

Nov 21, 2016

R&I Affirms BBB+, Changes Outlook to Positive: Renault SA

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Renault SA
Issuer Rating: BBB+, Affirmed
Rating Outlook: Positive, Changed from Stable

RATIONALE:

Renault SA (Renault) is an automaker with the French government being the largest shareholder. The company has established a strong capital and business alliance with Nissan Motor Co., Ltd.

Renault's product competitiveness has begun to improve as a result of the successive launch of new models. With sales and production volumes growing, the capacity utilization rate of its plants in Europe has been rising. The company has also made progress in boosting its earning capacity, which had been a pending issue. The financial base is sound. While Renault plans to make AvtoVAZ, a loss-making Russian automaker, its consolidated subsidiary and the impact of the transaction needs to be checked, the stability of its earnings base is increasing. Accordingly, R&I has affirmed the Issuer Rating at BBB+ and changed the Rating Outlook to Positive.

The model mix is characterized by a high proportion of compact cars, an area of its strength. Its entry vehicles are especially competitive thanks to low-cost production. Furthermore, the carmaker has been expanding its lineup of sport utility vehicles and medium-large cars for the past few years. The number of models employing the CMF (Common Module Family) approach, which has been developed with Nissan Motor to standardize the parts and modules used in their cars, is increasing. These factors contribute to the competitive strength of its products.

While earning a large proportion of its profits in the European region, Renault achieves a certain level of profits in emerging markets as well. In Europe, an area which accounts for around 60% of its total sales volume, Renault has the third largest market share for passenger vehicles and is competing for the top position in the B Segment for small cars. In Russia, the company, combined with AvtoVAZ, a leader in terms of sales volume, holds a very large share of the market, despite the severe environment. In India, it has established a certain market position, benefiting from expanded sales of the new model. In China, where it lags behind rivals, the market share is low. In February 2016, local production in China was launched. It is working to enhance sales networks in the market. Renault does not operate in the U.S.

The company excels in fuel efficiency technology and development of compact cars. Demand for diesel engines, for which it has technological accumulation, may contract in the future. Competition for environment and safety technologies is intensifying. Meanwhile, it is ahead of competitors in terms of sales of electric vehicles in Europe. In the field of advanced technologies, such as autonomous driving, Renault is collaborating with Nissan Motor, though the size of the alliance's research and development budget is not huge.

The capacity utilization rate of its plants in Europe, located mainly in France, was low, but has been steadily improving, following increased sales volume. Given the current trend and growth in sales to Nissan Motor and other partners, the rate is expected to rise further. Despite weak demand in some emerging markets, the overall operating margin continued improving in the first half of 2016 thanks to sales increases and cost reductions. Although attention should be paid to the plan to make loss-making AvtoVAZ a consolidated subsidiary by the end of 2016, as well as to future prospects for the global economy, Renault is highly likely to achieve a relatively high earning capacity through the successive launch of new models.

In the automotive business, not including sales financing, Renault maintains a net cash position by generating free cash flow continuously. With ample equity capital, the debt-equity structure is sound. While the purchase of an additional stake in AvtoVAZ and AvtoVAZ's financial obligations will affect

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Renault's balance sheet, Renault will likely maintain a stable financial base, given the cash inflow from the partial sale of its Nissan shares.

The rating will be upgraded if R&I can confirm that the company has achieved a relatively high earning capacity by further strengthening product competitiveness and raising productivity through the successive launch of new models and by expanding synergy effects through the alliance.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings" and "Passenger Vehicles". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER:	Renault SA
	Issuer Rating
RATING:	BBB+, Affirmed
RATING OUTLOOK:	Positive, Changed from Stable

Japanese Yen Bonds No.16	Issue Date	Maturity Date	Issue Amount (mn)
	Jun 06, 2014	Jun 06, 2017	JPY 75,000

RATING: **BBB+, Affirmed**

Japanese Yen Bonds No.17	Issue Date	Maturity Date	Issue Amount (mn)
	Nov 26, 2015	Nov 26, 2018	JPY 70,000

RATING: **BBB+, Affirmed**

Japanese Yen Bonds No.18	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 23, 2016	Sep 20, 2019	JPY 50,000

RATING: **BBB+, Affirmed**