

Renault S.A.

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Renault S.A.

Major Rating Factors

Strengths:

- Good market shares in the medium and small car segments in Europe.
- Potential to improve scale and geographic spread through cooperation with Nissan.
- A financing arm that generates stable cash flow while maintaining adequate portfolio quality.

Weaknesses:

- Weak profitability.
- Relatively small size by global standards.
- Dependence on the fragmented and highly competitive European car market.
- Concentration of the product range on small vehicles (segments A, B, and C) and reliance on a few main family models.

Corporate Credit Rating

BB/Stable/B

Rationale

The ratings on French automaker Renault S.A. reflect Standard & Poor's Ratings Services' view of Renault's fair business risk profile and significant financial risk profile. The ratings are constrained by the group's weak profitability, ongoing geographic and product concentration, and leveraged financial profile. Factors mitigating these constraints are Renault's average market position in the competitive European auto industry; and the group's captive finance arm, which generates stable cash flow.

Key business and profitability developments

In 2009, Renault's automotive revenues declined by 10.7% compared with 2008. According to Renault, only a small part of this decrease (0.6%) was due to the negative volume effect. The dramatic fall in volume observed in the first half of the year--negative 16.5% in unit sales--has been largely offset by growth in the second half, resulting in an overall reduction of 3.1% for the full year.

For 2009, Renault reports an operating loss of €396 million before €515 million of restructuring costs and impairment of fixed assets. The loss at the automotive division is €915 million before restructuring and impairments and €1,457 million afterward. Due to the recurrence of these costs in recent years, and the likelihood that new capacity adjustments are still required, we view the costs as part of the group's recurrent operating results.

Although the operating margin is impacted by the lower volume, in our view it is probably affected to a greater degree by the volatility of production over each quarter of 2009. Renault took drastic measures to reduce production in the last quarter of 2008 and the first quarter of 2009, subsequently increasing it a lot in the second half of the year. Other negative factors affecting the operating margin are an adverse product mix, due to customers' strong preference for smaller autos, and the negative currency effect.

Renault's 2009 sales were supported by new products, such as the new Mégane that was launched in the fourth quarter of 2008. The revised product portfolio allowed to Renault to regain market share in most of the countries in

which it operates, including France, Germany, and South Korea.

For 2010, however, the situation is less certain: In Western Europe, the cessation of incentive schemes in large countries such as Germany and Italy will negatively effect auto demand, and we estimate that this will result in a 10% decline in passenger car registrations. Moreover, we anticipate another year with significant volatility in demand. Renault still has significant overcapacity and Western Europe accounts for over 65% of unit sales. As a consequence, a positive operating performance for the current year could be challenging, in our view.

Key cash flow and capital-structure developments

At the end of 2009, the group's reported €2.1 billion of cash generation from auto activities. Reported industrial net debt, meanwhile, was €5.9 billion, down from €7.9 billion at year-end 2008. This result was achieved mainly through a €2.9 billion reduction in working capital, the largest contribution of which came from inventories (€1.4 billion). Other contributions include lower capital expenditures (€1.6 billion invested in plant and equipment versus €2.3 billion in 2008). Renault also cut R&D expenses by 33%.

While we recognize that these investment cuts have an immediate beneficial effect on cash generation, we are also aware that too large a reduction would compromise the group's ability to develop new products in the future. However, in Renault's case, we know that the group can take advantage of its alliance with Nissan, which in our view is a rating strength. In 2009, the two groups achieved target synergies of €1.5 billion, largely due to optimizing their investments. For 2010, target synergies are €1.0 billion.

For 2009, Standard & Poor's-adjusted funds from operations (FFO) to debt for the group is 7%, while free operating cash flow (FOCF) to debt is 19%. For 2010, Renault has announced a strong commitment to cash generation. However, looking at the group's current estimates of auto demand, coupled with the large amount of outstanding industrial financial debt, we believe that Renault will not be able to meet the 20% FFO-to-debt ratio typical of companies at the 'BB' rating level.

Liquidity/Short-term credit factors

The short-term rating is 'B'. We perceive Renault's liquidity as currently adequate. At Dec. 31, 2009, Renault's industrial activities had €5.4 billion of cash and unused committed credit lines of €4.0 billion. These facilities appear sufficient to cover the €4.5 billion in industrial debt maturing in less than one year.

For 2010, the group is committed to generate free cash flow. Taking into consideration the possibility that some cash burn could occur, we believe that the current level of liquidity should accommodate this. Additional comfort is provided by the support of the French state, in case it is needed. At Dec. 31, 2009, the fully owned financing subsidiary RCI Banque (BBB-/Stable/A-3) had access to €4.5 billion of undrawn lines and €1.9 billion of available cash.

Recovery analysis

The various debt instruments that Renault has issued under its €7 billion senior unsecured euro medium-term note (EMTN) program are rated 'BB', the same as the long-term corporate credit rating on Renault. The recovery rating on all of these debt issues is '3', indicating Standard & Poor's expectation of meaningful (50%-70%) recovery in the event of a payment default.

The relative likelihood of default for these issues compared with investment-grade issues is reflected in the 'BB' corporate credit rating.

The recovery ratings are supported by our valuation of Renault's business as a going concern. Given our view of Renault's good market positions and highly recognized brands, for which we understand there is significant customer demand and a widespread distribution network, we assume that a default would most likely result from a combination of operational underperformance, a weakening of liquidity reserves, and impaired operating cash flow generation. Our hypothetical default scenario assumes that the group would voluntarily file for the "sauvegarde" (protection) procedure under French insolvency law when it foresees cash balances dropping below a minimum threshold. At the hypothetical point of default, in 2013, we value the group at about €12 billion.

Recovery prospects for unsecured noteholders reflect both the estimated value available and accessible to the creditors and our view of the likelihood of insolvency proceedings being adversely influenced by Renault's French domicile. Recovery prospects are underpinned by what we see as Renault's extensive asset base. We only attribute value to Renault's automobile division, and give limited value to the group's equity stakes in Nissan Motor Co. Ltd. (BBB/Watch Neg/A-2) and Volvo (publ), AB (BBB+/Negative/A-2). We have also assumed that the group has a modest level of prior-ranking debt claims.

Although we have not seen the documentation, we assume that the €3 billion, five-year loan from the French government ranks *pari passu* with the unsecured bonds. We note, however, that recovery prospects could improve materially if Renault's stakes in Nissan and Volvo fetched a higher value than that assumed in our hypothetical default scenario. Furthermore, we believe that recovery prospects could be affected either positively or negatively with respect to the indicated range of 50%-70%, depending on any actions that the French government might take as a major stakeholder in the group.

For our detailed recovery report, see "Renault S.A.'s Recovery Rating Profile," published June 26, 2009, on Ratingsdirect.

Outlook

The stable outlook reflects our view that Renault will likely experience another year of weaker financial measures than we generally consider commensurate with the current ratings, but that afterward, it should be able to restore a stronger financial profile. In 2010, we believe the company's adjusted FFO-to-debt ratio could still remain below the 20% average achieved by companies through the cycle at the 'BB' rating level. We factor into the current ratings the support of the French state, in case it is needed, to strengthen the group's liquidity. In our view, this potential support contributes to the stable outlook, but does not lead to any notching-up of the ratings.

We could downgrade Renault or revise the outlook to negative if, in contrast with the group's targets, it is not able to generate cash from its industrial activities and to continue to reduce debt. We also could consider a downgrade if there are no clear signs of a sustained improvement in the group's financial ratios, particularly FFO to debt, toward the level indicated above.

We view an upgrade or outlook revision to positive as highly unlikely in the current climate.

Business Description

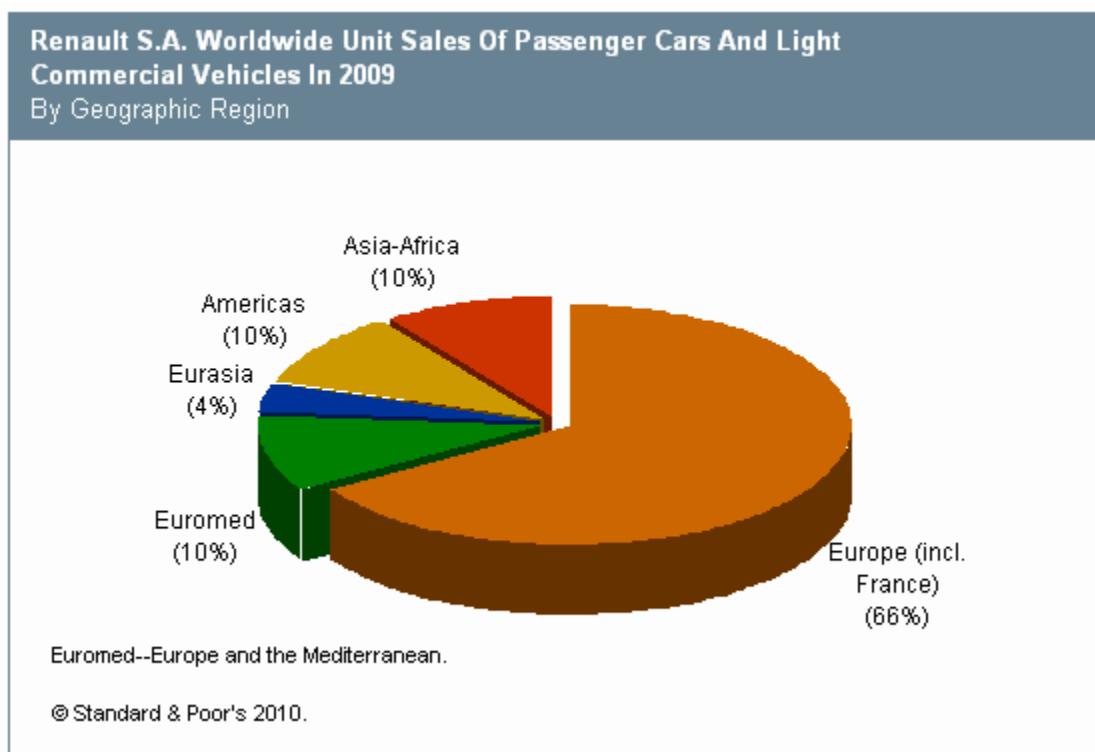
Renault is a French midsize car manufacturer with a growing presence outside Western Europe. In Europe (including the European Free Trade Association (EFTA) countries of Iceland, Liechtenstein, Norway, and Switzerland), Renault

occupies sixth place in the passenger car segment in terms of units sold, behind Germany's Volkswagen AG (A-/Negative/A-2), French competitor Peugeot S.A. (PSA; BB+/Negative/B), U.S.-based Ford Motor Co. (B-/Stable/NR) and Motors Liquidation Co. (fka General Motors Corp.) (NR/--/NR), and Italy-based Fiat SpA (BB+/Negative/B). In 2009, Renault's volume sales totaled 2.31 million.

The group has three brands: Renault (85% of consolidated auto volume sales), Dacia, and Samsung (in South Korea). Sales are primarily generated in Western Europe (66%; see chart); the group is not present in the U.S. The Mégane, Renault's best-selling model family, accounted for 21% of total production in 2009 (36% in 2005).

Financial services, under the aegis of RCI Banque, the captive finance arm of the group, contributed positively to the group's reported operating income in 2009, although this was partly offset by the negative operating income generated in the industrial division. Renault's market capitalization as of Feb. 25, 2010, was about €8.4 billion. The French state (Republic of France; AAA/Stable/A-1+) and Nissan are likely to remain group's main shareholders in the medium term, with about 15% of the capital each.

Renault owns relevant stakes in Nissan (44.3%) and Volvo (21.8%). The Nissan interest in Renault (15%) is more than a pure financial investment, being part of a global alliance that has existed between the two companies since 1999. However, Nissan has no voting rights in Renault. The strategies of both companies are closely coordinated, and, since 2005, they have a common CEO, Carlos Ghosn.



Business Risk Profile: Fair, With Still Significant Exposure To The Mature European Market And Limited Diversification

The major supports for Renault's fair business risk profile are:

- Its good position in the small and medium auto segments. Two-thirds of new cars sold in Western Europe are in the small-car and lower midsize segments (traditionally classed as A, B, and C). Renault sells about 60% of its production in Western Europe and most of its cars are in these three segments.
- A gradual reduction in the group's reliance on a small number of products. Historically, Renault has relied mainly on two model families, the Mégane in the C segment and the Clio in the B segment. In 2004, these models were joined by the Logan (sold under the Renault and Dacia brands), which is now the third-best-selling model range for the group. Growth in Logan sales is reinforcing Renault's presence in several markets outside Western Europe such as Eastern Europe and Russia.
- The group's strategic alliance with Nissan, which we view as positive for the ratings. In our opinion, a primary benefit is the sharing of the significant costs related to the development of new products and technologies. Such costs represent one of the heaviest burdens for most players in the sector.
- Renault and Nissan's operational integration in terms of the development of certain models, the use of common platforms (and component sets), the manufacture of several products in shared facilities, and the pooling of spare-parts procurement.

These supporting factors, however, are offset by:

- The characteristics of the auto industry, namely: cyclical, with the consumer's decision to purchase a vehicle being highly influenced by general economic conditions; capital intensity, reflecting the heavy investments needed to design and manufacture autos and to cope with an increasing level of regulation; and strong price competition, especially among the volume manufacturers.
- The maturity of the major auto markets of North America, Western Europe, and Japan, where we anticipate demand growth to average less than 1% per year over the long term. (Renault is not present in North America or Japan.)
- The heavy fixed-costs structure common to all automakers, which makes for a high degree of operating leverage and excess production capacity. Sweeping rationalization is expensive, witness Renault's high restructuring costs over the past two years. As a result, price competition is intense.
- Renault's limited size. In the auto sector, large players are able to better manage the high fixed-costs base and high investments required. This is because they can spread these costs across a larger number of models and address a wider range of customers. Although Renault's alliance with Nissan partially addresses this issue, the group remains a small to medium player.
- Low profitability. Even without including the operating results for 2008 and 2009--two exceptional years affected by the deepest recession since the 1930s--Renault's profitability has been weak over the past five years. Reported group EBIT margins before one-off expenses were 3.3% (2007), 2.6% (2006), and 3.3% (2005), respectively. Looking ahead, we think that the 6% EBIT margin targeted in the group's "Commitment 2009" plan launched in 2006 seems remote for the current year and in 2011.
- Limited geographic diversification. Renault's geographic presence is still largely dependent on the mature and highly competitive Western European markets. The group is, however, increasing its presence in developing countries, particularly Eastern Europe and Asia.

- Limited product diversification. Renault sells most of its products in the small and medium auto segments. While we recognize that these segments represent the largest proportion of demand, they are also the most fiercely competitive. We consider the lack of significant successful diversification in other segments as a risk.

Financial Risk Profile: Significant, Leveraged And Overreliant On Nissan And Volvo Dividends

The major supports for Renault's significant financial risk profile are:

- State support for the group's auto activities. In April 2009, Renault received a five-year €3 billion loan from the French state, as did Peugeot. This loan was related to the strategic importance of the auto sector to the French economy. However, we believe that the French state's 15% stake in Renault could translate into further ad hoc support for liquidity, should the group need it. In our view, this potential support contributes to the stable outlook, but does not lead to any notching-up of the ratings.
- The existence of significant ownership stakes in other large listed companies. The stakes that Renault holds in Nissan (44.3% of ordinary shares) and in Volvo (21% of ordinary shares) are entered into the consolidated balance sheet by the group as investments that are part of the group's noncurrent assets. These assets are maintained for strategic reasons, but are liquid and could be sold without impairing the ongoing activities of Renault. While we do not give any credit to these stakes as financial assets that can be deducted from the financial debt in calculating the net industrial financial position, we are aware that these are valuable assets that could provide liquidity if needed.
- Auto finance. Renault owns 100% of RCI Banque, which provides financing for Renault dealers and retail customers in Renault's major auto markets. Finance receivables were €19.8 billion at Dec. 31, 2009, in line with 2008. The ratings on Renault and RCI are closely linked, owing to the two legal entities' strategic importance to each other. RCI provides Renault with a substantial, relatively stable source of earnings and cash flow not directly tied to auto industry cyclicality. It generated positive operating profit of €486 million in 2009.

These supporting factors, however, are offset by:

- The significant amount of financial debt in the auto division. At the end of 2009, Renault reported a reduction of debt in the industrial division to €5.9 billion from €7.9 billion a year earlier. In our view, leverage is still high, and we think the possibility of significantly reducing this debt level through cash generation seems remote, even assuming an economic recovery and the return of less volatile and more stable auto demand.
- The reliance on dividends paid by Nissan and Volvo. Prior to 2009, Renault benefited from dividends paid by its participated companies. While we view this cash stream as positive, we also note that Renault appeared to consider it a reliable source of funding to counterbalance a higher-than-average financial debt position.
- The group's approach to debt. Unlike its direct European peers, Renault does not aim to achieve a positive debt position in its industrial operations. In our view, the evidence of the past two years shows that dividends cannot be considered a reliable source of cash, especially if, as in this case, the correlation between the activities of those that pay and those of the beneficiary is high.
- The group's exposure to currency fluctuations. Renault is exposed to such volatility due to its sales and production in the area outside the Eurozone. However, over time the most significant exposure has proved to be that on the debt to the Japanese yen. Renault maintains a portion of its debt in yen because its service is hedged with the dividends received from Nissan. The sharp appreciation of the yen in 2008 dramatically increased the

euro value of the yen exposure and has contributed for about €1.6 billion of the increase in the group's reported industrial net financial debt at the end of 2008. Since then, Renault has substantially reduced its yen debt exposure.

Financial Statistics/Adjustments

Renault reports under International Financial Reporting Standards (IFRS), as it has done since 2005. Our adjustments center on the following areas:

Captive finance operations

We use our captive-finance methodology to calculate Renault's financial metrics. We view captive finance companies and their operating-company parents as a single business enterprise, and our ratings on these entities are therefore closely correlated. Even so, we do not analyze the captive and the parent on a consolidated basis. Rather, we analyze the financing activities separately from the manufacturing activities, reflecting the different types of assets they possess.

Specifically, we allocate debt, equity, and earnings to the parent and captive finance unit so that both entities have similar credit quality. Our debt leverage guideline for Renault is 10 to 1, implying that captive-finance assets of €19.8 billion at year-end 2009 should be covered by €1.8 billion of equity and €18.0 billion of financial debt. Total adjusted industrial debt at Dec. 31, 2009, was €9.6 billion, including €0.2 billion in operating leases and €0.7 billion in postretirement benefit obligations and net of €4.8 billion of cash (see table 1).

Capitalized development costs

In accordance with International Accounting Standards (IAS) 38, research costs are fully expensed, while development costs--which can be allocated reliably, and the technical feasibility and marketing of which can be assured--are capitalized. To enable a better comparison with companies reporting under U.S. generally accepted accounting principles, according to which R&D expenditures are fully expensed rather than capitalized, Standard & Poor's adjusts Renault's EBIT, EBITDA, and FFO (see table 1). The adjustments treat as an expense the full development costs and eliminate the effects of the capitalization. In 2009, Renault capitalized €587 million, representing a capitalization rate of 35.7%, well below the 50.3% rate in 2008 and in the lower end of the range for peers reporting under IFRS.

Operating lease commitments

These leases are capitalized using a 4.2% discount rate, resulting in a €187 million addition to interest-bearing liabilities.

Postretirement obligations

Unfunded postretirement obligations of about €744 million are added to interest-bearing liabilities, while equity is added by €5.2 million. FFO is adjusted downward by €41 million, reflecting the deficit between contributions paid and the expected return on plan assets on the one hand, and service and interest costs on the other.

Surplus cash

On Dec. 31, 2009, the cash reported by Renault for the group was €8.0 billion. We deduct € 4.8 billion from the financial debt, because we consider that part of the reported cash is needed for operational purposes.

Table 1

Reconciliation Of Renault S.A. Reported Amounts With Standard & Poor's Adjusted Amounts*										
--Fiscal year ended Dec. 31, 2009--										
Renault S.A. reported amounts										
(Mil. €)	Debt	Shareholders' equity	Revenues	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	32,785.0	15,982.0	33,712.0	2,191.0	2,191.0	(955.0)	471.0	6,040.0	6,040.0	2,309.0
Standard & Poor's adjustments										
Operating leases	187.3	--	--	53.0	9.2	9.2	9.2	43.8	43.8	--
Postretirement benefit obligations	744.3	5.2	--	30.0	30.0	30.0	33.0	(31.9)	(31.9)	--
Additional items included in debt	43.0	--	--	--	--	--	--	--	--	--
Surplus cash and near cash investments	(4,758.0)	--	--	--	--	--	--	--	--	--
Capitalized development costs	--	--	--	(587.0)	(587.0)	152.0	--	(587.0)	(587.0)	(587.0)
Captive Finance Adjustments	(18,014.6)	(1,801.5)	(1,761.0)	(524.0)	(524.0)	(187.9)	--	(1,898.0)	(496.0)	(19.0)
Reclassification of nonoperating income (expenses)	--	--	--	--	--	(1,443.0)	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	--	(4,325.0)	--
Minority interests	--	490.0	--	--	--	--	--	--	--	--
Other	(1,372.0)	--	--	341.0	341.0	44.0	--	--	--	--
Total adjustments	(23,170.0)	(1,306.3)	(1,761.0)	(687.0)	(730.8)	(1,395.7)	42.2	(2,473.0)	(5,396.0)	(606.0)

Standard & Poor's adjusted amounts										
	Debt	Equity	Revenues	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	9,615.0	14,675.8	31,951.0	1,504.0	1,460.2	(2,350.7)	513.2	3,567.0	644.0	1,703.0

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Table 2

Renault S.A. Peer Comparison*			
	Renault S.A.	Peugeot S.A.	Fiat SpA
Rating as of Feb. 26, 2010	BB/Stable/B	BB+/Negative/B	BB+/Negative/B

Table 2

Renault S.A. Peer Comparison* (cont.)			
(Mil. €)	--Average of past three fiscal years††--		
Revenues	37,615.3	54,592.7	54,878.7
Net income from continuing operations	2,042.0	241.7	1,543.3
Funds from operations (FFO)	2,382.2	2,154.7	2,796.5
Capital expenditures	2,507.5	2,274.8	3,114.4
Debt	8,813.0	4,863.7	11,009.9
Equity	18,614.1	11,319.3	8,946.8
Adjusted ratios			
Operating income (before D&A)/revenues (%)	5.0	4.7	7.5
EBIT interest coverage (x)	3.9	1.2	2.8
EBITDA interest coverage (x)	4.7	7.9	4.4
Return on capital (%)	5.8	2.2	13.5
FFO/debt (%)	27.0	44.3	25.4
Debt/EBITDA (x)	4.7	1.9	2.7

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. †† Does not include figures for 2009.

Table 3

Renault S.A. Financial Summary*					
(Mil. €)	--Fiscal year ended Dec. 31--				
	2009	2008	2007	2006	2005
Rating history	BB/Stable/B	BBB/Negative/A-3	BBB+/Stable/A-2	BBB+/Stable/A-2	BBB+/Stable/A-2
Revenues	31,951.0	35,758.0	38,679.0	38,409.0	38,366.0
Net income from continuing operations	(3,125.0)	571.0	2,669.0	2,886.0	3,376.0
Funds from operations (FFO)	644.0	1,650.8	3,299.9	2,196.0	3,053.9
Capital expenditures	1,703.0	2,363.1	2,446.0	2,713.5	2,300.0
Debt	9,615.0	10,508.0	7,058.7	8,872.5	9,765.6
Equity	14,675.8	17,331.8	19,750.2	18,760.5	17,156.8
Adjusted ratios					
Operating income (before D&A)/revenues (%)	4.7	2.9	6.0	6.0	7.2
EBIT interest coverage (x)	(4.6)	(1.0)	5.6	7.7	11.6
EBITDA interest coverage (x)	2.8	2.4	5.6	6.1	8.7
Return on capital (%)	(9.0)	(1.6)	8.5	10.5	14.7
FFO/debt (%)	6.7	15.7	46.7	24.8	31.3
Debt/EBITDA (x)	6.6	10.5	3.0	3.8	3.6

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

Ratings Detail (As Of February 26, 2010)*

Renault S.A.

Corporate Credit Rating	BB/Stable/B
Commercial Paper	
Local Currency	B
Senior Unsecured (16 Issues)	BB
Short-Term Debt (1 Issue)	B

Ratings Detail (As Of February 26, 2010)* **(cont.)****Corporate Credit Ratings History**

19-Jun-2009	BB/Stable/B
05-Mar-2009	BBB-/Negative/A-3
03-Feb-2009	BBB/Watch Neg/A-3
24-Oct-2008	BBB/Negative/A-3
24-Jul-2008	BBB+/Negative/A-2
07-Apr-2005	BBB+/Stable/A-2

Business Risk Profile

Fair

Financial Risk Profile

Significant

Debt Maturities

On Dec. 31, 2009:

Automotive

2010: €4.0 bil.

2011: €1.4 bil.

2012: €1.5 bil.

2013: €2.1 bil.

2014: €4.5 bil.

Thereafter: €0.4 bil.

Financial Services

2010: €11.5 bil.

2011: €5.8 bil.

2012: €2.6 bil.

2013: €0.2 bil.

2014: €0.3 bil.

Thereafter: €0.3 bil.

Related Entities**Cofiren Renault et Cie**

Issuer Credit Rating --/--/B

DIAC S.A.

Issuer Credit Rating BBB-/Stable/A-3

Certificate Of Deposit BBB-/A-3

Senior Unsecured (1 Issue) BBB-

RCI Banque

Issuer Credit Rating BBB-/Stable/A-3

Certificate Of Deposit BBB-/A-3

Commercial Paper A-3

Senior Unsecured (21 Issues) BBB-

Short-Term Debt (1 Issue) A-3

Subordinated (2 Issues) BB+

RCI Banque Sucursal Argentina

Issuer Credit Rating

Argentina National Scale Rating

raAAA/Stable/raA-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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