

## JCR Affirmed A- Ratings on Renault

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

### Rationale

The rating primarily reflects Renault's solid operating base in Europe centering on France, enhanced cost structure thanks to its deepened alliance with Nissan and significantly improved financial position brought by the disposal of Volvo shares and a positive free cash flow secured through stringent management of its working capital. On the other hand, the ratings are constrained by the moderation of Renault's overall earnings capacity under intensifying competitive pressures in Europe

The rating outlook is stable. Renault's financial position improved as the auto division's net financial debt turned into a net cash position at the end of 2012. However, the division ended up with a loss in the year. The business environment remains uncertain with the European economy expected to stay stagnant in 2013. JCR will closely monitor the trend of car sales in European and emerging markets and progress of Renault's cost reduction plan through pursuance of synergy effects with Nissan.

### (1) Strong operating base centering on France

Renault is one of the leading European producers of passenger cars and light commercial vehicles, with its annual sales totaling 2.55 million vehicles in 2012. Its group car sales, together with those of Nissan and Russian carmaker AvtoVaz, came to 8.10 million units, which ranked it fourth in the world. In its global operations, Renault runs two major car manufacturing subsidiaries in Romania and South Korea in addition to its comprehensive alliance with Nissan, where it is the biggest shareholder with a 43.4% stake.

Renault's enhanced cost structure and product competitiveness derived from its alliance with Nissan are the key factors that support the ratings. Both partners have been successful in trimming various costs as well as honing their competitive edges through adoption of common platforms and power trains, and through their joint development and joint purchase of parts/components, raw materials and equipment. Renault also signed a strategic cooperation agreement with Daimler AG in April 2010, which includes taking minority equity stakes in each other. The alliance is expected to bring about cost reduction through adoption of common platforms and common purchasing, as well as medium-term technological enhancement and reduction of cost burdens in the field of environmental technologies such as electric cars.

In 2012, Renault posted EUR41.2 billion in gross revenues, of which EUR38.8 billion came from the auto division. It held total assets worth EUR75.4 billion at the end of 2012, including EUR53.0 billion in the auto division.

The proportion of car sales in Western Europe to its overall sales decreased to 50% in 2012 from 57% a year earlier due to the stagnation of European car demand. Renault has set up a relatively stable position in the highly competitive European compact car market. While producing a full range of passenger cars, it has established a strong position, in the Western European small and medium car markets. Mid-size (C class) Megane, small-size (B class) Clio and entry-level vehicle Logan produced by Dacia are among its flagship cars. In recent years, however, the dependence on the flagship cars has been declining as a result of growing sales of Dacia's Sandero and Duster. Under its medium-term plan "Renault 2016 – Drive The Change", the company is aiming for an aggregate free cash flow totaling EUR2.0 billion and cost reduction totaling EUR2.4 billion for 2011-2013 period.

### (2) Auto division slips into loss due to steep decline in European sales

In 2012, the European passenger and light commercial vehicle market shrank 8.6% amid the steep fall of sales in France, Italy and Spain. Renault's car sales plunged 18.0% as it suffered severe setbacks in France and other southern European countries. Its market share in Western Europe fell to 9.1% in 2012 from 10.1% in 2011. In contrast, its car sales in the markets outside of Europe surged 9.1% on a strong growth in Brazil and Russia. However, its global sales dropped 6.3% as the growth was not large enough to make up for the fall in Europe.

Renault's consolidated gross revenues in 2012 totaled EUR41.2 billion, down 3.2% from 2011, due to reduced car sales. The auto division posted a EUR25 million operating loss as it failed to absorb the impact of reduced sales with cost reduction. Group operating margin fell 33.2% to EUR729 million although the finance division secured a profit. The European car market, which accounts for around

50% of its car sales, is expected to remain sluggish in 2013. JCR will watch how its impact can be offset by increased car sales in emerging countries such as Brazil and Russia.

### (3) Auto division turns into net cash position

The auto division managed to slash its net financial debt thanks to the disposal of Volvo shares worth EUR1,476 million and attainment of a free cash flow through stringent management of working capital. It had a positive net cash position totaling EUR1,492 million at the end of 2012 in a turnaround from a EUR299 million net financial debt at the end of 2011. Renault had an ample liquidity consisting of EUR10.1 billion in cash and equivalents and EUR3.5 billion in undrawn credit lines at the end of 2012, more than enough to cover its debt repayment due in the coming years. JCR has woven the improvement in the group's financial structure into its ratings. However, the business environment remains uncertain amid the prolonged slump in the European car market. JCR will closely monitor the trend of car sales in European and emerging markets and progress of its cost reduction plan.

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Makoto Ikushima, Senior Analyst

#### *Rating*

Issuer: Renault S.A.

#### <Affirmation>

		Rating	Outlook
FC (Foreign Currency Long-Term Issuer Rating)		A-	Stable
Issue	Amount (bn)	Issue Date	Due Date
Japanese Yen Bonds 10th Series (2011)	JPY 15.4	Dec. 20, 2011	Dec. 20, 2013
Japanese Yen Bonds 11th Series (2012)	JPY 32.3	Jun. 15, 2012	Jun. 13, 2014
Japanese Yen Bonds 12th Series (2012)	JPY 30.1	Dec. 18, 2012	Dec. 18, 2014

Rating Assignment Date: March 13, 2013

Outline of methodology for determination of the credit rating is shown as "JCR's Rating Methodology" (August 28, 2012), "Automakers and Auto Parts Manufacturers" (March 26, 2012) in Rating Policies on JCR's home page (<http://www.jcr.co.jp>).

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