

A STRATEGY GEARED TOWARDS GROWTH OPPORTUNITIES



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Analyst & Investor Day - Cuneo (Italy) – October 5, 2011



Outline

- *Solid Mid-Term Growth Outlook for the Tire Industry*
- *Acceleration to Seize Growth Opportunities*





Multiple Growth Drivers

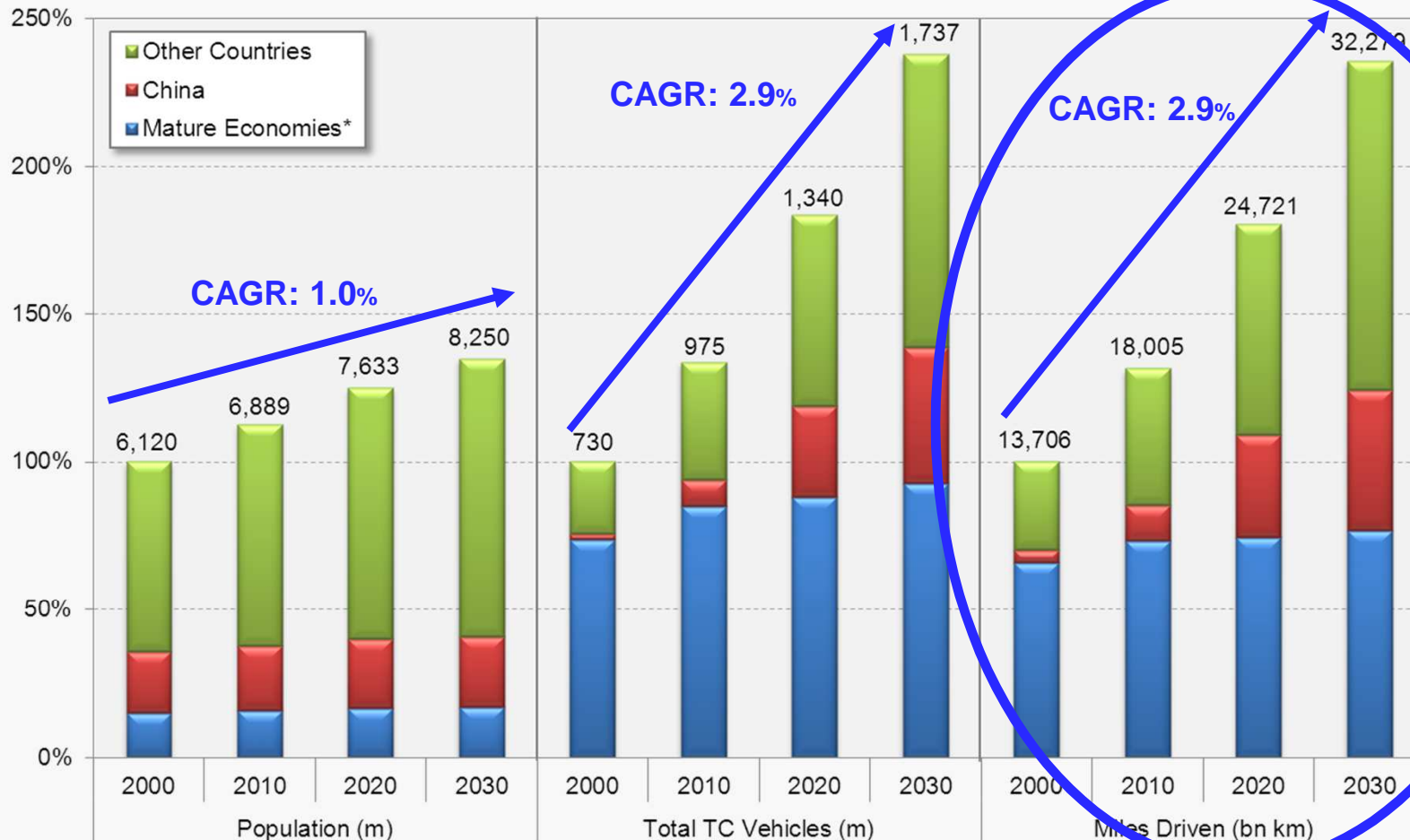
Mid-term macro-economic environment

- **General business fundamentals: population, regulations, etc.**
- **Economic trends (GDP growth, labor costs)**
 - *Provided by economists*
- **Short/medium term fluctuations like those seen recently**
- ...





Under-lying Positive Factors Will Support Long Term Growth for Tires



* US, Canada, Japan, Australia, New Zealand, European OECD members without Turkey

Source: Michelin Estimates





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Tire industry's long-term levers

- Growing use of winter tires...
- ... gradually being seen in more countries/regions
- Grading: Europe, then...
- Specific requirements: Mines, Agriculture, etc.
- ...

Michelin's specific focus points

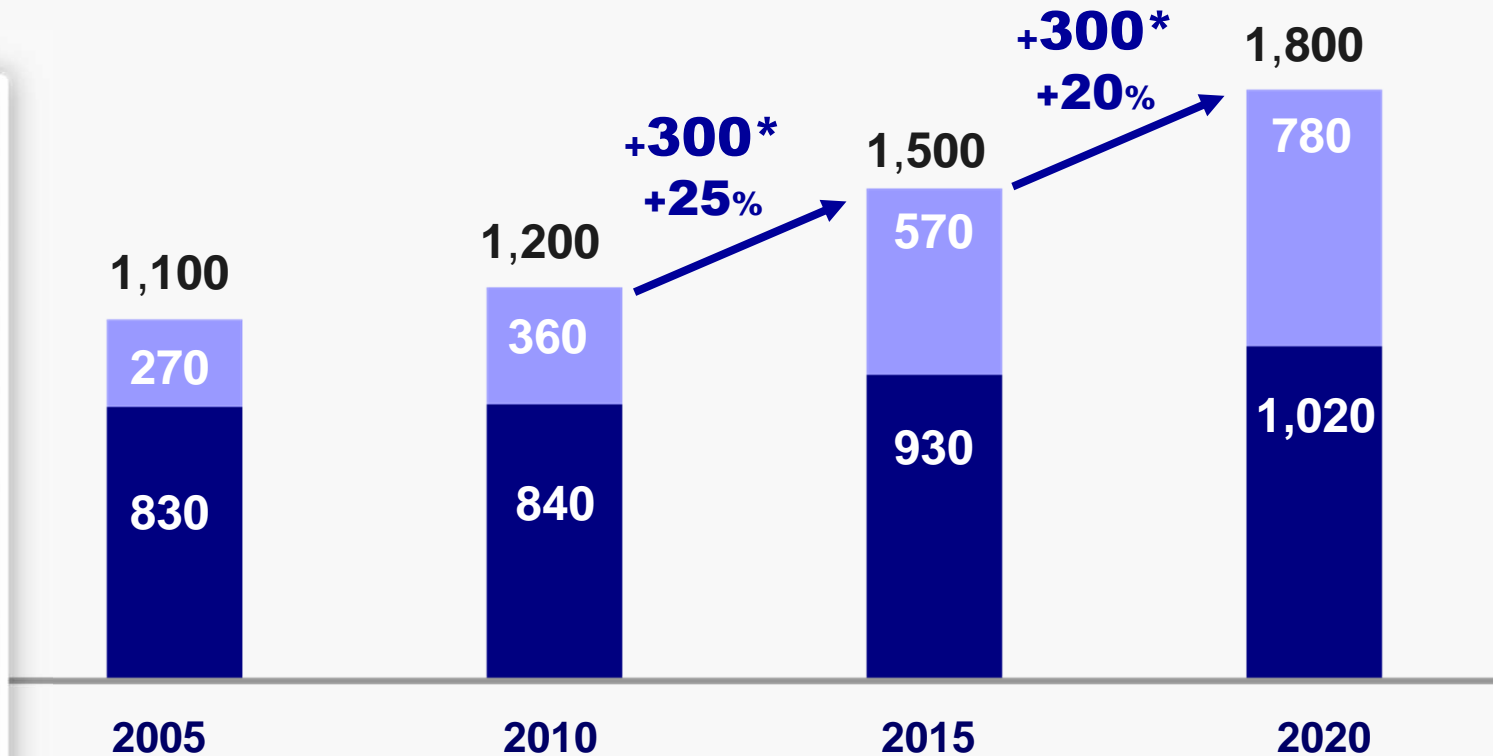
- Innovative breakthroughs => Michelin's strength with OEMs
- New customer segments targeted
- Michelin's powerful response to demand in the Earthmover segment
- ...





Confirmed Growth Outlook for Tires

Passenger Car and Light Truck Tire Markets (in millions of tires)



* Of which 70% in new markets

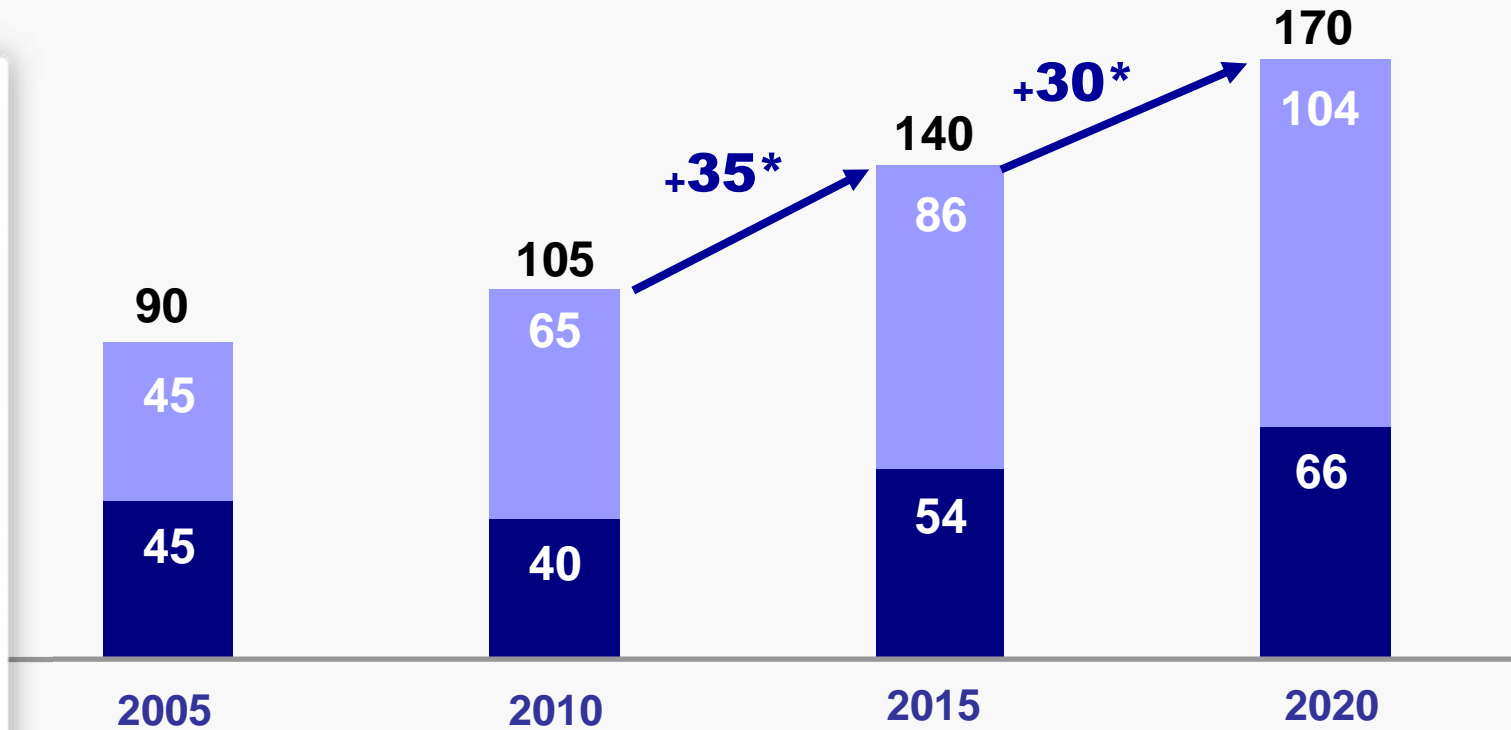
■ Mature markets ■ New markets *Michelin estimates*





Confirmed Growth Outlook for Tires

Radial Truck Tire Markets (in millions of tires)



* Of which 60% in new markets

■ Mature markets ■ New markets

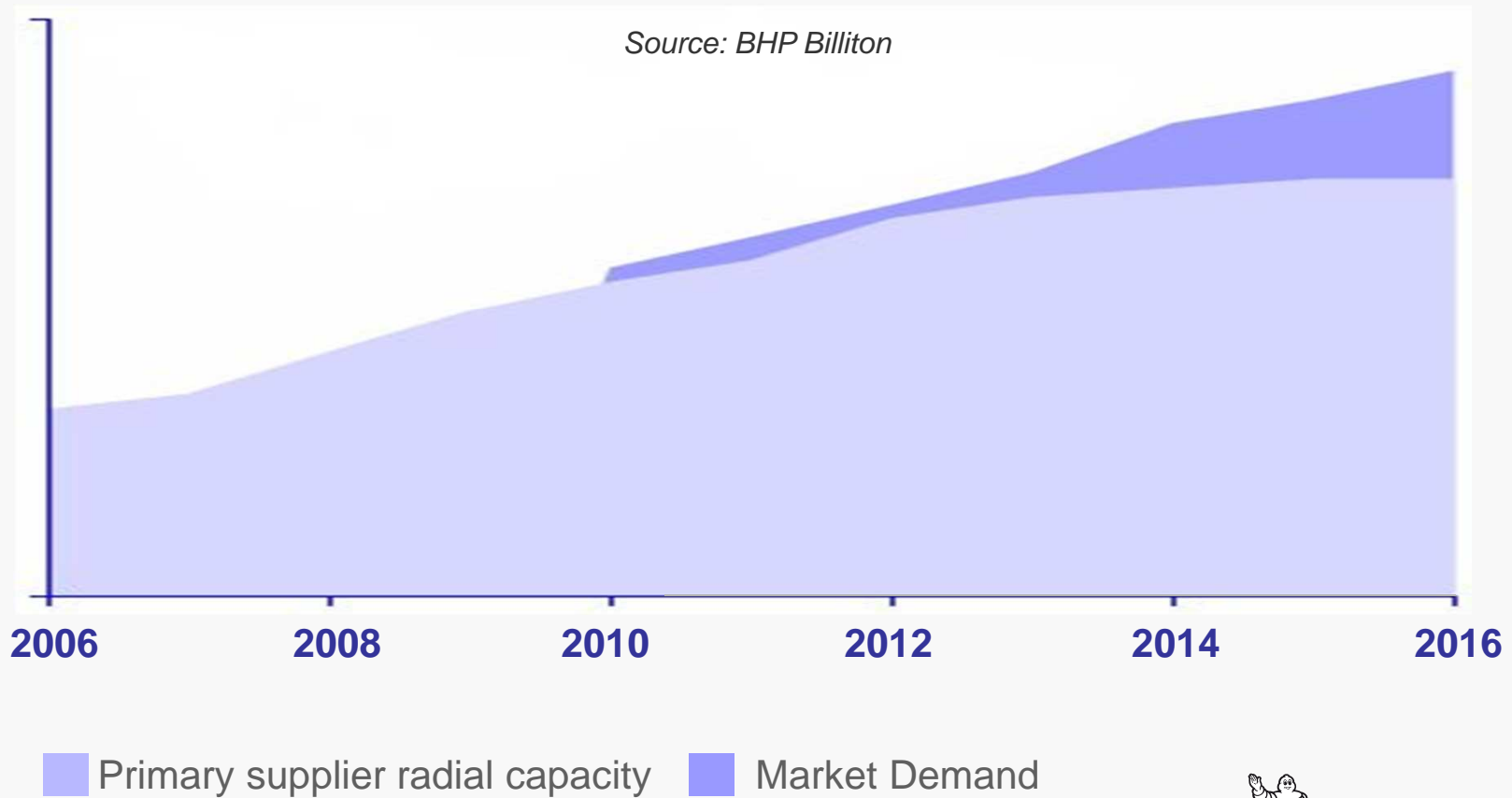
Michelin estimates





Mining Tires: Structural Upward Trend in Demand

Large mining tires (market supply and demand)



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Continued Focus on Three Strategic Growth Paths



COMPETITIVENESS

Productivity – Profitability/
Volumes



EXPANSION

In new markets: Backbone
selectiveness & project
profitability



INNOVATION

Michelin leadership





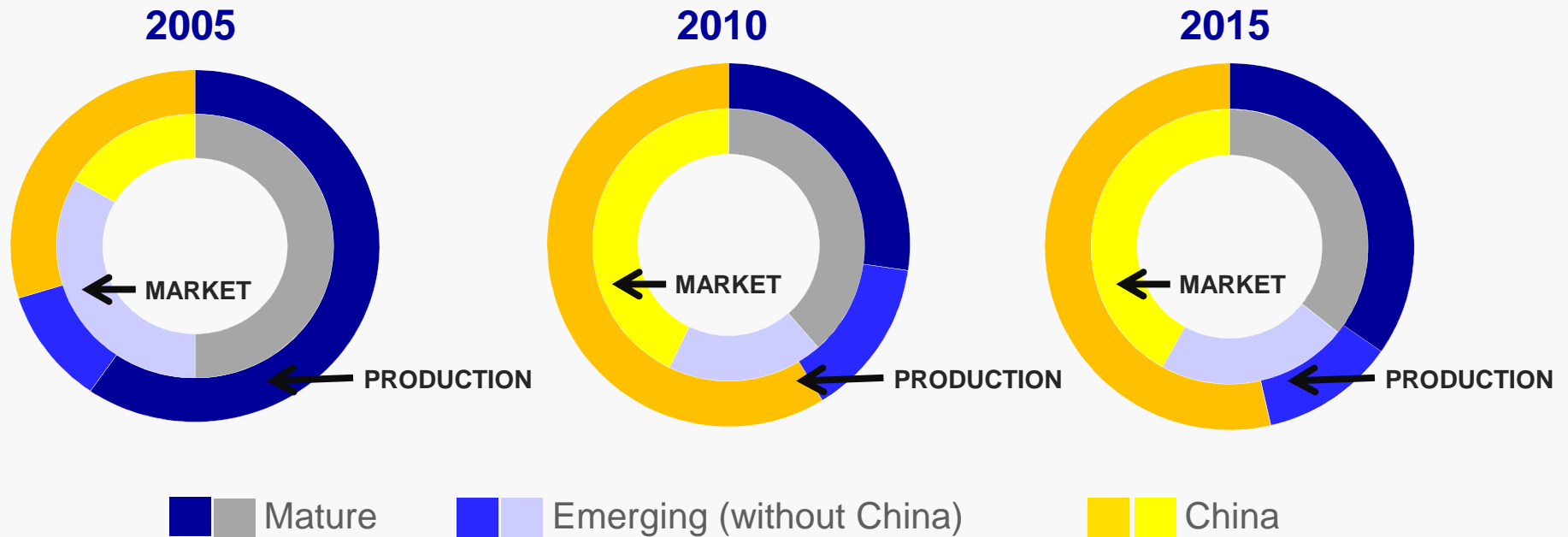
Acceleration to Increase Value Creation

- ▶ **Remain a major player in the tire industry and maintain the Group's positions**
- ▶ **Use our identified levers to seize value creation opportunities through:**
 - **More pronounced demand for technological and/or green products**
 - **Growing demand for Tier 1 tires in new markets**
 - **A presence in the Tier 3 segment**





TBR: Chinese Share of Global Market Growing, Spurred by Strong Domestic Demand



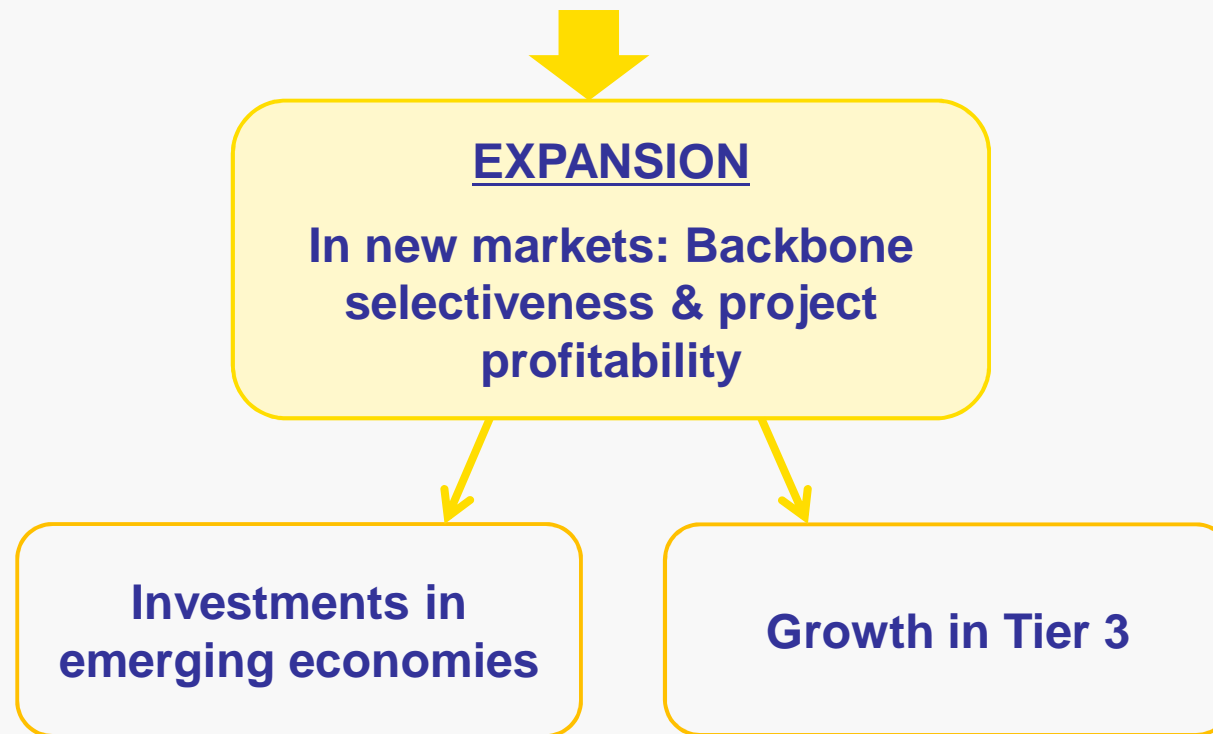
TBR (Truck and Bus Radial) volumes

Need to pursue our Premium/Innovation (multi-life) positioning in contrast to the “budget” approach





...Today, an Emphasis on Expansion along Two Selected Axes



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- **Acceleration to Seize Growth Opportunities**
 - **Investments in emerging economies**
 - **Growth in Tier 3**

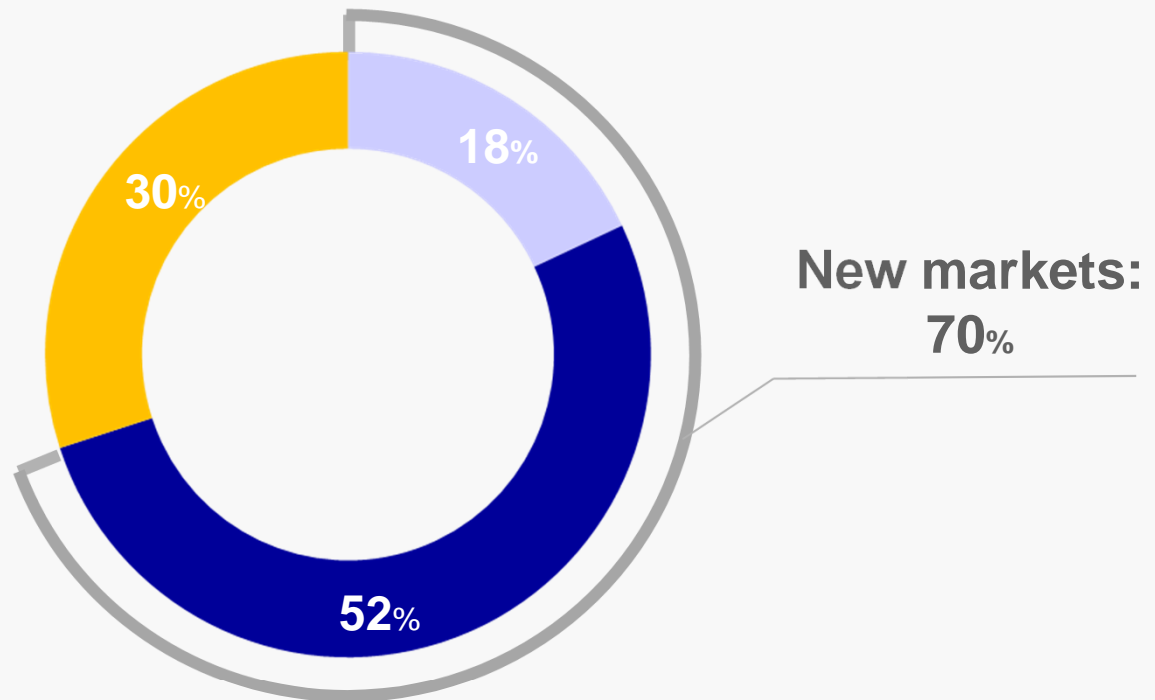




Capacity Expansion Aligned with Potential Market Growth

2011-2015 Capacity Investment by Type and Region

- ▶ Additional capacity: 150KT per year
- ▶ Michelin brand: organic growth

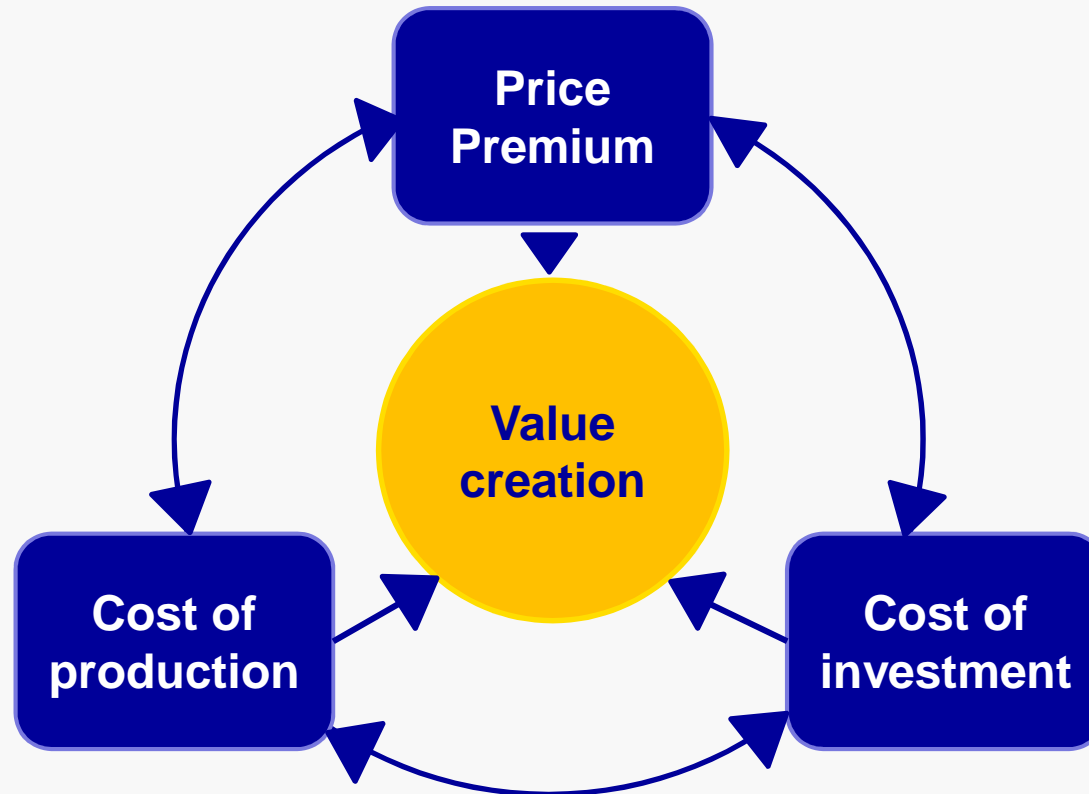


■ Mature Market Brownfields ■ New Market Greenfields ■ New Market Brownfields





Capacity Expansion in the Context of the Virtuous Spiral for Value Creation



Product quality and performance are contributing to the price premium
Product quality and performance impact investment costs





Capacity Expansion: Michelin is Consistent with its Business Model

Example: Capacity Expansion in China

	Cost of investment	RT price positioning	Assumptions
Michelin brand	100	100	Cost: \$1,350m 10m car tires, 1.8m truck tires, 295,000 retread → \$6.36/kg
Competitor 1	99	90	Cost: \$253m 4m car tires → \$6.33/kg
Competitor 2	91	70	Cost: \$954m 10.5m car tires, 1m truck tires → \$5.78/kg

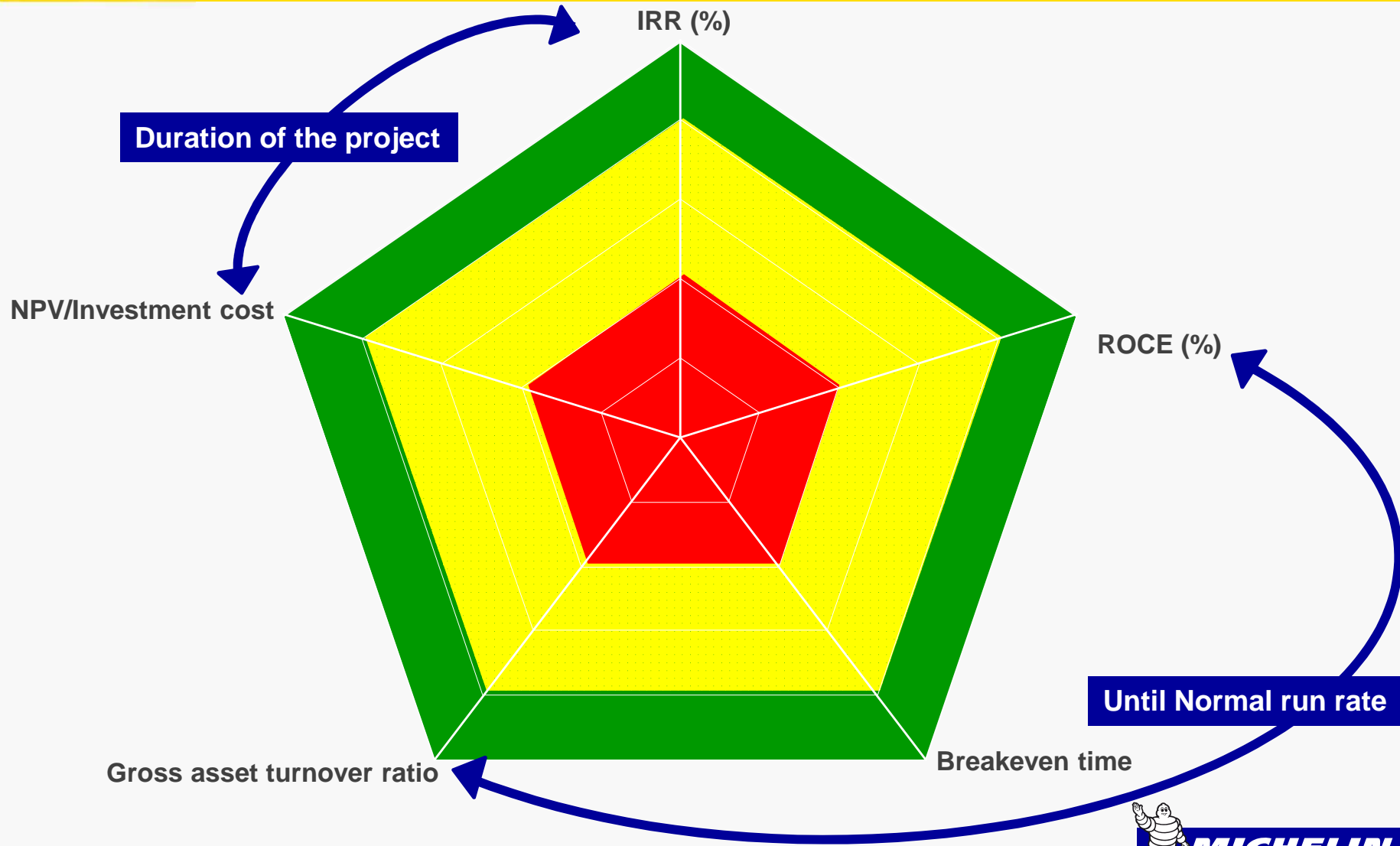
Sources: Company information, Michelin estimates

Tire weight assumption - Car = 10kg/ tire, Truck = 60kg/tire, Retread = 15kg/tire





Capacity Expansion... for Backbone Projects, Two-time Horizons Managed





Ramp-ups of New Plants are Organized in a Gradual Manner

- ▶ **Managing investment phases per product line**
 - Greenfield projects are built in several successive phases
 - PC phase = 5 million tire capacity
 - TB phase = 350,000 tire capacity
 - Phase ramp-up = 2 years from 1st tire
- ▶ **Several projects/product line can be organized simultaneously**
 - Shenyang2: truck and passenger car
 - Chennai: truck and earthmover





Acceleration of Ramp-ups

▶ Manufacturing ramp-up

- Anticipating production team hiring and training
 - August 2011 ytd: 2,200 hires, of which 1,200 in emerging economies
 - 200 Chinese, 200 Brazilians, 350 Indians training in Michelin plants
- Anticipating expatriate needs
- Aligning production schedules

▶ Sales ramp-up

- Anticipating marketing & sales team hiring and training
 - August 2011 ytd: 300 hires of which 260 in emerging economies
- Defining the product catalogue upstream
- Developing distribution networks





Capacity Expansion China: Acceleration Through Targeted Partnership

RubberWorld

Michelin investing EUR 75 million in Chinese venture

Michelin investing EUR 75 million in Chinese venture
Thursday, September 8, 2011
Paris, France –

Michelin, Double Coin Holdings and Shanghai Huayi have signed the final agreement to create a joint venture in China to produce and market Warrior brand passenger car and light truck tires for the local market. The new company, Double Coin Group (Anhui) Warrior Tires Co., will be owned 40 percent by Michelin and 60 percent by its Chinese partners ...



Outline

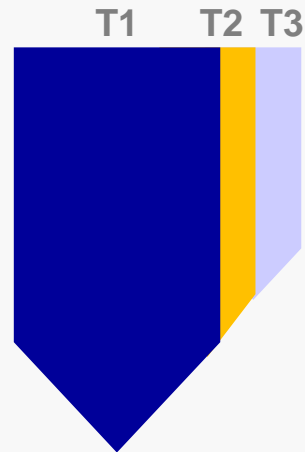
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Tier 3 Presence: a Necessary Move for Global Leadership

T1 + strategy



- Key: “flagship brand”
- Business pulled by T1 brand equity
- Bundled offering
- Strong sales force involvement @ retailer place
- High price realization

Partner Retailers - Dealers

T3 stand-alone strategy

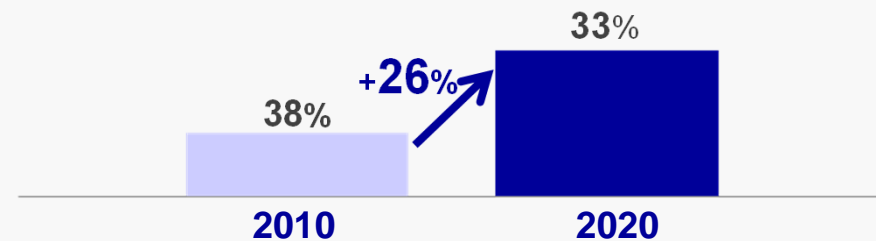


- Specific offering
- Distribution logistics done by wholesalers
- No support at the point of sale
- Lower price realization

Wholesalers

Retailers – Dealers

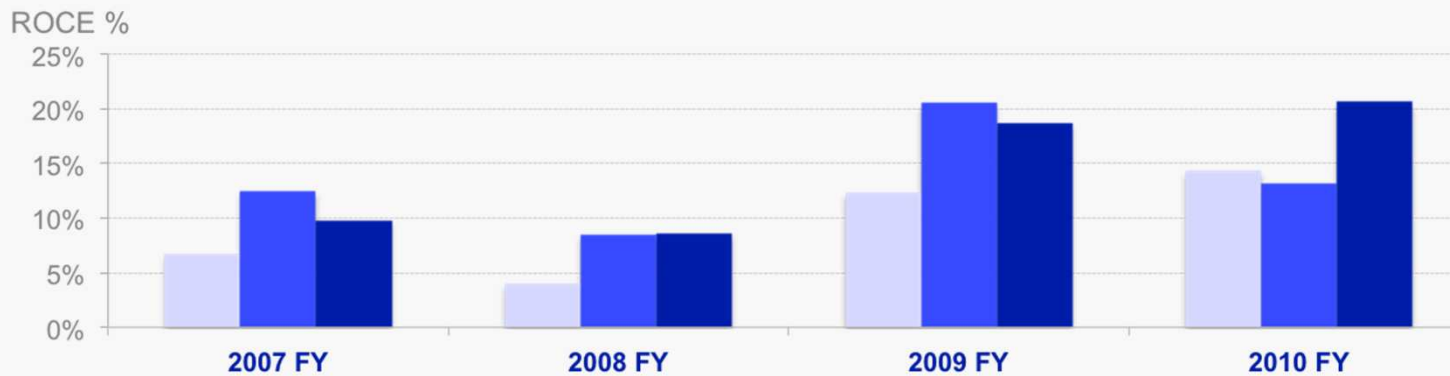
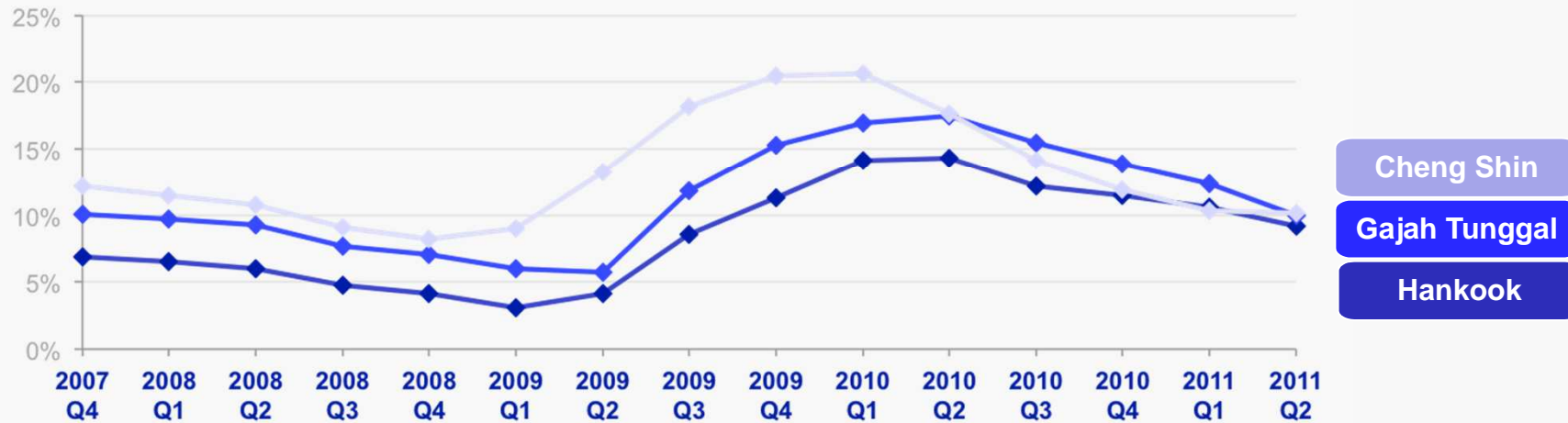
Tier 3 worldwide segment - share and growth





Tier 3: A Value-Creating Business with its Own Rules

Operating margin trend – 12 month rolling – 2007 Q4 to 2011 H1

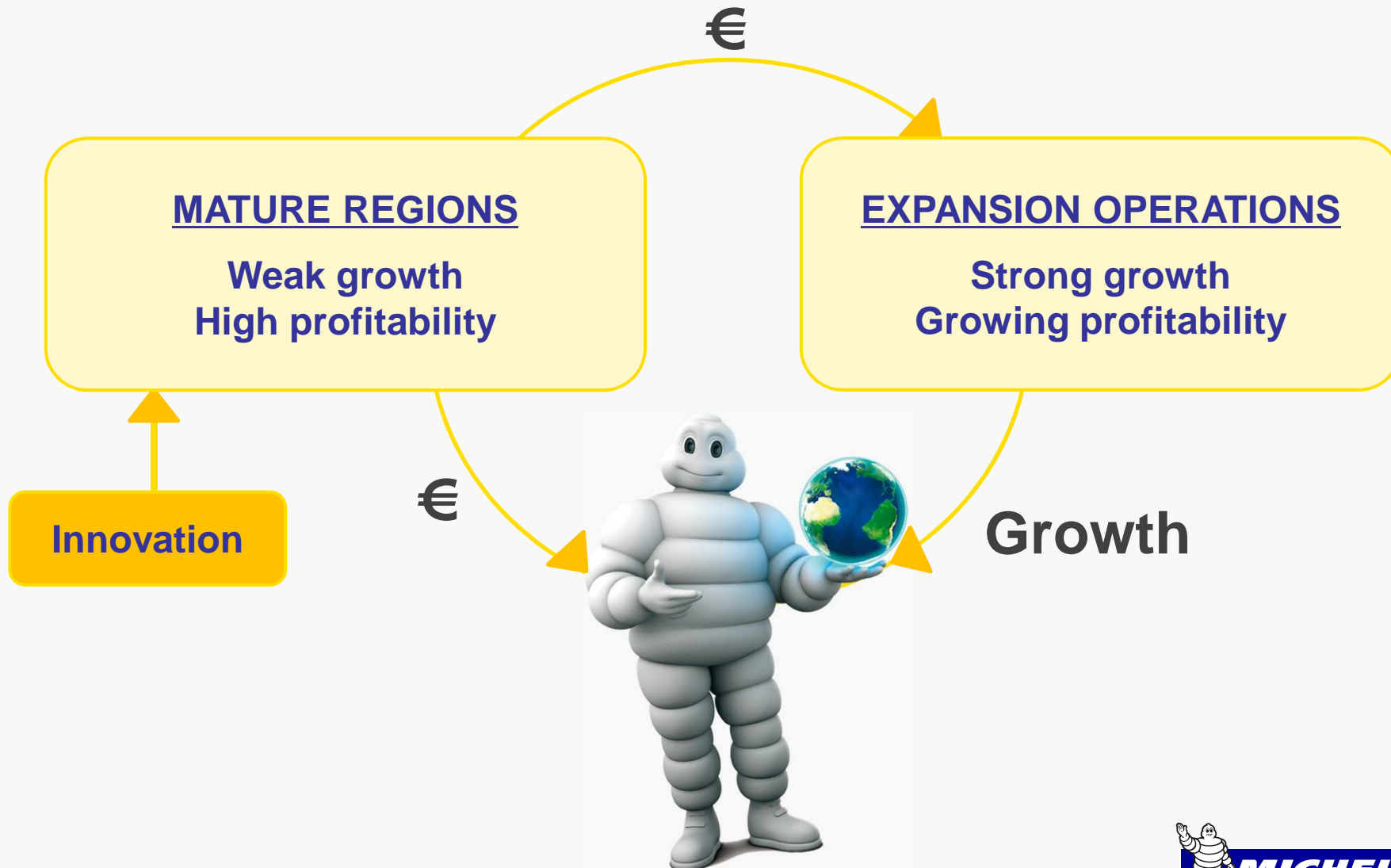


Source: Company Financials , HK & DC = Group figures





The Strategic Challenge of Michelin... On Its Way



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