Renault SA

Full Rating Report

Ratings

Long-Term IDR	BBB-
Senior unsecured	BBB-

Outlook

Long-Term IDR	Stable

Financial Data

Renault SA – Industrial Operations

	31 Dec 14F	31 Dec 13
Revenue (EURbn)	38.5	38.4
Operating EBIT/revenue (%)	1.9	1.4
FCF/revenue (%)	2.8	1.3
FFO adjusted leverage (x)	2.6	3.6
FFO adjusted net leverage (x)	0.2	0.5
CFO/total adjusted debt (%)	43	33
FFO fixed charge cover (x)	5.1	6.3

Related Research

Rating Automotive Manufacturers (August 2012)

European Auto Manufacturers Dashboard 2H14 (August 2014)

Autonomous Driving Not a Short-term Boost for Automotive Companies (March 2014)

Scenario Analysis: Slow Recovery in 2014 New Vehicle Sales in Europe (February 2014)

Analysts

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Key Rating Drivers

Resilient Under Pressure: The upgrade by one notch in November 2014 reflects the resilience of Renault SA's profitability and underlying cash generation in a difficult environment, especially for volume manufacturers. Group operating margins increased to over 3% in 2013 and Fitch Ratings expects further improvement, including a strengthening of core automotive operations. Renault's restructuring measures have streamlined its cost structure, lowered its breakeven point and made it more resistant to a possible downturn.

Stronger Credit Metrics: Net financial debt has fallen substantially since 2009 as a result of positive free cash flow (FCF) and asset sales, while earnings and funds from operations (FFO) rebounded in the same period. Net leverage has declined continuously since end-2009, from 5.6x, to less than 0.5x at end-June 2014, providing the group with more flexibility to go through the sector's next cyclical downturn. Automotive operating margins and FCF have remained positive since 2008, including between 2011 and 2013 when revenue and profitability declined.

Weak but Improving Mix: Renault's sales retain a bias towards Europe, in particular to weaker Southern markets such as Spain, Italy and France, where the eurozone debt crisis has had the most impact on new car sales. However, diversification has led to a growing share of sales outside Europe. Renault also derives the majority of its revenue from the less profitable small- and medium-sized car segments, where competition is fiercest and price pressure is strongest.

Entry-Level Models Success: The success of the growing entry range is pivotal in compensating for the sales declines of the core Renault models, and also favours geographical diversification. In addition, the profitability of the entry range is higher than the automotive average and therefore bolsters group operating profit.

Rating Sensitivities

Improved Margins: A sustainable improvement in profitability, in particular group operating margin above 5% and auto operating margin above 4%, sustainable improvement in financial metrics, including net adjusted leverage below 0.5x and CFO on total adjusted debt above 50% could lead to positive rating action. Further diversification outside Europe or the successful and profitable introduction of a premium model range would also be positive.

Weakening Credit Metrics: Future developments that may, individually or collectively, lead to negative rating action include deteriorating profitability, including auto operating margin remaining below 1.5%, group operating margin below 3% and FCF margin below 1%, or a deterioration in key credit metrics, including net adjusted leverage above 1.5x and CFO/adjusted debt below 35%.

Liquidity and Debt Structure

Healthy Liquidity: Liquidity is healthy, including EUR10.5bn of readily available cash and liquid investments for industrial operations at end-2013, according to Fitch's adjustments for minimum operational cash of about EUR1.2bn and not readily available financial assets. In addition, total committed credit lines of EUR7.4bn, including EUR4.1bn at RCI Banque, were undrawn at end-June 2014.

Key Contents

Summary

Key Rating Issues

Lower Breakeven Point

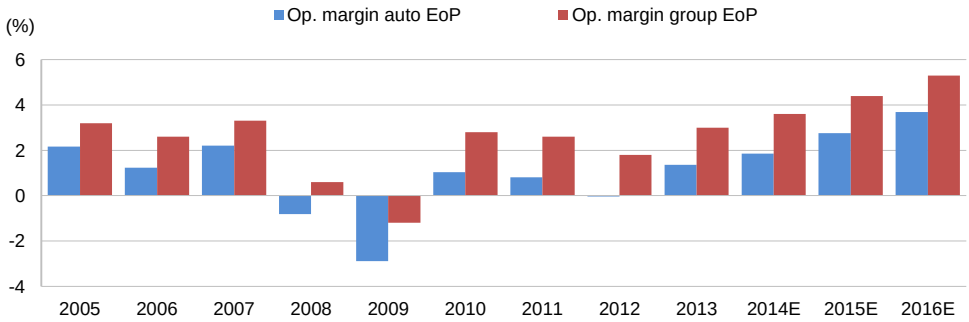
In line with its main peers in the mass market segments, Renault's profitability suffered substantially during the economic and sector crisis in 2008-2009 with automotive operating margins plummeting to negative 2.9% in 2009. Renault, like its close competitors, suffered from an unfavourable cost structure compounded by declining volumes, which led to a massive under-absorption of fixed costs.

However, margins recovered in 2010 as sales rebounded and the group has managed to maintain positive automotive operating margins since then, notably in 2012 and 2013 when automotive revenue declined by 3.8% and a further 1.1%. Automotive margins increased to 1.4% in 2013 and should be close to 2% in 2014 according to our projections, and then improve further to between 3.5% and 4% in 2016-2017. At group level, we expect its operating margin to increase to approximately 5% in 2016, a year earlier than group's target.

Our projections are supported by the restructuring actions taken by the group in the past three to four years. Renault will benefit from the industrial reorganisation implemented in France, economies of scale from the acceleration of platform development, in particular with Nissan, further synergies from the partnership with Daimler, and the solid contribution from Dacia's model range. We also expect profitability to be enhanced by growing unit sales and improved pricing, given Renault's high operational gearing.

Figure 1

Operating Margin



Source: Fitch

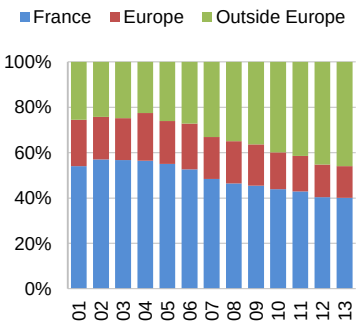
Restructuring Actions

The group has worked hard to streamline its cost structure and lower its breakeven point. As a result, the group is now able to absorb a higher sales decline, either from exogenous factors such as macroeconomic issues in one or several of its markets, or because of insufficient success of its vehicles.

Related Criteria

Corporate Rating Methodology (May 2014)

Figure 2
Headcount Location



Source: Company, Fitch

In France, Renault will have reduced its net workforce by 7,500 jobs (approximately 17% of its domestic workforce) between 2013 and 2016 and agreed with unions to freeze wages for three years and increase flexibility through temporary moves by workers among facilities, in exchange of Renault's commitment to maintain investment capacity in France. The job reduction results in annual savings of EUR400m-500m.

In Spain, the group signed a deal with its unions in late 2012 to boost production and hiring in the country in return for more flexible working rules and the ability to hire new temporary workers at much lower salaries. This deal will allow factories to run seven days a week and slow wage increases below inflation. Overall, headcount has moved significantly from western Europe, chiefly France, to outside Europe, where labour costs are cheaper and more flexible.

Capacity Utilisation

Renault's capacity utilisation rate (CUR), particularly in France where it is the lowest, will benefit from the cut in capacity, notably following the job reductions described above, but also from higher production and the industrial reorganisation of French plants.

In particular, the reorganisation of the plants at Douai and Sandouville should boost the overall CUR in France. Douai will focus on the C-D segment, including the new Espace and another upcoming cross-over, and Sandouville will specialise in light commercial vehicles (LCVs), including vehicles to be developed for Fiat. Other Renault plants will also assemble vehicles for Daimler (Citan LCV) and Nissan (Micra). Total assembly for third parties should amount to more than 200,000 units.

Increased Synergies

Renault has reinforced its joint efforts and accelerated cooperation with Nissan to extract more synergies and savings from their alliance. Other industrial savings should be gained from the alliances with Renault's other associate Avtovaz and Daimler following their cross-minority shareholding.

In particular, common projects between Daimler and Renault-Nissan have accelerated over the past couple of years. Recently, the companies announced that they were extending their manufacturing alliance to include engines and gearboxes. Mercedes' C class will get a Renault diesel engine, while Nissan's Infiniti will use a gasoline engine supplied by Mercedes.

Entry Range Contribution

Group profitability has been bolstered by the solid earnings generated by its entry range. Dacia's high profitability is due to a combination of several factors including increasing sales, a favourable cost structure – thanks notably to production in low-cost countries, a high amount of carry-over from other and/or older products, and resilient pricing because of very limited discounts to customers.

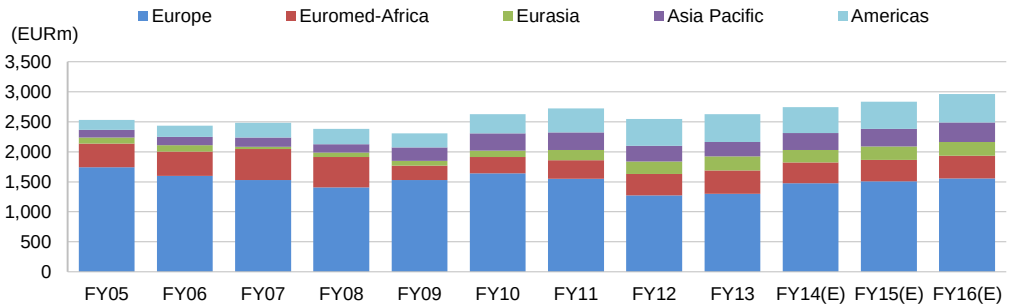
We believe that cost inflation will gradually hit non-European headcount and this will ultimately limit further material earnings progression, but we are confident that Dacia's profitability will remain strong and above the core Renault model range in the foreseeable future.

Positive Growth Prospect

Renault's mid-term plan targets group revenue increasing from EUR40.9bn in 2013 to EUR49.5 in 2016. The greatest increase should come from Europe as the market rebounds, the company's market share gradually recovers and pricing strengthens as well as Asia-Pacific notably as Renault expands in China with the help of its associate Nissan.

Figure 3

Revenue by Region



Source: Company; Fitch

We also expect revenue to be bolstered by higher pricing power. Renault's redesigned and rejuvenated model range allows for lower discounts, and profitability has therefore benefited from a steady improvement in net pricing. Thanks to a combination of new products with a more consistent design, a slightly better image and a disciplined pricing strategy, Renault showed solid results in terms of mix/price/product enrichment.

Positive Impact from Diversification

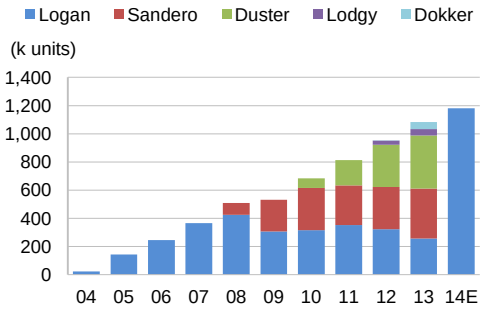
The group has traditionally suffered from its exposure to its domestic European market and its product mix biased towards smaller and mainstream models, where competition and pricing pressure are the toughest in Europe. However, it has focused its development towards emerging markets in recent years, notably thanks to its entry range.

The success of the group's entry-level vehicles, starting with the Dacia Logan in 2004, has been pivotal in compensating for the sales and market share decline of the core Renault brand and has supported profitability. The product range has been expanded extremely successfully since 2008 with the addition of several other models, including increasingly attractive vehicles such as the Sandero, the Duster small crossover and the Lodgy minivan. Dacia vehicles also include other utility derivatives such as a commercial van and a pick-up.

These vehicles primarily address the demand from emerging-market customers, in particular for durability and pricing. However, they have been increasingly demanded by customers in mature markets, notably western Europe, especially in the wake of declining purchasing power leading customers to look for good value for money. More than 50% of Dacia customers come from the second-hand market. Dacia's market share is about 6% in France, 4% in Spain and 1.7% in Germany. In addition, product mix in these latter markets is usually high and supports Dacia's profitability.

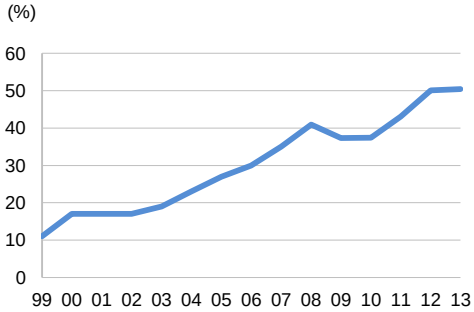
Renault has also made considerable efforts to improve geographic diversification and consistently increase the share of sales made outside Europe in order to respond to the lack of growth in western Europe. The group has concentrated recent investments in emerging markets to save direct production costs, but also to mirror its strategy of increasing sales in these markets. Sales outside Europe have increased to just above 50% since 2012 from 43% in 2011 and 17% in 2000.

Figure 4
"Entry" Program Sales



Source: Company, Fitch

Figure 5
Group Sales Outside Europe



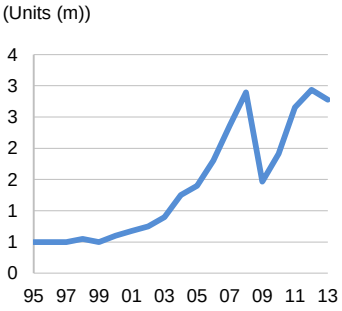
Source: Company, Fitch

Some of this improvement has been driven by the relative weakness in Europe which has led to a decline in its share of revenue, but sales outside Europe also grew on an absolute basis. In particular, the entry range should be a key asset in expanding the group's presence further outside Europe.

Adverse Conditions in Russia

Together with its associates Nissan and Avtovaz, Renault has a leading position in Russia with about a 30% market share. A possible escalation in the tension between the west and Russia could have a further negative impact on Renault's sales as potential economic sanctions against European auto manufacturers exporting to Russia could add to weak consumer sentiment. Total new vehicle sales fell 10% yoy from January to July 2014, but the pace of decline has accelerated to 25% in August and 20% in September. Consensus estimates point to a more than 15% decline in 2014.

Figure 6
New Vehicle Sales - Russia



Source: Wards

However, fiscal incentives to support the new car market are a possibility and could prevent a sharp fall. This was the case in 2009 when scrapping incentives were implemented. In addition, we believe that Renault could suffer less from the situation than some of its international competitors and gain market share. Firstly, manufacturers with local assembly plants could be partially immune to the sanctions. Secondly, the material fall in the rouble against the euro and the dollar makes imports more expensive and gives an advantage to manufacturers with a relatively high share of local production and sourcing, which is the case for Renault through its alliance with Avtovaz. About 75% of the components for Renault's Russian-made Logan and Sandero are sourced from suppliers based in Russia, which compares favourably with close competitors such as Volkswagen for which Russian-made vehicles have an approximately 60% proportion of locally made components.

Russia is a crucial market for the group as it is the third largest, behind France and Brazil, and its profitability is above the group average. The rouble fall, while relatively less harmful than for its competitors, still has a negative impact on earnings. In addition, declining results at Avtovaz also have an indirect impact on total consolidated results as it is an associated company, although there is no immediate impact on Renault's cash flows since Avtovaz does not pay any dividend.

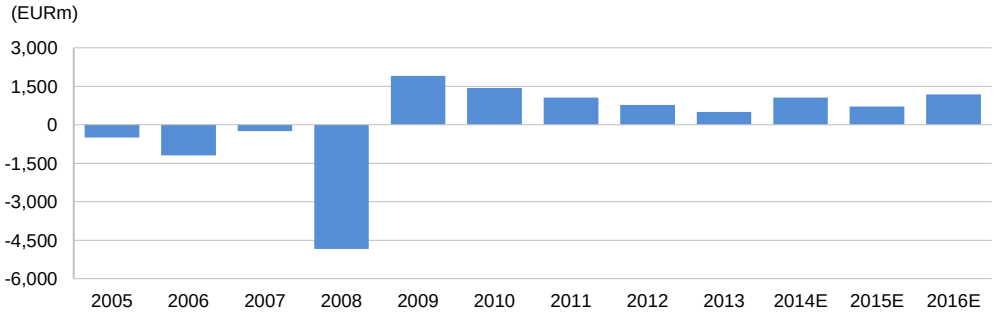
In the medium term, we believe that Renault is in a strong position to benefit from a recovery in the market and from a more structural improvement longer term, although we expect volatility to remain a key characteristic of this market. The Renault-Nissan alliance targets a 40% market share by 2016 chiefly from new products to be launched by Renault, Nissan and Avtovaz.

Improved FCF Generation and Financial Structure

Renault had a relatively poor track record of positive FCF generation prior to 2008, in spite of decent earnings. However, a stronger focus on cash, including an improvement in working capital and stricter investment rules, have enabled the group to generate positive FCF every year since 2009.

Figure 7

Free Cash Flow



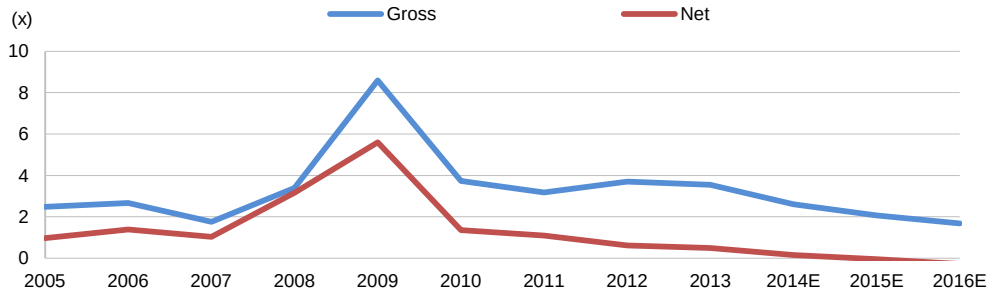
Source: Fitch

As a result of healthy FCF, compounded by asset sales in 2010 and 2012 (notably Renault's stake in heavy-truck manufacturer AB Volvo), the group's financial structure has strengthened substantially. FFO gross and net adjusted leverage declined to 3.5x and 0.5x at end-2013, from 8.6x and 5.6x, respectively, at end-2009.

We also expect leverage to decline further as FCF should remain positive in the foreseeable future, towards less than 2x (gross) and negative 0.3x (net) at end-2016. This level of gross leverage is commensurate with a rating at the high end of the 'BB' category/low-end of the 'BBB' category.

Figure 8

FFO Adjusted Leverage



Source: Fitch

However, this relative weakness is largely offset by the group's very low net leverage thanks to its substantial gross cash position. The group reported more than EUR13bn of cash and equivalents and marketable securities at end-2013 and end-June 2014 (including more than EUR12bn for its industrial operations) or about 30% of its revenue. This ratio is high compared with its peers whose industrial cash typically amounts to about 10% of their revenue, except for Fiat at about 20%. As a result, Renault's FFO adjusted net leverage was low at 0.5x at end-2013 and consistent with an investment-grade rating.

Rating Issues Register

Issue	Fitch view	Likelihood, timescale, rating impact	More information
Lower Breakeven Point: Renault has managed to maintain positive operating margins since 2009, notably at its core automotive operations, and including in 2012-2013 when revenue declined. It targets a group operating margin of more than 5% in 2017.	• Renault has streamlined its cost structure and extracted substantial synergies from its alliance with Nissan. This has led to a lower breakeven point and higher flexibility to face a sales decline. Earnings have also benefited from a rejuvenated product line, better product pricing and a positive contribution from the group's entry model range. We project that Renault could reach its 5% margin target in 2016.	• Likelihood: Strong progress • Timescale: Ongoing • Rating impact: Positive	
Positive Growth Prospect: Mid-term targets include unit sales increasing to 3.3m by 2017, up 25% from 2.6m in 2013, and revenue increasing to EUR50bn, up 22% from EUR40.9bn in 2013.	• We believe that these targets are realistic in light of the group's product pipeline through 2017, the gradual recovery of the European market and the success of current models, both for the Renault and Dacia brands.	• Likelihood: Realistic • Timescale: Ongoing • Rating impact: Positive	European Auto Manufacturers Dashboard 2H14 (August 2014)
Positive Impact from Diversification: Product and geographic diversification are essential to soften the impact of one particular end-market or segment decline.	• The sales decline of the core Renault brand has been offset by the very robust performance of the group's entry-level models while the continuous market slump in Europe has been mitigated by strengthened positions in some emerging markets.	• Likelihood: Strong • Timescale: Ongoing • Rating impact: Positive	A Comparison of European Auto Manufacturers' Credit Profiles (September 2013)
Adverse Conditions in Russia: The Russian auto market has contracted in 2014 because of customers' increasing concern about the impact of the Ukraine crisis. Renault has a high direct and indirect (through associate Avtovaz) exposure to Russia, which has been one of its most profitable markets recently.	• The negative effect from lower sales will weigh on Renault's earnings in 2014 but this could be mitigated by its relatively favourable cost structure compared to peers which have a lower share of local production. We also believe that Renault is well positioned to benefit from the positive long-term prospects of the Russian market.	• Likelihood: Probable, scale uncertain • Timescale: Ongoing • Rating impact: Moderately negative	Global Economic Outlook (June 2014)
Improved FCF Generation and Financial Structure: FCF generation has remained steady since 2009 despite a decline in revenue and earnings in 2012-2013. This has enabled total financial debt and leverage to decrease continuously since 2009. The group is gradually moving towards a net cash position, even including our adjustments for operating leases and minimum operational cash.	• We expect FCF to remain healthy in the next couple of years. We also project gross leverage to remain above 2x in the foreseeable future because of Renault's financial strategy of maintaining a comfortable cash buffer. However, net leverage is low for the rating at approximately 0x through 2016.	• Likelihood: Probable • Timescale: Ongoing • Rating impact: Positive	

Source: Fitch

Sector Performance and Expectations

	FY12	FY13	LTM 1H14	Expectation
Automotive				
Revenue (EURm)	38,859	38,414	37,755	• Auto revenues are expected to remain flat in 2014, with recovery in Europe and strong growth in Asia offset by significant weakness in Russia, and import restrictions in Argentina. In 2015 we expect a return to low single-digit growth as currently stressed markets stabilise.
Operating profit (EURm)	-15	521	632	• Auto operating margins are expected to improve slightly, to approach 2% in 2014 with cost savings offsetting increased content per vehicle and currency impacts.
Operating margin (%)	-0.0	1.4	1.7	• We expect further improvement in the medium term as the cost base benefits from synergies with Nissan, cost-cutting measures and higher production outside western Europe.
Financial Services				
Revenue (EURm)	2,566	2,557	2,585	• Financial services revenues and margins are expected to continue to show their historical low volatility. Revenues are expected to show low single-digit growth, with the operating margin remaining at around 29%.
Operating profit (EURm)	754	747	756	
Operating margin (%)	29.4	29.2	29.2	

Source: Company/Fitch

Fitch's internally generated expectations for key leverage and coverage metrics are shown on the next page.

Cash Flows

In 2013 FFO as a portion of revenue improved slightly to 7.6% from 7.2% in 2012. This improvement should be taken in the context of a difficult market. We expect further improvement in the medium term as the cost base benefits from synergies with Nissan, cost-cutting measures and higher production outside western Europe. CFO continued to be supported by working-capital inflows of EUR790m in 2013. Working-capital movements can have a meaningful effect on CFO and reported net debt. However, they are quite unpredictable and can occur during the last few weeks before the end of the reporting period.

FCF as calculated by Fitch fell to EUR502m in 2013 from EUR783m in 2012, with increased dividends rather than operating performance accounting for the decline. FCF is expected to improve slightly in 2014, and Fitch does not anticipate major asset acquisitions or disposals in the short term.

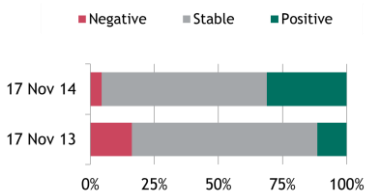
Credit Metrics

Key credit metrics were relatively stable in 2013. FFO gross adjusted leverage improved slightly to 3.6x from 3.7x in 2012 as both debt levels and profitability remained stable, but is expected to fall to under 3x by end-2014. Net leverage improved to 0.5x from 0.6x as the cash levels were built up in excess of EUR10bn.

Debt Structure

As a result of healthy FCF since 2009, compounded by asset sales in 2010 and 2012, the group's financial structure has strengthened substantially. We expect debt to decline further as FCF should remain positive in the foreseeable future, with a net cash position expected to be achieved by 2016. Liquidity is healthy, including EUR10.5bn of readily available cash and liquid investments for industrial operations at end-2013, according to Fitch's adjustments for minimum operational cash of about EUR1.2bn and not readily available financial assets. In addition, total committed credit lines of EUR7.4bn were undrawn at end-June 2014.

Distribution of Sector Outlooks
Directional Outlooks and Rating Watches



Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

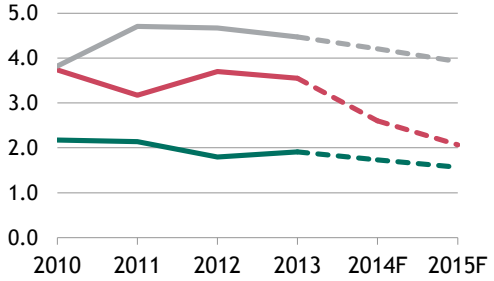
- flat auto revenue growth in 2014, followed by growth in mid-single digits in 2015-2016;
- negative FX and raw materials impact offset by manufacturing and labour cost savings as well as positive operating leverage from increasing volumes;
- capex broadly flat as percentage of revenue in 2014-2016;
- dividend to increase from increased Nissan dividend payment passed through to Renault's shareholders;
- no material acquisition or disposal in the foreseeable future.

Definitions

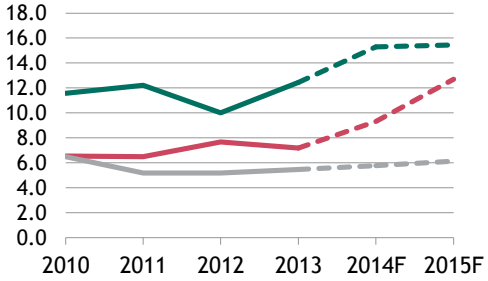
- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid minus interest received plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid minus interest received plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report see Fitch's "*Interpreting the New EMEA and Asia-Pacific Corporates Credit Update Format*" Special Report, dated 25 November 2009 and available at www.fitchratings.com.

Renault SA —— Auto & Related Median —— Developed BBB- Median ——
Source: Company data; Fitch

Leverage
including Fitch expectations



Interest Cover
including Fitch expectations

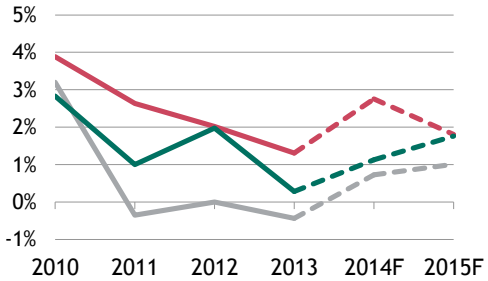


Debt Maturities and Liquidity at End-2013[a]

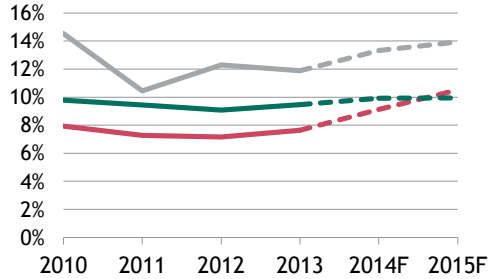
Debt maturities	(EURbn)
2014	2.9
2015	1.9
2016	1.5
2017	1.7
After 2017	2.2
Cash and equivalents	10.7
Undrawn committed facilities	3.5

[a] Industrial operations, excluding derivative liabilities
Source: Company, Fitch

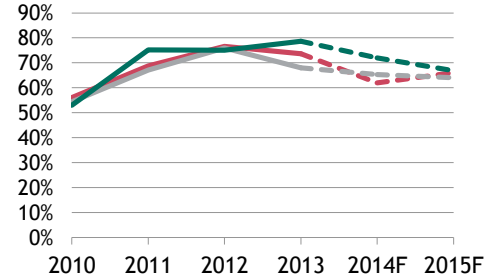
FCF/Revenues
including Fitch expectations



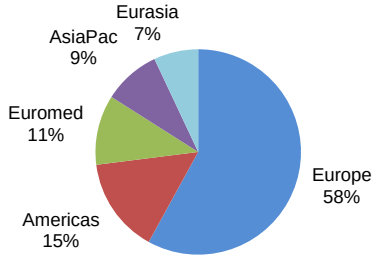
FFO Profitability
including Fitch expectations



Capex/CFO
including Fitch expectations

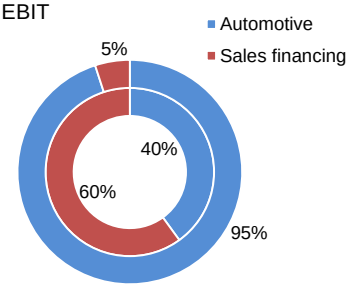


FY13 Geographical Split
Revenues



Source: Company

FY13 Segmental Split
Outer ring: Revenue
Inner ring: EBIT



Source: Company

Peer Group

Issuer	Country
BBB+	
Hyundai Motor Company	Republic Of Korea (south)
Kia Motors Corporation	Republic Of Korea (south)
BBB	
Nissan Motor Co., Ltd.	Japan
BBB-	
Ford Motor Company	United States
Renault SA	France
BB+	
General Motors Company	United States
BB-	
Fiat Chrysler Automobiles N.V.	Netherlands
B+	
Peugeot S.A.	France

Issuer Rating History

Date	FC LT IDR	Outlook/ Watch
10 Nov 14	BBB-	Stable
23 Dec 13	BB+	Positive
18 Sep 13	BB+	Positive
28 Feb 13	BB+	Stable
29 Oct 12	BB+	Stable
19 Sep 12	BB+	Stable
22 Sep 11	BB+	Stable
11 Feb 11	BB+	Stable
7 Oct 10	BB+	Stable
19 Jul 10	BB	Stable
25 Mar 09	BB	Negative
18 Feb 09	BBB-	Negative
20 Nov 08	BBB	Negative
6 Aug 08	BBB+	Stable
5 Jun 07	BBB+	Stable
16 Oct 06	BBB+	Stable
24 Feb 06	BBB+	Stable
25 May 05	BBB+	Stable
8 Dec 04	BBB+	Stable
14 Apr 04	BBB	Positive
12 Mar 04	BBB	Stable
2 Sep 03	BBB	Stable
7 Jun 02	BBB	Stable
12 Nov 01	BBB	Stable
31 Oct 01	BBB+	RWN
1 Sep 00	BBB+	Stable
11 Jun 99	BBB+	

"RW" denotes Rating Watch

Immediate Peer Group – Comparative Analysis

Sector Characteristics

Operating Risks

The industry's operational risk is high. Demand is volatile and cyclical, as cars are large discretionary consumer items, highly exposed to economic trends. The sector is politically and socially critical to the overall economy, and is subject to potential government interference. Overcapacity remains a pivotal issue that is difficult to address. Geographical and product diversification are important to mitigate the impact of cyclicality, although the most recent downturn was unusually simultaneous across regions. Another industry challenge is the need to adapt to new business models driven by evolving powertrains and emissions legislation.

Financial Risks

The auto industry is capital intensive and has high operating leverage (high fixed costs), leading manufacturers to look for economies of scale. Profit margins are usually cyclical and low in view of persistent price pressure and sharp competition. Working-capital swings can also be material, as was the case in 2008 and 2009. Healthy and steady liquidity is critical to finance capex and R&D, and the refinancing needs of captive finance subsidiaries.

Peer Group Analysis – FY13

	Ford BBB-/ positive	Renault BBB-/ stable	GM BB+/ positive	FCA BB-/ stable	PSA B+/ positive
EBIT margin (%)	3.1	1.4	4.3	3.9	-1.0
FFO adjusted leverage (x)	1.5	3.5	0.9	3.5	8.0
CFO/total adj. debt (%)	41	31	92	27	9.4
FFO fixed charge coverage (x)	14.5	7.2	9.0	4.1	2.5

Source: Fitch, companies

Key Credit Characteristics

With relatively high operational and financial risks, auto manufacturers' ratings are clustered in the 'BB' and 'BBB' categories, although strong credit characteristics can lift ratings to the 'A' category. Leverage is usually low, and most groups report a net cash position through the cycle. However, this is mitigated by weak and cyclical profitability and cash generation, and higher refinancing risk – notably to meet the high and ongoing financing needs of finance subsidiaries.

Overview of Companies

Ford Motor Company (BBB−/Positive) – the ratings reflect significantly improved financial performance, balance-sheet repair, and product portfolio improvement in recent years. They also reflect uncertainty about the strength and pace of the global economic recovery, and the durability of global auto demand.

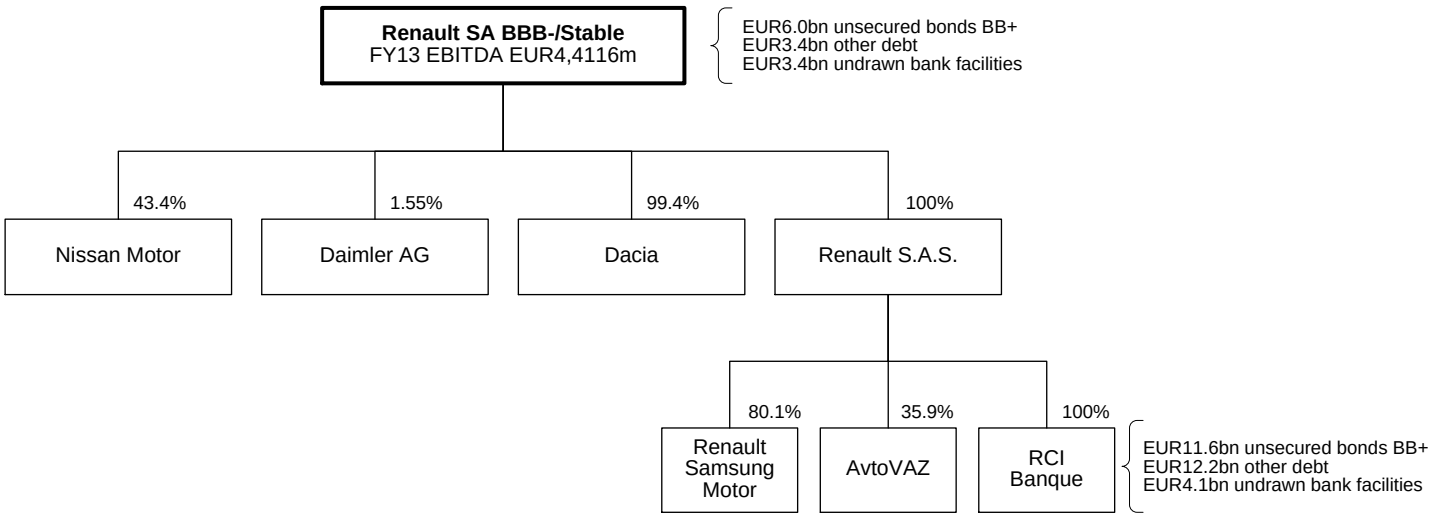
General Motors Company (GM, BB+/Positive) – the ratings reflect the strengthening of the credit profile as volume has grown, net pricing has improved, and additional cost efficiencies have taken hold. With low debt and a strong liquidity position, GM has significant financial flexibility that will help it manage through a potential deterioration in auto market conditions.

Fiat Chrysler Automobiles N.V. (BB−/Stable) – the ratings reflect the combination with Chrysler LLC (in which Fiat owns a 58.5% stake) but also the limited access to Chrysler's cash, and the increasingly challenging environment for the two companies

Peugeot SA (B+/Positive) – the ratings reflects Fitch's more cautious expectations than the group's, regarding a return to positive automotive profitability and operating free cash flow by end-2014.

Figure 9

Simplified Group Structure Diagram



Source: Fitch, Transaction documents. As at December 2013

Renault SA
FINANCIAL SUMMARY

	31 Dec 2013 EURm Year End	31 Dec 2012 EURm Year End	31 Dec 2011 EURm Year End	31 Dec 2010 EURm Year End	31 Dec 2009 EURm Year End
Profitability					
Revenue	38,414	38,859	40,389	36,889	31,634
Revenue Growth (%)	(1.15)	(3.79)	9.49	16.61	(10.96)
Operating EBIT	521	(15)	328	816	(915)
Operating EBITDA	3,685	3,284	3,148	3,861	2,209
Operating EBITDA Margin (%)	9.59	8.45	7.79	10.47	6.98
FFO Return on Adjusted Capital (%)	10.24	9.39	10.36	10.25	5.79
Free Cash Flow Margin (%)	1.31	2.02	2.63	3.88	6.04
Coverages (x)					
FFO Gross Interest Coverage	7.19	7.66	6.48	6.53	4.32
Operating EBITDA/Gross Interest Expense	8.32	8.40	6.28	7.62	6.71
FFO Fixed Charge Coverage (inc. Rents)	5.05	5.07	4.71	4.75	2.87
FCF Debt-Service Coverage	0.24	0.29	0.42	0.35	0.49
Cash Flow from Operations/Capital Expenditures	1.36	1.31	1.46	1.79	1.80
Debt Leverage of Cash Flow (x)					
Total Debt with Equity Credit/Operating EBITDA	2.79	3.05	2.90	2.94	5.59
Total Debt Less Unrestricted Cash/Operating EBITDA	(0.05)	0.01	0.60	0.75	3.33
Debt Leverage Including Rentals (x)					
Annual hire lease rent costs for long-term assets (reported and/or estimate)	234	249	238	242	255
Gross Lease Adjusted Debt/Operating EBITDAR	3.10	3.40	3.26	3.23	5.84
Gross Lease Adjusted Debt /FFO+Int+Rentals	3.55	3.70	3.17	3.73	8.59
FFO Adjusted Net Leverage	0.49	0.62	1.09	1.35	5.60
FCF/Lease Adjusted Debt (%)	4.14	6.52	9.63	10.79	13.28
Debt Leverage Including Leases and Pension Adjustment (x)					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	3.49	3.44	3.28	3.24	5.82
Balance Sheet Summary					
Readily Available Cash	10,447	9,998	7,249	8,455	5,009
Restricted/Not Readily Available Cash	1,200	1,200	1,200	1,100	1,100
Short-Term Debt	3,463	3,715	3,232	5,098	4,280
Long-Term Senior Debt	6,485	6,053	5,678	5,971	7,843
Subordinated debt	313	249	231	262	231
Equity Credit	-	-	-	-	-
Total Debt with Equity Credit	10,261	10,017	9,141	11,331	12,354
Off-Balance-Sheet Debt	1,872	1,992	1,904	1,936	2,040
Lease-Adjusted Debt	12,133	12,009	11,045	13,267	14,394
Fitch- identified Pension Deficit	1,558	444	353	300	382
Pension Adjusted Debt	13,691	12,453	11,398	13,567	14,776
Cash Flow Summary					
Operating EBITDA	3,685	3,284	3,148	3,861	2,209
Gross Cash Interest Expense	(443)	(391)	(501)	(507)	(329)
Cash Tax	(356)	(345)	(273)	(186)	(192)
Associate Dividends	391	437	274	11	59
Other Items before FFO (incl. interest receivable)	(342)	(202)	290	(249)	(550)
Funds from Operations	**2,935**	**2,783**	**2,938**	**2,930**	**1,197**
Change in Working Capital	790	922	627	395	2,923
Cash Flow from Operations	**3,725**	**3,705**	**3,565**	**3,325**	**4,120**
Total Non-Operating/Non-Recurring Cash Flow	20	252	38	(30)	81
Capital Expenditures	(2,741)	(2,836)	(2,451)	(1,863)	(2,290)
Dividends Paid	(502)	(338)	(88)	0	0
Free Cash Flow	**502**	**783**	**1,064**	**1,432**	**1,911**
Net (Acquisitions)/Divestitures	(187)	1,366	(156)	3,082	(86)
Net Equity Proceeds/(Buyback)	-	-	(56)	60	127
Other Cash Flow Items	(110)	(276)	232	(105)	(528)
Total Change in Net Debt	205	1,873	1,084	4,469	1,424
Working Capital					
Accounts Receivable Days	18	20	20	21	27
Inventory Days	43	51	53	56	70
Accounts Payable Days	81	80	75	82	87

Reconciliation of Key Financial Metrics

Figure 10

Fitch Financial Adjustments — Summary Financials

	31 Dec 13						31 Dec 12					
Summary income statement	**Reported values**	**Sum of Fitch adjustments**	**Leases**	**Restricted and freely available cash**	**Derecognised trade receivables**	**Adjusted values**	**Reported values**	**Sum of Fitch adjustments**	**Leases**	**Restricted and freely available cash**	**Derecognised trade receivables**	**Adjusted values**
Revenue	38,414	0	0	0	0	38,414	38,859	0	0	0	0	38,859
Gross profit	9,125	0	0	0	0	9,125	9,092	0	0	0	0	9,092
Long-term rental expense	234	0	0	0	0	234	249	0	0	0	0	249
Operating EBITDA	**3,685**	**0**	**0**	**0**	**0**	**3,685**	**3,284**	**0**	**0**	**0**	**0**	**3,284**
Operating EBITDAR	3,919	0	0	0	0	3,919	3,533	0	0	0	0	3,533
Depreciation & amortisation	3,164	0	0	0	0	3,164	3,299	0	0	0	0	3,299
Net non-recurring, non-operational and non-recourse items	-1,265	0	0	0	0	-1,265	324	0	0	0	0	324
Associate income/loss	1,430	0	0	0	0	1,430	1,495	0	0	0	0	1,495
EBIT	**686**	**0**	**0**	**0**	**0**	**686**	**1,804**	**0**	**0**	**0**	**0**	**1,804**
Interest income	183	0	0	0	0	183	184	0	0	0	0	184
Interest expense	-450	0	0	0	0	-450	-451	0	0	0	0	-451
Taxation	-203	0	0	0	0	-203	-313	0	0	0	0	-313
Preferred dividends	0	0	0	0	0	0	0	0	0	0	0	0
Summary balance sheet		**0**						**0**				
Readily available cash	11,647	-1,200	0	-1,200	0	10,447	11,198	-1,200	0	-1,200	0	9,998
Restricted/not readily available cash	0	1,200	0	1,200	0	1,200	0	1,200	0	1,200	0	1,200
Short-term debt	2,663	800	0	0	800	3,463	2,915	800	0	0	800	3,715
Long-term debt	6,798	0	0	0	0	6,798	6,302	0	0	0	0	6,302
Hybrid instrument equity credit	0	0	0	0	0	0	0	0	0	0	0	0
Off B/S debt (including lease adj. debt)	0	1,872	1,872	0	0	1,872	0	1,992	1,992	0	0	1,992
Total debt	**9,461**	**2,672**	**1,872**	**0**	**800**	**12,133**	**9,217**	**2,792**	**1,992**	**0**	**800**	**12,009**
Summary cash flow		**0**						**0**				
Cash flow from operations	3,725	0	0	0	0	3,725	3,705	0	0	0	0	3,705
Gross cash interest paid	-443	0	0	0	0	-443	-391	0	0	0	0	-391
Gross cash interest received	193	0	0	0	0	193	178	0	0	0	0	178
Taxation paid	-356	0	0	0	0	-356	-345	0	0	0	0	-345
Dividends received - associates	433	0	0	0	0	433	507	0	0	0	0	507
Dividends paid to minorities	-48	0	0	0	0	-48	-73	0	0	0	0	-73
Working capital (+/-)	**790**	**0**	**0**	**0**	**0**	**790**	**922**	**0**	**0**	**0**	**0**	**922**
Funds from operations	**2,935**	**0**	**0**	**0**	**0**	**2,935**	**2,783**	**0**	**0**	**0**	**0**	**2,783**
Non-operational cash flow	20	0	0	0	0	20	252	0	0	0	0	252

Fitch Financial Adjustments — Summary Financials (Cont.)

	31 Dec 13						31 Dec 12					
Summary income statement	**Reported values**	**Sum of Fitch adjustments**	**Leases**	**Restricted and freely available cash**	**Derecognised trade receivables**	**Adjusted values**	**Reported values**	**Sum of Fitch adjustments**	**Leases**	**Restricted and freely available cash**	**Derecognised trade receivables**	**Adjusted values**
Capital expenditure	-2,741	0	0	0	0	-2,741	-2,836	0	0	0	0	-2,836
Dividends paid	-502	0	0	0	0	-502	-338	0	0	0	0	-338
Free cash flow	**502**	**0**	**0**	**0**	**0**	**502**	**783**	**0**	**0**	**0**	**0**	**783**
Exceptional & other cash flow items	0	0	0	0	0	0	0	0	0	0	0	0
FX movement	-355	0	0	0	0	-355	0	0	0	0	0	0
Other items affecting cash flow	847	-800	0	0	-800	47	362	-800	0	0	-800	-438
Coverages (x)												
FFO interest coverage	7.2					7.2	7.7					7.7
FFO fixed charge coverage	5.1					5.1	5.1					5.1
Operating EBITDAR/gross interest expense + rents	5.8					5.8	5.5					5.5
Operating EBITDAR/net interest expense + rents	8.1					8.1	7.6					7.6
Leverage (x)												
FFO adjusted leverage	2.8					3.5	2.8					3.7
FFO adjusted net leverage	-.6					.5	-.6					.6
Total adjusted (recourse) debt/op. EBITDAR (x)	2.4					3.1	2.6					3.4
Adjusted (recourse) debt net of cash/op. EBITDAR (x)	-.6					.4	-.6					.6

Source: Fitch

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.