Moody's Investors Service

Global Credit Research
Credit Opinion
29 OCT 2008

Credit Opinion: Renault S.A.

Renault S.A.

Boulogne-Billancourt, France

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa2
Subordinate MTN -Dom Curr	Baa3
Commercial Paper -Dom Curr	P-2
Other Short Term -Dom Curr	P-2
RCI Banque Sucursal Argentina	
Outlook	Stable
Issuer Rating -Dom Curr	Ba1
RCI Banque	
Outlook	Stable
Bank Deposits	A3/P-2
Senior Unsecured	A3
Subordinate -Dom Curr	Baa1
Commercial Paper	P-2
Other Short Term -Dom Curr	P-2
Diac	
Outlook	Stable
Senior Unsecured MTN -Dom Curr	A3
Commercial Paper	P-2

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Key Indicators

Renault S.A.[1]

	2007	2006	2005	2004
EBITA Margin %	**6.3%**	**6.3%**	**7.0%**	**8.2%**
EBIT / Interest Expense	**4.4x**	**5.0x**	**7.3x**	**10.9x**
FCF / Debt	**-0.2%**	**-5.2%**	**1.2%**	**16.3%**
Debt / EBITDA	**2.3x**	**2.6x**	**2.3x**	**2.1x**
Debt /Book Capitalisation	**36.0%**	**39.9%**	**39.6%**	**43.3%**

[1] based on Moody's standard adjustments

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" or "the company"; rated Baa2/P-2/stable outlook), is one of Europe's leading car manufacturers. The group's Renault brand is the Western European market leader in light commercial vehicles and ranks number four in passenger cars. The two other brands offered by Renault are Dacia (Romania) and Renault Samsung Motors (Korea). In addition, Renault provides financing to dealers and end-customers through its wholly owned finance company, RCI Banque. In fiscal 2007, the group sold 2.5 million vehicles and reported total revenues of EUR 40.7 billion.

Rating Rationale

On October 27, 2008 Moody's downgraded Renault's long term senior unsecured rating to Baa2 from Baa1. The Prime-2 short term rating remains unchanged. The outlook has been changed to stable from negative. The downgrade of Renault's rating reflects the inability of the company to improve its operating performance evidenced by the company's revised guidance for its 2008 operating margin target of between 2.5% and 3.0% from formerly 4.5% against the background of a deteriorating economic environment. As Moody's does not expect the challenges to lessen in 2009 a rapid turnaround is not anticipated. However, at the Baa2 rating level, Renault has some moderate cushion to absorb a certain degree of weakness next year.

Having missed the expectations factored into the previous Baa1 rating (as expressed in our last press release dated June 10 which included substantially improved profitability levels, cash flow generation and financial metrics) and given Moody's anticipation of no marked recovery in 2009, we expect credit metrics will continue to remain below levels required for the Baa1 rating category. Moody's last rating action on Renault was an outlook change to negative from stable and a affirmation of the Baa1 rating on June 10, 2008.

Rating Drivers

The application of Moody's Rating Methodology for the Global Automobile Manufacturer Industry, which identifies key areas of focus for assessing relative credit quality results in a Baa1 rating for the period 2005-2007, one notch above Renault's current Baa2 rating. We would expect that the outcome and the difference with the actual rating will in the future narrow due to the anticipated lower performance and metrics in 2008 and 2009.

In the following section, we provide Moody's assessment of Renault's positioning within each of the five key rating factors and their various sub-factors as well as an explanation of the positive and negative deviations of Renault's scoring from the overall methodology outcome of Baa1.

RATING FACTOR 1: Market Position and Trend

Renault's market share performance - globally and in its key markets in Europe - has been unsatisfactory in recent years. In evaluating the most important single factor (30% weight) - Product breadth and strength - Moody's initially incorporated the expectation of a successful execution of Renault's Commitment 2009, leading to a strengthened competitive position of the Renault brand in most segments, also being reflected in market share improvements in Western Europe, a more balanced renewal rate of its new product introductions compared to the last three years as well as a much more balanced return and profitability spread across products and regions. As a consequence, Renault scores as a very weak Baa credit for Factor 1 in 2007 based on Moody's initial expectation of a successful model renewal and profitable expansion of the its product range.

Given the disappointing sales of its Renault brand, in particular of the new Laguna, the recent production cuts to adjust for declining customer demand in Western Europe as well as first signs of slowing demand for passenger cars in developing countries, we do not expect anymore that the company will be able to achieve its ambitious targets outlined in Renault's Commitment 2009.

RATING FACTOR 2: Leverage and Liquidity

A sizable amount of cash and marketable securities and a decent amount of total debt within the industrial operations is the common pattern of most European auto manufacturers. Renault has a strong cash position and therefore scores very strongly (Aa) in this factor and much better than in it does on average in the methodology (Baa1). Despite negative free cash flows in 2006 and 2007 (as adjusted by Moody's) Renault is still only moderately leveraged with Debt/EBITDA of 2.3x in 2007. In addition, Renault's liquidity position provides some comfort that the company would be able to fund the necessary investment levels for R&D, requirements, capital expenditures and new product launches in the current challenging environment.

RATING FACTOR 3: Profitability and Returns

Renault's high profitability levels are distorted by the equity contribution of Nissan and Volvo, both incomes are added in Moody's definition of EBIT. When calculating the EBIT margin, Moody's does not take into consideration the revenues of Nissan and Volvo, resulting in high EBIT margins and more favorable asset return ratios compared to Renault on a stand alone basis. Excluding the income from the alliance partner Nissan and Volvo, Renault's profitability and return ratios have been clearly below the requirements for investment grade rated companies and would be by far the lowest within the European Auto manufacturers.

The positive impact from Nissan and Volvo during the past three years (2005-2007) results in a score of Baa for this factor. Excluding the income from the two minority-stakes the last 3 year average (2005-07) of an EBITA margin of 1.1% falls into the low single-B category in the methodology grid.

Moody's cautions that Renault's profitability is expected to come under further pressure against the background of a deteriorating economic environment and the beneficial impact on profitability from the Nissan alliance is expected to be diminished in the foreseeable future as a consequence of Nissan's exposure to the declining North American passenger car market (approximately 41% of revenues in Nissan's FY ending March 31, 2008).

RATING FACTOR 4: Cash Flow and Debt Service

Renault's cash flow generation and debt service capability has decreased substantially over the last four years driven by weaker operating performance and more funds tied up in working capital. Most notably, free cash flow (FCF) generation has been negative in the last two years (FCF/Debt -0.2% in 2007) and Interest Coverage (EBIT/Interest Expense) declined to 4.4x in 2007 compared to 10.9x in 2004. Overall, the company scores in the Baa3 rating category for this factor.

Moody's expects free cash flow generation to be negative or modest in 2008 and 2009 impacted by cash outflows for capital expenditures and higher dividend payments as well as expected lower cash flow from operations. In Moody's view the company needs to return to positive FCF in order to position the company more solidly in the Baa rating category for this factor.

RATING FACTOR 5: Captive Finance Company

As the availability of financing support is an important element in an automotive manufacturer's ability to maintain a competitive position Moody's assesses the impact of the finance company's operations. For Renault, the finance company factor scores one notch higher than the manufacturer's actual rating largely due to a supportive regulatory framework for the finance operations that prevails in France. RCI Banque benefits from regulatory oversight and its requirement to keep certain levels of capital deemed to be adequate based on the asset risks underlying the business.

Liquidity Profile

As of June 30, 2008, Renault had approximately EUR 3.6 billion cash & cash equivalents and ample headroom under its committed credit facilities of approximately EUR 4.2 billon. Under Moody's scenario that assumes no access to the capital markets, these cash sources as well as operating cash flow generation would be fully sufficient to cover the needs arising short-term debt maturities, day-to-day needs, capital expenditures, working capital requirement and dividend payments over the next 12 months which total approximately EUR 8.9 billion. Moody's views Renault's liquidity profile as strong.

Rating Outlook

The stable outlook reflects the balanced debt structure and good liquidity profile of Renault's industrial business which should enable the company to preserve a tolerable - even if on the high side - leverage (Debt/EBITDA) for the Baa2 rating category despite the expected negative free cash flows in 2009. Furthermore the rating assumes a sustainable strong operating performance and contribution from Nissan to Renault's profits and cash flows.

What Could Change the Rating - Down

The ratings could come under pressure in case of a further significant erosion in operating performance leading to metrics deteriorating further as evidenced by (i) Operating Margin trending towards 1.0% in 2009 translating into an EBITA margin (including the at equity contribution from Nissan and Volvo) below 5.0%, (ii) continued significant cash burn with a negative Free Cash Flow of more than EUR 1.0 billion and (iii) interest cover (EBIT/Interest Expense) falling below 3.5x.

What Could Change the Rating - Up

A rating upgrade is unlikely over the next 12-18 months. But contrary to Moody's expectations the rating could be upgraded in case of significant improvements in performance in 2009 exemplified by an improved operating margin to above 4.0%, translating into an EBITA Margin of around 8.5% and a positive Free Cash Flow of more than EUR 1.0 billion.

Rating Factors

Renault S.A.

Global Automobile Manufacturer Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Mkt Share and Product Portfolio Strength (35%)							
Market Share Trend							

a) Trend in Global unit share over 3 years							-3.8%
b) Trend in Top 2 Markets unit share over 3 years							-10.0%
Product Portfolio Strength							
a) Product breadth and strength				X			
Factor 2: Leverage and Liquidity (20%)							
a) 3 Yr Average Debt / EBITDA			2.4x				
b) 3 Yr Average Debt / Capital		38%					
c) 3 Yr Average (Cash + Mkt Sec) / Total Debt		51%					
Factor 3: Profitability and Returns (15%)							
a) 3 Yr Average EBITA Margin			6.6%				
b) 3 Yr Average EBITA / Average Assets				6%			
Factor 4: Cash Flow and Debt Service (25%)							
a) 3 Yr Average FCF / Debt					-1%		
b) 3 Yr Average RCF / Debt				21%			
c) 3 Yr Average RCF / Net Debt				41%			
d) 3 Yr Average EBIT / Interest Expense					5.6x		
Factor 5: Captive Finance Company (5%)							
a) Captive Finance Company			X				
Rating:							
a) Indicated Rating from Methodology				Baa1			
b) Actual Rating Assigned				Baa2			