The Ba1 rating takes positively into account Renault's sound competitive position in Europe with a 10.7% market share in 2010 (up 1.1% points from 2009), the success of its entry vehicle range, as well as the benefits from its alliance with Nissan.

Although to a lesser extent than in the past, the group remains reliant on the success of a few model launches, especially the Mégane family. The success of Renault's low-cost brand, Dacia, and the general trend in customer demand towards smaller and more fuel-efficient vehicles has enabled the group to regain some market share points in the last two years. However, this also resulted in a deterioration of Renault's product mix towards smaller and lower-priced vehicles. In 2011, no major volume model will be launched which will weaken the group's product cadence.

Furthermore, despite management's focus on broadening its geographical footprint, Renault continues to generate the majority of revenues in Europe and in its domestic market France. This exposes the group to an expected 11% decline in light vehicle demand in France - Moody's base scenario - in the current year and a sluggish recovery in Western Europe. Going forward, the group seeks to increase its market presence mainly in Brazil (4.8% market share in 2010) and in Russia (5.1% market share).

However, a key disadvantage over next two years compared to peers will be the group's lacking presence in China or North America. These markets are expected to be the two major growth engines for global light vehicle demand in 2011 and 2012.

The Ba1 rating incorporates Moody's view that Renault can sustain its competitiveness and maintain a balanced renewal rate going forward.

Need to restore profitability of its core automobile division

Renault's operating performance demonstrated material improvements from the weak results in 2009 and 2008. This is evidenced, for instance, by a recovery of the reported operating margin at Renault's automotive division to 1.1% from -2.8% in 2009. However, the positive momentum in its automotive division weakened in the second half of 2010 (operating margin -0.1%) compared to the first half 2010 (2.2%). This can be largely explained by a deteriorating country and price mix as well as increased input costs.

We note, that Moody's profitability and return ratios will benefit from the EUR1.3 billion positive contribution of associates (Nissan, AB Volvo, and Avtovaz) in 2010 as the equity income is included in Moody's EBIT definition for automotive manufacturers.

The group's reduced cost basis and its ambition to realize further cost synergies from its alliance with Nissan should support future improvements in profitability. However, Moody's cautions about the risk that improvements in operating efficiency might be partially offset by fierce price competition in Europe and higher raw material costs.

A significant improvement in profitability at its automobile division before the contribution from associates remains a pre-condition for a return to the investment grade rating category.

High positive FCF in 2010 and commitment to future positive FCF generation support rating

In 2010, the group sustained the positive momentum in FCF generation. As in 2009, reported FCF of EUR1.67 billion benefitted from reduced levels of capex (EUR1.1 billion), a working capital release (EUR0.4 billion) as well as the suspended dividend payment.

In this context, we acknowledge management's increased focus on operational FCF generation. Under its strategy for the years 2011-2013 the group aims for at least EUR2.0 billion in aggregate free cash flow. Dividends received from associates in one year will be paid out to Renault's shareholders in the following year and are not included in the company's definition of FCF.

Nonetheless, we caution that material FCF generation in 2011 will be likely challenged by capex returning to historic levels and no major contribution expected from working capital. In Moody's view, capex and working capital are not a sustainable source of FCF generation and further improvements in profitability are necessary for a more consistent pattern.

Improving capital structure thanks to sale of Volvo B-shares and planned repayment of French state loan

The positive FCF and a EUR3.0 billion cash inflow from the sales of AB Volvo B-shares (representing 14.2% of the share capital) resulted in a material reduction of reported net debt to EUR2.2 billion in 2010 from EUR6.8 billion in 2009 (according to Moody's definition of net debt). Consequently, leverage (measured by Debt/EBITDA) is expected to materially improve at fiscal year-end 2010 from 4.2x as per June 30, 2010. In 2011, the group seeks to reimburse the remaining EUR2.0 billion outstanding under the loan it received from the French government during the industry downturn ahead of schedule.

### Liquidity Profile

At 31 December 2010, Renault's principal liquidity sources consisted of cash on balance sheet in the amount of EUR8.8 billion, availability under undrawn committed credit lines of EUR4.0 billion, as well as potential cash flow generation from operations over the next 12 months. These cash sources provide adequate coverage for the major liquidity requirements that could arise during the next 12 months. These consist of short-term debt maturities of approximately EUR 4.7 billion, capital expenditures, working capital funding, day-to-day needs as well as expected dividend payments.

### Rating Outlook

The positive outlook incorporates Moody's expectation of further improvements in the company's profitability at its core Renault automobile division and the group's commitment to positive FCF in the next two years.

### What Could Change the Rating - Down

The ratings could come under downward pressure in case of (i) an erosion in Renault's competitive position in its key markets reflected in market share losses, (ii) evidence that the market environment would turn worse than anticipated with regards to volumes or prices, (ii) the company's inability to turn around the operating performance of its automobile division as well as (iv) a sizeable cash absorption in the current year against the company's target to generate a positive free cash flow.

### What Could Change the Rating - Up

An upgrade to Baa3 could be envisaged over the next 12-18 months in case Renault would demonstrate improving market share performance in its key markets as well as a significant recovery in its operating performance (excluding the contribution from Nissan, Avtovaz and its remaining stake in AB Volvo) with operating margins of above 2% on a sustainable basis. This should also be reflected in Debt/EBITDA ratios of 2.5x-3.5x. In addition, we would expect the company to generate a positive Free Cash Flow through the cycle of around EUR300-750 million per annum.

## Rating Factors

### Renault S.A

Global Automobile Manufacturer	Aaa	Aa	A	Baa	Ba	B	Caa
<b>Factor 1: Market Position and Trend (35%)</b>							
a) Trend in global unit share over 3 years							X
b) Trend in top 2 market unit share over 3 years							X
c) Product breadth and strength				X			
<b>Factor 2: Leverage and Liquidity (20%) [1][2]</b>							
a) Debt / EBITDA (3-yr Average)						5.3x	
b) Debt / Book Capital (3-yr Average)			43.5%				
c) (Cash & marketable securities) / Debt (3-yr Average)				36.6%			
<b>Factor 3: Profitability and Returns (15%) [1][2]</b>							
a) EBITA Margin (3-yr Average)							0.7%
b) EBITA / Avg Assets (3-yr Average)						0.6%	
<b>Factor 4: Cash Flow and Debt Service (25%) [1][2]</b>							
a) FCF / Debt (3-yr Average)							-6.8%
b) RCF / Debt (3-yr Average)					11.3%		
c) RCF / Net Debt (3-yr Average)						17.7%	
d) EBIT / Interest Expense (3-yr Average)							0.4x
<b>Factor 5: Captive Finance Company (5%)</b>							
a) Captive Finance Company				X			
<b>Rating:</b>							
a) Indicated Rating from Grid					Ba3		
b) Actual Rating Assigned					Ba1		

[1] Standard adjustments in accordance with "Rating Methodology: Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations, Part 1, Part 2 and Part 3". In addition, Moody's adjusts for one time items. [2] For the

period 2007-2009. Market share performance for the period 2006-2008; Source: Moody's Financial Metrics



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