2010 RESULTS

CONTENTS

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PRESS RELEASE

PRESS RELEASE

Clermont-Ferrand – February 11, 2011

Financial Information for the Year Ended December 31, 2010

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Net sales up 20.8% to €17.9 billion
Operating income of €1,695 million for a 9.5% operating margin
Conditions are in place to successfully drive a new phase of dynamic growth for Michelin

- 13.4% increase in sales volumes, led by the Group's global presence and the rebound in mature markets.
- Responsive pricing policy in the face of rising raw materials costs.
- Sustained productivity gains and cost discipline.
- Strong growth in net income, to €1,049 million.
- Robust free cash flow at a time of:
  - Sharply rebounding demand;
  - Rising raw materials prices;
  - Revitalized capital expenditure;
  - Prepaid contribution to pension plans.
- Robust return on capital employed, at 10.5%.
- Proposed 2010 dividend of €1.78, subject to approval at the Annual Shareholders Meeting of May 13, 2011

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Commenting on the Group's performance, **Michel Rollier, Managing Partner,** said: *"For Michelin, 2010 was a year of strong growth, enhanced manufacturing flexibility and historically high margins. In recent years, we have laid the foundations for a new phase of dynamic growth, built on the dedication and professionalism of our teams, the value of our brands and a clearly strengthened balance sheet.*

"Leveraging these improvements, Michelin has embarked on a new phase of faster growth, supported by an unprecedented capital expenditure program, and aims to increase its sales volumes by at least 6.5% in 2011.

"In response to the sharp increase in raw materials costs, the Group will maintain its dynamic pricing policy and, barring any major change in the economic environment, expects to see an increase in operating income in 2011.

In light of our capital expenditure commitments and the increase in raw materials costs, free cash flow is expected to be temporarily negative in 2011.Nevertheless, Michelin confirms its objective of generating positive free cash flow over the entire 2011-2015 period."

(in € millions)	2010	2009
Net sales	17,891	14,807
Operating income before non-recurring income and expenses	1,695	862
Operating margin before non-recurring income and expenses	9.5%	5.8%
Passenger car and Light truck tires and related distribution	10.4%	8.0%
Truck tires and related distribution	4.4%	(1.5%)
Specialty businesses	17.8%	13.3%
Operating income after non-recurring income and expenses	1,695	450
Net income	1,049	104
Capital expenditure	1,100	672
Net debt	1,629	2,931
Gearing	20%	53%
Free cash flow (1)	426	1,507
Employees on payroll (2)	111,100	109,200

(1) Cash flow from operating activities less cash flow used in investing activities.
(2) At year-end.

MARKET REVIEW

Passenger car and Light truck tires

2010/2009 *% change YoY*	Europe incl. CIS	North America	Asia	South America	Africa/ Middle East	Total
Original Equipment	+15%	+39%	+29%	+13%	+21%	+25%
Replacement	+9% *	+4%	+14%	+23%	+4%	+9%

* *Europe up 8% excluding the CIS.*

- **Original Equipment**
- Overall, original equipment markets rebounded more quickly than expected but remained below 2007 levels in Europe and North America.
- In Europe, tire markets continued to recover in line with automobile output, which was lifted, depending on the market, by auto industry support programs, resurgent demand for premium models or strong export sales. Demand was also boosted by rising inventories, which had been drastically cut during the crisis.
- In North America, demand rose sharply off of very low prior-year comparatives, led by inventory rebuilding after 2009's excessive destocking and market share gains for US carmakers.
- In Asia, the 33% expansion in the Chinese market was sustained by ongoing strong demand for motor vehicles, while growth in the Japanese and South Korean markets was export-driven.
- **Replacement**
- Overall, replacement markets increased by 9% for the year, with demand close to 2007 levels in mature markets.

– In Europe, demand rebounded faster than expected, gaining 9%. The market benefited from strong demand for winter tires (up 22%) during the harsh winter weather in the first and fourth quarters, as well as from dealer inventory rebuilding, following the extensive recession-driven drawdowns in 2009 and ahead of the announced price increases.
– In North America, demand turned up more sharply than expected, rising 4% back to 2008 levels. In the United States, demand gained 6%, thanks to a rebuilding of dealer inventories and an increase in the number of miles driven. The Canadian market declined by 13% after two years of growth supported by new winter tire regulations. In Mexico, the market expanded by 7%.
– In Asia, markets rose by 14% overall and demand remained strong in China, up 24%.
– In South America, replacement tire markets enjoyed a strong upward trend in a more favorable economic environment, particularly in Brazil.

Truck tires

2010/2009 *% change YoY*	Europe incl. CIS	North America	Asia	South America	Africa/ Middle East	Total
Original Equipment *	+54%	+25%	+26%	+47%	+8%	+33%
Replacement *	+24%	+20%	+13%	+41%	+2%	+17%

* *Radial market only.*

- **Original Equipment**

– The European market experienced a strong rebound off of low prior-year comparatives, led by the end of destocking and by new truck exports. Nonetheless, the market remains depressed, at around 40% below its 2007 level.
– In North America, demand increased by 25% year-on-year but was still substantially below its 2007 level. The upswing in 2010 marked the end of truck fleet aging.
– In Asia, demand expanded by a solid 23% in China, but slowed in the second half due to higher prior-period comparatives.
– In South America, the market rose by 47% thanks to a buoyant economy and incentives to stimulate new truck purchases.

- **Replacement**

– In Europe, the market surged 24% and returned to 2008 levels, even as freight demand rose by a moderate 2% or so. The retread business grew by 15%, rising nearly to its pre-recession level.
– In North America, demand rose steadily throughout the year for a 20% gain that outpaced the recovery in freight transport, reflecting inventory rebuilding after the destocking in 2009. Growth was also supported by the continuing shift to radial tires in Mexico.
– In Asia, the Chinese market continued to expand, although at a slower pace because of higher prior-year comparatives, while the Japanese market was still nearly 15% below its pre-crisis level, despite recovering strongly in 2010.
– In South America, the market rose sharply, led by demand in Brazil, Argentina, Chile and Colombia, in a favorable economic environment.

Specialty tires

- **Earthmover tires:** After dodging the recession, the mining segment continued to expand on healthy demand for ore and energy in fast growing markets. The OE market practically doubled in the mature economies, although volumes failed to reach pre-recession levels. Despite strong growth in every region, the infrastructure market also lagged behind 2008 levels.
- **Agricultural tires:** Though lower than in 2008, global OE sales rose sharply during the year, with a more pronounced upturn in the high-powered farm machinery segment. In the overall agricultural tire market, the recovery picked up steam in the fourth quarter as a result of robust grain prices and a favorable outlook for 2011.
- **Two-wheel tires:** The motorized segments made gains in all the mature markets except Japan. Growth remained strong in emerging markets.
- **Aircraft tires:** All of the markets returned to growth in 2010, with the uptrend particularly noticeable in the Commercial Aviation segment. Demand for radial technology tires continued to grow.

2010 NET SALES AND RESULTS

Net sales

Consolidated net sales amounted to €17,891 million, up 20.8% at current exchange rates compared with 2009.

The increase was led by a 13.4% improvement in sales volumes and a 1.7% gain from the price mix, as higher prices amply offset the impact of an unfavorable product mix throughout the year. The latter reflected the faster growth in original equipment volumes than in the replacement segment. The favorable 2.6% price effect gathered momentum on price increases in every region and the application of contractual clauses indexing prices to raw materials costs.

The 4.8% positive currency effect resulted mainly from increases in the US dollar, Brazilian real, Canadian dollar and Australian dollar against the euro.

Results

Operating income before non-recurring income and expenses amounted to €1,695 million or 9.5% of net sales, compared with €862 million and 5.8% in 2009.There were no non-recurring items recognized for the year.

The €833-million increase in operating income and 3.7-point improvement in operating margin, before non-recurring income and expenses, mainly reflected the favorable impact of higher volumes (€914 million), the price mix (€278 million, including €391 million from higher prices) and the currency effect (€184 million). Higher raw materials prices reduced operating income by €544 million.

Net income for the year came to €1,049 million.

Net financial position

Free cash flow stood at a positive €426 million for the year, despite a strong rebound in business, higher raw materials costs, an upswing in capital expenditure to €1.1 billion and a prepaid contribution to pension plans totaling €270 million.

Following the success of the €1.2 billion rights issue, **gearing declined to 20%** at December 31, 2010, while net debt was reduced to €1,629 million, from €2,931 million at year-end 2009.

Segment Information

	Net sales		Operating income before non-recurring income and expenses		Operating margin before non-recurring income and expenses	
(in € millions)	2010	2009	2010	2009	2010	2009
Passenger car and Light truck tires and related distribution	9,790	8,280	1,014	661	10.4%	8.0%
Truck tires and related distribution	5,680	4,496	249	(69)	4.4%	(1.5%)
Specialty businesses	2,421	2,031	432	270	17.8%	13.3%
Consolidated total	17,891	14,807	1,695	862	9.5%	5.8%

- **Passenger car and Light truck tires and related distribution**

In all, net sales in the Passenger car and Light truck tires and related distribution segment stood at €9,790 million for the year, up 18.2% on 2009. Unit sales were sustained throughout the year by firm demand for winter tires and the strength of the MICHELIN brand. The price mix remained favorable despite the OE/replacement market mix, reflecting price increases implemented throughout the year to help offset higher raw materials prices and ongoing improvements in the segment/speed rating mix.

The sharp rise in volumes, especially in winter tires, the amply positive price-mix in the face of higher raw materials costs and the improvement in manufacturing costs at a time of high capacity utilization helped to lift operating income before non-recurring income and expenses to €1,014 million or 10.4% of net sales, compared with €661 million and 8.0% in 2009.

- **Truck tires and related dstribution**

Net sales in the Truck tires and related distribution segment amounted to €5,680 million for the year, up 26.3% on 2009. Sales volumes rose sharply against low prior-year comparatives, with faster growth at the end of the year causing certain supply issues in mature markets. Despite an unfavorable OE/replacement market mix, the price-mix improved quarter after quarter, thanks to the gradual application of price increases to pass on rising raw materials prices.

At a time of sharply rising raw materials costs, operating income before non-recurring income and expenses came to €249 million, thanks to higher volumes, the segment's improved competitiveness and the responsive pricing policy.

- **Specialty businesses**

Net sales from the Specialty Businesses came to €2,421 million, a gain of 19.2% on 2009. Growth was led by Michelin's powerful momentum in every tire market, as well as by the application of contractual clauses indexing prices to raw materials costs.

Operating margin before non-recurring income and expenses stood at a structurally high 17.8%, compared with 13.3% in 2009.The improvement was due to i) the increase in tonnages sold in each of the Specialty tire businesses, with a significant contribution from the Earthmover segment and ii) the favorable impact in the second half of the increase in prices indexed to raw materials costs.

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin reported a profit of €185 million in 2010.

The financial statements were presented to the Supervisory Board at its meeting on February 7, 2011. The audit was performed and the Auditors' report was issued the same day.

The Managing Partners will call an Annual Shareholders Meeting on Friday, May 13 at 9:00 am in Clermont-Ferrand.

Shareholders will be asked to approve the payment of a dividend of €1.78 a share, with a dividend reinvestment option.

OUTLOOK FOR 2011

Michelin is committed to driving a new phase of faster, more dynamic growth, at a time of steadily increasing global tire demand and rising raw materials prices.

In this environment, Michelin enjoys a number of differentiating competitive strengths, including a powerful brand and the premium pricing power it confers; the technological leadership and balanced performance delivered by its tires, which are aligned with customer expectations; the competitiveness and flexibility of its manufacturing base, which has been considerably enhanced through the commitment of its teams; and a robust balance sheet capable of supporting its growth ambitions and weathering the ups and downs of the business cycle.

Backed by these strengths, and barring any major change in the economic environment, Michelin has set ambitious objectives for 2011.

Michelin aims to drive at least a 6.5% increase in unit sales, in line with the 2011-2015 growth targets.

Michelin will maintain a highly responsive pricing policy in the face of rising raw materials costs:

- The full-year impact of raw materials costs on operating income is estimated at €1,500 million, assuming Michelin's cost of natural rubber averages $4.80/kg;
- €850 million of this additional raw materials cost has already been offset by the full-year impact of the 2010 price increases and the 2011 implementation of the raw materials-based price indexation clauses;
- The new price increases already announced in 2011 are designed to cover €300 million.
- Therefore, 75% of the additional raw materials cost is already covered.
- The Group will continue to manage prices so as to pass along all of the additional raw materials costs.

Michelin expects to report higher operating income in 2011, despite the cost of stepping up its presence in new markets (around €150 million in temporary outlays for production start-ups, sales and marketing operations and advertising).

In light of the increase in raw materials and the unprecedented €1.6 billion capital expenditure program, free cash flow is expected to be temporarily negative in 2011. Nevertheless, Michelin confirms its objective of generating positive free cash flow over the entire 2011-2015 period.

2010 OPERATING HIGHLIGHTS

- Michelin booth at 2010 Paris Auto Show showcased global ad campaign
- MICHELIN Alpin 4 takes top score in ADAC test and earns highest 3-star rating
- On-road, environmental and technological performance: A winning trio with the new MICHELIN Pilot Sport 3
- Sales of MICHELIN X One super singles top one million
- Distribution: Michelin and Rodi sign partnership agreement in Spain's Catalonia-Aragon region
- Earthmover tires: MICHELIN X-TRACTION, a new solution to improve work site productivity
- Michelin Group tops the podium at Dakar 2011
- €1.2 billion rights issue successfully completed

A full description of 2010 highlights may be found on the Michelin website: www.michelin.com/corporate/finance

Presentation and Conference call

Full-year 2010 results will be reviewed with analysts and investors during a conference call – with simultaneous interpreting in English – today, Friday February 11, at 11:00 am CET (10:00 am UT). If you wish to participate, please dial one of the following numbers from 10:50 am CET:

– In France:	01 72 00 09 82
– In the UK:	0808 238 1769
– In the United States:	(866) 907 5924
– From anywhere else:	+44 808 238 1769

Please refer to the www.michelin.com/corporate/financewebsite for practical information concerning the conference call.

Investor Calendar

– Quarterly information for the three months ended March 31, 2011:
Thursday, April 21, 2011 after close of trading
– First-half 2011 net sales and results:
Friday, July 29, 2011 before start of trading

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SLIDESHOW

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ANNUAL
RESULTS
FEBRUARY 11, 2011
MICHELIN
2010
MICHELIN
A better way forward


Historically high operating income,
at €1,695 million
Growth led by our global presence and the rebound in mature markets
A responsive pricing policy in the face of rising raw materials costs
Sustained productivity gains and cost discipline
Strong growth in net income, to €1,049 million
Solid free cash flow, at a time of
Sharply rebounding demand
Rising raw materials prices
Revitalized capex commitment
Prepaid contribution to various pension funds
Robust ROCE, at 10.5%
→ Michelin is driving faster growth
MICHELIN
A better way forward
2 - 2010 Results – February 11, 2011

2010 financial higlights

In € millions	2010
Net Sales	17,891
Operating Income (before non-recurring items)	1,695
Operating Margin (before non-recurring items)	9.5%
Net Income	1,049
Investments	1,100
Net Debt-to-Equity Ratio	20%
Free Cash Flow*	426

*Cash flows from operating activities less cash flows used in investing activities

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3 - 2010 Results – February 11, 2011

Outline

- ***Markets:***
  Stronger-than-expected rebound
- ***Performance:***
  Historically high
- ***Financial structure:***
  An advantage for growth
- ***Horizon 2010:***
  Enhanced operating efficiency
- ***Outlook:***
  Sustained growth dynamic

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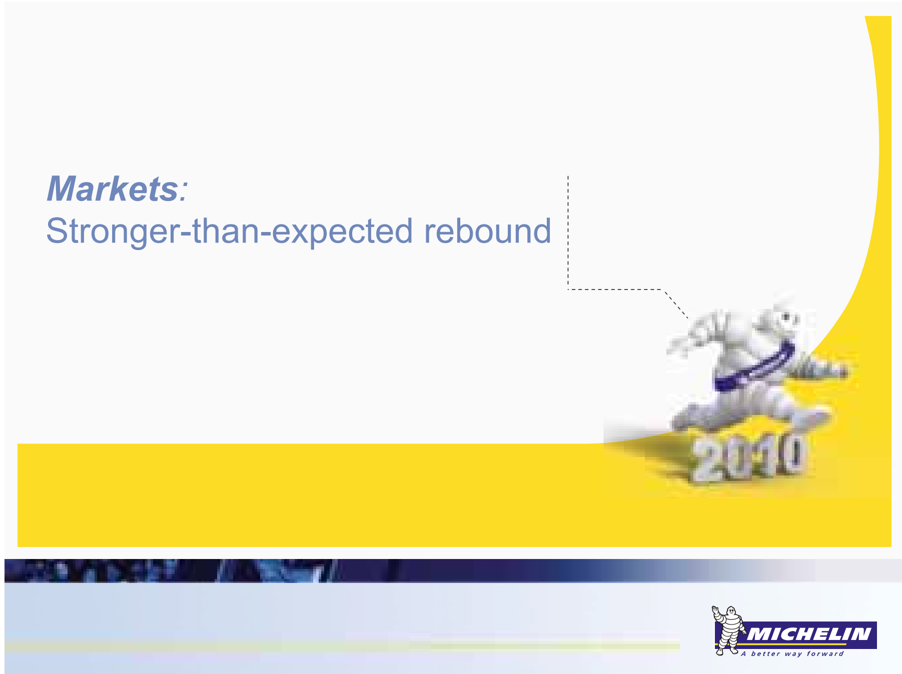
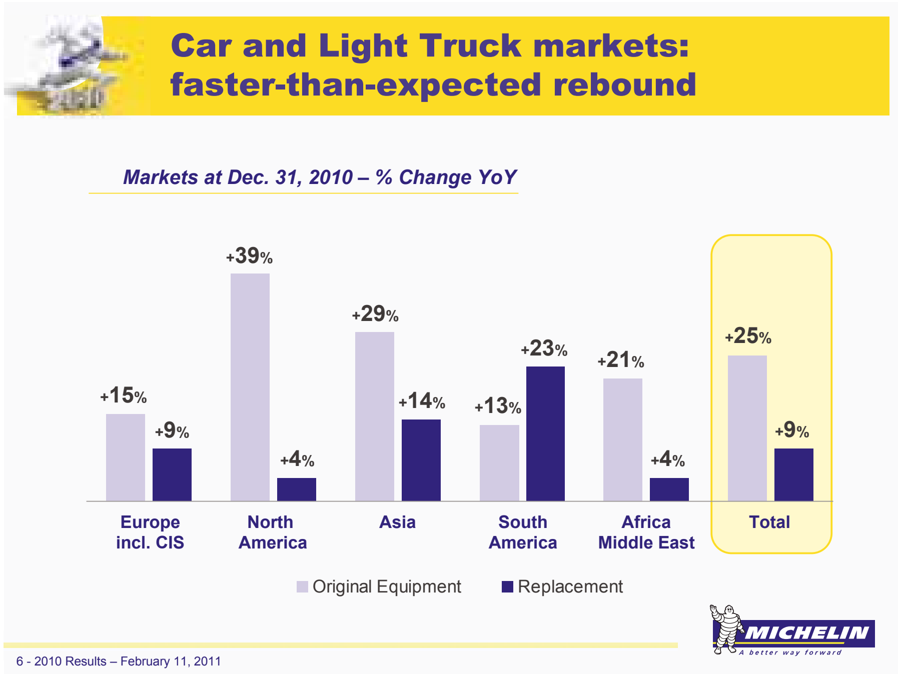
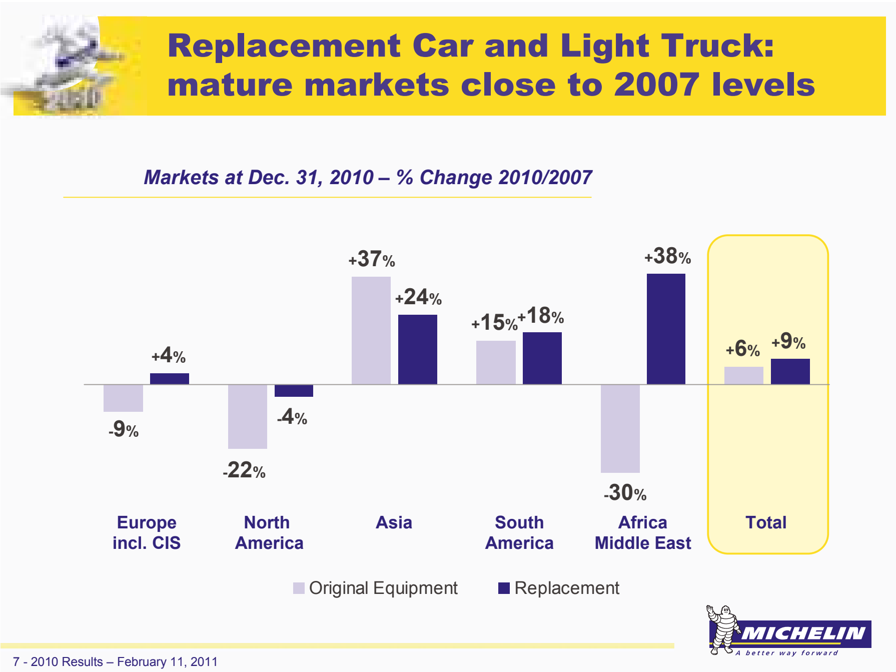

Markets:
Stronger-than-expected rebound
2010
MICHELIN
A better way forward


Car and Light Truck markets:
faster-than-expected rebound
Markets at Dec. 31, 2010 – % Change YoY
+15%
+9%
+39%
+4%
+29%
+14%
+13%
+23%
+21%
+4%
+25%
+9%
Europe incl. CIS
North America
Asia
South America
Africa Middle East
Total
Original Equipment
Replacement
6 - 2010 Results – February 11, 2011
MICHELIN
A better way forward


Replacement Car and Light Truck: mature markets close to 2007 levels
Markets at Dec. 31, 2010 – % Change 2010/2007
-9%
+4%
-22%
-4%
+37%
+24%
+15%
+18%
-30%
+38%
+6%
+9%
Europe incl. CIS
North America
Asia
South America
Africa Middle East
Total
Original Equipment
Replacement
MICHELIN
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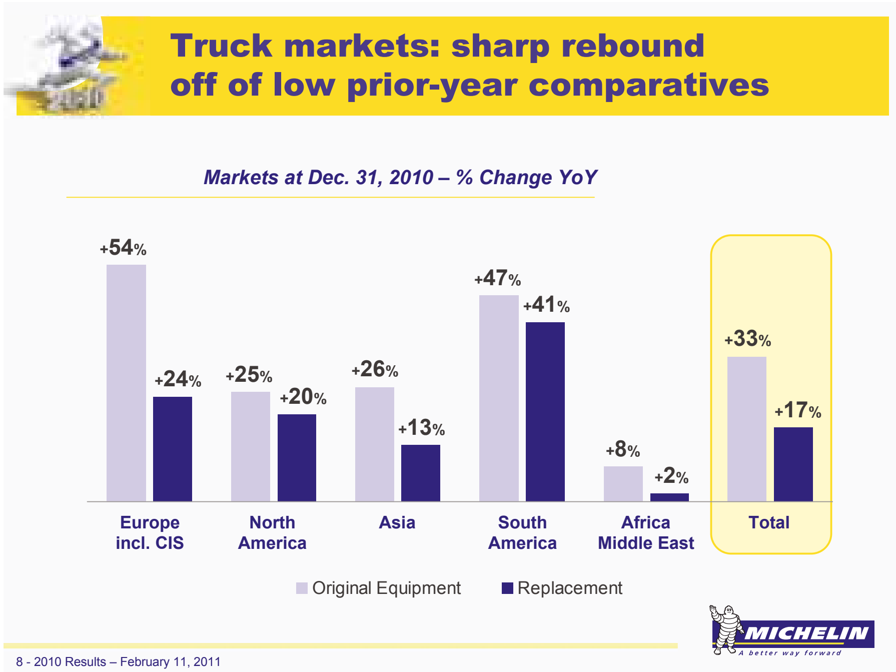
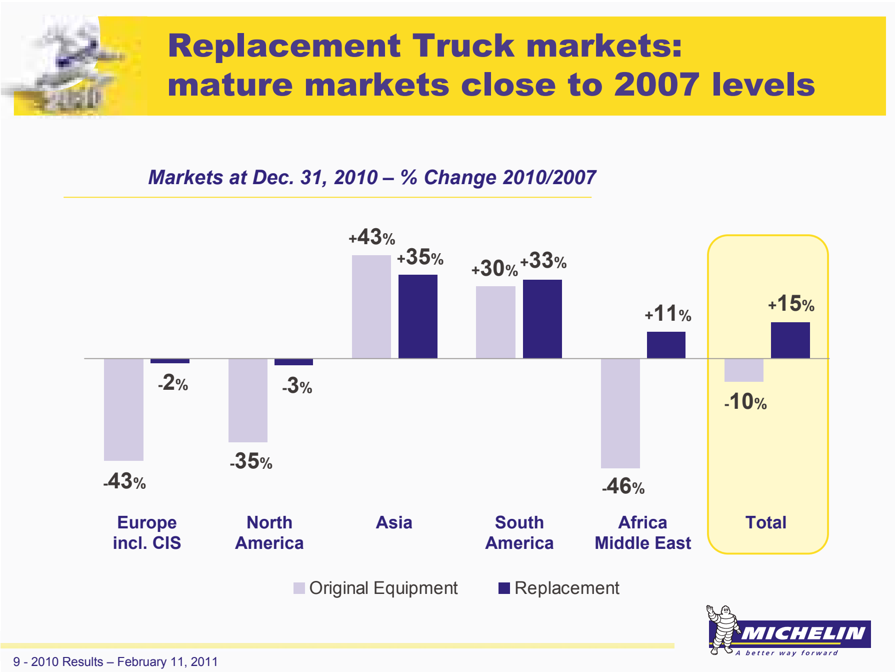
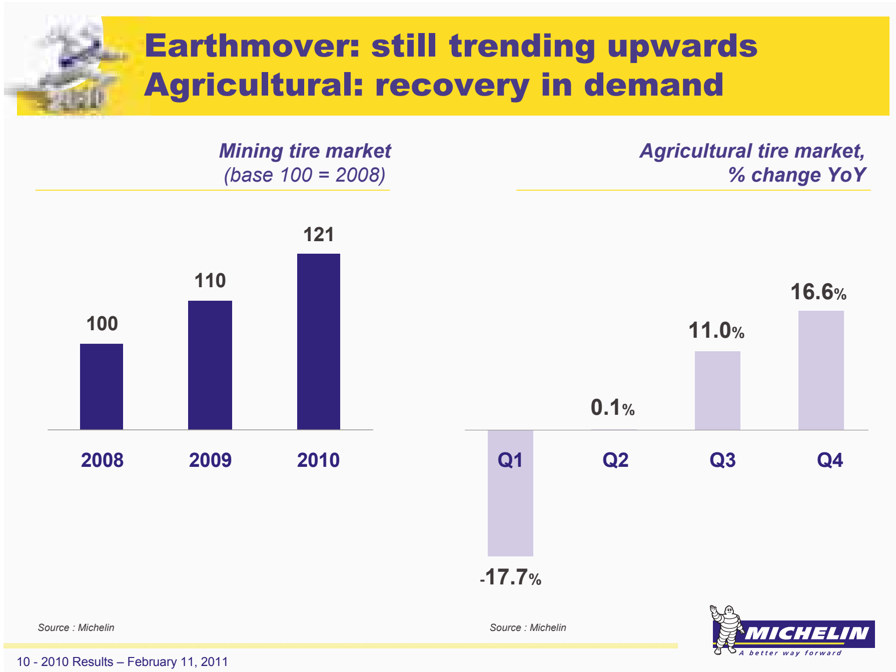
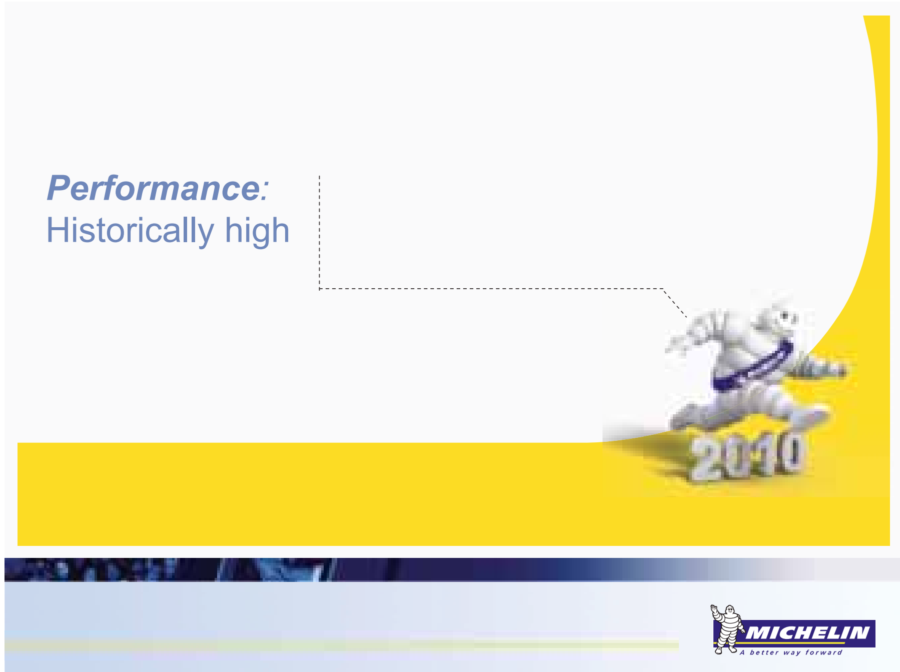
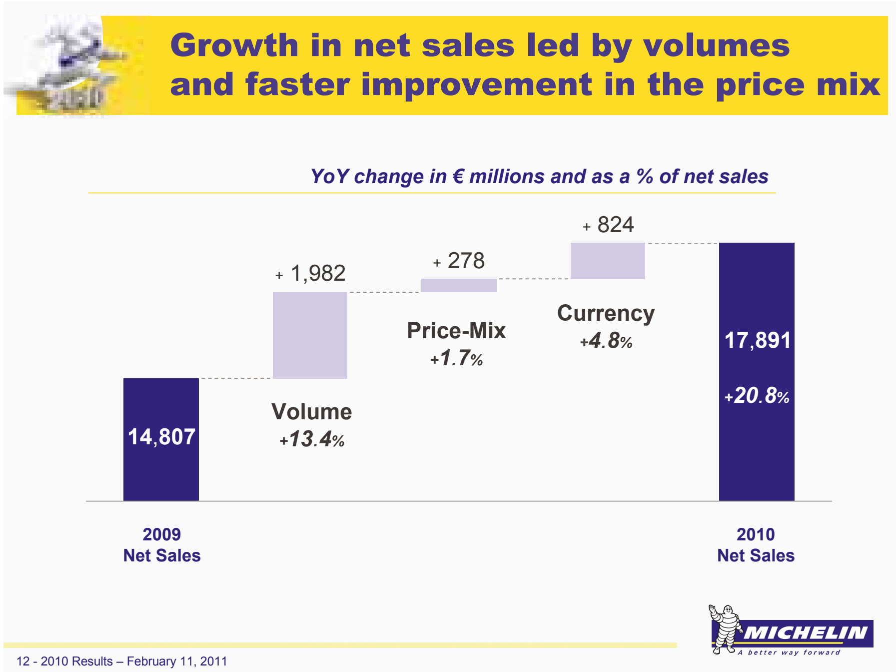
7 - 2010 Results – February 11, 2011

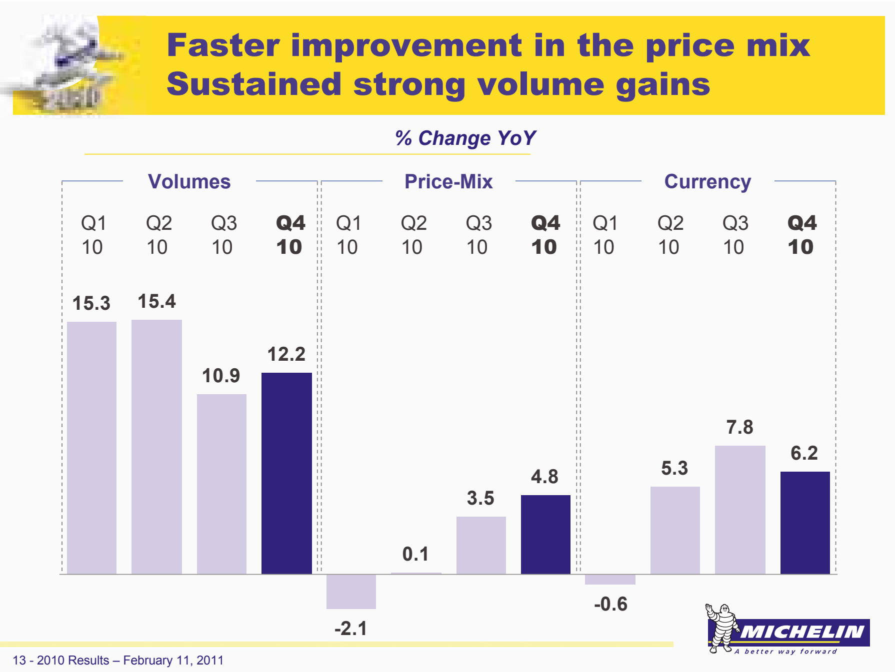

Truck markets: sharp rebound off of low prior-year comparatives
Markets at Dec. 31, 2010 – % Change YoY
+54%
+24%
+25%
+20%
+26%
+13%
+47%
+41%
+8%
+2%
+33%
+17%
Europe incl. CIS
North America
Asia
South America
Africa Middle East
Total
Original Equipment
Replacement
MICHELIN
A better way forward
8 - 2010 Results – February 11, 2011

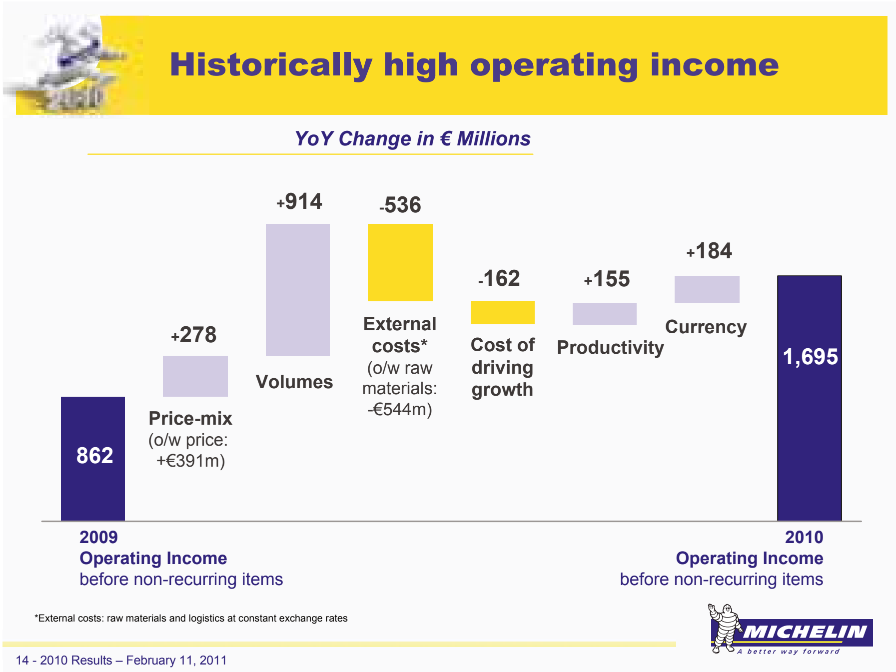

Replacement Truck markets:
mature markets close to 2007 levels
Markets at Dec. 31, 2010 – % Change 2010/2007
-43%
-2%
-35%
-3%
+43%
+35%
+30%
+33%
-46%
+11%
-10%
+15%
Europe incl. CIS
North America
Asia
South America
Africa Middle East
Total
Original Equipment
Replacement
MICHELIN
A better way forward
9 - 2010 Results – February 11, 2011


Earthmover: still trending upwards
Agricultural: recovery in demand
Mining tire market
(base 100 = 2008)
100
110
121
2008
2009
2010
Agricultural tire market,
% change YoY
-17.7%
0.1%
11.0%
16.6%
Q1
Q2
Q3
Q4
Source : Michelin
Source : Michelin
MICHELIN
A better way forward
10 - 2010 Results – February 11, 2011


Performance:
Historically high
2010


Growth in net sales led by volumes and faster improvement in the price mix
YoY change in € millions and as a % of net sales
14,807
+ 1,982
Volume
+13.4%
+ 278
Price-Mix
+1.7%
+ 824
Currency
+4.8%
17,891
+20.8%
2009
Net Sales
2010
Net Sales
12 - 2010 Results – February 11, 2011


Faster improvement in the price mix
Sustained strong volume gains
% Change YoY
Volumes
Price-Mix
Currency
Q1 10
Q2 10
Q3 10
Q4 10
15.3
15.4
10.9
12.2
-2.1
0.1
3.5
4.8
-0.6
5.3
7.8
6.2
MICHELIN
13 - 2010 Results – February 11, 2011


Historically high operating income
YoY Change in € Millions
862
+278
Price-mix
(o/w price: +€391m)
+914
Volumes
-536
External costs*
(o/w raw materials: -€544m)
-162
Cost of driving growth
+155
Productivity
+184
Currency
1,695
2009
Operating Income
before non-recurring items
2010
Operating Income
before non-recurring items
*External costs: raw materials and logistics at constant exchange rates
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14 - 2010 Results – February 11, 2011

Positive contribution from every segment

Operating margin before non-recurring items as a % of net sales

MICHELIN A better way forward

15 - 2010 Results – February 11, 2011

Historically high financial performance

Passenger car & Light truck

In € millions	2010	2009
Net Sales	9,790	8,280
Operating Income (before non-recurring items)	1,014	661
Operating Margin (before non-recurring items)	10.4%	8.0%

MICHELIN A better way forward

16 - 2010 Results – February 11, 2011

Rebounding performance, led by volumes, despite higher raw materials costs

Truck

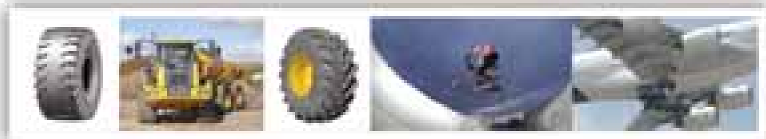
In € millions	**2010**	2009
Net Sales	**5,680**	4,496
Operating Income (before non-recurring items)	**249**	(69)
Operating Margin (before non-recurring items)	**4.4%**	(1.5%)

17 - 2010 Results – February 11, 2011

Structurally high operating income

Specialty Businesses

In € millions	**2010**	2009
Net Sales	**2,421**	2,031
Operating Income (before non-recurring items)	**432**	270
Operating Margin (before non-recurring items)	**17.8%**	13.3%



18 - 2010 Results – February 11, 2011

Strong improvement in net income

In € millions	2010	2009
Net Sales	17,891	14,807
Operating Income (before non-recurring items) *% of Net Sales*	1,695 *9.5%*	862 *5.8%*
Non-Recurring Items	-	(412)
Operating Income	1,695	450
Cost of Net Debt Other Financial Income and Expenses	(226)	(252)
Tax	(449)	(103)
Share of Profit from Associates	29	9
Net Income	1,049	104

19 - 2010 Results – February 11, 2011

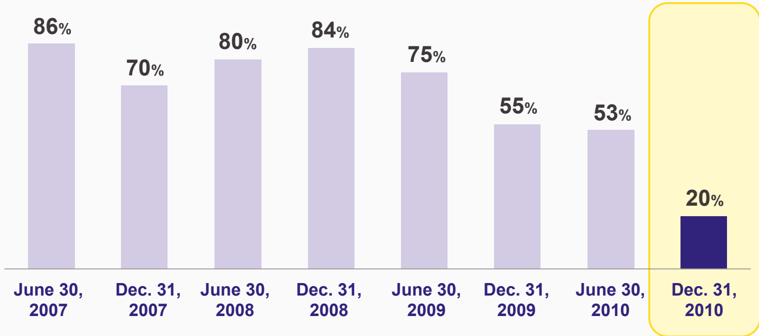
Positive free cash flow after €270 million prepaid into pension funds

In € millions	2010	2009
EBITDA (before non-recurring items)	2,660	1,802
Change in Inventory	*(584)*	*759*
Change in Trade Receivables	*(246)*	*176*
Change in Trade Payables	*369*	*(190)*
Taxes and Interests Paid	*(474)*	*(226)*
Change in Operating Provisions	*(423)*	*(372)*
Other WCR	*20*	*174*
Cash Flow from Operations	1,322	2,123
Gross Investments	*(1,100)*	*(672)*
Other	*204*	*(64)*
Free Cash Flow*	426	1,387

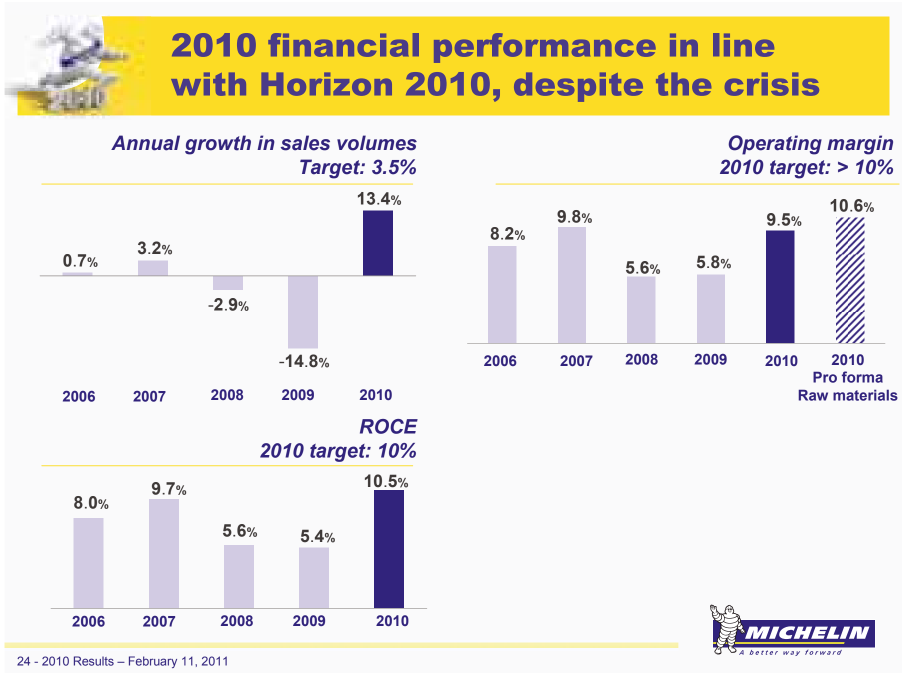
*Free cash flow: Cash flow from operations less gross capex and other

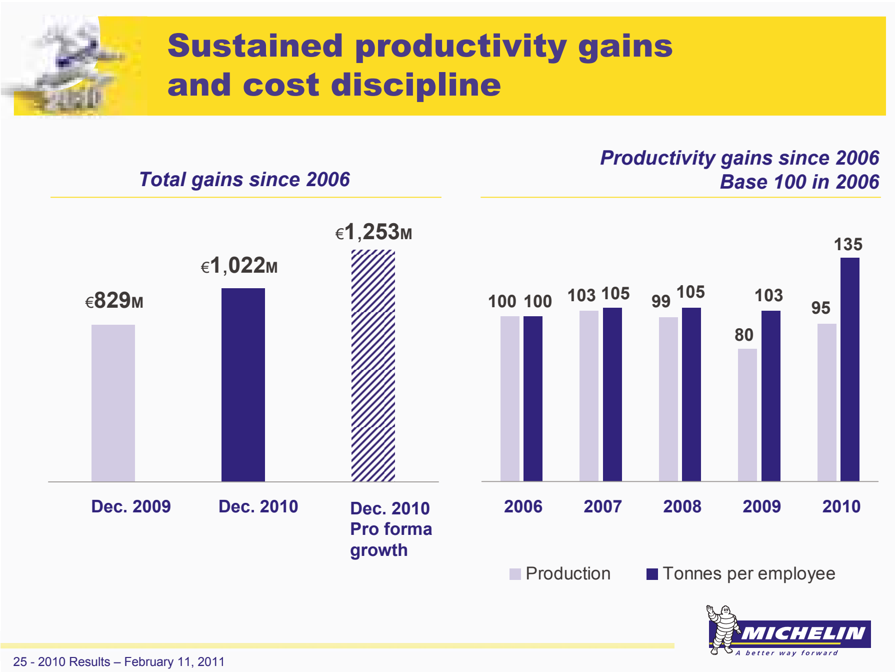
Robust financial structure: flexibility and room to manoeuver

Gearing – Net Debt / Equity Ratio




Horizon 2010:
Enhanced operating efficiency
2010
MICHELIN
A better way forward


2010 financial performance in line with Horizon 2010, despite the crisis
Annual growth in sales volumes
Target: 3.5%
0.7%
3.2%
-2.9%
-14.8%
13.4%
2006
2007
2008
2009
2010
Operating margin
2010 target: > 10%
8.2%
9.8%
5.6%
5.8%
9.5%
10.6%
2006
2007
2008
2009
2010
2010
Pro forma
Raw materials
ROCE
2010 target: 10%
8.0%
9.7%
5.6%
5.4%
10.5%
2006
2007
2008
2009
2010
MICHELIN
A better way forward
24 - 2010 Results – February 11, 2011


Sustained productivity gains and cost discipline
Total gains since 2006
€829M
€1,022M
€1,253M
Dec. 2009
Dec. 2010
Dec. 2010 Pro forma growth
Productivity gains since 2006
Base 100 in 2006
100 100
103 105
99 105
80 103
95 135
2006
2007
2008
2009
2010
Production
Tonnes per employee
MICHELIN
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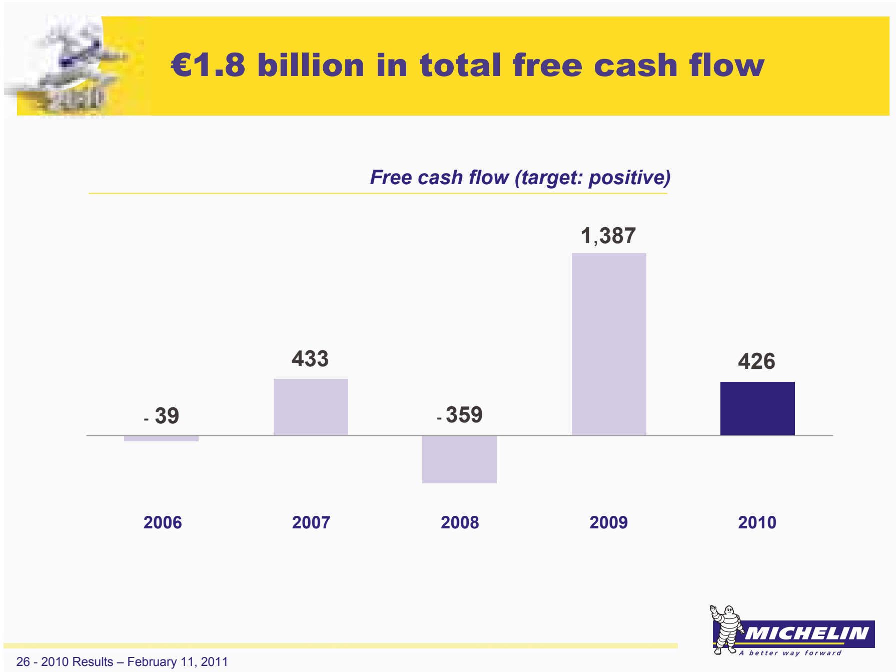
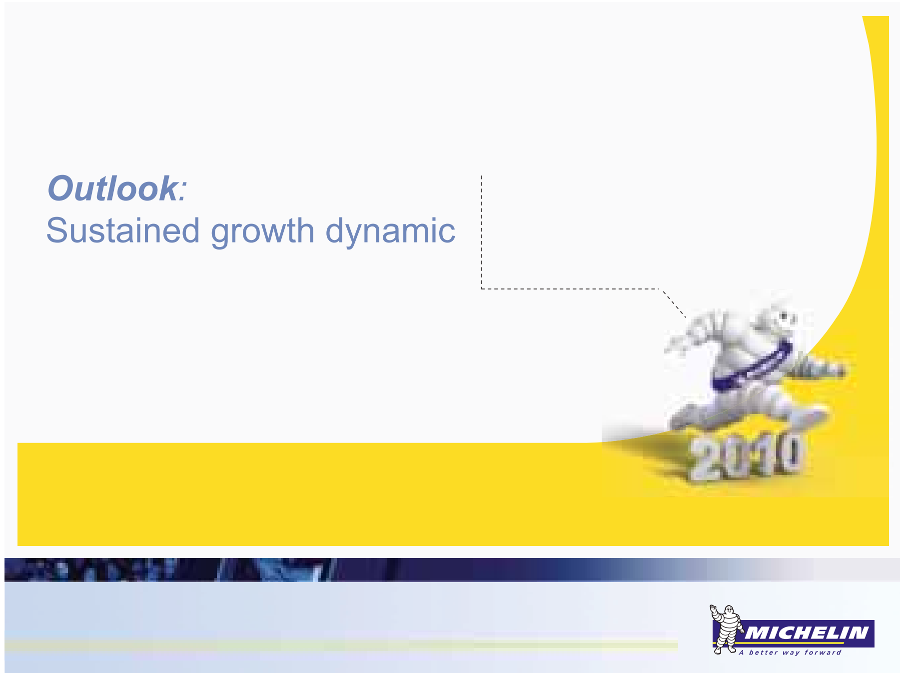
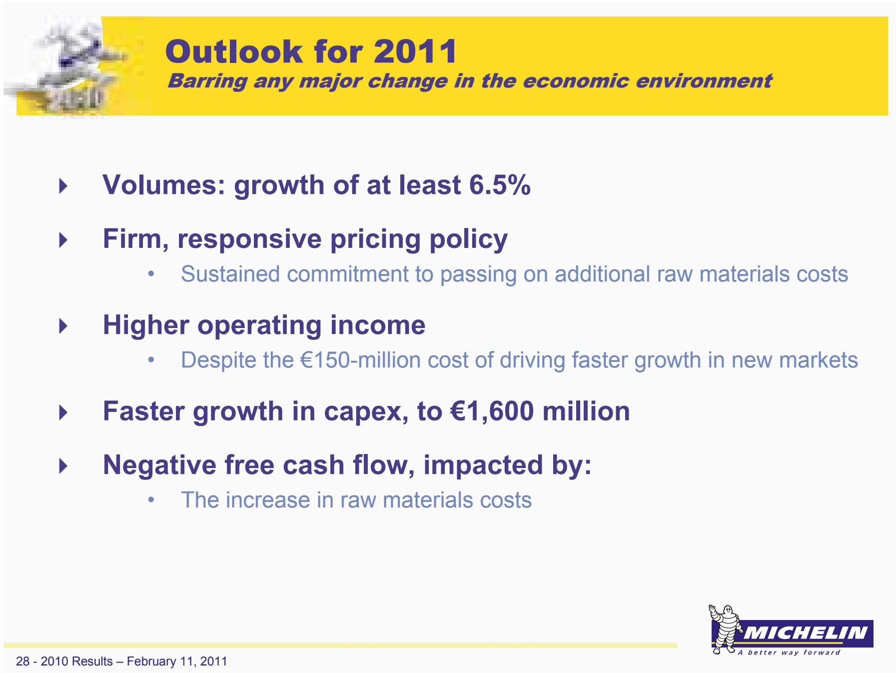
25 - 2010 Results – February 11, 2011


€1.8 billion in total free cash flow
Free cash flow (target: positive)
- 39
433
- 359
1,387
426
2006
2007
2008
2009
2010
MICHELIN
A better way forward
26 - 2010 Results – February 11, 2011


Outlook:
Sustained growth dynamic
2010
MICHELIN
A better way forward


Outlook for 2011
Barring any major change in the economic environment
Volumes: growth of at least 6.5%
Firm, responsive pricing policy
Sustained commitment to passing on additional raw materials costs
Higher operating income
Despite the €150-million cost of driving faster growth in new markets
Faster growth in capex, to €1,600 million
Negative free cash flow, impacted by:
The increase in raw materials costs
28 - 2010 Results – February 11, 2011
MICHELIN
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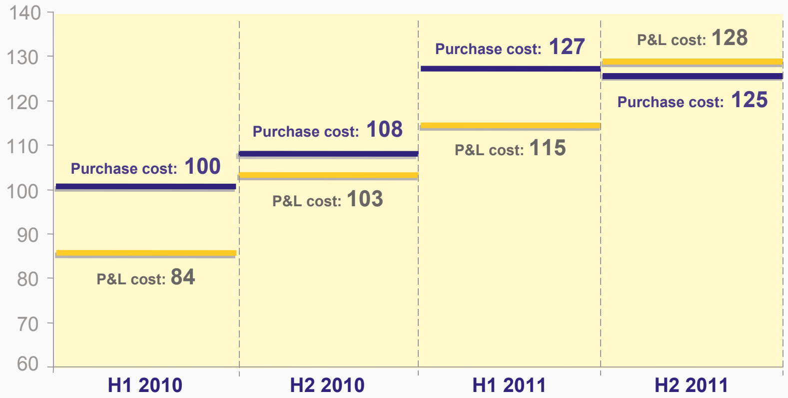
Pricing policy managed in response to raw materials price trends

2011 Simulation based on natural rubber at $4.8/kg



➔Estimated €1,500 million impact on operating income

29 - 2010 Results – February 11, 2011

Assuming natural rubber @$4.8/kg 75% of the additional cost is already offset

- **Higher prices impact already locked in — €850 million**
  - Full-year impact of 2010 price increases
  - 2011 implementation of raw-materials indexation clauses
- **New price increases already announced in 2011 designed to cover — €300 million**

Additional cost already offset — €1,150 million

- **€350 million remains to be covered through additional price increases:**
  - Replacement Car and Light Truck: less than an average 2 % over the year
  - Replacement Truck: less than an average 4% over the year

30 - 2010 Results – February 11, 2011

Assuming natural rubber @January 2011 prices
Additional 2011 cost: €200 million

- **Simulation with average January SICOM spot price ($5.38/kg) extrapolated over the full year**
- **Additional impact on 2011 P&L: €200 million**
- **New price increases will be needed:**
  - Replacement Car and Light Truck: an average 1% over the year
  - Replacement Truck: an average 2% over the year

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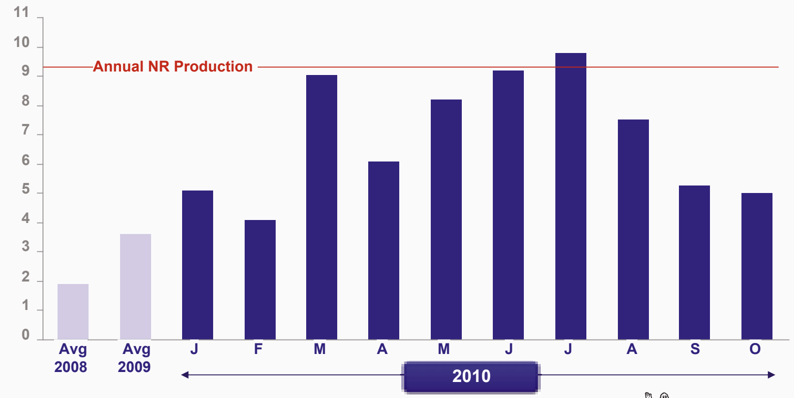
Soaring trading volumes driven by financial markets

Shanghai natural rubber market
Daily trading volumes in millions of tonnes



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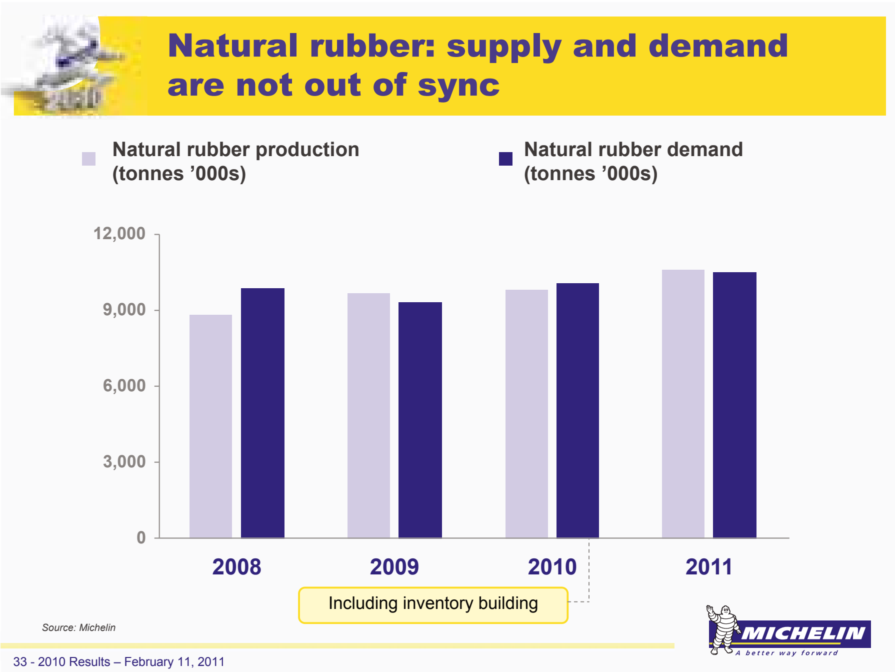
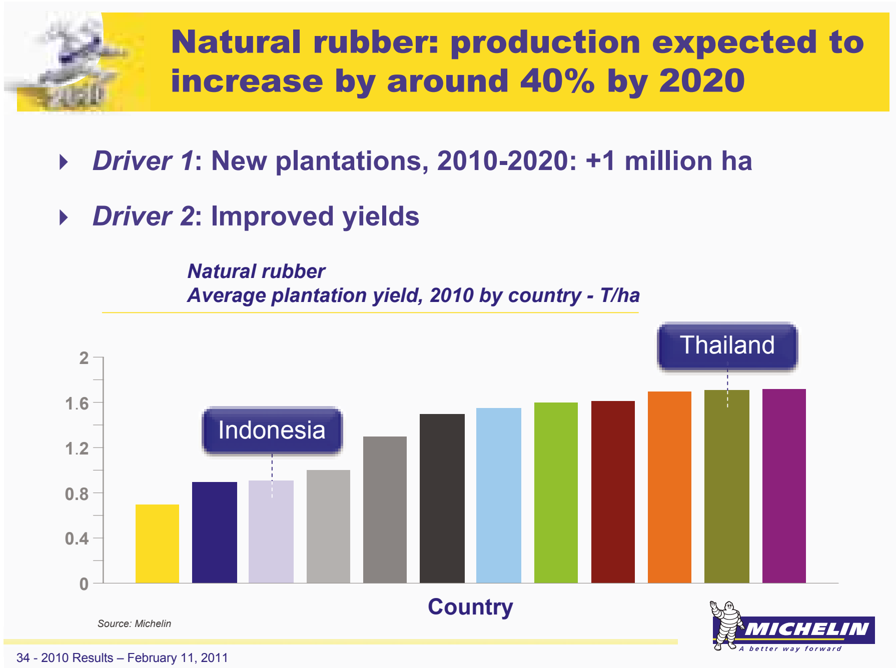
32 - 2010 Results – February 11, 2011


Natural rubber: supply and demand are not out of sync
Natural rubber production (tonnes '000s)
Natural rubber demand (tonnes '000s)
12,000
9,000
6,000
3,000
0
2008
2009
2010
2011
Including inventory building
Source: Michelin
MICHELIN
A better way forward
33 - 2010 Results – February 11, 2011


Natural rubber: production expected to increase by around 40% by 2020
Driver 1: New plantations, 2010-2020: +1 million ha
Driver 2: Improved yields
Natural rubber
Average plantation yield, 2010 by country - T/ha
Thailand
Indonesia
2
1.6
1.2
0.8
0.4
0
Country
Source: Michelin
MICHELIN
A better way forward
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Long-term growth objectives confirmed

Growth in volumes

	2015	2020
Group	25%	50%
Mature markets	15%	25%
New markets	50%	100%

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Production facilities are positioned to meet our growth objectives

- **Greenfield projects are progressing on schedule**
- **Sustained improvement in productivity**
  - 30% increase expected between 2011 and 2015, led by:
    - Continuous improvements
    - Productivity investments
- **Marginal capacity added at existing plants**
  - In every geography
  - In every product line

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Competitive capex costs
China – Shenyang 2 plant

- **Capacity increase and transfer of Shenyang 1 operations**
- **Capex until 2015: $1,350 million**
- **Truck tires**
  - 1.8 million tires and 295,000 retreads per year
  - First tire due in mid-2012
- **Car and Light Truck tires**
  - 10 million tires per year
  - First tire in 2013

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China: Shenyang 2 project on schedule
1st Truck tire in mid-2012

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Brazil: Itataia project on schedule
1st Car/Light Truck tire in 1st half 2012
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39 - 2010 Results – February 11, 2011


India: Chennai project on schedule
1st Truck tire in late 2012
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This presentation may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions at the time of the publication of this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or induced by these statements.

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2010 BUSINESS REVIEW

3

3.1_ TIRE MARKETS IN 2010

A global market worth some $126 billion[(1)]

The global tire market totaled $126.5 billion[(1)] in 2009, with Light-vehicle tires accounting for 60% and Truck tires 30%[(2)]. Worldwide volumes rose by almost 13%[(2)] in 2010, representing around 1.3 billion tires for cars and vans and 160 million for trucks and buses. Three out of four tires were sold in the replacement market.

New demand

Vibrant growth in the Asian and Latin American markets during the year confirmed that demand for mobility is accelerating in fast-growing economies. An estimated 69.9 million light vehicles[(3)] were produced in 2010, up from 57.5 million in 2009 and 66 million in 2008. High-growth markets contributed more than 30% of this output, compared with less than 19% in 2007. By 2012, these countries could account for half of global automobile production[(3)], with a corresponding knock-on effect on replacement markets. Over the long term, Michelin therefore expects demand for tires to grow by 1-2% a year in mature markets and by at least 9% a year in new markets.

New expectations

In every market, climate issues and the end of cheap oil are forcing people to look for quick alternatives. Expectations are shifting and diversifying, driving an increase in demand in both the entry-level and premium segments.

In mature markets, the recession, rising fuel prices and taxes on high-carbon vehicles are prompting consumers to turn to more affordable, fuel-efficient cars. This is particularly true in cities, where new driving habits are emerging. In 2010, the city car segment accounted for 47% of the European market[(3)], compared with 30% in 1990.

In developing markets, where cars symbolize success and freedom, demand is high for both affordable and luxury models.

Everywhere, consumer aspirations are converging on the importance of safety, low total cost of ownership and a small environmental footprint.

New standards

Carbon emissions standards are tightening for new vehicles in Europe, the United States and Asia. In the same way, tire standards are also becoming stricter. In Europe, tires will need to meet performance thresholds and carry a standardized label starting in 2012. Similar regulations will be introduced in South Korea in late 2012, have been approved in the United States for 2013 and have been applied on a voluntary basis in Japan since 2010, before being extended to all tire segments in 2012.

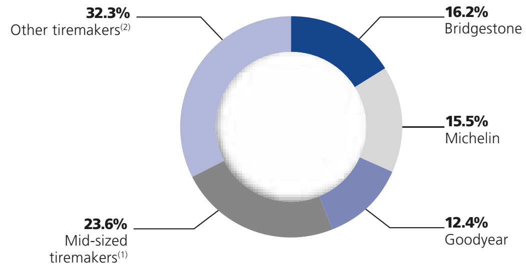
These developments are good news for low rolling resistance tires, a segment in which Michelin is the global leader. Original equipment sales of these tires are expected to increase from 300 million units in 2010 to 500 million in 2020.

(1) Source: Tire Business, September 2010.
(2) Michelin estimates.
(3) Source: PricewaterhouseCoopers.

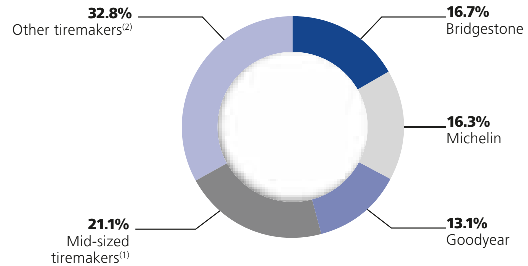
New approaches

At the 2010 Challenge Bibendum in Rio de Janeiro, Michelin shared its vision of addressing emerging demand for cleaner mobility with a range of innovative tire solutions. These include the conventional, yet ambitious, solution of constantly improving the rolling resistance of popular-size tires; a small-tire solution for city cars, with 10-inch tire/wheel assemblies that enable smaller, lighter designs; and a large-tire solution for executive models with narrow treads to optimize their aerodynamics. Another solution involves the Michelin Active Wheel as a replacement for the traditional tire-wheel assembly.

THE GLOBAL TIRE MARKET BY MANUFACTURER



Source: 2009 sales in US dollars, published in Tire Business, August 30, 2010



Source: 2008 sales in US dollars, published in Tire Business, August 31, 2009

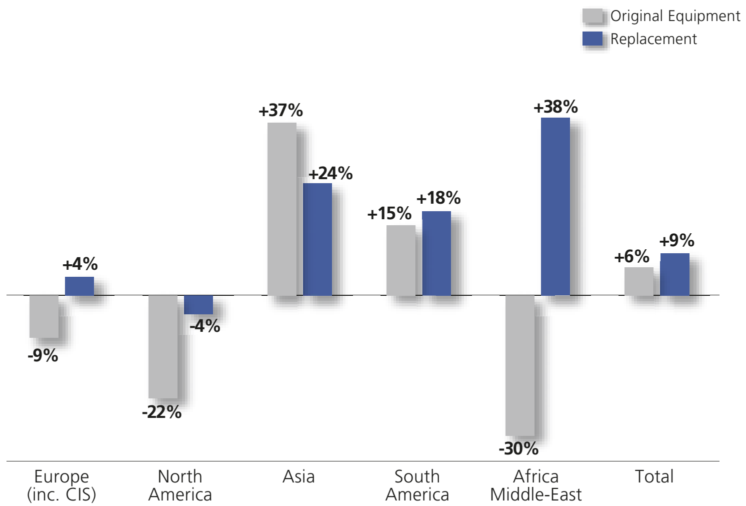
(1) Tiremakers with a 2-6% market share according to the Tire Business ranking.
(2) Tiremakers with a less than 2% market share according to the Tire Business ranking.

In 2010, tire demand rose sharply from prior-year levels in all of the Group's regional markets around the world. It continued to increase in new markets, which were relatively unaffected by the crisis in 2009, and rebounded sharply in mature markets, especially in Europe and North America. However, the recovery was faster than early-year expectations, creating a certain amount of pressure in the supply chain.

Demand in **Passenger car and Light truck tire** markets turned sharply upwards during the year, with stronger growth in original equipment (up 25%) than in the replacement segment (9%).

Mature markets, however, remained below 2007 levels, except in the European replacement segment.

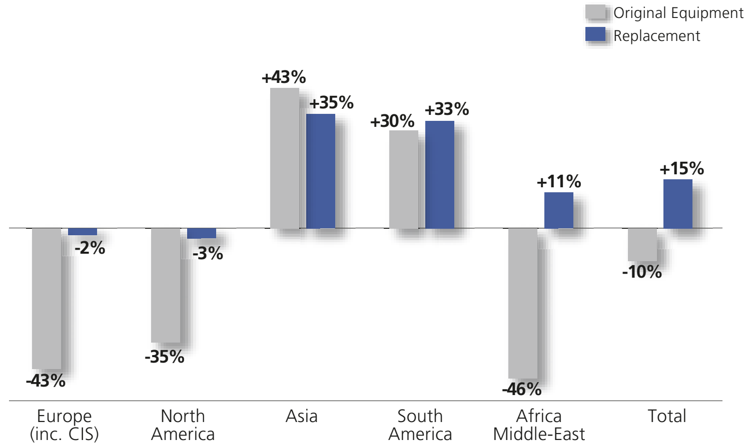
THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2010 VS. 2007



Source: Michelin estimates

Truck tire markets recovered sharply during the year in every region. In mature markets, the gains came off of low prior-year comparatives, particularly in the OE segment (up 33%). Nevertheless, these markets continued to lag pre-crisis levels, again particularly in the OE segment.

THE GLOBAL TRUCK TIRE MARKET, 2010 VS. 2007



Source: Michelin estimates – Radial tires

3.1.1. REPLACEMENT MARKETS

After their record collapse in 2009 under the impact of the recession and aggressive dealer inventory drawdowns, replacement markets turned clearly upwards in both the Passenger car and Light truck and Truck segments.

3.1.1.a) Passenger car and Light truck tires

Passenger car and Light truck markets Replacement *(in millions of tires)*	2010	2009	2010/2009	2nd-Half 2010/ 2nd-Half 2009	1st-Half 2010/ 1st-Half 2009
Europe(1)	310.2	285.8	+9%	+6%	+11%
North America(2)	266.4	255.5	+4%	+0%	+9%
Asia	206.5	181.4	+14%	+15%	+12%
South America	58.0	47.0	+23%	+26%	+21%
Africa Middle-East	75.5	72.8	+4%	+4%	+4%
TOTAL	**916.7**	**842.5**	**+9%**	**+7%**	**+11%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.

Michelin estimates

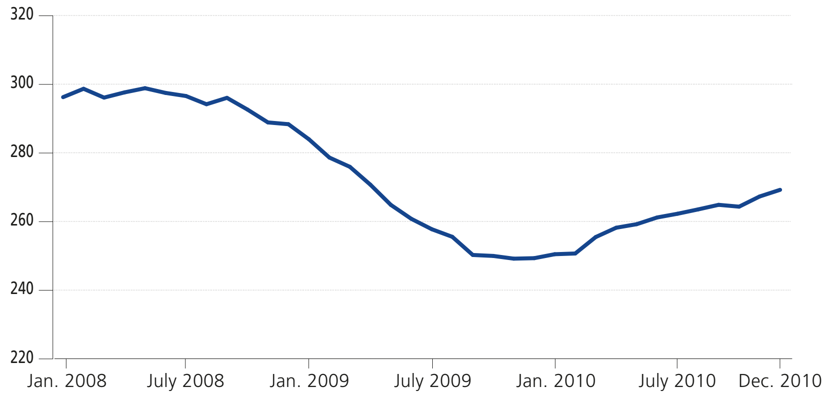
In Europe, demand rebounded faster than expected (up 9%), causing strains in the supply chain. It rose sharply in Western Europe (up 8% in France, 12% in Germany, 10% in Italy and 2% in Spain, while holding virtually steady in the United Kingdom), in the Nordic countries (up 14%), Eastern Europe (up 7% in Hungary and 16% in Russia) and Turkey (up 16%).

The market benefited from strong demand for winter tires (up 22%) during the harsh winter weather in the first and fourth quarters of 2010, as well as from dealer inventory rebuilding, following the massive recession-driven drawdowns in 2009 and ahead of the announced price increases.

As expected, growth in the high-performance tire segment (W,Y and Z speed ratings and SUV tires) continued to outpace the summer tire market.

THE EUROPEAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET

In millions of tires – moving 12 months – Excluding Russia

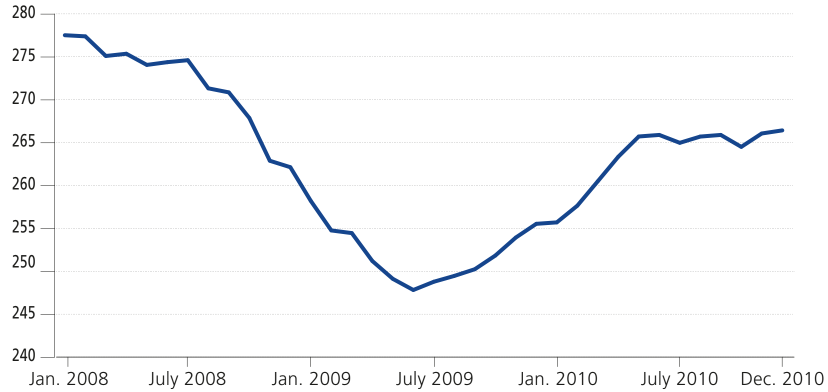


Michelin estimates

In North America, demand turned up more sharply than expected, rising 4% back to 2008 levels and putting tiremakers under pressure to increase output. In the United States, demand gained 6%, led by significant dealer restocking and the continued increase in the number of miles driven. The Canadian market declined by 13% after two years of growth supported by new winter tire regulations. In Mexico, the market expanded by 7%. The North American product mix continued to move up the value chain, with recreational tires accounting for nearly half of growth for the year.

THE NORTH AMERICAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET

In millions of tires – moving 12 months



Michelin estimates

In Asia, markets rose 14% overall during the year. Demand remained strong in China, up 24%, and rose 7% in Japan, buoyed by measures to encourage travel by car, such as toll-free motorways on the weekends. The market increased by 9% in India, where tire import licenses were abolished in late May, and by a further 7% in Southeast Asia.

In South America, replacement tire markets expanded by a brisk 23% overall. In Brazil, after a very short slowdown due to the end of the federal excise tax break on new car sales in March, the market ended the year up 34%, boosted by strong domestic demand in a buoyant economy, which spurred increases in total mileage driven and biofuel sales. Demand also rose noticeably in Argentina and Central America.

3.1.1.b) Truck tires

Truck markets* Replacement *(in millions of tires)*	2010	2009	2010/2009	2nd-Half 2010/ 2nd-Half 2009	1st-Half 2010/ 1st-Half 2009
Europe(1)	16.5	13.3	+24%	+17%	+35%
North America(2)	18.5	15.4	+20%	+18%	+22%
Asia	37.4	33.0	+13%	+12%	+14%
South America	8.9	6.4	+41%	+54%	+26%
Africa Middle-East	8.7	8.5	+2%	+2%	+2%
TOTAL	**89.9**	**76.6**	**+17%**	**+16%**	**+19%**

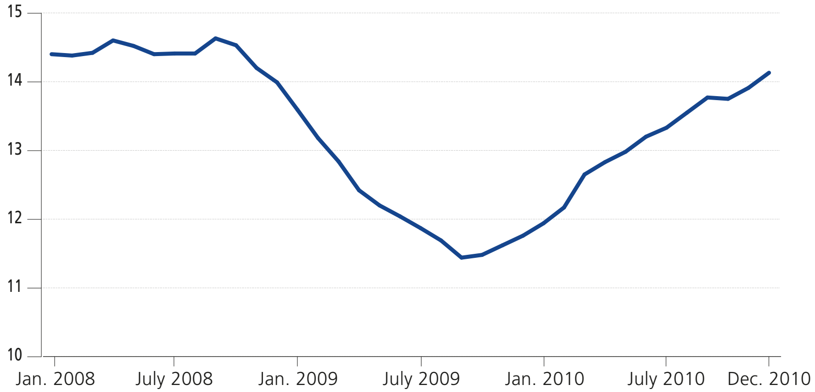
* Radial only.
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.

Michelin estimates

In Europe, markets rose a substantial 24%, led by dealer restocking against a backdrop of moderate growth in freight demand. They ended the year at nearly pre-recession levels (down 2% compared with 2007), as did the retread business, which grew by 15%. The upswing in demand put a certain amount of strain on the supply chain.

THE EUROPEAN REPLACEMENT TRUCK TIRE MARKET

In millions of radial tires – moving 12 months – Excluding Russia

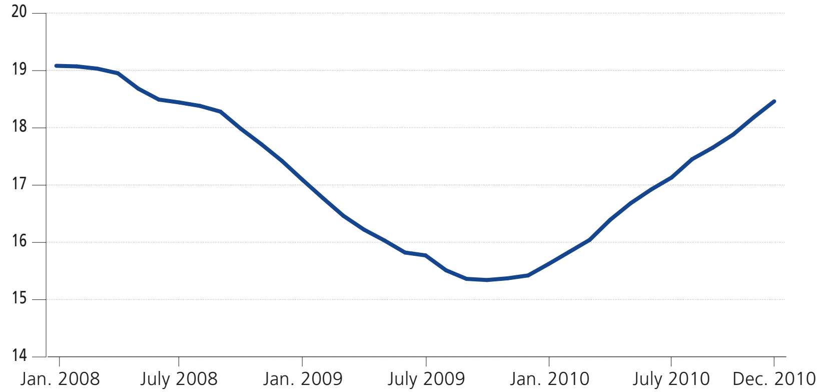


Michelin estimates

In North America, demand rose steadily throughout the year, for a 20% gain that outpaced the recovery in freight transport, reflecting inventory rebuilding after the destocking in 2009. Growth was also supported by the continuing shift to radial tires in Mexico. Although supply strains emerged late in the year, the markets have not quite yet rebounded to pre-crisis levels.

THE NORTH AMERICAN REPLACEMENT TRUCK TIRE MARKET

In millions of radial tires – moving 12 months



Michelin estimates

In Asia, markets expanded throughout 2010, to end the year up 13% overall. Despite tire price increases to pass along rising raw materials costs, demand in China continued to grow, albeit at a slower pace due to higher prior-year comparatives. Growth in Southeast Asia was driven by low-cost radial tires from China. While the Japanese market recovered strongly, it still ended the year nearly 15% below pre-crisis levels.

In South America, the market soared 41%, led by demand in Brazil, Argentina, Chile and Colombia in a favorable economic environment. In Brazil, freight transport indicators are trending upwards and dealer inventories have returned to normal.

Markets in **Africa and the Middle East** saw more moderate growth than in other regions, rising 2% overall. In certain Gulf countries, demand even turned downwards, primarily as a result of the recession in the construction industry.

3.1.2. ORIGINAL EQUIPMENT MARKETS

Following the record collapse in 2009 that led to aggressive inventory drawdowns by vehicle manufacturers, **original equipment** markets rebounded faster than expected in 2010. Nevertheless, they remained lower than their 2007 levels in Europe and North America.

3.1.2.a) Passenger car and Light truck tires

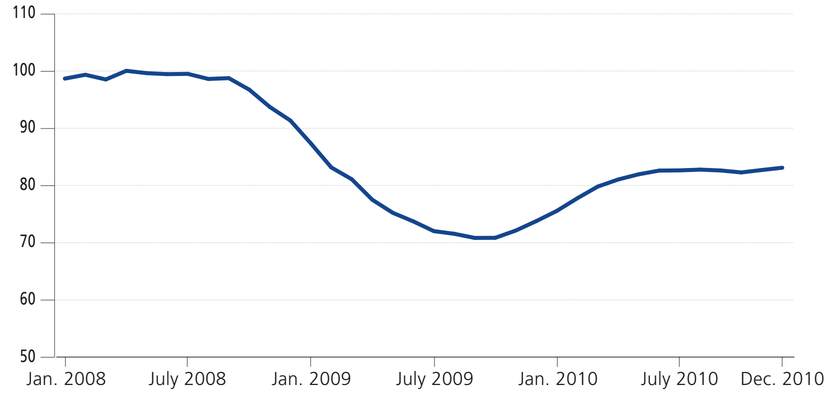
Passenger car and Light truck markets Original Equipment *(in millions of tires)*	2010	2009	2010/2009	2nd-Half 2010/ 2nd-Half 2009	1st-Half 2010/ 1st-Half 2009
Europe[1]	89.3	77.9	+15%	+5%	+26%
North America[2]	58.5	42.2	+39%	+17%	+71%
Asia	179.7	139.2	+29%	+16%	+47%
South America	20.6	18.2	+13%	+6%	+22%
Africa Middle-East	10.2	8.5	+21%	+42%	-1%
TOTAL	**358.3**	**285.9**	**+25%**	**+13%**	**+41%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.

Michelin estimates

Markets in **Europe** continued to recover in line with automobile output, which was lifted, depending on the market, by auto industry support programs, resurgent demand for premium models or strong export sales. Demand was also boosted by rising inventories, which had been drastically cut during the crisis.

THE EUROPEAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET
In millions of tires – moving 12 months – Excluding Russia

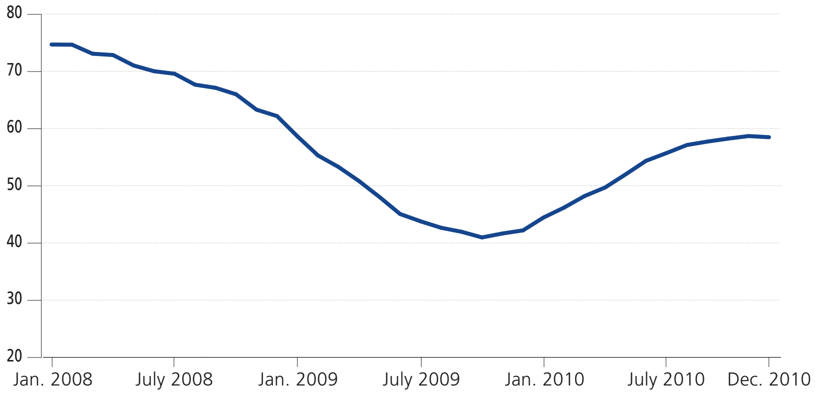


Michelin estimates

In North America, demand surged by 39% against very low prior-year comparatives, led by inventory rebuilding after 2009's excessive destocking, as well as by higher sales of US-made models compared to imports.

THE NORTH AMERICAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET

In millions of tires – moving 12 months



Michelin estimates

All of the markets in Asia rose during the year, lifted by the still growing demand for motor vehicles. The market expanded by 33% in China, where auto industry support measures were extended, and by 44% in Southeast Asia, while exports drove faster growth in the South Korean market. In Japan, demand rose by 21% despite the discontinuation in October of the program to support automobile sales and the slowdown in exports due to the rise in the yen against the dollar and the euro. Overall, the Asian market grew by 29% in 2010.

In South America, tire markets rose by 13% on the back of strong growth in the Brazilian and Argentine economies. Growth in demand was particularly robust in Brazil compared with previous years.

In Africa and the Middle East, the overall market returned to growth, expanding by 21% following a sharp decline in 2009.

3.1.2.b) Truck tires

Truck markets* Original Equipment *(in millions of tires)*	**2010**	**2009**	**2010/2009**	**2nd-Half 2010/ 2nd-Half 2009**	**1st-Half 2010/ 1st-Half 2009**
Europe(1)	4.0	2.6	+54%	+81%	+29%
North America(2)	3.4	2.7	+25%	+27%	+23%
Asia	8.7	6.9	+26%	+0%	+61%
South America	2.4	1.7	+47%	+43%	+53%
Africa Middle-East	0.4	0.3	+8%	+8%	+9%
TOTAL	**18.9**	**14.2**	**+33%**	**+24%**	**+44%**

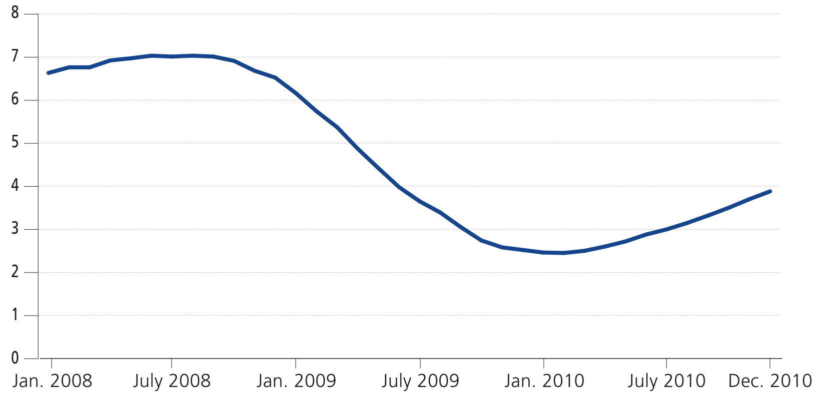
* Radial only.
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.

Michelin estimates

The **European** market experienced a strong 54% rebound off of low prior-year comparatives, led by the end of destocking and by new truck exports. While the pace of the recovery accelerated in the second half, the market remains depressed, at around 40% below its 2007 level.

THE EUROPEAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

In millions of radial tires – moving 12 months – Excluding Russia

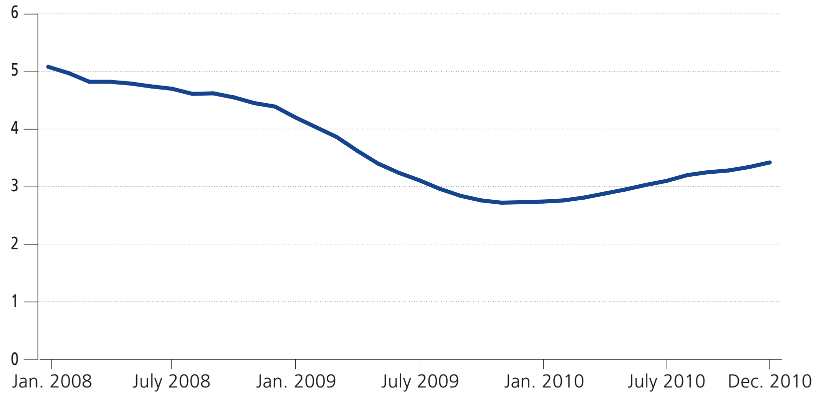


Michelin estimates

In North America, demand increased by 25% year-on-year but was still a substantial 35% below 2007 level. The upswing in 2010 marked the end of truck fleet aging.

THE NORTH AMERICAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

In millions of radial tires – moving 12 months



Michelin estimates

In Asia, the market rose 26% during the year, with OE demand gaining a solid 23% in China, despite a second-half slowdown due to higher prior-year comparatives. In Southeast Asia, the market rose sharply throughout the year, boosted by the increasing shift to radials.

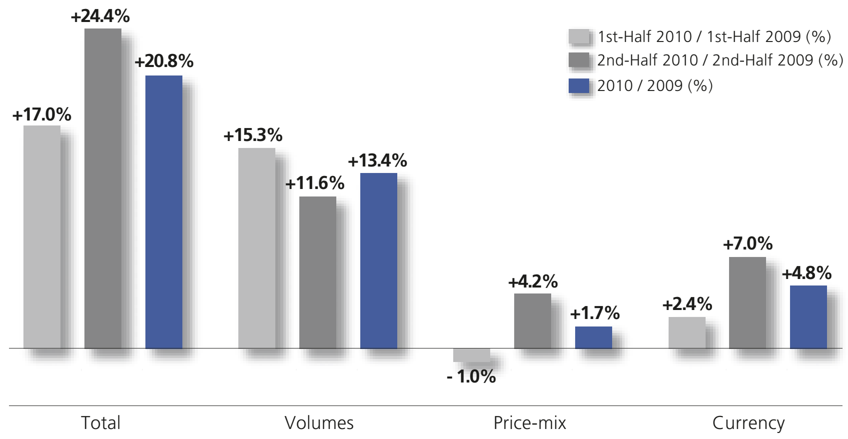
In South America, the market climbed 47% thanks to a buoyant economy and government incentives, such as tax breaks and low-interest loans to stimulate new truck purchases.

In Africa and the Middle East, OE market growth was slower than in other regions (up 8%).

3.2_ NET SALES

(in € million)	2010	2009	% change	2nd-Half 2010	2nd-Half 2009	% change	1st-Half 2010	1st-Half 2009	% change
Net sales	17,891	14,807	+20.8%	9,542	7,673	+24.4%	8,349	7,134	+17.0%
Excluding currencies			*+15.2%*			*+16.5%*			*+13.7%*

3.2.1. ANALYSIS OF NET SALES



Consolidated net sales amounted to €17,891 million in 2010, up 20.8% at current exchange rates from €14,807 million in 2009.

The increase primarily reflected the 13.4% improvement in sales volumes, which tracked the market rebound.

The improved price-mix added 1.7% to growth for the year.

- The price-mix effect swung from a negative 1% in the first half to a positive 4.2% in the second, impelled by the Group's commitment to raising prices.
  - The product mix was negative throughout the year, due to faster growth in OE volumes than in replacement sales.
  - Higher prices added €391 million to net sales and 2.6% to growth for the year. Their impact gained momentum quarter after quarter thanks to the implementation of price increases in every region and the application of contractual clauses indexing prices to raw materials costs.
- The 4.8% positive currency effect resulted mainly from gains in the US dollar, Brazilian real, Canadian dollar and Australian dollar against the euro.

(in € million and %)	2010/2009		2nd-Half 2010/ 2nd-Half 2009		4th-Quarter 2010/ 4th-Quarter 2009		3rd-Quarter 2010/ 3rd-Quarter 2009		1st-Half 2010/ 1st-Half 2009		2nd-Quarter 2010/ 2nd-Quarter 2009		1st-Quarter 2010/ 1st-Quarter 2009	
TOTAL CHANGE	**+3,084**	**+20.8%**	**+1,869**	**+24.4%**	**+975**	**+24.9%**	**+894**	**+23.8%**	**+1,215**	**+17.0%**	**+786**	**+21.7%**	**+429**	**+12.2%**
Volumes	+1,982	+13.4%	+887	+11.6%	+478	+12.2%	+409	+10.9%	+1,095	+15.3%	+559	+15.4%	+536	+15.3%
Price-mix	+278	+1.7%	+357	+4.2%	+210	+4.8%	+147	+3.5%	-79	-1.0%	+5	+0.1%	-84	-2.1%
Currency	+824	+4.8%	+625	+7.0%	+287	+6.2%	+338	+7.8%	+199	+2.4%	+222	+5.3%	-23	-0.6%
Scope	-	-	-	-	-	-	-	-	-	-	-	-	-	-

3.2.2. NET SALES BY REPORTING SEGMENT

(in € million)	2010	2010/2009	2nd-Half 2010	2nd-Half 2010/ 2nd-Half 2009	1st-Half 2010	1st-Half 2010/ 1st-Half 2009
GROUP	**17,891**	**+20.8%**	**9,542**	**+24.4%**	**8,349**	**+17.0%**
Passenger car/Light truck and related distribution	9,790	+18.2%	5,169	+19.3%	4,621	+17.0%
Truck & related distribution	5,680	+26.3%	3,114	+28.4%	2,566	+23.9%
Specialty businesses(1)	2,421	+19.2%	1,259	+37.3%	1,162	+4.3%

(1) Specialty businesses include Specialty tires (Earthmover, Agricultural, Aircraft and Two-wheel); Maps and Guides; ViaMichelin and Michelin Lifestyle.

Net sales for each reporting segment rose significantly in 2010, led by volume gains and a responsive pricing policy that passed along higher raw materials costs.

3.2.2.a) Passenger car and Light truck tires and related distribution – Analysis of net sales

In Europe, replacement sales rose sharply, led by the firm performance of the new MICHELIN lines, particularly the MICHELIN Alpin 4 winter tires. OE sales, on the other hand, were held back by tire shortages.

In North America, replacement sales increased significantly throughout the year but were nevertheless dampened by production issues. OE sales also benefited from a favorable customer mix. In all, the Group's market share in the region reached a record high during the year.

In South America, sales were boosted by very fast growing demand, with particularly good performances in Brazil, Chile and Central American countries.

In the buoyant **Asian** market, sales improved in every region, enabling the Group to further broaden and deepen its presence, especially in the Southeast. Sales continued to enjoy double-digit growth in China, where expansion is being focused on the burgeoning replacement market.

In Africa and the Middle East, sales were lifted by firmer demand.

In all, net sales in the Passenger car and Light truck tires and related distribution segment stood at €9,790 million for the year, up 18.2% on 2009. Led by a solid performance in winter tires and the strength of the MICHELIN brand, unit sales rose firmly during the year. The positive price-mix effect reflected i) the application of price increases throughout the year to pass along higher raw materials costs and ii) ongoing improvements in the segment/speed rating mix. It was only partly dampened by the unfavorable change in the OE/replacement mix.

3.2.2.b) Truck tires and related distribution – Analysis of net sales

In Europe, replacement sales outperformed the market despite some disruption caused by the price increases, while OE sales were supported by vigorous demand and Michelin's strong positions with the major truck manufacturers.

In North America, X One sales are at an all-time high, with more than one million tires sold. At a time of rising raw materials prices, substantial price increases were implemented in a commitment to preserving margins. In the OE segment, a positive customer mix enabled sales to outpace the market.

In South America, sales rose sharply and steadily throughout the year, putting pressure on the supply chain, particularly in the replacement market. In the original equipment segment, the quality of the Group's lineup fueled further market share gains.

Asian sales tracked the market, with robust gains in both the OE and replacement segments. In China, price increases to counterbalance the impact of higher raw materials costs did not hold back sales growth and market share gains in original equipment. Sales in both Japan and South Korea outperformed the market. Michelin also continued to expand in Southeast Asia, with the Vietnamese agency enjoying its first year of business in 2010.

In Africa and the Middle East, sales were boosted by rising demand.

In all, net sales in the Truck tires and related distribution segment amounted to €5,680 million for the year, up 26.3% on 2009. Sales volumes rose sharply against low prior-year comparatives, with faster growth at year-end creating certain supply issues in mature markets. Despite an unfavorable OE/replacement market mix, the price-mix improved quarter after quarter, thanks to the gradual application of price increases to pass along rising raw materials prices.

3

3.2.2.c) Specialty businesses – Analysis of net sales

Earthmover tires: After dodging the recession, the mining segment continued to expand on healthy demand for ore and energy in fast growing markets. The OE market practically doubled in the mature economies, although volumes failed to reach pre-recession levels. Despite strong growth in every region, the infrastructure market also lagged behind 2008 levels.

Michelin sales rose briskly in every segment. Application of commodity index-based adjustment clauses led to price increases in the second half of the year, which offset rising raw materials costs, albeit with a slight delay.

Agricultural tires: Although lower than in 2008, OE markets rose sharply during the year, with a more pronounced upturn in the high-powered farm machinery segment. In the overall agricultural tire market, the recovery picked up steam in the fourth quarter as a result of robust grain prices and a favorable outlook for 2011.

Michelin sales rose across-the-board, reflecting market share gains in the OE segment and the solid performance of the premium brands in the replacement market. The strategy of boosting sales of the MICHELIN and KLEBER brands was pursued during the year. The summer saw the launch of the MICHELIN CerexBib for harvesters and the MICHELIN SprayBib for row-crop sprayers, both of which feature the innovative MICHELIN UltraFlex technology.

Two-wheel tires: The motorized segments made gains in all mature economies except Japan. The pace of growth remained robust in emerging markets, particularly in Southeast Asia where demand is at a record high.

Group sales ended the year higher, leading to market share gains in North America, Brazil and also Europe, which saw the launch of the Power Pure tire in the performance segment. In the OE market, deliveries to Harley Davidson continued to ramp up during the period.

Aircraft tires: All of the markets returned to growth in 2010, with the uptrend particularly noticeable in the Commercial Aviation segment, which is seeing an improvement in load factors. After collapsing in 2009, the General Aviation business rebounded during the year, while the military segment remained stable. Demand for radial technology tires continued to grow.

For Michelin, the year was marked by the signing of long-term contracts with Air France, KLM and Turkish Airlines, for whom the Group's end-to-end solutions combining quality products and innovative services proved decisive. Penalized by unfavorable exchange rates, net sales were stable overall compared with 2009.

The **Maps and Guides** division continued to pursue development programs in its three businesses. After steadily declining in recent years, the Maps market seems to be stabilizing, as Michelin continues to develop partnership agreements. The Tourist Guides business pursued its commitment to publishing an increasing number of international guides and began to leverage content synergies between the Green Guides and the new ViaMichelin website travel section. MICHELIN Guide sales were stable in 2010.

The **ViaMichelin** website enjoyed a record 432 million visits during the year. The regularly enhanced services were revamped for the site's tenth version and now include a travel section featuring Green Guides content.

To develop the Group's travel information and advisory services, the Maps and Guides and ViaMichelin teams will be consolidated into a single unit and, ultimately, a single company. The new unit will be capable of rapidly developing integrated, multimedia (paper and digital) products and services for consumers and professionals that will further enhance the brand's vision of "a better way forward".

In all, net sales from the Specialty businesses came to €2,421 million, a gain of 19.2% on 2009. Growth was led by Michelin's powerful momentum in every tire market, as well as by the application of contractual clauses indexing prices to raw materials costs.

3.2.3. CURRENCY RATES AND THE CURRENCY EFFECT

At current exchange rates, consolidated net sales rose by 20.8% in 2010. That growth includes an €824 million gain from changes in exchange rates during the year, primarily the appreciation of the US dollar, Brazilian real, Canadian dollar, Australian dollar and, to a lesser extent, the Mexican peso and Thai baht against the euro.

Average exchange rate	2010	2009	% change
Euro/USD	1.327	1.394	-4.8%
Euro/CAD	1.367	1.586	-13.9%
Euro/MXN	16.759	18.805	-10.9%
Euro/BRL	2.332	2.773	-15.9%
Euro/GBP	0.858	0.892	-3.8%
Euro/JPY	116.157	130.251	-10.8%
Euro/CNY	8.981	9.524	-5.7%
Euro/THB	42.021	47.812	-12.1%

3.2.4. NET SALES BY REGION

(in € million)	2010	2010/2009	2nd-Half 2010	1st-Half 2010
GROUP	**17,891**	**+20.8%**	**9,542**	**8,349**
Europe	7,682	+13.8%	4,042	3,640
North America (incl. Mexico)	6,148	+23.1%	3,348	2,800
Other	4,061	+32.7%	2,152	1,909

(in € million)	2010	% of total	2009	% of total
GROUP	**17,891**		**14,807**	
Europe	7,682	42.9%	6,752	45.6%
North America (incl. Mexico)	6,148	34.4%	4,994	33.7%
Other	4,061	22.7%	3,061	20.7%

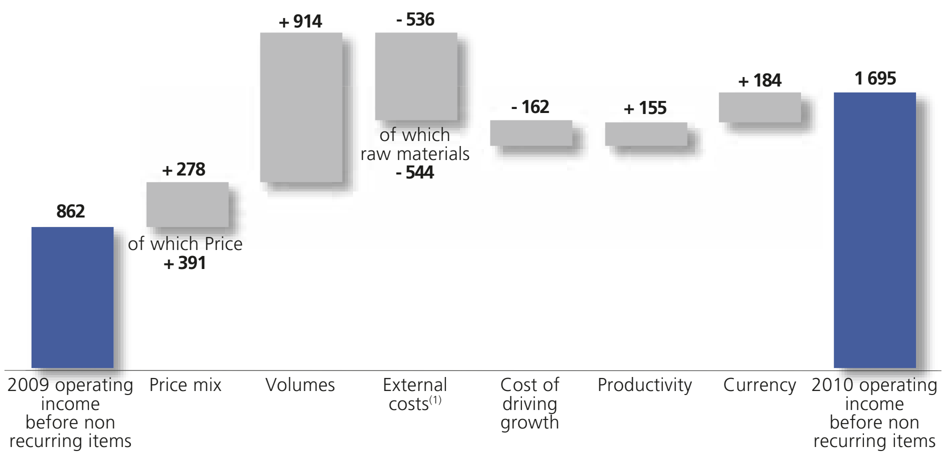
Consolidated net sales improved in every geography, but at a faster pace in high-potential growth markets. In tonnage, these markets accounted for 33% of 2010 sales volumes, versus 32% in 2009.

3.3_ CONSOLIDATED INCOME STATEMENT REVIEW

(in € million, except per share data)	2010	2009	2010/2009	2010 *(% of net sales)*	2009 *(% of net sales)*
Net sales	**17,891**	**14,807**	**+20.8%**		
Cost of sales	(12,403)	(10,527)	+17.8%	69.3%	71.1%
Gross income	**5,488**	**4,280**	**+28.2%**	**30.7%**	**28.9%**
Sales and marketing expenses	(1,847)	(1,650)	+11.9%	10.3%	11.1%
Research and development expenses	(545)	(506)	+7.7%	3.0%	3.4%
General and administrative expenses	(1,237)	(1,113)	+11.1%	6.9%	7.5%
Other operating income and expenses	(164)	(149)	+10.1%	0.9%	1.0%
Operating income before non-recurring income and expenses	**1,695**	**862**	**+96.6%**	**9.5%**	**5.8%**
Non-recurring expenses	-	(412)	NM	0.0%	2.8%
Operating income	**1,695**	**450**	**+276.7%**	**9.5%**	**3.0%**
Cost of net debt	(236)	(262)	-9.9%	1.3%	1.8%
Other financial income and expenses	10	10	+0.0%	0.1%	0.1%
Share of profit from associates	29	9	+222.2%	0.2%	0.1%
Income before taxes	**1,498**	**207**	**+623.7%**	**8.4%**	**1.4%**
Income tax	(449)	(103)	+335.9%	2.5%	0.7%
Net income	**1,049**	**104**	**+908.7%**	**5.9%**	**0.7%**
• Attributable to the shareholders of the Company	1,048	106	+888.7%	5.9%	0.7%
• Attributable to non-controlling interests	1	(2)			
Earnings per share *(in €)*					
• Basic	6.78	0.69	+882.6%		
• Diluted	6.64	0.69	+862.3%		

3.3.1. ANALYSIS OF CONSOLIDATED OPERATING INCOME BEFORE NON-RECURRING ITEMS

In € million



(1) Raw materials and logistics costs, at constant exchange rates.

Consolidated **operating income before non-recurring income and expenses** amounted to €1,695 million or 9.5% of net sales in 2010, compared with €862 million and 5.8% in 2009. There were no non-recurring items recognized for the year.

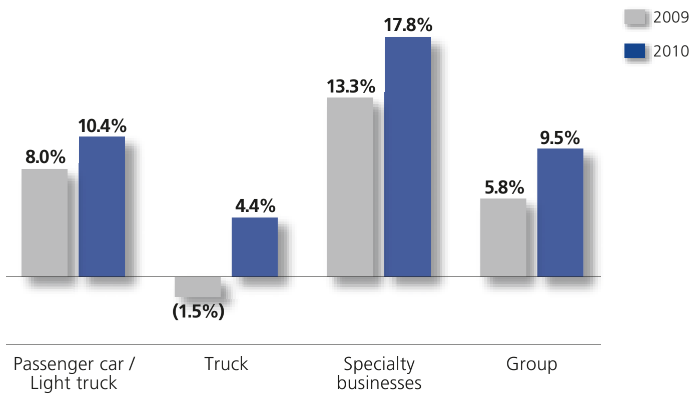
The €833-million improvement in operating income before non-recurring items, which added 3.7 points to operating margin, reflected the net impact of:

- A €914 million increase from the significant growth in sales volumes;
- A €278 million increase from the price-mix, as the unfavorable OE/replacement market mix was offset by the €391 positive impact from the price increases announced in every geography and application of contract clauses indexing prices to raw materials costs;
- A €536 million decrease from the rise in external costs, of which €544 million was attributable to higher raw materials prices;
- A €184 million positive currency effect;
- A €155 million gain from productivity improvements
- €162 million in non-recurring expenses to drive new growth, primarily in the new markets.

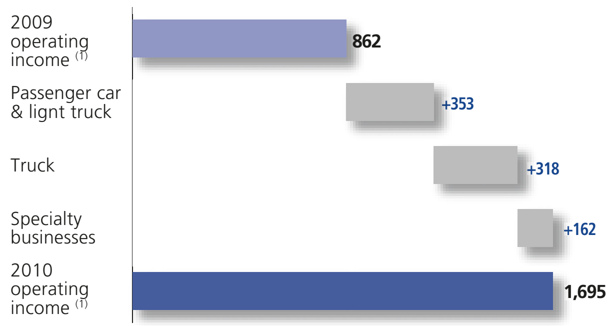
3.3.2. OPERATING INCOME BEFORE NON-RECURRING ITEMS BY REPORTING SEGMENT

(in € million)	2010	2nd-Half 2010	1st-Half 2010
PASSENGER CAR/LIGHT TRUCK AND RELATED DISTRIBUTION			
Net sales	9,790	5,169	4,621
Operating income before non-recurring items	1,014	517	497
Operating margin before non-recurring items	**10.4%**	**10.0%**	**10.8%**
TRUCK & RELATED DISTRIBUTION			
Net sales	5,680	3,114	2,566
Operating income before non-recurring items	249	123	126
Operating margin before non-recurring items	**4.4%**	**3.9%**	**4.9%**
SPECIALTY BUSINESSES			
Net sales	2,421	1,259	1,162
Operating income before non-recurring items	432	233	199
Operating margin before non-recurring items	**17.8%**	**18.5%**	**17.1%**
GROUP			
Net sales	17,891	9,542	8,349
Operating income before non-recurring items	1,695	873	822
Operating margin before non-recurring items	**9.5%**	**9.1%**	**9.8%**

3.3.2.a) Operating margin by reporting segment



In € million



(1) Before non-recurring items.

- Passenger car and Light truck tires and related distribution
- Truck tires and related distribution
- Specialty businesses: Specialty tires (Earthmover, Agricultural, Aircraft and Two-wheel); Maps and Guides; ViaMichelin and Michelin Lifestyle.

3.3.2.b) Passenger car and Light truck tires and related distribution – Analysis of operating income before non-recurring items

Passenger car/Light truck and related distribution *(in € million)*	2010	2009	2010/2009	2010 *(% of Group total)*	2009 *(% of Group total)*
Net sales	9,790	8,280	+18.2%	55%	56%
Operating income before non-recurring items	1,014	661	+53.4%	60%	77%
Operating margin before non-recurring items	10.4%	8.0%	+2.4pts		

Operating income before non-recurring income and expenses from the Passenger car and Light truck tires and related distribution business amounted to €1,014 million or 10.4% of net sales in 2010, compared with €661 million and 8.0% in 2009.

The improvement was led by the following factors:

- The sharp increase in sales volumes, boosted by the upturn in demand in every Passenger car and Light truck market and by the performance of the MICHELIN brand;
- An amply positive price-mix, as price increases offset the negative trend in the OE/replacement sales mix;
- The unfavorable impact of high raw materials prices;
- The tight control over manufacturing costs at time of high capacity utilization.

3.3.2.c) Truck tires and related distribution – Analysis of operating income before non-recurring items

Truck & related distribution *(in € million)*	2010	2009	2010/2009	2010 *(% of Group total)*	2009 *(% of Group total)*
Net sales	5,680	4,496	+26.3%	32%	30%
Operating income before non-recurring items	249	(69)	NM	15%	(8%)
Operating margin before non-recurring items	4.4%	(1.5%)	+5.9pts		

Operating income before non-recurring income and expenses from the Truck tires and related distribution business amounted to €249 million or 4.4% of net sales in 2010, versus an operating loss of €69 million in 2009.

At a time of rising prices for natural rubber and other raw materials, this improvement was mainly attributable to:

- The increase in volumes following the rebound in demand off of low prior-year comparatives;
- The improvement in the Truck tire segment's competitiveness;
- The responsiveness of the pricing policy in the face of rising raw materials prices

3.3.2.d) Specialty businesses – Analysis of operating income before non-recurring items

Specialty businesses *(in € million)*	2010	2009	2010/2009	2010 *(% of Group total)*	2009 *(% of Group total)*
Net sales	2,421	2,031	+19.2%	13%	14%
Operating income before non-recurring items	432	270	+60.0%	25%	31%
Operating margin before non-recurring items	17.8%	13.3%	+4.5pts		

Operating income before non-recurring income and expenses from the Specialty businesses stood structurally high in 2010 at €432 million or 17.8% of net sales, compared with €270 million and 13.3% in 2009.

This growth primarily reflected the following factors:

- The increase in tonnages sold by each of the Specialty tires businesses, with a significant contribution from Earthmover tires;
- The favorable impact in the second half from applying contract clauses indexing prices to raw materials costs, after a negative impact in the first half.

3.3.3. OTHER INCOME STATEMENT ITEMS

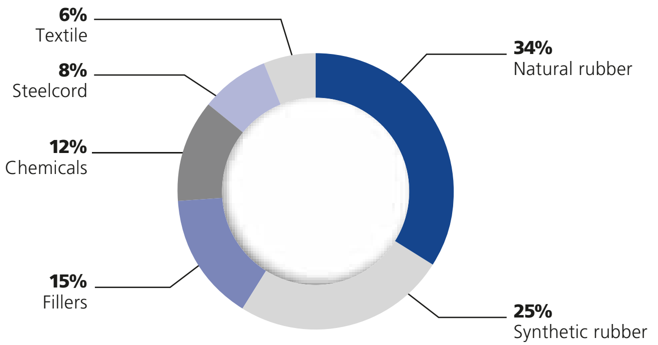
3.3.3.a) Raw materials

The cost of **raw materials** recognized in the income statement under "cost of sales" is determined by valuing raw materials, semi-finished and finished product inventories using the weighted average cost method. This method tends to spread fluctuations in purchase costs over time and delay their recognition in cost of sales, due to timing differences between the purchase of the raw materials and the sale of the finished product.

In 2010, raw materials costs recognized in cost of sales rose by €544 million at constant exchange rates.

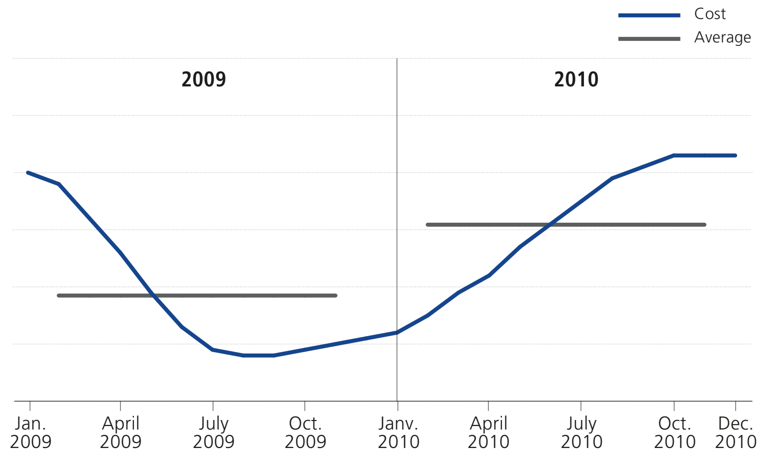
Overall, **external costs** (mainly raw materials and logistics) rose by a somewhat slower €536 million, thanks to continued tight control over logistics expense.

RAW MATERIALS RECOGNIZED IN 2010 COST OF SALES, BY TYPE AND IN €

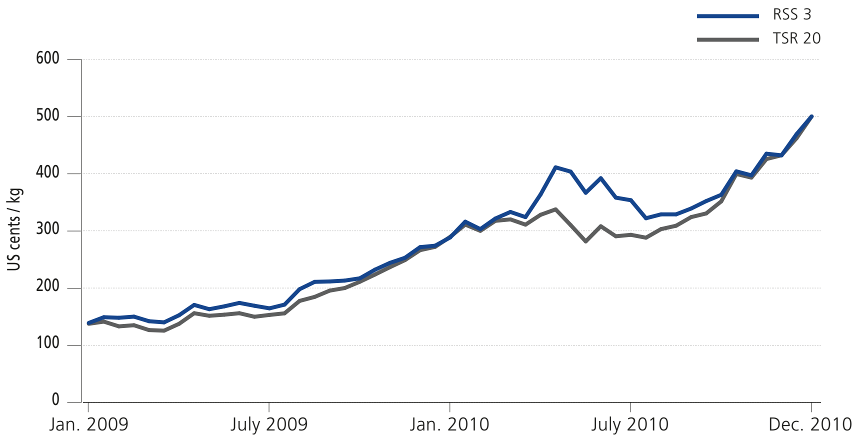


RAW MATERIALS COSTS RECOGNIZED IN 2010 COST OF SALES

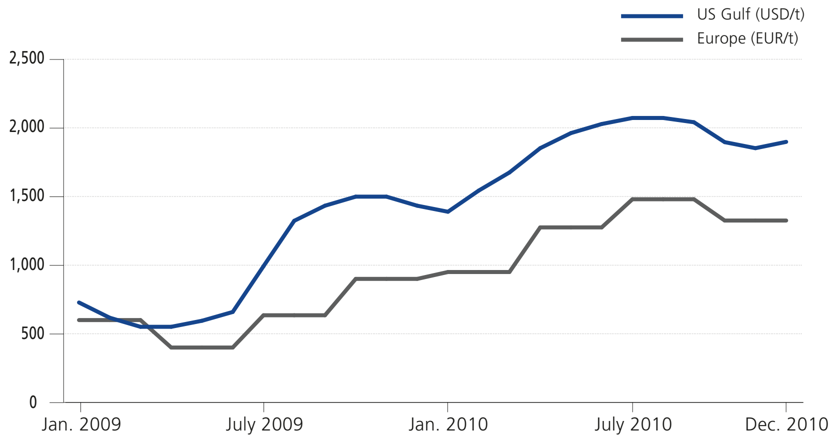
In €/kg



NATURAL RUBBER PRICES (SICOM)



BUTADIENE PRICES



3.3.3.b) Employee benefit costs and number of employees

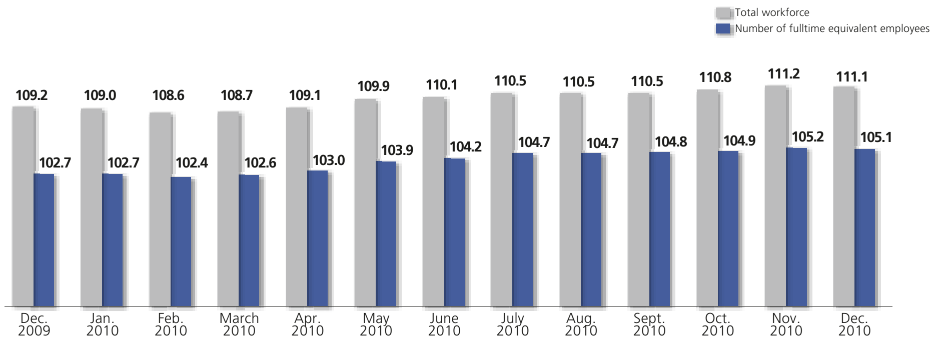
(in € million and number of people)	2010	2009	% change
Employee benefit costs	4,836	4,515	+7.1%
As a % of net sales	27.0%	30.5%	-3.5pts
Total number of employees at December 31	111,100	109,200	+1.7%
Number of full time equivalent employees at December 31	105,100	102,700	+2.3%
Average number of full time equivalent employees	104,000	105,800	-1.7%

Employee benefit costs represented 27.0% of 2010 net sales, versus 30.5% in 2009, as net sales rose sharply during the period.

The **number of full-time equivalent employees** at December 31, 2010 rose by a net 2,400 people or 2.3% over the year. The workforce did not increase as fast as the 13.4% growth in sales volumes, however, attesting to the intrinsic gains in productivity.

The €321 million or 7.1% rise in employee benefit costs was primarily due to i) the increase in headcount and salaries during the year and ii) comparison with 2009, when costs were impacted by government measures to compensate short-time working hours and, in certain regions, a decline in wages in line with shorter hours.

NUMBER OF EMPLOYEES
In thousands

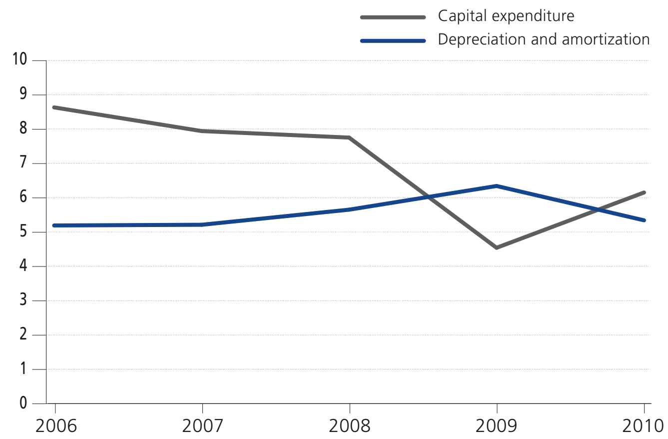


3.3.3.c) Depreciation and amortization

(in € million)	2010	2009	% change
Depreciation and amortization	955	939	+1.7%
As a % of capital expenditure	*87%*	*140%*	

Depreciation and amortization edged up 1.7% to €955 million in 2010, but fell back below capital expenditure for the year.

As a % of net sales



3.3.3.d) Transportation costs

(in € million)	2010	2009	% change
Transportation of goods	963	773	+24.6%
As a % of sales	*5.4%*	*5.2%*	

Transportation costs rose by 24.6% to €963 million, lifted by the 13.4% growth in sales volumes and the increase in exports at a time of rising maritime freight rates.

As a result, transportation costs represented 5.4% of net sales compared with 5.2% in 2009.

3.3.3.e) Sales and marketing expense

Sales and marketing expense rose by €197 million to €1,847 million or 10.3% of net sales in 2010, with much of the increase (€91 million) due to the rise in advertising costs following deployment of the global advertising campaign during the year.

3.3.3.f) Research and development expense

Research and development expense stood at €545 million, up 7.7% from 2009 and representing 3.0% of net sales, versus 3.4% the year before.

The slight increase in euro terms demonstrates the Group's dedication to strengthening its technological leadership at a time when customers increasingly perceive the benefits delivered by high performance tires.

3.3.3.g) General and administrative expense

At €1,237 million, **general and administrative expense** represented 6.9% of net sales, versus €1,113 million and 7.5% in 2009. The increase was led by the costs of setting up new administrative and sales offices in the fast growing markets.

3.3.3.h) Non-recurring expenses

No non-recurring expenses were recognized in the first half.

3.3.3.i) Cost of net debt

(in € million)	2010	2009	Value change
Cost of net debt	236	262	-26

The **cost of net debt** declined by €26 million compared with 2009, primarily due to the reduction in average net debt and the decrease in interest rates.

More specifically, the decline in net debt reflected the following factors:

- A €61 million decrease in net interest expense, of which:
  - A €44 million decrease attributable to the €955 million reduction in average net debt to €2.8 billion in 2010 from €3.8 billion in 2009,
  - A €29 million decrease from the reduction in the average gross interest rate on borrowings, to 4.6% in 2010 from 5.3% in 2009,
  - A €17 million increase from the negative carry, reflecting the increase in average invested cash and cash equivalents to €1,297 million from €794 million in 2009,
  - A €5 million decrease from other favorable factors;
- A €35 million increase from other unfavorable factors, including the mark-to-market adjustment of interest rate derivatives used by the Group to convert part of its variable rate debt into fixed rate instruments.

3.3.3.j) Other financial income and expenses

(in € million)	2010	2009	Value change
Other financial income and expenses	10	10	+0

Other financial income and expenses mainly included currency gains and losses, dividends, interest income and proceeds from the sale of financial assets.

3.3.3.k) Income tax

(in € million)	2010	2009	Value change
Income before taxes	1,498	207	+1,291
Income tax	**(449)**	**(103)**	**+346**
Current tax	(269)	(104)	+165
Withholding tax	(18)	(21)	-3
Deferred tax	(162)	22	+184

Income tax expense amounted to €449 million in 2010, corresponding to an effective tax rate of 30.0%. In 2009, the Group reported an income tax liability that was €346 million less, mainly because income before taxes for the year was much lower.

3.3.3.l) Consolidated net income and earnings per share

(in € million)	2010	2009	Value change
Net income	1,049	104	+945
As a % of net sales	*5.9%*	*0.7%*	*+5.2pts*
• Attributable to the shareholders of the Company	1,048	106	+942
• Attributable to non-controlling interests	1	(2)	+3
Earnings per share *(in €)*			
• Basic	6.78	0.69	+6.09
• Diluted	6.64	0.69	+5.95

Net income came to €1,049 million or 5.9% of net sales in 2010, compared with €104 million the year before. The improvement was led by the combination of the following factors:

- The €833 million increase in operating income before non-recurring income and expenses;
- The absence of any non-recurring expenses during the year, compared with €412 million in 2009;
- The €26 million reduction in the cost of net debt;
- The €20 million share of the profit from associates;
- The €346 million increase in income tax expense.

3.4_ CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € million)	December 31, 2010	December 31, 2009	Total change	Currency effect	Movement
Goodwill	416	403	+13	+32	-19
Other intangible assets	360	321	+39	+9	+30
Property, plant and equipment (PP&E)	7,193	6,782	+411	+340	+71
Non-current financial assets and other assets	1,108	712	+396	+27	+369
Investments in associates and joint ventures	93	71	+22	+0	+22
Deferred tax assets	828	942	-114	+46	-160
Non-current assets	**9,998**	**9,231**	**+767**	**+454**	**+313**
Inventories	3,770	2,994	+776	+189	+587
Trade receivables	2,770	2,314	+456	+116	+340
Current financial assets	882	165	+717	+2	+715
Other current assets	653	583	+70	+25	+45
Cash and cash equivalents	1,590	1,231	+359	+37	+322
Current assets	**9,665**	**7,287**	**+2,378**	**+369**	**+2,009**
TOTAL ASSETS	**19,663**	**16,518**	**+3,145**	**+823**	**+2,322**

LIABILITIES AND EQUITY

(in € million)	December 31, 2010	December 31, 2009	Total change	Currency effect	Movement
Share capital	353	295	+58	-	+58
Share premiums	3,215	1,987	+1,228	-	+1,228
Reserves	4,556	3,210	+1,346	+295	+1,051
Non-controlling interests	3	3	+0	+0	+0
Equity	**8,127**	**5,495**	**+2,632**	**+295**	**+2,337**
Non-current financial liabilities	3,251	3,568	-317	+89	-406
Employee benefit obligations	2,457	2,374	+83	+103	-20
Provisions and other non-current liabilities	938	1,105	-167	+40	-207
Deferred tax liabilities	45	40	+5	+0	+5
Non-current liabilities	**6,691**	**7,087**	**-396**	**+232**	**-628**
Current financial liabilities	896	760	+136	+141	-5
Trade payables	1,813	1,249	+564	+63	+501
Other current liabilities	2,136	1,927	+209	+92	+117
Current liabilities	**4,845**	**3,936**	**+909**	**+296**	**+613**
TOTAL EQUITY AND LIABILITIES	**19,663**	**16,518**	**+3,145**	**+823**	**+2,322**

3.4.1. GOODWILL

Other than the impact of translation adjustments, there was no material change in **goodwill** at December 31, 2010 compared with December 31, 2009.

3.4.2. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stood at €7.2 billion at December 31, 2010, a €411 million increase that reflected both the Group's sustained capital expenditure commitment, which once again exceeded depreciation and amortization for the year, and the impact of translation adjustments.

3.4.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets rose by €396 million, mainly due to:

- Fair value adjustments to available-for-sale financial assets;
- The pre-payment of contributions to different pension funds.

3.4.4. DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets declined by €114 million, primarily due to a reduction in timing differences by Group companies.

3.4.5. WORKING CAPITAL REQUIREMENT

(in € million)	2010	2009	Value change	2010 *(as a % of sales)*	2009 *(as a % of sales)*
Inventories	3,770	2,994	+776	21.1%	20.2%
Trade receivables	2,770	2,314	+456	15.5%	15.6%
Trade payables	(1,813)	(1,249)	-564	10.1%	8.4%
WORKING CAPITAL REQUIREMENT	**4,727**	**4,059**	**+668**	**26.4%**	**27.4%**

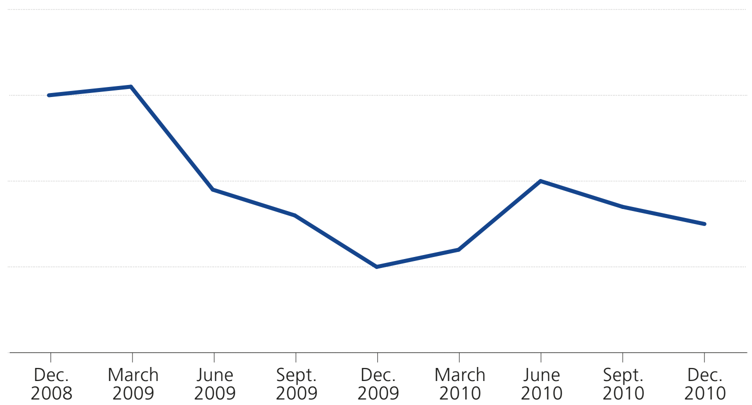
The upturn in business drove a 16.5% or €668 million increase in **working capital requirement,** which represented 26.4% of net sales for the year.

Inventory rose by €776 million and represented 21.1% of net sales at December 31, 2010. Around two-thirds of the increase was due to the rise in the value of raw materials inventory and the remaining third to the growth in output. In volume terms, inventory fell below normal levels in many of the operating units, primarily as a result of exceptionally robust sales in December.

The amount of finished product inventory rose by 6% over the year, while the amount of semi-finished product and raw materials inventory increased by 10%.

FINISHED PRODUCT INVENTORY

Quarterly change in volumes



Trade receivables rose by €456 million to €2,770 million, but eased slightly to 15.5% of sales at December 31, 2010 from 15.6% a year earlier. With payment terms still gradually growing shorter, the increase in value during the year primarily reflected the growth in sales volumes and, to a lesser extent, the price rises implemented to pass along the higher cost of raw materials.

Trade payables increased by €564 million, mainly due to the upturn in business and the renewed capital expenditure drive.

3.4.6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents rose by €359 million to €1,590 million at December 31, 2010, in line with €426 million in free cash flow generated during the year and the €1.2 billion in proceeds from the October rights issue.

3.4.7. EQUITY

Consolidated **equity** increased by €2,632 million to €8,127 million at December 31, 2010, reflecting the following main factors:

- Favorable factors:
  - €1,286 million in proceeds, primarily from the €1.2 billion rights issue carried out in October and, to a lesser extent, the issue of 1,735,759 new shares under the dividend reinvestment plan (€82 million) and on the exercise of stock options,
  - Comprehensive income for the period, in an amount of €1,506 million (€1,049 million in net income, plus €294 million in net translation gains and €163 million in other positive items);
- Unfavorable factors:
  - Dividends and other distributions, in an amount of €151 million.

At December 31, 2010, the share capital of Compagnie Générale des Établissements Michelin stood at €353,215,690, comprising 176,607,845 shares corresponding to 226,828,425 voting rights.

3.4.8. NET DEBT

Net debt amounted to €1,629 million at December 31, 2010, down €1,302 million from December 31, 2009 as a result of the following factors:

- The €426 million in free cash flow generated during the year;
- Proceeds of €1,192 million from the Compagnie Générale des Établissements Michelin rights issue, net of transaction costs;
- The €65 million payment of the cash portion of the dividend;
- The €191 million negative translation adjustment;
- The €32 million interest expense on the zero-coupon convertible bonds;
- The negative €28 million impact of other factors.

NET DEBT, DECEMBER 31, 2009 – DECEMBER 31, 2010

Following the investment of part of the proceeds from the rights issue in financial instruments not qualifying as cash or cash equivalents, the method used to calculate net debt was changed to ensure that it remains a meaningful indicator, albeit one that is not strictly aligned with accounting standards. To ensure comparability, the method was applied retrospectively.

Net debt now includes long and short-term debt, as recognized in the balance sheet, less:

- Cash, as recognized in the balance sheet;
- Derivative instruments recorded in assets as "non-current financial assets" and "current financial assets";
- Cash management instruments recorded in "current financial assets". These instruments are marketable, relatively insensitive to instrument rate risk and not exposed to exchange rate risk;
- Loan guarantees recorded in assets as "non-current financial assets" and "current financial assets".

(in € million)	2010	2009
At January 1	**2,931**	**4,273**
Translation adjustment	+191	+52
Free cash flow(1)	-426	-1,507
Rights issue	-1,204	-2
Dividends	+69	+71
Other change in equity	+36	+15
Commitments to purchase shares	-7	-17
New obligations under finance leases	+3	+7
Change in scope and other	+36	+39
AT DECEMBER 31	**1,629**	**2,931**
CHANGE	**-1,302**	**-1,342**

(1) Free cash flow equals cash flows from operating activities less cash flows used in investing activities (excluding cash flows from cash management financial assets and borrowing collaterals).

Gearing

Thanks to the free cash flow generated during the year and the increase in equity, **gearing** was sharply reduced to 20% from 53% at December 31, 2009.

Ratings

As of the date of filing, solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière Michelin (CFM) were as follows:

		CGEM	CFM
Short term	Standard & Poor's	A-2	A-2
	Moody's	P-2	P-2
Long term	Standard & Poor's	BBB	BBB
	Moody's	Baa2	Baa2
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Positive	Positive

- On July 24, 2008, to eliminate the rating gap between CFM and its parent company CGEM, Moody's revised CGEM's rating from Baa3/Prime-3/Stable to Baa2/Prime-2/Stable;
- On October 4, 2010, Standard & Poor's raised its outlook for Michelin from negative to stable and upgraded the short-term rating from A-3 to A-2, while maintaining the long-term rating of BBB;
- On January 12, 2011, Moody's upgraded the outlook on CGEM's Baa2 rating from stable to positive.

3.4.9. PROVISIONS

Provisions and other non-current liabilities declined to €938 million from €1,105 million at December 31, 2009, reflecting payments made in 2010 in respect of previously announced restructuring plans. No new major restructuring programs were announced in 2010.

3.4.10. EMPLOYEE BENEFITS

CHANGE IN FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € million)	Pension plans	Other plans	2010	2009
Net amount at January, 1	**599**	**1,540**	**2,139**	**2,443**
Translation adjustments	(12)	94	82	26
Expenses recognized in the income statement (recurring items)	150	96	246	253
Contributions paid to the funds	(335)	-	(335)	(362)
Benefits paid directly to the beneficiaries	(23)	(83)	(106)	(146)
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	(75)
Changes in scope of consolidation	-	-	-	-
NET AMOUNT AT DECEMBER 31	**379**	**1,647**	**2,026**	**2,139**

The expense recognized in operating income in 2010 in respect of employee defined-benefit plans amounted to €246 million, up €68 million from the prior year. The increase was mainly attributable to the impact on defined-benefit obligations of restructuring plans implemented in North America and France in 2009, which resulted in a gain of €75 million.

Total Group contributions to employee defined-benefit plans during the year declined by €67 million to €441 million, of which:

- €335 million in contributions paid to fund management institutions;
- €106 million in benefits paid directly to employees.

As in 2009, the Group decided to pay in 2010 contributions normally due between 2011 and 2012 to North American fund management institutions, in an amount of $250 million, and to UK fund management institutions, in an amount of £46 million. Similarly, the Group decided to pay in 2010 contributions normally due between 2011 and 2016 to Canadian fund management institutions in an amount of C$50 million. The total amount of these pre-paid contributions came to €270 million.

The decision to pre-pay these contributions due in future years has improved the financial position of the fund management institutions and enabled the Group to qualify for significant tax advantages.

3.5_ CONSOLIDATED CASH FLOW STATEMENT REVIEW

3.5.1. CASH FLOW FROM OPERATING ACTIVITIES

(in € million)	2010	2009	Value change
EBITDA before non-recurring income and expenses	**2,660**	**1,802**	**+858**
Change in provisions, including employee benefit obligations	(423)	(372)	-51
Cost of net debt and other financial income and expenses paid	(177)	(207)	+30
Income tax paid	(297)	(19)	-278
Change in working capital, net of impairments	(441)	919	-1,360
Change in inventory	*(584)*	*759*	*-1,343*
Change in trade receivables	*(246)*	*176*	*-422*
Change in trade payables	*369*	*(190)*	*+559*
Other	*20*	*174*	*-154*
CASH FLOWS FROM OPERATING ACTIVITIES	**1,322**	**2,123**	**-801**

EBITDA before non-recurring income and expenses rose by €858 million to a record €2,660 million in 2010, in line with the increase in operating income before non-recurring items.

Provisions and employee benefit obligations declined by €423 million, corresponding mainly to pension fund contributions made during the year and payments of restructuring plan costs.

Change in working capital reduced cash flows from operating activities by €441 million, reflecting the increase in output in 2010.

3.5.2. CAPITAL EXPENDITURE

(in € million)	2010	2009	2010/2009	2010 (as a % of sales)	2009 as a % of sales
Gross purchases of intangible assets and PP&E	**1,100**	**672**	**+428**	**6.1%**	**4.5%**
Investment grants received and change in capital expenditures payables	(136)	35	-171	0.8%	0.2%
Proceeds from sale of intangible assets and PP&E	(61)	(47)	-14	0.3%	0.3%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**903**	**660**	**+243**	**5.0%**	**4.5%**

Gross purchases of intangible assets and property, plant and equipment amounted to €1,100 million at December 31, 2010, or 6.1% of net sales, versus €672 million and 4.5% of sales a year earlier. The increase was consistent with the Group's strategic commitment to driving faster growth and strengthening its presence in new markets.

New plant construction projects in high potential growth markets continued apace and on schedule in 2010. In Brazil, groundwork and building construction are underway; in China, the building permit has been granted, the first-phase foundations have been completed and team training has started; and in India, the building permit was granted in July.

The main capital projects by Product Line were as follows:

Passenger car and Light truck tires:

- Groundwork for the new plants in Brazil and China;
- Projects to add marginal capacity in Shanghai, China, as well as in Spain, Italy, Poland and other countries;
- Projects to improve productivity and refresh product lines.

Truck tires:

- New plant projects, with the Shenyang 1 pilot plant in China;
- Projects to add marginal capacity in Brazil;
- Projects to improve productivity;
- Projects to develop new molds to refresh the product lines.

Earthmover tires:

- In the United States, projects to increase mining tire capacity at the Lexington, SC plant;
- In Brazil, projects to increase capacity.

3.5.3. FREE CASH FLOW

Free cash flow is stated before dividend payments and financing transactions. It equals cash flows from operating activities less cash flows used in investing activities (excluding cash flows from cash management financial assets and borrowing collaterals).

(in € million)	2010	2009
Cash flows from operating activities (A)	**1,322**	**2,123**
Net additions to intangible assets and property, plant and equipment	(903)	(660)
Investments in shareholdings and other financial assets	(760)	(76)
Cash flows from investing activities (B)	**(1,663)**	**(736)**
Net cash flows from cash management financial assets and borrowing collaterals (C)	**(767)**	**(120)**
FREE CASH FLOW (A + B - C)	**426**	**1,507**

Free cash flow stood at a positive €426 million in 2010, versus €1,507 million in 2009, as favorable factors more than offset the impact of the increase in business, capital expenditure and higher raw materials prices.

The primary positive factor was the growth in EBITDA, which surged €858 million to €2,660 million, lifted by growth in volumes and the Group's improved competitiveness.

The greater use of free cash flow was primarily attributable to:

- The €428 million increase in capital expenditure to €1,100 million for the year;
- The €584 million increase in inventory, reflecting both higher raw materials costs and the upturn in business volumes;
- The €246 million increase in trade receivables due to the growth in sales volumes and the price increases implemented since the start of the year to offset higher raw materials costs, which attenuated the impact of ongoing initiatives to reduce days sales outstanding.

3.6_ RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving a return on capital employed (ROCE) of more than 9% is one of Michelin's strategic objectives. ROCE is measured as:

- Net operating profit after tax (NOPAT), based on a normalized average tax rate of 31% applied to Group companies;
- Divided by the average economic assets employed during the year, i.e. all of the Group's property, plant and equipment, intangible assets, loans and deposits, and net working capital requirement.

Non-euro currencies are translated at year-end rates for balance sheet items and average rates for income statement items.

If ROCE is greater than weighted average cost of capital (WACC) for the year, then the Group has created value during the period.

(in € million)	2010	2009
Operating income before non-recurring income and expenses	1,695	862
Average standard income tax rate used for ROCE calculation	31%	31%
Net Operating Profit before non-recurring items After Tax (NOPAT)	**1,170**	**595**
Intangible assets and property, plant and equipment	7,969	7,506
Loans and deposits	577	351
Investments in associates and joint ventures	93	71
Non-current financial assets	8,639	7,928
Working capital requirement	3,093	2,604
Economic assets (end of period)	11,732	10,532
Average economic assets	**11,132**	**11,006**
Return on capital employed	**10.5%**	**5.4%**

3.7_ OUTLOOK FOR 2011

Michelin is committed to driving a new phase of faster, more dynamic growth, at a time of steadily increasing global tire demand and rising raw materials prices.

In this environment, Michelin enjoys a number of differentiating competitive strengths, including a powerful brand and the premium pricing power it confers; the technological leadership and balanced performance delivered by its tires, which are aligned with customer expectations; the competitiveness and flexibility of its manufacturing base, which has been considerably enhanced through the commitment of its teams; and a robust balance sheet capable of supporting its growth ambitions and weathering the ups and downs of the business cycle.

Backed by these strengths, and barring any major change in the economic environment, Michelin has set ambitious objectives for 2011.

Michelin aims to drive at least a 6.5% increase in unit sales, in line with the 2011-2015 growth targets.

Michelin will maintain a highly responsive pricing policy in the face of rising raw materials costs:

- The full-year impact of raw materials costs on operating income is estimated at €1,500 million, assuming Michelin's cost of natural rubber averages $4.80/kg.
- €850 million of this additional raw materials cost has already been offset by the full-year impact of the 2010 price increases and the 2011 implementation of the raw materials-based price indexation clauses.
- The new price increases already announced in 2011 are designed to cover €300 million.
- Therefore, 75% of the additional raw materials cost is already covered.
- The Group will continue to manage prices so as to pass along all of the additional raw materials costs.

Michelin expects to report higher operating income in 2011, despite the cost of stepping up its presence in new markets (around €150 million in temporary outlays for production start-ups, sales and marketing operations and advertising).

In light of the increase in raw materials costs and the unprecedented €1.6 billion capital expenditure program, free cash flow is expected to be temporarily negative in 2011. Nevertheless, Michelin confirms its objective of generating positive free cash flow over the entire 2011-2015 period.

3.8_ CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2010	2009	2008	2007	2006	2005	2004
Net sales	17,891	14,807	16,408	16,867	16,384	15,590	15,048
% change	+20.8%	-9.8%	-2.7%	+3.0%	+5.1%	+3.6%	N. App.
Total employee benefit costs	4,836	4,515	4,606	4,732	4,718	4,780	4,837
as a % of sales	27.0%	30.5%	28.1%	28.1%	28.8%	30.7%	32.1%
Number of employees (full time equivalent)	105,100	102,700	110,300	113,500	115,800	119,000	120,500
Research and development expenses	545	506	499	571	591	565	576
as a % of sales	3.0%	3.4%	3.0%	3.4%	3.6%	3.6%	3.8%
EBITDA before non-recurring income and expenses	2,660	1,802	1,848	2,468	2,209	2,171	2,030
Operating income before non-recurring income and expenses	1,695	862	920	1,645	1,338	1,368	1,303
Operating margin before non-recurring income and expenses	9.5%	5.8%	5.6%	9.8%	8.2%	8.8%	8.7%
Operating income	1,695	450	843	1,319	1,118	1,574	1,239
Operating margin	9.5%	3.0%	5.1%	7.8%	6.8%	10.1%	8.2%
Cost of net debt	236	262	330	294	315	310	N. App.
Other financial income and expenses	10	10	(3)	29	135	(280)	(235)
Income before taxes	1,498	207	520	1,071	942	1,300	985
Income tax	449	103	163	299	369	411	331
Effective tax rate	30.0%	49.8%	31.3%	27.9%	39.2%	31.6%	33.6%
Net income	1,049	104	357	772	573	889	654
as a % of sales	5.9%	0.7%	2.2%	4.6%	3.5%	5.7%	4.3%
Dividends paid to shareholders[1]	147	145	230	208	193	179	133
Cash flows from operating activities	1,322	2,123	915	1,862	1,191	1,031	1,322
as a % of sales	7.4%	14.3%	5.6%	11.0%	7.3%	6.6%	8.8%
Gross purchases of intangible assets and PP&E	1,100	672	1,271	1,340	1,414	1,336	1,107
as a % of sales	6.1%	4.5%	7.7%	7.9%	8.6%	8.6%	7.4%
Financing cash flow (excluding cash management financial assets)	(896)	(616)	(1,274)	(1,429)	(1,230)	(1,155)	(1,056)
as a % of sales	5.0%	4.2%	7.8%	8.5%	7.5%	7.4%	7.0%
Net debt[2]	1,629	2,931	4,273	3,714	4,178	4,083	3,292
Equity[3]	8,127	5,495	5,113	5,290	4,688	4,527	3,647
Gearing	20%	53%	84%	70%	89%	90%	90%
Net debt/EBITDA	0.61	1.63	2.31	1.50	1.89	1.88	1.62
Cash flows from operating activities/Net debt	81.2%	72.4%	21.4%	50.1%	28.5%	25.3%	40.2%
Net interest charge average rate[4]	6.3%	6.2%	6.0%	6.4%	6.3%	6.9%	N. App.
Operating income before non-recurring items/Net interest charge[4]	9.1	3.5	3.5	6.1	4.2	4.4	N. App.

3

(in € million)	2010	2009	2008	2007	2006	2005	2004
Free cash flow[5]	426	1,507	(359)	433	(39)	(124)	266
ROE[6]	12.9%	1.9%	7.0%	14.7%	12.2%	19.7%	18.5%
ROCE[7]	10.5%	5.4%	5.6%	9.7%	8.0%	N. App	N. App
Per share data *(in €)*							
Net assets per share[8]	46.0	37.2	35.2	36.7	32.6	31.5	24.2
Basic earnings per share[9]	6.78	0.69	2.46	5.32	3.95	6.13	4.46
Diluted earnings per share[9]	6.64	0.69	2.46	5.22	3.94	6.12	4.46
Price-earnings ratio[10]	7.9	77.7	15.3	14.8	18.4	7.7	10.6
Dividend for the year	1.78*	1.00	1.00	1.60	1.45	1.35	1.25
Pay-out ratio[11]	30.0%	140.8%	40.7%	30.1%	36.7%	22.0%	28.0%
Yield[12]	3.3%	1.9%	2.7%	2.0%	2.0%	2.8%	2.6%
Share turnover rate[13]	188%	199%	308%	216%	212%	151%	134%

(1) Including the dividends paid in shares
(2) Net debt after implementation of IAS 32 and IAS 39, effective January 1, 2005: financial liabilities – cash and cash equivalents – cash management financial assets – borrowing collaterals +/- derivative assets.
(3) Total equity after implementation of IAS 32 and IAS 39, effective January 1, 2005.
(4) Net interest charge: interest financing expenses – interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities – cash flows from investing activities (excluding cash flows from cash management financial assets and borrowing collaterals).
(6) ROE: net income attributable to Shareholders/Shareholders' equity excluding non-controlling interests.
(7) ROCE: Net Operating Profit After Tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement).
(8) Net assets per share: net assets/number of shares outstanding at the end of the period.
(9) 2009 earnings per share have been restated to take into account the impact of the October 2010 rights issue.
(10) P/E: Share price at the end of the period/earnings per share.
(11) Distribution rate: dividend/net income.
(12) Dividend yield: dividend per share/share price at December 31.
(13) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

N. App.: Non applicable.

* *Dividend proposed to the Shareholders at the May 13, 2011 Annual General Meeting.*

3.9_ SHARE INFORMATION

3.9.1. THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2;
- Traded in units of: 1.

Market capitalization

- €9.484 billion at December 31, 2010.

Average daily trading volume

- 1,116,722 shares in 2010.

Indices

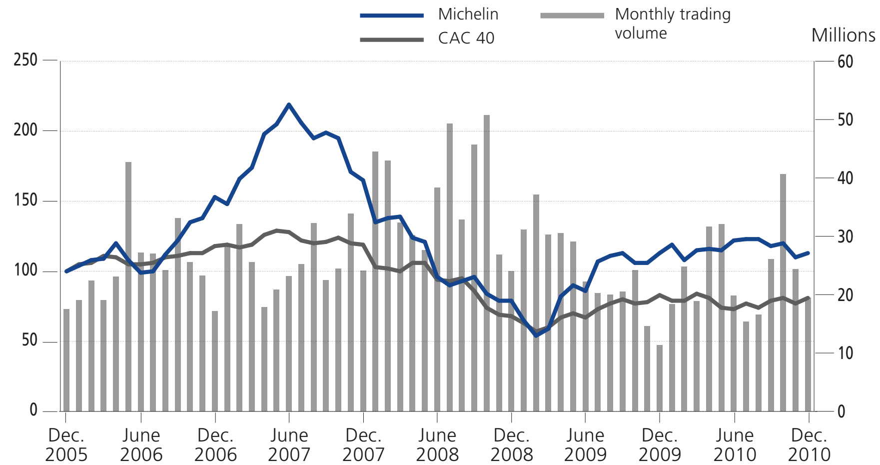
The Michelin share is included in two leading stock market indices. As of December 31, 2010, it represented

- 1.34% of the CAC 40 index;
- 0.57% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe;
- Advanced Sustainable Performance Index (ASPI) Eurozone.

SHARE PERFORMANCE
(closing price at December 31)



Base 100: December 31, 2005

3.9.2. SHARE DATA

Share price *(in €)*	**2010**	**2009**	**2008**	**2007**	**2006**
High	64.51	58.67	79.90	106.70	73.30
Low	48.13	22.69	30.65	67.75	43.21
High/low ratio	1.34	2.59	2.61	1.57	1.70
Closing price, end of period	53.70	53.58	37.57	78.50	72.50
Change over the period	+0.2%	+42.6%	-52.1%	+8.3%	+52.7%
Change in the CAC 40 index over the period	*-3.3%*	*+22.3%*	*-42.7%*	*+1.3%*	*+17.5%*
Market value at end of period *(in € billion)*	**9.48**	**7.90**	**5.45**	**11.30**	**10.41**
Average daily trading volume over the period	1,116,722	1,138,691	1,740,267	1,217,949	1,191,679
Average shares outstanding	152,902,704	146,184,080	144,495,251	143,770,101	143,390,450
Volume of shares traded over the period	288,114,287	291,504,866	445,508,266	310,577,078	303,878,126
Share turnover ratio	**188%**	**199%**	**308%**	**216%**	**212%**

Sources: NYSE Euronext Paris, Michelin

3.9.3. PER-SHARE DATA

(in € per share, except ratios)	**2010**	**2009**	**2008**	**2007**	**2006**
Net assets per share	46.0	37.2	35.2	36.7	32.6
Basic earnings per share	6.78	0,69[1]	2.46	5.32	3.95
Diluted earnings per share[2]	6.64	0,69[1]	2.46	5.22	3.94
Price-earnings ratio	**7.9**	**77.7**	**15.3**	**14.8**	**18.4**
Dividend for the year	1.78*	1.00	1.00	1.60	1.45
Pay-out ratio	30.0%	140.8%	40.7%	30.1%	36.7%
Yield[3]	3.3%	1.9%	2.7%	2.0%	2.0%

* *Dividend proposed to the Shareholders at the May 13, 2011 Annual General Meeting.*
(1) *2009 earnings per share have been restated to take into account the impact of the October 2010 rights issue.*
(2) *Earnings per share adjusted for the effect on net income and on the average number of shares of the exercise of outstanding dilutive instruments.*
(3) *Dividend/Share price at December 31.*

3.9.4. CAPITAL AND OWNERSHIP STRUCTURE

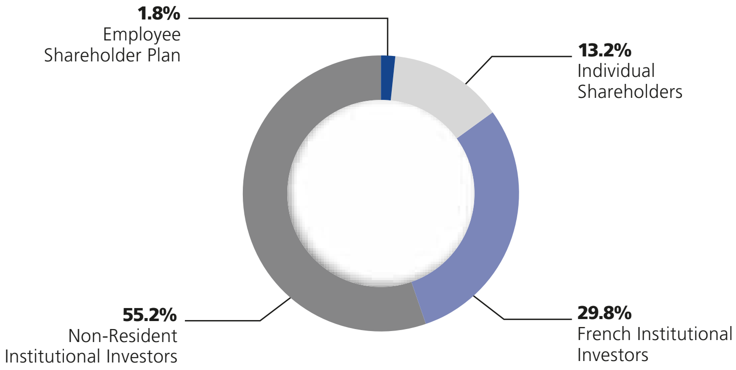
At December 31, 2010:

- Share capital: €353,215,690;
- Shares outstanding: 176,607,845, all fully paid-up;
- Voting rights outstanding: 226,828,425.

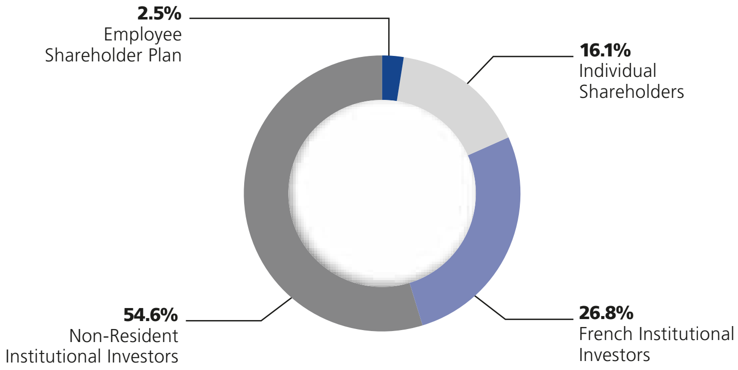
Number of shareholders: 232,471, of which:

- 3,965 institutional investors;
- 158,719 individual shareholders;
- 69,787 employee shareholders.

CAPITAL STRUCTURE
At December 31, 2010



VOTING RIGHTS STRUCTURE
At December 31, 2010



Shares held in the same name for at least four years carry double voting rights.

3.10_ 2010 OPERATING HIGHLIGHTS

3.10.1. STRATEGY – PARTNERSHIPS – ACQUISITIONS

Michelin Booth at 2010 Paris Auto Show Showcased Global Ad Campaign

At the 2010 Paris Auto Show, which this year focused on sustainable mobility solutions, the Michelin booth showcased the global ad campaign, with an innovative set design and 3-D animations to educate visitors that *the right tire changes everything*.

The booth was organized around the "balanced performance" of safety, durability and fuel efficiency delivered by MICHELIN tires, with special effects raising the impact of visuals from the associated advertisements.

The booth also displayed a selection of "GREEN X" labeled passenger car tires, including the recently launched MICHELIN Pilot Sport 3 and MICHELIN Alpin 4.

Michelin at the 2010 Detroit International Auto Show

Environmentally friendly automobile concepts of the future were showcased at the 22nd Detroit International Auto Show in January. True to its commitment to innovation, Michelin presented tires specially designed for hybrid vehicles and other products integrating "green" technologies, such as its low rolling resistance tires and the motorized Michelin Active Wheel.

Tire Performance Evaluation System Introduced in Japan

In February 2010, the Japanese tire manufacturers association (JATMA) published directives concerning fuel-efficient tires. The initiative, which involves measuring rolling resistance and braking distances, represents the first step in a gradual process that will ultimately cover all tires sold in Japan.

The 28 sizes in the premium MICHELIN Primacy LC car tire range and the 20 sizes in the safe, energy-efficient MICHELIN Energy™ Saver lineup are rated as fuel-efficient tires.

Thanks to an energy-efficiency labeling system, consumers can easily identify and choose tires that help to reduce fuel consumption.

Dealerships: Sustained Expansion of the Euromaster Franchise Program and TyrePlus Network

After being successfully launched in France, Poland and the Czech Republic, the Euromaster franchise program has now been extended to Germany, Italy and Spain. By joining the network of 1,700 Euromaster service centers in Europe, the new franchised units will strengthen Euromaster's position as the region's leading retailer of tires and related services.

The TyrePlus network now comprises more than 900 outlets in nine countries, with franchised units in China and Mexico, as well as in India, Thailand, Malaysia, Australia, the Arab Gulf, Russia and Taiwan.

3.10.2. PRODUCTS – SERVICES – INNOVATIONS

3.10.2.a) Passenger car and Light truck tires and Related distribution

MICHELIN Alpin 4 Takes Top Score in ADAC Test and Earns Highest 3-Star Rating

Launched in 2010, the fourth-generation MICHELIN Alpin was tested in September by German auto club ADAC (Allgemeiner Deutscher Automobil Club), which awarded the tire its highest rating of 3 stars, or "highly recommendable". The MICHELIN Alpin 4 also outperformed all of the 12 other tires tested, earning the top score.

The comparative test of 17" tires was carried out by ADAC, Europe's largest auto club, in partnership with its Austrian and Swiss counterparts, Österreischischer Automobil Motorrad und Touring Club (ÖAMTC) and Touring Club Suisse (TCS).

In addition, the Danish and Dutch auto clubs (FDM and ANWB) also gave the new MICHELIN Alpin 4 their highest ratings, of respectively 5 and 4 stars.

The MICHELIN Alpin 4 delivers an unrivaled balance of grip, tread life and energy efficiency performance in all types of winter driving conditions, including rain, snow and ice.

On-road, Environmental and Technological Performance: a Winning Trio with the New MICHELIN Pilot Sport 3

In early February 2010, the Group introduced the MICHELIN Pilot Sport 3, a new sports car tire that features exceptional grip. On wet surfaces, it holds the road better on corners and stops three meters shorter[(1)] than its predecessor, the reigning benchmark sports tire[(2)]. In addition to offering enhanced driving sensations, the tire also delivers more accurate steering as well as two new performance features – greater fuel efficiency and longer total mileage.

A World Excellence Award from Ford

Ford Motor Company has recognized Michelin with a World Excellence Award for having developed "new consumer-focused technologies". Every year, Ford presents the award to 40 of its leading suppliers who exceed its quality, cost and delivery standards.

This year's award was received for the technologies developed on the MICHELIN Energy™ Saver tire. Fitted on the Ford Fusion, it improves the car's rolling resistance by 24% versus a traditional fitment.

A Supplier Quality Award from Renault

On October 4, Michelin was presented with a Renault Supplier Quality Award in recognition of the Group's quality performance, particularly its ability to consistently deliver superior quality products, both in Europe and around the world. The Award clearly demonstrates Michelin's commitment to meeting the highest standards of quality.

(1) Test performed in 2009 by independent technical services firm TÜV SÜD Automotive on size 245/40 ZR 18 Y tires.
(2) The MICHELIN Pilot Sport certified for use on more than 200 models.

3.10.2.b) Truck tires and Related distribution

Delivering Balanced Performance to Meet the Needs of the Trucking Industry

With the presentation of its extended MICHELIN X® ENERGY™ SAVERGREEN lineup at the 63rd IAA Commercial Vehicles Show, held in Hanover on September 23 to 30, Michelin unveiled its latest Truck tire innovation: the first comprehensive solution that reduces fuel consumption by 1.7 liters per 100 km compared with the average of the other major tire brands(1), while also meeting the other fundamental expectations of European trucking companies.

The MICHELIN X® ENERGY™ SAVERGREEN range now includes new trailer tires, so that for the first time, Michelin is offering a single line-up of tires capable of equipping all five truck axles.

For Michelin, the challenge is to simultaneously improve performance in several areas. Unrivalled anywhere else on the market, this balance of performance factors is critical in an industry that is constantly looking for solutions to improve safety, reduce costs and shrink its environmental footprint.

Sales of MICHELIN X One Super Singles Top One Million

Sales of the MICHELIN X One Truck tire have passed the important one-million mark, as more and more customers choose the tire for its lighter weight and greater fuel efficiency.

Since 2000, X One tires have enabled truck fleet owners to cut their fuel bills by up to 10%, saving more than 238 million liters and avoiding the emission of 639,000 tonnes of CO_2. This means that a fleet of 1,000 trucks fitted with X One tires would reduce its carbon footprint by up to 17,000 tonnes a year, the equivalent of taking 3,400 cars off the road.

In early 2010, Michelin North America launched the latest-generation MICHELIN X ONE XDA Energy™ Super Single drive tire. According to a study in real conditions of use by an independent organization, the MICHELIN X ONE XDA Energy™ helps to reduce fuel consumption by at least 7% compared with the most fuel-efficient competing dual-mount tires.

Michelin North America's Truck tire Division Wins Award

At its annual conference, the American Trucking Associations (ATA) organization recently presented Michelin North America's Truck tire division with its best industry supplier award.

The award, which recognizes companies that creatively generate positive awareness of the trucking industry, celebrated the various Michelin initiatives underway in North America, including participation in the ATA Share the Road safety program, leadership of the North American Council for Freight Efficiency and leadership of the ATA Technology and Maintenance Council.

"We are pleased to recognize Michelin North America", said ATA President and CEO Bill Graves. "Michelin's efforts in enhancing and promoting the positive image of the trucking industry are significant."

A Japanese Law Boosts the Four Lives of MICHELIN Truck tires

Regrooving, which consists in renewing a tire's original tread, is one of the stages in a tire's four lives. In Japan, this stage is now considered as an environmentally friendly service under the Law on Promoting Green Purchasing.

Michelin is the only tiremaker offering regroovable Truck tires in the Japanese market. The legislative recognition will help to stimulate demand for the regrooving service, thereby developing a new market for Michelin Truck tires.

3.10.2.c) Specialty businesses

Earthmover Tires

MICHELIN X-TRACTION, A NEW SOLUTION TO IMPROVE WORKSITE PRODUCTIVITY

The new MICHELIN X-TRACTION line was unveiled at the 29th Bauma International Trade Fair, held at the New Munich Trade Fair Centre from April 19 to 24. The new tire was developed to improve the productivity of rigid dump trucks, which are used in quarries and on infrastructure worksites. Lighter than competing tires, it also integrates two complementary technologies: the new "Cooling System" shoulder design and the "C² Technology" casing architecture, which together reduce heat build-up, thereby enabling trucks to operate continuously at higher speeds. The MICHELIN X-TRACTION is the latest expression of Michelin's commitment to innovation in the Earthmover segment, designed to deliver lighter and stronger tires that also improve fuel efficiency and environmental performance.

MICHELIN NAMED KOMATSU PREFERRED PARTNER

On May 7, Komatsu Ltd. awarded Michelin its 2009 Grand Partner Award. Tokyo-based Komatsu is the world's second largest manufacturer of construction and mining equipment, and a market leader in a number of segments. The award, which was given to a non-Japanese company for the first time, was presented by Komatsu Chairman Kunio Noji before an audience of 600 company executives and representatives of its leading suppliers.

Agricultural Tires

ENHANCING AGRICULTURAL TIRE PERFORMANCE WITH MICHELIN ULTRAFLEX TECHNOLOGY

During the summer 2010, the Agricultural Tire Product Line launched two new products, the MICHELIN CerexBib for harvesters and the MICHELIN SprayBib for row-crop sprayers. Both incorporate the innovative MICHELIN UltraFlex technology, which is encouraging farm machinery manufacturers to fit MICHELIN agricultural tires as original equipment.

Michelin's patented UltraFlex technology, which features a new casing profile with a larger sidewall flexing area, means that the Group can offer agricultural tires capable of carrying heavier heavy loads, without compromising endurance and tread life. This in turn delivers such major benefits as soil protection, time-savings, fuel efficiency and a better ride.

JCB CHOOSES MICHELIN POWER CL

Construction equipment manufacturer JCB has chosen the MICHELIN Power CL as an OE tire on its latest 2CX, 3CX and 4CX backhoe loaders. This is in addition to the MICHELIN XMCL, which is already the OE option.

The MICHELIN Power CL was selected following extensive development testing at JCB's world headquarters in Rocester, UK, which put the tires through a series of severe tests to ensure they could cope with the rigors of life on and off the road. The tire features a damage-resistant tread with a robust, closely spaced central lug pattern that minimizes punctures, and a rubber compound that reduces tearing in harsh conditions.

(1) Compared with the average of its main competitors. Based on motorway tests conducted in July 2010 by TÜV SÜD Automotive with new 315/80 R 22.5 MICHELIN X® ENERGY™ SAVERGREEN XZ and XD tires and 385/65 R 22.5 MICHELIN X® ENERGY™ SAVERGREEN XT tires.

Two-Wheel Tires

MICHELIN CITY GRIP: MAINTAINS SCOOTER CONTROL, EVEN ON RAIN-SLICK ROADS

The new MICHELIN City Grip alleviates the main concern of scooter drivers, which is the fear of losing grip on wet surfaces. To enable them to take advantage of their scooters in any weather, Michelin has designed the first scooter tire that integrates MICHELIN Progressive Sipe Technology (PST). The MICHELIN City Grip features an innovative progressive tread pattern that enables the tire to deliver superior grip and tread life, thereby ensuring both safety and cost-savings.

In an unprecedented achievement, when the new MICHELIN City Grip went on sale in early 2010, it had already been certified for use on almost all of the scooters sold in Europe.

THE MICHELIN PROTEK MAX SELF-SEALING INNER TUBE

The new MICHELIN Protek Max inner tube for city and mountain bikes seals itself after a puncture, considerably reduces pressure loss when the bike is not in use and is incredibly easy to mount. In this way, it responds to bike users' three top priorities.

Market launch is scheduled for first-half 2011.

Aircraft Tires

NEW CONTRACTS FOR MICHELIN AIRCRAFT TIRES

In July, two long-term contracts were signed with Air France and KLM. In all, MICHELIN tires will be fitted on nearly 425 aircraft operated both by the Air France-KLM Group and by other airlines for which Air France and KLM provide maintenance services. These contracts are invoiced on a per-landing basis. Michelin's end-to-end solution, based on the quality of its products and of its innovative services, played a decisive role in the signing of this long-term agreement.

MICHELIN TIRES CERTIFIED FOR THE AIRBUS A350 XWB

Michelin has been selected to develop and supply MICHELIN Air X NZG (Near Zero Growth) radial tires for the landing gear of the new Airbus A350 XWB wide-body jetliner.

Airbus reached the decision following a rigorous selection process that recognized the properties of MICHELIN's NZG technology tires and the quality of its organization. To meet the demands of Airbus and the two companies' common customers, Michelin had to meet a number of challenges, including fast time-to-market, maturity at first test flight, lower aircraft operating costs and a smaller environmental footprint.

MICHELIN Maps and Guides; ViaMichelin

THE NEW MICHELIN TRAVEL SOLUTION

Michelin has introduced a new version of the MICHELIN Green Guide collection for tourists and its digital complement, the new travel section on the ViaMichelin website (www.travel.viamichelin.com). The new solution enables all types of travelers to plan, undertake and thoroughly enjoy their trip, anywhere around the world.

ViaMichelin Voyage offers the MICHELIN Green Guide selection of tourist sites and a wide range of services, such as the creation of a personalized travel guide and the ability to book a hotel, buy an airline ticket. It is available in five languages and covers more than 90 countries.

With the addition of eight new guides – New York, Turkey, Rajasthan, Vietnam, Mauritius (including Rodrigues Island), Guadeloupe, Martinique and Réunion – Michelin has expanded its MICHELIN Green Guide tourist guide collection to include new destinations around the world as part of the series revamping project that began in February 2010. The eight new titles will feature the collection's new layout as well as more practical organizational scheme that divides each destination into micro-regions.

2010: 100 YEARS OF MICHELIN MAPMAKING

One hundred years after publishing its first map, Michelin is still pursuing its mission of enhancing mobility with the release of its first interactive road map, which shows real-time traffic information for motorists in France. The new product has shown that paper maps can co-exist with digital input by integrating 22 new-generation barcodes into the paper version. In this way, iPhone users can access ViaMichelin traffic information simply by taking a picture of the barcode corresponding to the region of their choice.

Michelin Lifestyle

MICHELIN EASY GRIP SNOWCHAIN VOTED PRODUCT OF THE YEAR 2010 IN FRANCE

The MICHELIN Easy Grip composite snow chain has been voted Product of the Year 2010 in France, in the Marketing Innovation category. The prestigious award was based on the results of an independent survey of 10,000 representative French households.

3.10.3. MICHELIN PERFORMANCE AND RESPONSIBILITY

Michelin Pledges to Support UN Global Compact

Michelin wanted to support the Global Compact in order to promote its Michelin Performance and Responsibility process, which already informs everything the Company does. In turn, this process is underpinned by the Michelin Performance and Responsibility Charter published in 2002 and reaffirmed at the International Bib Forum in October 2010. It addresses the Global Compact's ten principles through a holistic vision of the way the Company intends to lead its sustainable development strategy.

Launched by the United Nations in July 2000, the Global Compact asks companies to embrace, support and enact, within their sphere of influence, ten universally accepted principles in the areas of human rights, labor, the environment and anti-corruption. This support demonstrates the commitment of participating businesses to embed responsible, sustainable practices into their strategy and corporate policies.

10th Michelin Challenge Bibendum Held in Rio de Janeiro

The 10th Michelin Challenge Bibendum was held this year in Rio de Janeiro, Brazil, from May 30 to June 3. Luiz Inácio Lula da Silva, President of Brazil attended the official opening ceremony.

Nearly 80 vehicles participated in the Rally, as well as in the acceleration, noise and handling tests that effectively showed how very little CO_2 is emitted by EVs and vehicles burning certain types of biofuels.

During the five-day event, the nearly 6,000 guests and participants had the opportunity to talk with each other, meet the international sustainable mobility experts in attendance, participate in some of the many road tests of the nearly 150 vehicles entered this year, take part in theme discussions and the Michelin Challenge Bibendum Forum and visit the Technology Exhibition Center.

To find out more, please visit www.michelinchallengebibendum.com.

Michelin Main Sponsor of the French Pavilion at Expo 2010 Shanghai

Michelin was the main sponsor of the French Pavilion at Expo 2010 Shanghai, which ran from May 1 to October 31, 2010. The Expo's theme – "Better City, Better Life" – resonated deeply with the MICHELIN brand signature "A Better Way Forward", which expresses the Group's commitment to making road mobility safer, better and more respectful of people and the environment.

To help international visitors get around during Expo 2010, Michelin also published a new guide to Shanghai in English.

3.10.4. RACING

2011 DAKAR RALLY: The Michelin Group on the podium's highest steps

The 33rd Dakar Rally, which took place in South America from December 30 to January 16, attracted more than 400 entries and saw MICHELIN tires take the spoils in both the motorbike and truck categories, while BFGoodrich® runners monopolized the sharp end of the final leaderboard in the car category.

This cross-country competition stands out as a first class, full-scale proving ground for tires. The extreme conditions delivered by the Dakar allow new technologies to be put through their paces in a uniquely exacting environment and provide a laboratory that directly benefits the users.

New Outlook for Michelin in Rally Racing

The Fédération Internationale de l'Automobile (FIA) has accepted Michelin's application to supply tires for the World Rally Championship (WRC) beginning in 2011.

Michelin's application was prompted by the FIA's decision to open the championship to more than one tire manufacturer and by the likelihood of a rule change.

Racing offers Michelin's teams the opportunity to validate their technological innovations in the most extreme conditions of use. These innovations will then be transferred to street tires, thereby helping to improve the performance balance and lower the environmental impact of Michelin's products. That's why Michelin supports the FIA in its commitment to integrating a more responsible vision of rallying by reducing the number of tires used in races, beginning in 2012.

Next season, tires supplied to the Group's rally partners will display the MICHELIN brand.

Michelin Scores 13th straight Victory at 24 Hours of Le Mans

Thanks to its longer-lasting, better performing tires, Michelin suppoed the winning efforts of its auto manufacturer partners in one of the world's best-known races, the 24 Hours of Le Mans, where Michelin notched its 13th consecutive victory while once again finishing first in every category. The new MICHELIN tires were both faster, setting a new single-lap speed record, and more durable, with a new total distance record and a reduction in the number of tires used during the race.

"Endurance racing is a technology laboratory for Michelin as well", said Nick Shorrock, Director, Michelin Group Racing Division. "It enables us to validate innovations that are then used in our series-produced tires, such as the recent MICHELIN Pilot Sport 3."

3.10.5. GOVERNANCE

2010 Annual Shareholders Meeting

The Joint Annual Meeting of Michelin shareholders was held on May 7, 2010 in Clermont-Ferrand. Despite the recessionary business environment in 2009, Michelin's ability to respond swiftly and agilely to the unprecedented crisis enabled it to strengthen its main financial metrics during the year. The Group entered 2010 with confidence. At a time of recovering demand, it continued to tightly manage operations and reaffirmed its objective of generating positive free cash flow for the year.

Shareholders adopted all of the resolutions submitted to their approval, in particular:

- The payment of a dividend of €1.00 a share, with a dividend reinvestment option. The dividend was paid or the shares settled on June 14, 2010;
- The re-election of Laurence Parisot and Pat Cox as members of the Supervisory Board;
- The appointment of PricewaterhouseCoopers Audit and Deloitte & Associés as the Company's Statutory Auditors;
- The renewal of financial authorizations.

2009 Dividend Reinvestment Plan

At the Joint Annual Meeting on May 7, 2010, shareholders approved the payment of a 2009 dividend of €1.00 a share, with a reinvestment option. The price of the new shares to be issued to shareholders electing to reinvest their dividend was set at €47.46.

By the close of the period, dividend reinvestment had saved the Group €82 million in cash and led to the issue of close to 1,736,000 new shares.

Rights Issue Successfully Completed

On September 28, Michelin launched a rights issue with pre-emptive subscription rights for existing shareholders. Proceeds from the issue will be used to:

- Finance more rapid expansion, which will lead to an increase in annual capital expenditure to approximately €1.6 billion in 2011 and subsequent years;
- Strengthen Michelin's credit rating and ability to raise funds on the financial markets;
- Generally improve the Group's financial flexibility.

The issue was around 2.5 times oversubscribed, with total demand amounting to some €4.3 billion. Final gross proceeds stood at €1.2 billion, resulting in the creation of more than 27 million new shares.

"Michelin is pleased with the issue's success and thanks all of our shareholders for the confidence they have demonstrated in our strategy and growth prospects", said Michel Rollier, Managing Partner.

Following settlement and delivery of the new shares on October 25, Michelin's share capital was comprised of 176,539,201 shares with a par value of €2 each.

Michelin Wins Corporate Governance Prize in France

Michelin was awarded the 2010 Corporate Governance Grand Prize and the Risk Strategy and Assessment Prize by French business and financial newspaper AGEFI. The Corporate Governance Grand Prize honors companies that meet investor expectations, with an emphasis on compelling corporate governance initiatives that heighten investor confidence and encourage the implementation of good governance rules and practices.

In this way, it also celebrated the Group's ability to recover from the recent recession. According the AGEFI, "Without a doubt, Michelin's real strength lies in its forward-looking vision of its business risks, its stakeholders and its competitors".

CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2010

4

DETAILED SOMMARY OF THE NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2010	Year ended December 31, 2009
Net sales	5	17,891	14,807
Cost of sales		(12,403)	(10,527)
Gross income		**5,488**	**4,280**
Sales and marketing expenses		(1,847)	(1,650)
Research and development expenses		(545)	(506)
General and administrative expenses		(1,237)	(1,113)
Other operating income and expenses	8	(164)	(149)
Operating income before non-recurring income and expenses	5	**1,695**	**862**
Non-recurring income and expenses	9	-	(412)
Operating income/(loss)		**1,695**	**450**
Cost of net debt	10	(236)	(262)
Other financial income and expenses	10	10	10
Share of profit/(loss) from associates		29	9
Income/(loss) before taxes		**1,498**	**207**
Income tax	11	(449)	(103)
NET INCOME/(LOSS)		**1,049**	**104**
• Attributable to the shareholders of the Company		1,048	106
• Attributable to the non-controlling interests		1	(2)
Earnings per share *(in €)*	12		
• Basic		6.78	0.69
• Diluted		6.64	0.69

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2010	Year ended December 31, 2009
Net income/(loss)		**1,049**	**104**
Available-for-sale financial assets – unrealized gain/(loss)		166	131
Tax effect – available-for-sale financial assets – unrealized gain/(loss)	18	(2)	(8)
Available-for-sale financial assets – realized (gain)/loss recognized in income statement		-	(5)
Cash flow hedges – change in fair values		(3)	4
Cash flow hedges – (gain)/loss recognized in income statement		1	-
Currency translation differences		294	216
Other		1	(1)
Other comprehensive income		**457**	**337**
COMPREHENSIVE INCOME		**1,506**	**441**
• Attributable to the shareholders of the Company		1,505	443
• Attributable to the non-controlling interests		1	(2)

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(in € million)	Note	December 31, 2010	December 31, 2009
Goodwill	13	416	403
Other intangible assets	13	360	321
Property, plant and equipment (PP&E)	14	7,193	6,782
Non-current financial assets and other assets	15	1,108	712
Investments in associates and joint ventures	17	93	71
Deferred tax assets	18	828	942
Non-current assets		**9,998**	**9,231**
Inventories	19	3,770	2,994
Trade receivables	20	2,770	2,314
Current financial assets	21	882	165
Other current assets	22	653	583
Cash and cash equivalents	23	1,590	1,231
Current assets		**9,665**	**7,287**
TOTAL ASSETS		**19,663**	**16,518**
Share capital	24	353	295
Share premiums	24	3,215	1,987
Reserves	25	4,556	3,210
Non-controlling interests		3	3
Equity		**8,127**	**5,495**
Non-current financial liabilities	26	3,251	3,568
Employee benefit obligations	27.1	2,457	2,374
Provisions and other non-current liabilities	29	938	1,105
Deferred tax liabilities	18	45	40
Non-current liabilities		**6,691**	**7,087**
Current financial liabilities	26	896	760
Trade payables		1,813	1,249
Other current liabilities	30	2,136	1,927
Current liabilities		**4,845**	**3,936**
TOTAL EQUITY AND LIABILITIES		**19,663**	**16,518**

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million)	Share capital *(note 24)*	Share premiums *(note 24)*	Reserves *(note 25)*	Non-controlling interests	Total
At January 1, 2009	**290**	**1,944**	**2,874**	**5**	**5,113**
Comprehensive income	-	-	443	(2)	441
Issuance of shares (note 24)	5	77	-	-	82
Dividends and other allocations	-	-	(150)	-	(150)
Stock option plans – cost of services rendered (notes 7 & 8)	-	-	10	-	10
Other	-	(34)	33	-	(1)
At December 31, 2009	**295**	**1,987**	**3,210**	**3**	**5,495**
Comprehensive income	-	-	1,505	1	1,506
Issuance of shares (note 24)	58	1,228	-	-	1,286
Dividends and other allocations	-	-	(150)	(1)	(151)
Stock option plans – cost of services rendered (notes 7 & 8)	-	-	9	-	9
Acquisition of non-controlling interests (China, Shanghai Michelin Warrior Tire Co., Ltd)	-	-	(18)	-	(18)
Other	-	-	-	-	-
AT DECEMBER 31, 2010	**353**	**3,215**	**4,556**	**3**	**8,127**

The notes 1 to 36 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2010	Year ended December 31, 2009
Net income		1,049	104
Adjustments			
• Cost of net debt	10	236	262
• Other financial income and expenses	10	(10)	(10)
• Income tax	11	449	103
• Amortization, depreciation and impairment of intangible assets and PP&E	6	965	940
• Non-recurring income and expenses	9	-	412
• Share of loss/(profit) from associates		(29)	(9)
EBITDA before non-recurring income and expenses	3.7.2	2,660	1,802
Other non-cash income and expenses	31	(14)	(28)
Change in provisions, including employee benefit obligations		(423)	(372)
Cost of net debt and other financial income and expenses paid	31	(177)	(207)
Income tax paid		(297)	(19)
Change in working capital, net of impairments	31	(427)	947
Cash flows from operating activities		**1,322**	**2,123**
Purchases of intangible assets and PP&E	31	(964)	(707)
Proceeds from sale of intangible assets and PP&E		61	47
Equity investments in consolidated companies, net of cash acquired		(4)	(1)
Disposals of equity investments in consolidated companies, net of cash sold		-	10
Purchases of available-for-sale investments		(14)	(5)
Proceeds from sale of available-for-sale investments		1	29
Cash flows from other financial assets	31	(743)	(109)
Cash flows from investing activities		**(1,663)**	**(736)**
Proceeds from issuance of shares	24	1,204	2
Dividends paid to the shareholders of the Company		(65)	(65)
Cash flows from financial liabilities	31	(437)	(667)
Other cash flows from financing activities		(39)	(20)
Cash flows from financing activities		**663**	**(750)**
Effect of changes in exchange rates		**37**	**2**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**359**	**639**
Cash and cash equivalents as at January 1		**1,231**	**592**
Cash and cash equivalents as at December 31	23	**1,590**	**1,231**

The notes 1 to 36 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Compagnie Générale des Établissements Michelin (CGEM or the "Company") and its subsidiaries (together "the Group") manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Partners on February 7, 2011.

Except as otherwise stated, all amounts are presented in € million.

NOTE 2 BASIS OF PREPARATION

2.1. STATEMENT OF COMPLIANCE

The consolidated financial statements:

- Are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (available on the internet website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm);
- Are also in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB); and
- Have been prepared under the historical cost convention, as modified by the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit and loss.

2.2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS EFFECTIVE FROM JANUARY 1, 2010

The following standards, amendments and interpretations to existing standards have been published and are applicable for the Group accounting periods beginning on or after January 1, 2010:

- IAS 27 (revised) "Consolidated and separate financial statements". The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. The Group has applied the revised standard prospectively to transactions with non-controlling interests;
- IFRS 3 (revised) "Business combinations". The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group has applied the revised standard prospectively to all business combinations.

All other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2010, are currently not relevant to the Group operations.

2.4. NEWLY PUBLISHED STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE

IFRS 9 "Financial instruments", was issued in November 2009. This standard is the first step in the process to replace IAS 39 "Financial instruments: recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until January 1, 2013 and has not been early adopted by the Group, which is yet to assess its full impact. Moreover, the standard has not yet been endorsed by the EU.

All other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2011, are currently not relevant to the Group operations.

2.5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires that management should use assumptions and estimates reflected in the value of assets and liabilities at the balance sheet date and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets and the employee benefit obligations.

2.5.1. Impairment of Non-Financial Assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (note 3.15) are derived from the Group rolling five-year business plan. The construction of the business plan is an exercise involving the various actors within the CGUs and the projections are validated by the Partners. It requires critical estimates and judgments, especially in the determination of market trends, raw material costs and pricing policies. Therefore, the actual cash flows may differ from the estimates used in the calculation of value in use.

Quantitative information is provided in note 13.1.

2.5.2. Employee Benefit Obligations

The Group provides to its employees and retirees various pension plans, jubilees and other post-employment benefits. The valuation of these benefits is carried out annually by independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the long term salary increase rate, the expected rate of return on plan assets and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and early retirement.

Assumptions and statistical information are determined by Group management in charge of employee benefits according to internal guidelines in consultation with the actuaries.

The discount rates are chosen using local market indicators to the extent that they are in line with the guidance of IAS 19 such as iBoxx, Reuters and Bloomberg, as well as models developed by our actuaries. If a number of these indicators are considered to be less relevant as they may include corporate bonds of a lower quality than those required by IAS 19 (when information concerning the computation of such indicators is available and it is confirmed that such indicators are of a lower quality), they are not retained or they are averaged with other indicators.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practice as well as career development, promotion, seniority and others.

The inflation rates are determined using several sources of information to cross check data such as information from Central banks which publish their target inflation. One of the main sources is provided by Reuters, taking the spread between inflation-linked bonds and conventional securities. The rate is then adjusted with a spread which represents the liquidity and risk premium imbedded in the inflation-linked bonds.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The expected returns on plan assets are determined for each portfolio taking into account market conditions, portfolios allocation as well as long-term returns of each class and sub-class, including a premium for manager's performance, net of management and performance fees.

The current data (such as inflation, turnover, mortality, real return on assets…) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in the income statement over the expected average remaining working lives of the employees participating in the plans, only to the extent that the net cumulative difference exceeds 10% of the greater of (1) the present value of the defined benefit obligation or (2) the fair value of the plan assets.

Quantitative information is provided in note 27.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. CONSOLIDATION

The Group consolidated financial statements include all subsidiaries, associates and joint ventures of Compagnie Générale des Établissements Michelin.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Shareholdings in companies which are not subsidiaries, associates or joint ventures are not consolidated. They are accounted for as non-derivative financial assets (note 3.16).

3.1.1. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.1.2. Associates and Joint Ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights. Joint ventures are entities over which the Group has a joint control, according to contractual agreement.

Investments in associates and joint ventures are accounted for by the equity method and are initially recognized at cost. The Group investment in associates and joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group share of its associates' and joint ventures' post-acquisition profits and losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income until the date that significant influence or joint control ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group share of losses in an associate or joint venture equals or exceeds its interest in the associate, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealized gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group interest in the associates or joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

3.2. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Group Management.

The Managing Partners are allocating resources to the segments and assessing their performance, therefore they have been identified as the chief operating decision maker of the Group.

3.3. FOREIGN CURRENCY

3.3.1. Presentation and Functional Currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in euros (EUR), which is the Company's functional currency.

3.3.2. Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on equity investments classified as available-for-sale financial assets are included in the other reserve in equity until the investment is sold.

3.3.3. Translation

The financial statements of Group entities whose functional currency is different from the Group presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at the balance sheet date, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized as a separate component of equity.

Cash flows are also translated at the average rate of the period.

When an entity is disposed of, the translation differences accumulated in equity are recycled in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments recognized on the acquisition of an entity are treated as assets and liabilities of the entity and translated at the spot rate on the transaction date.

3.3.4. Exchange Rates of Major Currencies

	Closing rates		Average rates	
Against the euro:	**2010**	**2009**	**2010**	**2009**
US dollar (USD)	1.335	1.444	1.327	1.394
Canadian dollar (CAD)	1.334	1.516	1.367	1.586
Mexican peso (MXN)	16.539	18.899	16.759	18.805
Brazilian real (BRL)	2.215	2.512	2.332	2.773
British pound (GBP)	0.862	0.895	0.858	0.892
Chinese yuan (CNY)	8.803	9.855	8.981	9.524
Thai baht (THB)	40.119	48.097	42.021	47.812

3.4. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5. HEDGING

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- Hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or
- Hedges of highly probable forecast transactions (cash flow hedges).

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (derivatives policy). Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge:

3.5.1. Fair Value Hedges

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

3.5.2. Cash Flow Hedges

The effective portion of changes in the fair value of derivatives is recognized in equity. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the period when the hedged item affects the income statement. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized in the income statement when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

3.6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Quoted prices in active markets (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value, generally internally, financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

3.7. PERFORMANCE INDICATORS

3.7.1. Net Debt

Since the proceeds of the capital increase (note 24) has been partially invested in financial instruments which do not meet the definition of cash and cash equivalents (note 3.19), the Group has modified the components of its net debt in order to preserve the relevance of this not strictly accounting indicator.

In order to maintain the comparability of this indicator, this new definition has been applied retroactively.

Net debt is made up of current and non-current financial liabilities as they appear in the balance sheet less:

- Cash and cash equivalents as they appear in the balance sheet;
- Derivative instruments included in the captions "current financial assets" and "non-current financial assets" of the balance sheet;
- Cash management financial assets included in the caption "current financial assets" of the balance sheet (these assets are highly liquid, little affected by the interest rate risk and not affected at all by the foreign currency risk); and
- Borrowing collaterals included in the captions "current financial assets" and "non-current financial assets" of the balance sheet.

3.7.2. EBITDA before non-recurring income and expenses

The Group defines EBITDA before non-recurring income and expenses as operating income before (i) non-recurring income and expenses and (ii) depreciation of property, plant and equipment and amortization of intangible assets, and any related impairment charge.

3.8. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises;

- Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- Interest income is recognized on an accrual basis using the effective interest method;
- Dividend income is recognized when the right to receive payment is established.

3.9. COST OF SALES

Cost of sales comprises the costs of manufacturing products and the cost of goods purchased for resale.

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

3.10. RESEARCH AND DEVELOPMENT

Research costs cannot be capitalized. Development cost are capitalized as intangible assets when the conditions relating to the commercial and technical feasibility of the project, the ability to allocate the costs reliably and the probability of generating future economic benefits are fulfilled.

Development costs are reviewed annually in order to determine whether the criteria for recognition as intangible assets are met.

3.11. NON-RECURRING INCOME AND EXPENSES

In accordance with the recommendation Nr. 2009-R-03 of the French Accounting National Council, unusual, abnormal or non-frequent significant items of income and expenses are separately disclosed in the income statement. They are fully described in the note 9.

3.12. INCOME TAX

Income tax expense in the income statement includes both current and deferred taxes, plus any withholding tax on royalties and the distribution of retained earnings within the Group, except if it relates to items recognized directly in equity, in which case the expense is recognized in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3.13. INTANGIBLE ASSETS

3.13.1.Goodwill

Goodwill is computed at acquisition date as the difference between:

- The sum of the cost of the acquisition and the non-controlling interests; and
- The fair value of the identifiable acquired assets and liabilities.

Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the acquisition in which the goodwill arose.

3.13.2.Other Intangible Assets

Other intangible assets are capitalized to the extent that the future economic benefit related to these assets will flow to the Group and their costs can be reliably identified.

They are amortized on a straight-line basis over their useful life which generally does not exceed 7 years.

3.14. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are measured at cost less accumulated depreciation and, when necessary, impairment.

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset (including borrowing costs). Investment grants are initially accounted for as deferred revenue and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

- Buildings and general installations of land and buildings 25 years
- Industrial and commercial equipments 5-12 years
- Computer and telecommunication equipments 5 years
- Vehicles 5 years
- Other 2-12 years

The useful lives of the assets and their respective residual values are reviewed annually.

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased item and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the balance sheet. The payments related to operating leases are expensed as incurred.

3.15. IMPAIRMENT OF NON-FINANCIAL ASSETS

When there is any indication that the recoverable amount of an asset (intangible assets and property, plant and equipment) may be less than its carrying amount, the recoverable amount of the asset is measured and an expense is potentially accounted for.

At individual asset level, such indications generally come from a fall in market value, technical obsolescence or an anticipated change of use. The recoverable amount is usually based on the market value.

At Group level, non-financial assets are combined for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU North America Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU ViaMichelin) This approach allows to have UGTs with cash flows that are separately identifiable from cash flows of other UGTs.

CGUs are tested annually as long as a goodwill is allocated to them. For most CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are based on the CGU's five-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC.

The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of debt capital and a risk premium reflecting the risks of the countries where the assets are located. Those rates are adjusted in order to determine a pre-tax discount rate, consistent with the pre-tax cash flow forecasts.

The gearing is based on target information. The beta is calculated according to the variance and the covariance between the Company stock price and the CAC 40 index using a mobile average on 24 months.

When the value in use of the distribution CGUs is lower than the CGUs' asset value, recoverable amount is measured at fair value less costs to sell. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in other operating income and expenses unless classified as non-recurring items.

3.16. NON-DERIVATIVE FINANCIAL ASSETS

3.16.1.Asset Categories

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets have been acquired. Management determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date:

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date;
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date;
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by the Management. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

3.16.2.Transactions

Purchases and sales of non-derivative financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value gains or losses are included in the income statement.

3.16.3.Measurement

Available-for-sale financial assets are measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity unless the gains and losses are incurred as part of fair value hedges and therefore included in the income statement in the period in which they arise.

3.16.4.Impairment

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments cannot be reversed.

3.17. INVENTORIES

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. Inventories are measured using the weighted-average cost method.

Net realizable value is the estimated selling price less the estimated cost of completion as well as the estimated selling expenses.

An impairment loss is recognized when net realizable value is lower than cost and is reversed when it becomes apparent that the circumstances which previously caused inventories to be written down below cost no longer exist.

3.18. TRADE RECEIVABLES

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than 6 months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. In the case of receivables that are more than 6 months overdue, the Credit Department determines if the risk is limited to the overdue amount, or if it includes all other receivables from the debtor. The impairment loss is also determined by the Credit Department for economic and/or political risk, and for an adverse change in the debtor's credit situation. For all other cases the total amount of the receivable is considered as impaired. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding allowance account. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

3.20. SHARE CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

3.21. NON-DERIVATIVE FINANCIAL LIABILITIES

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Non-derivative financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost; any difference between the issue proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a Market Interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in equity, net of income tax effects.

To the extent that borrowings are hedged by qualifying fair value hedges, the carrying value of the hedged item is adjusted for the change in fair value attributable to the risk being hedged.

3.22. EMPLOYEE BENEFITS

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by Group employees.

Where long-term employee benefits, such as pension and other post-employment benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

3.22.1.Pension and Other Post-Employment Benefits

Post-employment benefits are benefits payable after the completion of employment. Group companies provide retirement benefits for most of their employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

Group companies provide post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group pays fixed contributions to state or private insurance companies. Once the contributions have been paid, the Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the corresponding benefits to all employees.

The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Most of the current post-employment benefit plans are defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are provided by independent actuaries. Actuarial assumptions primarily regarding discount rates, projected rates of remuneration growth, expected growth of healthcare costs and expected long-term rates of return on plan assets are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets taking into account any unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds in the country of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains or losses arise mainly from changes in actuarial assumptions and differences between assumptions and actual experience. They are recognized in the income statement as a component of the Group net benefit plan cost only to the extent that, as of the beginning of the year, their net cumulative amount exceeds 10% of the greater of (1) the present value of the defined benefit obligation or (2) the fair value of the plan assets. In such case, the portion of actuarial gains or losses recognized in the income statement is the resulting excess divided by the expected average remaining working lives of the employees participating in the plan.

Past service costs may arise when a new defined benefit plan is set up or changes to benefits payable under an existing defined benefit plan are introduced. They are recognized immediately in the income statement if the benefits are vested. They are amortized on a straight-line basis over the average period until the benefits become vested if the benefits are not yet vested.

The Group net benefit plan cost recognized in the operating income consists of current service cost, interest cost, expected return on assets, curtailments and settlements, past service costs as well as actuarial gains and losses to the extent that they are recognized.

3.22.2.Share Based Payments

EMPLOYEE SHARE OPTION PLANS

Benefits related to share options which can be granted to the General Managing Partner and to some Group employees are measured at grant date using a binomial model.

Grant date is the date when eligible employees are informed of the Managing Partners' decision on the number of options granted to them and are given the document describing the conditions attached to the options.

The binomial model is based on the spot price for Company shares, the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in other operating income and expenses.

EMPLOYEE SHARE PURCHASE PLANS

The Group may offer to substantially all of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares through an employee rights issue.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at the subscription price based on the market prices of the Company shares set with a maximum discount of 20%. The benefit to the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments.

3.23. PROVISIONS

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

Restructuring provisions are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.24. TRADE PAYABLES

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1. FINANCIAL RISK MANAGEMENT POLICY

4.1.1. Organization of Financial Risk Management

Financial risk control, measurement and supervision are carried out under the responsibility of the Group Financial Management, at the subsidiary and geographic region level, and at the Group level by the Corporate Financing Department. The Corporate Financing Department reports directly to the Group Financial Management.

One of the Corporate Financing Department's ongoing missions is the formulation of financial risk management policy, monitored on the basis of a full array of internal standards, procedures and authoritative literature. Geographic zone finance managers oversee the implementation of the Group financial risk management policy by the subsidiary finance managers. In addition, compliance with financial risk policy is assessed through internal audit reviews to evaluate risk control efficiency and identify means of improvement.

All strategic decisions regarding Group financial risk hedging policy are taken by the Group Financial Management. As a general rule, the Group strictly limits the use of derivatives to the sole purpose of hedging clearly identified exposures.

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Management and of the Corporate Financing Department.

4.1.2. Liquidity Risk

The Corporate Financing Department is responsible for ensuring Group financing and liquidity at the lowest cost. The Group raises financial resources on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and the securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and has cash investments that are calibrated in order to ensure the refinancing of the short term debt. Long term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular the Compagnie Financière Michelin, which acts as the financing hub for the Group.

Except in the case of particular obligations related to the specific features of local financial markets, the subsidiaries are financed in accordance with a model that is being progressively deployed across the Group:

- Cash pooling with the Group for the management of day to day liquidity requirements;
- Intercompany credit lines and loans to meet medium and long term requirements.

Short term financing for subsidiaries that do not participate in the cash pooling is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short and long term financing requirements based on business forecasts and the strategic plans operating entities.

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. At closing date no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising and their possible impact on the financial situation of the Group is not significant.

4.1.3. Currency Risk

CURRENCY TRANSACTION RISK

Group subsidiaries continually calculate their accounting foreign exchange exposure in relation to their functional currency and hedge it systematically. A number of temporary exemptions can, however, be granted by the Group Financial Management when it is not possible to hedge a currency or when it is justified under exceptional market conditions.

Foreign currency payables and receivables of the same type and with similar maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding company in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts, of which the majority has short term maturities of around three months. Constant monitoring of exchange gains and losses as well as regular internal audits ensure that the hedging policy is adhered to by all Group entities.

Currency risk monitoring and hedging is based on Group internal standards and procedures. A transactional currency risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis on a detailed management report.

CURRENCY TRANSLATION RISK

Investments in foreign subsidiaries are booked in the functional currency of the holding company and are not included in the latter's foreign exchange position.

Future cash flows from these long-term investments (dividends, fees for R&D services and trademark licenses, and capital increases) are hedged on a selective basis according to the probability of the cash flows occurring.

Available-for-sale financial assets are not hedged for currency risks.

4.1.4. Interest Rate Risk

The objective of interest rate management is to minimize financing costs whilst protecting future cash flows against unfavorable movements in interest rates. For this purpose, the Group uses various derivative instruments available in the market, but restricts itself to the use of "plain vanilla" instruments (interest rate swaps, caps, collars, etc).

Interest rate exposure is analyzed and monitored by the Financial Risks Committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department which is the only entity permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

4.1.5. Equity Risk

Equity investments are made for strategic rather than trading purposes. Equities are held under a medium or long term strategy, and not for short term trading portfolio management.

4.1.6. Counterparty Risk

The Group chooses its banks extremely carefully, particularly in the case of cash investments.

As it would be inappropriate to add financial risk to the industrial and trading risks that are associated with its operations, the Group gives priority to the security and the liquidity of all its cash investments.

These are invested with blue chip banks, using low risk financial instruments or instruments offering a capital guarantee, while avoiding significant concentration levels.

As well as cash investments, counterparty risk is borne on the value of the assets of derivative instruments used for hedging purposes. These amounts and their distribution by bank are tracked weekly by the Group Treasury and monitored monthly by the Financial Risks Committee.

4.1.7. Credit Risk

In 2010, trade receivables represent less than 16% of annual sales. The Credit Department, which is part of the Group Finance Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection.

The main policies and procedures are defined at Group level and are monitored and controlled at both the region and Group level. A monthly credit reporting system operates within the Group.

In 2010, the Group Credit Department continued the reduction of the term of payment.

4.2. FINANCIAL RISK DATA

4.2.1. Liquidity Risk

As at December 31, 2010, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	2011	2012	2013	2014	2015	2016	2017 and beyond
Bonds	278	564	77	783	13	13	1,287
Loans from financial institutions and other	784	139	672	14	70	1	9
Obligation under finance lease	20	17	17	16	16	9	16
Derivative instruments	6	12	2	2	1	-	-
Repayment schedule of financial debts	**1,088**	**732**	**768**	**815**	**100**	**23**	**1,312**
Long-term undrawn confirmed credit lines	**-**	**1,500**	**-**	**-**	**-**	**-**	**-**

This table shows debt nominals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in EUR at closing rates). Thus displayed amounts are not discounted.

The last column (2017 and beyond) includes the super-subordinated notes issued by CGEM in 2003 and redeemable in cash (TSDR) for a nominal amount of €196 million. The notes are redeemable in December 2033. However CGEM is entitled, at its discretion, to redeem early all the notes in cash at par in December 2013, and thereafter at quarterly intervals until the maturity date of the notes in December 2033.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€1,590 million) as well the cash management financial assets (€843 million).

4.2.2. Currency Risk

TRANSACTIONAL CURRENCY RISK

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2010						December 31, 2009					
(in € million)	USD	EUR	BRL	CHF	SEK	Other	USD	EUR	BRL	CHF	SEK	Other
Monetary assets	4,036	1,410	26	106	273	2,214	3,285	1,069	20	100	219	1,720
Monetary liabilities	(2,998)	(1,459)	(9)	(51)	(245)	(1,678)	(2,350)	(1,473)	-	(30)	(190)	(1,182)
Net position before hedging	**1,038**	**(49)**	**17**	**55**	**28**	**536**	**935**	**(404)**	**20**	**70**	**29**	**538**
Hedges	(1,121)	11	(26)	(63)	(23)	(540)	(975)	320	(21)	(64)	(33)	(397)
NET POSITION AFTER HEDGING	**(83)**	**(38)**	**(9)**	**(8)**	**5**	**(4)**	**(40)**	**(84)**	**(1)**	**6**	**(4)**	**141**

An unfavorable change in each of the foreign currencies mentioned in the table above against the funtional currencies of the companies which have the currency exposure would have a negative aggregate impact, after hedging, of €1 million (2009: less than €1 million) in the consolidated income statement for every cent change. A favorable change would have a totally symmetrical impact. This relativety low sensibility to the transaction currency risk is due to the objective described in paragraph 4.1.3.

Because of the low volume of cash flow hedge derivatives (note 16), the equity sensitivity to currency risk is not significant.

CURRENCY TRANSLATION RISK

A breakdown of consolidated equity risk by currency is provided in the following table:

(in € million)	December 31, 2010	December 31, 2009
EUR	4,677	2,740
USD	1,102	901
BRL	837	713
CAD	368	358
THB	257	152
GBP	237	184
Other	649	447
TOTAL	**8,127**	**5,495**

4.2.3. Interest Rate Risk

Net debt as at December 31, 2010 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
EUR	2,165	(1,010)	**1,155**	(1,594)	2,165	(2,604)	**(439)**	(810)	810	1,355	(1,794)	**(439)**
USD	3	39	**42**	613	(47)	702	**655**	487	(487)	440	215	**655**
THB	-	181	**181**	191	-	372	**372**	299	(299)	299	73	**372**
CNY	-	113	**113**	151	-	264	**264**	-	-	-	264	**264**
BRL	-	18	**18**	166	-	184	**184**	-	-	-	184	**184**
Other currencies	11	52	**63**	473	11	525	**536**	-	-	11	525	**536**
Total before derivatives	**2,179**	**(607)**	**1,572**	**-**	**2,129**	**(557)**	**1,572**	**(24)**	**24**	**2,105**	**(533)**	**1,572**
Fair value of derivatives included in net debt			57				57					57
NET DEBT (NOTE 26)			**1,629**				**1,629**					**1,629**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2010:

	Annualized cash impact booked in income statement	Fair value impact			
(in € million)		Booked in income statement [(1)]	Booked in equity [(2)]	Not booked [(3)]	Total
1-point downward shift	**5**	(34)	-	(54)	**(88)**
1-point upward shift	**(5)**	22	-	54	**76**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

4.2.4. Equity Risk

Equity risk is the risk of a 10% unfavorable change in the price of the Group investment portfolio.

(in € million)	December 31, 2010	December 31, 2009
Carrying amount (note 15.1)	493	321
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(46)**	**(29)**

4.2.5. Counterparty Risk

As at December 31, 2010, 53% of the cash (including cash management financial assets) is invested in money-market or short-term bond funds to allow for a maximum diversification of counterparty risk. More than 90% of the remainder is invested directly in 15 of the main international banking groups which credit rating is equal or greater than "single A".

Most of the derivative contracts also lie with the same banking groups.

4.2.6. Credit Risk

As at December 31, 2010, net receivable balances from the 10 largest customers amounted to €415 million (2009: €362 million). 5 of these customers are located in North America and 5 in Europe. At the same date, 51 customers (2009: 43) had been granted credit limits in excess of €10 million. Out of these, 25 are located in Europe, 21 in North America, 2 in Asia, 2 in Middle-East and 1 in South America. There was no significant collateral received to limit credit risk. In 2010, credit losses represented 0.16% of sales (2009: 0.27%).

4.2.7. Commodities Derivatives

In 2010, the Group did not have any significant hedges of commodities purchases.

4.3. CAPITAL RISK MANAGEMENT

The Group objectives when managing its capital is to safeguard the entity's ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders of the Company and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

The monitoring of the gearing ratio is essentially done through the optimization of the net debt as well as through occasional capital transactions such as the capital increase done in October 2010 (note 24). This capital increase will be used principally to:

- Finance the acceleration of the Group's growth including, and notably, its increased annual capital expenditure;
- Enhance the Group's credit rating and its access to financing; and
- Generally reinforce the Group's financial flexibility.

The gearing ratios are as follows:

(in € million)	December 31, 2010	December 31, 2009
Net debt (note 26)	1,629	2,931
Total equity (as shown in the balance sheet)	8,127	5,495
Gearing ratio	**0.20**	**0.53**

As mentioned in note 3.7.1, the 2009 net debt has been restated since the Group adopted a new definition of this indicator in 2010.

NOTE 5 SEGMENT REPORTING

The Group is organized into Product Lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light truck tires and related distribution;
- Truck tires and related distribution;
- Specialty businesses (Earthmover, Agricultural, Two-wheel and Aircraft tires; Maps and Guides, ViaMichelin and Michelin Lifestyle).

The operating segment performance is evaluated based on operating income before non-recurring income and expenses, consistently with operating income before non-recurring income and expenses in the consolidated financial statements. This measurement basis excludes the effects of non-recurring income and expenses from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a Group basis and are not allocated to operating segments.

Segment assets consist of goodwill and other intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Partners with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and other intangible assets. No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

(in € million)	2010				2009			
	Passenger car and Light truck tires and related distribution	**Truck tires and related distribution**	**Specialty businesses**	**Total**	**Passenger car and Light truck tires and related distribution**	**Truck tires and related distribution**	**Specialty businesses**	**Total**
Profit and loss information								
Net sales	9,790	5,680	2,421	**17,891**	8,280	4,496	2,031	**14,807**
Operating income before non-recurring income and expenses	1,014	249	432	**1,695**	661	(69)	270	**862**
In percentage of net sales	*10.4%*	*4.4%*	*17.8%*	**9.5%**	*8.0%*	*(1.5%)*	*13.3%*	**5.8%**
Depreciation and amortization	(517)	(283)	(155)	**(955)**	(513)	(286)	(140)	**(939)**
Impairment	10	(14)	(6)	**(10)**	7	(6)	(2)	**(1)**
Segment assets								
Intangible assets and PP&E	4,035	2,487	1,447	**7,969**	3,682	2,546	1,278	**7,506**
Finished products inventories	1,148	831	417	**2,396**	973	674	344	**1,991**
Trade receivables	1,451	1,005	314	**2,770**	1,251	813	250	**2,314**
Total	**6,634**	**4,323**	**2,178**	**13,135**	**5,906**	**4,033**	**1,872**	**11,811**
Other information								
Capital expenditure	599	292	209	**1,100**	322	178	172	**672**

Sales between segments are carried at arm's length. The sales to external parties reported to the Managing Partners are measured in a manner consistent with that in the consolidated income statement.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	**December 31, 2010**	**December 31, 2009**
Segment assets	**13,135**	**11,811**
Non-current financial assets and other assets	1,108	712
Investments in associates and joint ventures	93	71
Deferred tax assets	828	942
Other net inventories (raw materials and supplies, work in progress)	1,374	1,003
Current financial assets	882	165
Other current assets	653	583
Cash and cash equivalents	1,590	1,231
TOTAL GROUP ASSETS	**19,663**	**16,518**

The geographic information is broken down by zone hereunder:

(in € million)	2010				2009			
	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	7,682	6,148	4,061	**17,891**	6,752	4,994	3,061	**14,807**
Intangible assets and PP&E	4,430	1,607	1,932	**7,969**	4,409	1,549	1,548	**7,506**
Capital expenditure	664	186	250	**1,100**	423	152	97	**672**

Europe includes western and eastern European countries. North America comprises Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

No single external customer amounted to 10% or more of the Group sales in 2010 and 2009.

NOTE 6 EXPENSES BY NATURE

The following recurring items are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Raw materials and consumables used and changes in finished products inventories	(7,389)	(5,943)
Employee benefit costs (note 7)	(4,836)	(4,515)
Transportation of goods	(963)	(773)
Depreciation, amortization and impairment charges	(965)	(940)
Other expenses	(2,043)	(1,774)
EXPENSES BY NATURE	**(16,196)**	**(13,945)**

NOTE 7 EMPLOYEE BENEFITS COSTS

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Wages and salaries	(3,541)	(3,248)
Payroll taxes	(953)	(914)
Defined benefit plan costs (note 27.1)	(246)	(253)
Defined contribution plan costs (note 27.2)	(87)	(90)
Share-based payments (note 25)	(9)	(10)
EMPLOYEE BENEFIT COSTS	**(4,836)**	**(4,515)**

The average number of employees in 2010 was 110,007 (2009: 112,527).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES

The following recurring items are recognized within other operating income and expenses in the income statement:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Gain/(loss) on disposal of intangible assets and property, plant and equipment	5	20
Net restructuring costs	(11)	(22)
(Charge)/reversal on impairment of intangible assets and property, plant and equipment	(10)	(2)
Retiree benefit costs	(97)	(104)
Share-based payments (note 25)	(9)	(10)
Other operating income/(expenses)	(42)	(31)
OTHER OPERATING INCOME AND EXPENSES	**(164)**	**(149)**

NOTE 9 NON-RECURRING INCOME AND EXPENSES

In 2010, no expense or income has been recognized in non-recurring items.

Non-recurring income and expenses recognized in 2009 (€412 million) can be detailed as follows:

9.1. FRANCE

The Group announced, in the first half of 2009, a project aiming a new specialization of some of its industrial operations in France. A provision has been recognized for a net amount of €172 million related to the social costs, the equipment impairments and the costs necessary to deploy the revitalization plan for the impacted regions.

In addition to this specialization plan, the Group signed on November 12, 2009 with the trade unions a new workforce streamlining plan in France. A provision for a net amount of €41 million has been recognised covering the measures of this workforce streamlining plan.

9.2. NORTH AMERICA

North America implemented in the first half of 2009 an industrial and commercial restructuring plan. A provision for an amount of €127 million has been recognized to cover in particular the severance expenses and the equipment impairments.

9.3. JAPAN

The Group announced in the second half of 2009 a restructuring plan of its Ota manufacturing plant. A provision for an amount of €72 million has been recognized related to the social costs and the equipment impairments.

NOTE 10 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Interest expenses	(197)	(258)
Interest income	10	9
Interest rate derivatives	(49)	(10)
Other	-	(3)
COST OF NET DEBT	**(236)**	**(262)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	8	19
Currency remeasurement (including currency derivatives)	-	(13)
Other	2	4
OTHER FINANCIAL INCOME AND EXPENSES	**10**	**10**

The Group has slightly modified the presentation of its financial income and expenses in order to improve the meaning of the cost of net debt indicator. The impact of currency remeasurement has therefore moved from the cost of net debt to other financial income and expenses. The 2009 figures have been restated according to the new presentation.

10.1. DERIVATIVES NOT ACCOUNTED FOR USING HEDGE ACCOUNTING

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 4.1.2) and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 4.1.4).

As a consequence:

- Borrowings are essentially raised in euros (note 26);
- Part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- Derivatives are contracted to manage the foreign currency interest rates (note 16).

This process is described in the summary table in note 4.2.3.

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €48 million (2009: €10 million) and is included in the line interest rate derivatives (cost of net debt).

10.2. INEFFECTIVE HEDGES

The ineffective portion of fair value hedges amounting to less than 1 million euro (2009: less than €1 million) is included in the line interest rate derivatives (cost of net debt). No cash flow hedge ineffectiveness has been recognized in the income statement (2009: nil).

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Current tax expense	(287)	(125)
Deferred tax income/(expense) (note 18)	(162)	22
INCOME TAX	**(449)**	**(103)**

Current tax includes €18 million of withholding tax on royalties and distribution of retained earnings between Group companies (2009: €21 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
Income before tax	**1,498**	**207**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(449)**	**(37)**
Tax effect from:		
• Untaxed transactions	10	-
• Changes in unrecognized temporary differences	17	(32)
• Changes in unrecognized tax losses	(19)	(26)
• Change in tax rates	7	(2)
• Tax credits and withholding tax	5	2
• Other items	(20)	(8)
INCOME TAX	**(449)**	**(103)**

NOTE 12 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing income attributable to the shareholders of the Company by the weighted average number of shares outstanding during the year, excluding shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company has two types of dilutive potential shares: convertible bonds (note 26.1) and stock options (note 28.1). When at closing date the convertible bonds are dilutives, they are assumed to have been converted into ordinary shares, and net income is adjusted to eliminate the interest expense less the tax effect. For the stock options and when they are dilutives at closing date, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the stock options.

Following the share capital increase with preferential subscription rights issued in October 2010 and in order to maintain the comparability of past data, the weighted average number of shares used in the calculation of earnings per share has been restated to take into consideration an adjustment coefficient resulting from a capital increase at a price below the market value. This coefficient is based on the ratio between the value of the share before detaching the preferential subscription right and the value of share after detaching the preferential subscription right. The adjustment coefficient has been applied until the date of the capital increase.

Components of the basic and diluted earnings per share calculations are presented in the table below:

	Year ended December 31, 2010	Year ended December 31, 2009
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,048	106
• Less, estimated grants to the General Partners	(12)	(2)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,036**	**104**
• Plus, interest expenses on convertible bonds	27	-
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,063**	**104**
Weighted average number of shares (thousands of shares) outstanding used in the calculation of basic earnings per share	**152,903**	**151,390**
• Plus, adjustment for share option plans	366	72
• Plus, adjustment for convertible bonds	6,742	-
Weighted average number of shares used in the calculation of diluted earnings per share	**160,011**	**151,462**
Earnings per share *(in €)*		
• Basic	6.78	0.69
• Diluted	6.64	0.69

2009 earnings per share as reported last year (€0.71 for basic earnings per share and €0.71 for diluted earnings per share) have been restated this year to take into account the impact of the capital increase with preferential subscription rights issued in October 2010. Thus, earnings per share are comparable for the two years presented.

Since the convertible bonds, as described in the note 26.1, are dilutive in 2010, they have been considered in the calculation of diluted earnings per share (they were antidilutive in 2009 and therefore they have not been considered in the calculation of diluted earnings per share). Taking into account the evolution of the average share price in 2010, the stock option plans of May 2006, May 2007, May 2008, November 2009 and May 2010, as described in the note 28.1 are antidilutive.

No transaction on shares having an impact on the weighted average number of shares entering in the calculation of basic earnings per share and diluted earnings per share has occurred after the 2010 reporting period.

NOTE 13 INTANGIBLE ASSETS

Changes in intangible assets are as follows:

(in € million)	Goodwill	Other intangibles	Total
Gross carrying amounts at January 1, 2009	**401**	**936**	**1,337**
Translation adjustments	1	-	1
Additions	1	77	78
Disposals	-	(22)	(22)
Changes in scope of consolidation	-	-	-
Transfers and other	-	2	2
Gross carrying amounts at December 31, 2009	**403**	**993**	**1,396**
Translation adjustments	33	25	58
Additions	-	111	111
Disposals	-	(40)	(40)
Changes in scope of consolidation	-	6	6
Transfers and other	-	4	4
Gross carrying amounts at December 31, 2010	**436**	**1,099**	**1,535**
Amortization and impairment at January 1, 2009	**-**	**(626)**	**(626)**
Translation adjustments	-	(1)	(1)
Amortization	-	(53)	(53)
Net impairment	-	-	-
Disposals	-	8	8
Changes in scope of consolidation	-	-	-
Transfers and other	-	-	-
Amortization and impairment at December 31, 2009	**-**	**(672)**	**(672)**
Translation adjustments	-	(16)	(16)
Amortization	-	(60)	(60)
Net impairment	(20)	(1)	(21)
Disposals	-	10	10
Changes in scope of consolidation	-	-	-
Transfers and other	-	-	-
Amortization and impairment at December 31, 2010	**(20)**	**(739)**	**(759)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2010	**416**	**360**	**776**
Net carrying amounts at December 31, 2009	**403**	**321**	**724**

13.1. GOODWILL

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2010	December 31, 2009
CGU Passenger car and light truck tires North America	105	99
CGU Passenger car and light truck tires Southeast Asia/ Australia	118	102
CGU Passenger car and light truck tires Europe	66	70
Other CGUs (including CGUs Truck tires)	127	132
GOODWILL	**416**	**403**

The impairment tests have been done taking into account the two main following assumptions:

- The terminal value measured with a 1.5% growth rate for the CGUs located in mature countries, and 3% growth rate for the CGUs located in emerging countries;
- The pre-tax discount rate used to discount the future cash flows of the CGUs ranged between 11% and 13%.

Since the amount of goodwill is quite low compared to its total balance sheet or to its net equity, the Group does not disclose any sensitivity analysis to the main key assumptions.

13.2. OTHER INTANGIBLE ASSETS

There are no other intangible assets with an indefinite useful life.

In 2010, additions to intangible assets, amounting to €111 million (2009: €77 million) break down into the following categories:

- Software €83 million
- Emission rights – allowances granted €12 million
- Other €16 million

13.2.1.Software

The net carrying amount of software at December 31, 2010 was €244 million (2009: €211 million). Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other cost directly attributable to the acquisition or production.

13.2.2.Emission Rights

The allowances granted are recognized as an intangible asset at their price on the grant date. A government grant for the same amount is recognized in liabilities. The expense and the related liability for actual emissions and the income corresponding to the use of the government grant are accounted for using the price in force at the grant date. The balance of the rights granted at December 31, 2010 amounts to 1.9 million metric tons representing a value of €28 million. The liability related to actual emissions in 2010 amounts to 0.6 million metric tons representing a value of €7 million. It will be offset by the delivery of the allowances granted.

13.2.3.Development Costs

In 2010 and 2009, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfill six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

13.3. IMPAIRMENT OF INTANGIBLE ASSETS

Accumulated impairment losses on intangible assets at December 31, 2010 amounted to €36 million (2009: €15 million).

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

(in € million)	Lands and Buildings	Plant and Industrial Equipment	Other Equipment	Total
Gross carrying amounts at January 1, 2009	**3,939**	**11,830**	**1,331**	**17,100**
Translation adjustments	95	241	29	365
Additions	104	462	43	609
Disposals	(65)	(566)	(87)	(718)
Changes in scope of consolidation	6	8	4	18
Transfers and other	2	1	(9)	(6)
Gross carrying amounts at December 31, 2009	**4,081**	**11,976**	**1,311**	**17,368**
Translation adjustments	187	626	53	866
Additions	190	724	90	1,004
Disposals	(64)	(622)	(54)	(740)
Changes in scope of consolidation	-	-	-	-
Transfers and other	-	4	(10)	(6)
Gross carrying amounts at December 31, 2010	**4,394**	**12,708**	**1,390**	**18,492**
Depreciation and impairment at January 1, 2009	**(1,854)**	**(7,237)**	**(963)**	**(10,054)**
Translation adjustments	(33)	(114)	(22)	(169)
Depreciation	(114)	(705)	(67)	(886)
Net impairment	(35)	(110)	(8)	(153)
Disposals	42	562	83	687
Changes in scope of consolidation	(1)	(8)	(2)	(11)
Transfers and other	-	(3)	3	-
Depreciation and impairment at December 31, 2009	**(1,995)**	**(7,615)**	**(976)**	**(10,586)**
Translation adjustments	(90)	(395)	(40)	(525)
Depreciation	(118)	(713)	(64)	(895)
Net impairment	(1)	12	-	11
Disposals	48	598	49	695
Changes in scope of consolidation	-	-	-	-
Transfers and other	(2)	(3)	6	1
Depreciation and impairment at December 31, 2010	**(2,158)**	**(8,116)**	**(1,025)**	**(11,299)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2010	**2,236**	**4,592**	**365**	**7,193**
Net carrying amounts at December 31, 2009	**2,086**	**4,361**	**335**	**6,782**

PP&E pledged as collateral amounted to €35 million (2009: €40 million) and PP&E under construction amounted to €1,225 million (2009: €978 million).

Accumulated impairment losses amounted to €155 million (2009: €229 million).

The borrowing costs capitalized in 2010 in PP&E amounted to €2 million (2009: less than €1 million).

14.1. FINANCE LEASES

Capitalized PP&E held under finance leases amounted to €99 million (2009: €106 million). The gross carrying amounts of these assets totaled €133 million (2009: €138 million).

The future minimum payments under finance leases by maturity are shown in the following table:

	December 31, 2010		December 31, 2009	
(in € million)	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	16	20	12	15
Between one and five years	48	57	53	58
More than five years	28	40	35	48
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**92**	**117**	**100**	**121**

14.2. OPERATING LEASES

Total operating lease rents recognized in the income statement in 2010 amounted to €279 million (2009: €259 million).

Future minimum payments under non-cancelable operating leases by maturity are as follows (not discounted):

(in € million)	December 31, 2010	December 31, 2009
Within one year	143	139
Between one and five years	338	330
More than five years	97	105
TOTAL FUTURE MINIMUM PAYMENTS	**578**	**574**

NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the non-current financial assets and other assets is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Available-for-sale financial assets (note 15.1)	493	321
Loans and deposits (note 15.2)	136	107
Derivative instruments (note 16.1)	37	39
Other	11	10
Financial assets	**677**	**477**
Other non-current assets – Defined benefit plans – plan surpluses (note 27.1)	**431**	**235**
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**1,108**	**712**

15.1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consist essentially of a portfolio of equities, which are mostly quoted on a stock exchange.

Movements in the portfolio during the year are broken down in the table below:

(in € million)	2010	2009
At January 1	**321**	**218**
Translation adjustments	(2)	(2)
Net additions	9	6
Disposals	(1)	(32)
Fair value changes	166	131
AT DECEMBER 31	**493**	**321**

No significant available-for-sale financial asset has a book value below its historical cost.

The portfolio by currency can be broken down as follows:

(in € million)	December 31, 2010	December 31, 2009
KRW	322	230
EUR	73	57
USD	28	21
Other currencies	70	13
TOTAL	**493**	**321**

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15.2. LOANS AND DEPOSITS

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Gross loans and deposits	202	172
• Less impairments	(66)	(65)
TOTAL	**136**	**107**

Loans and deposits include borrowing collaterals (note 26) for €40 million (2009: nil). The balance includes loans to employees and customers.

The breakdown by currency and maturity is presented in the table below:

	December 31, 2010			December 31, 2009		
(in € million)	Between one and five years	More than five years	Total	Between one and five years	More than five years	Total
EUR	85	17	**102**	59	20	**79**
CHF	6	-	**6**	4	-	**4**
USD	6	-	**6**	4	-	**4**
Other currencies	22	-	**22**	20	-	**20**
TOTAL	**119**	**17**	**136**	**87**	**20**	**107**

15.3. FAIR VALUE MEASUREMENT HIERARCHY

The following table presents the Group assets and liabilities that are measured at fair value at December 31, 2010 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total
Derivatives (note 16.1)	-	41	-	41
Available-for-sales financial assets	414	-	79	493
TOTAL ASSETS	**414**	**41**	**79**	**534**
Derivatives (note 16.2)	-	98	-	98
TOTAL LIABILITIES	**-**	**98**	**-**	**98**

There has been no significant transfer during the year between level 1 and level 2.

The following table presents the changes in level 3 instruments for the year ended December 31, 2010:

(in € million)	
At January 1, 2010	**68**
Additions	9
Disposals	(1)
Transfers from other level into level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in the net income	-
Gains or losses for the year included in the other comprehensive income	5
Others	(2)
AT DECEMBER 31, 2010	**79**

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5, some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1. DERIVATIVES RECOGNIZED IN ASSETS

	December 31, 2010		December 31, 2009	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	36	810	22	810
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	-	-	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	-	-	11	300
• Interest-rate derivatives	1	162	-	69
• Other derivatives	-	-	6	100
Non-current derivative instruments (note 15)	**37**	**972**	**39**	**1,279**
Interest-rate derivatives qualifying as fair value hedges	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	-	2	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	4	342	5	310
• Interest-rate derivatives	-	-	2	154
• Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**4**	**344**	**7**	**464**
TOTAL ASSETS	**41**	**1,316**	**46**	**1,743**

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16.2. DERIVATIVES RECOGNIZED IN LIABILITIES

(in € million)	December 31, 2010 Fair values	December 31, 2010 Contractual amounts	December 31, 2009 Fair values	December 31, 2009 Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	-	-	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	12	300	-	-
• Interest-rate derivatives	53	1,110	34	943
• Other derivatives	-	-	-	-
Non-current derivative instruments (note 26)	**65**	**1,410**	**34**	**943**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
• Currency derivatives	3	42	-	-
• Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
• Currency derivatives	29	2,389	18	1,955
• Interest-rate derivatives	1	50	17	194
• Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**33**	**2,481**	**35**	**2,149**
TOTAL LIABILITIES	**98**	**3,891**	**69**	**3,092**

The contractual amounts of the currency derivatives are presented by currency in the table below:

	December 31, 2010								December 31, 2009							
	Currencies purchased forward								Currencies purchased forward							
(in € million)	EUR	USD	JPY	THB	CAD	GBP	Other	Total	EUR	USD	JPY	THB	CAD	GBP	Other	Total
Currencies sold forward																
USD	961	-	-	118	-	-	71	**1,150**	787	-	9	64	22	5	69	**956**
JPY	305	45	-	1	-	-	-	**351**	253	-	-	1	-	-	-	**254**
THB	32	37	255	-	-	-	-	**324**	8	17	216	-	-	-	-	**241**
EUR	-	8	-	13	71	51	109	**252**	-	-	-	5	-	-	152	**157**
CNY	33	119	-	-	-	-	-	**152**	2	79	-	-	-	-	-	**81**
BRL	42	83	-	-	-	-	-	**125**	17	40	-	-	-	-	-	**57**
Other	513	199	-	1	-	-	8	**721**	745	71	-	3	-	-	-	**819**
TOTAL	**1,886**	**491**	**255**	**133**	**71**	**51**	**188**	**3,075**	**1,812**	**207**	**225**	**73**	**22**	**5**	**221**	**2,565**

The contractual amounts of other derivative financial instruments are presented by currency in the table below:

	December 31, 2010				December 31, 2009			
(in € million)	less than 1 year	between 1 and 3 years	more than 3 years	Total	less than 1 year	between 1 and 3 years	more than 3 years	Total
• EUR	-	60	750	**810**	4	0	810	**814**
• USD	-	861	75	**936**	344	208	554	**1,106**
• Other currencies	50	249	87	**386**	-	104	146	**250**
Interest-rate derivatives (including cross currency swaps)	**50**	**1,170**	**912**	**2,132**	**348**	**312**	**1,510**	**2,170**
• EUR	-	-	-	-	-	-	100	**100**
• USD	-	-	-	-	-	-	-	-
• Other currencies	-	-	-	-	-	-	-	-
Other derivatives	**-**	**-**	**-**	**-**	**-**	**-**	**100**	**100**
TOTAL	**50**	**1,170**	**912**	**2,132**	**348**	**312**	**1,610**	**2,270**

At closing date, the Group has outstanding short term "futures" contracts for 4,155 tons of natural rubber. The market value of these contracts is an asset of €1 million which has been fully cashed in through the daily margin calls.

NOTE 17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures of €93 million (2009: €71 million) include essentially MC Projects B.V. in the Netherlands and SIPH Group in France.

The associates and joint ventures' financial statements include the following amounts:

(in € million)	2010	2009
Assets	501	430
Liabilities	149	166
Net sales	723	476
Net income	108	24

NOTE 18 DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes in the balance sheet are as follows:

(in € million)	December 31, 2010	December 31, 2009
Deferred tax assets	828	942
Deferred tax liabilities	(45)	(40)
NET DEFERRED TAX ASSET	**783**	**902**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2010	December 31, 2009
Intangible assets	23	25
Financial instruments	118	128
Inventories	71	50
Receivables/payables	58	113
Employee benefits	723	693
Provisions	147	99
Unused tax losses	182	168
Unused tax credits	(31)	(12)
Deferred tax assets by type of temporary difference	**1,291**	**1,264**
Property, plant and equipment	(508)	(362)
Deferred tax liabilities by type of temporary difference	**(508)**	**(362)**
NET DEFERRED TAX ASSET	**783**	**902**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2010	2009
At January 1	**902**	**857**
Translation adjustments	46	15
Deferred tax income/(expense) (note 11)	(162)	22
Tax recognized in the comprehensive income	(2)	(8)
Other	(1)	16
AT DECEMBER 31	**783**	**902**

The deferred tax asset utilization in 2010 comes essentially from temporary differences in the United States of America.

The deferred income tax recognized in equity is as follows:

(in € million)	December 31, 2010	December 31, 2009
Available-for-sale financial assets (statement of comprehensive income)	(11)	(8)
Compound financial instruments (convertible bond)	(16)	(16)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN EQUITY	**(27)**	**(24)**

Deferred tax assets are recognized to the extent that the realization of future taxable profits is probable and will offset tax losses carried forward and deductible temporary differences.

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2010	December 31, 2009
Deductible temporary difference	**39**	**92**
Tax losses		
• Of which expiring in less than one year	8	5
• Of which expiring between one to five years	64	62
• Of which expiring in more than five years	59	13
• Of which evergreen	66	66
Total tax losses	**197**	**146**
Tax credits	**61**	**62**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**297**	**300**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2010	December 31, 2009
Raw materials and supplies	1,093	801
Work in progress	322	241
Finished goods	2,461	2,058
Total gross inventory	**3,876**	**3,100**
Write-downs on raw materials and supplies	(40)	(38)
Write-downs on work in progress	(1)	(1)
Write-downs on finished goods	(65)	(67)
Total write-downs	**(106)**	**(106)**
NET INVENTORY	**3,770**	**2,994**

Sub-activity reduces the inventory balance and increases the operating expenses in cost of sales. The expense amounts to €33 million for the year ended December 31, 2010 (2009: €405 million). The impact of sub-activity in the inventory balance at December 31, 2010 is estimated at €7 million (2009: €85 million).

Movements in inventory write-downs were as follows:

(in € million)	2010	2009
At January 1	**(106)**	**(119)**
Translation adjustments and other	(4)	(2)
Write-downs of inventories recognized as an expense in the period	(42)	(91)
Reversals of write-downs	46	106
AT DECEMBER 31	**(106)**	**(106)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Gross trade receivables	2,879	2,442
Impairment	(109)	(128)
TRADE RECEIVABLES	**2,770**	**2,314**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2010:

(in € million)	Gross	Impairment	Net
Current trade receivables	2,574	(28)	2,546
Overdue			
• From less than three months	198	(2)	196
• Between three and six months	30	(6)	24
• From more than six months	77	(73)	4
Overdue trade receivables	305	(81)	224
TRADE RECEIVABLES	**2,879**	**(109)**	**2,770**

Movements in impairment are broken down in the table below:

(in € million)	2010	2009
At January 1	**(128)**	**(130)**
Translation adjustments	(7)	(1)
Impairment charges	(55)	(85)
Impairment reversals	81	88
AT DECEMBER 31	**(109)**	**(128)**

Impairment reversals in 2010 include write-offs of €28 million (2009: €39 million).

The Group runs three separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be drawn from these programs amounts to €530 million (2009: €758 million). Since the Group has retained substantially all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to €381 million as at December 31, 2010 (2009: €594 million), has been accounted for as collateralized loans (note 26.2). As at December 31, 2010, the programs provide overcollateralization of €157 million (2009: €137 million) to the financial institutions.

NOTE 21 CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is broken down in the table below:

(in € million)	December 31, 2010	December 31, 2009
Loans and deposits	35	38
Cash management financial assets (note 26)	843	120
Derivative instruments (note 16.1)	4	7
CURRENT FINANCIAL ASSETS	**882**	**165**

The characteristics of the cash management financial assets, although being highly liquid, little affected by the interest rate risk and not affected at all by the foreign currency risk (fully invested in euros), do not strictly meet those of cash and cash equivalent (note 3.19). They are therefore accounted for at fair value through profit or loss (note 3.16). The average effective interest rate on cash management financial assets was 1.16% in 2010.

NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Suppliers – advances	77	75
Current tax – advance payments	94	99
Other tax receivables	341	260
Other	149	159
Less impairment	(8)	(10)
OTHER CURRENT ASSETS	**653**	**583**

Other tax receivables mainly relate to VAT.

NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

(in € million)	December 31, 2010	December 31, 2009
Cash at bank and in hand	211	193
Short-term bank deposits of less than three months and other cash equivalents	1,379	1,038
CASH AND CASH EQUIVALENTS	**1,590**	**1,231**

The average effective interest rate on short-term bank deposits was 0.94% in 2010 (2009: 1.23%).

Cash and cash equivalents are denominated in the following currencies:

(in € million)	December 31, 2010	December 31, 2009
EUR	1,346	835
USD	55	215
BRL	52	44
INR	26	37
Other	111	100
CASH AND CASH EQUIVALENTS	**1,590**	**1,231**

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2009: 144,997,422 shares outstanding	**290**	**1,944**	**2,234**
Issuance of 2,371,623 shares from the partial payment of dividend in shares	5	75	80
Issuance of 67,312 shares from the exercise of share options	-	2	2
Other	-	(34)	(34)
At December 31, 2009: 147,436,357 shares outstanding	**295**	**1,987**	**2,282**
Issuance of 27,159,876 shares from the October share capital increase (see below)	54	1,138	1,192
Issuance of 1,735,759 shares from the partial payment of dividend in shares	3	79	82
Issuance of 275,853 shares from the exercise of share options	1	11	12
Other	-	-	-
AT DECEMBER 31, 2010: 176,607,845 SHARES OUTSTANDING	**353**	**3,215**	**3,568**

The par value per share amounts to €2 (2009: €2). All outstanding shares are fully paid and registered. Shares held for more than 4 years have a double voting right.

As part of its capital risk management (note 4.3), the Group made in October 2010 a share capital increase with preferential subscription rights. 27,159,876 new shares were issued at subscription price of €45 per share (nominal value of €2 and premium of €43) on the basis of 2 new shares for 11 existing shares. The subscription price represented a 31.0% discount to the closing price of the share on September 27, 2010 and a 27.6% discount to the theoretical ex-right price. The gross issuance proceeds amount to €1,222 million, including €1,168 million of premium. The issuance costs (€35 million) net of the tax impact (€5 million) are deducted from the share premiums. The net issuance proceeds are invested in cash and cash equivalents (note 23) or in cash management financial assets (note 21).

The dividend granted to the shareholders during the period was €1 per share. The shareholders had the possibility to receive their dividend cash or the equivalent value in shares. It was settled as follows:

- Cash payment of €65 million;
- Issuance of new shares for a net amount of €82 million.

NOTE 25 RESERVES

	Translation reserve	Other reserves	Retained earnings	Total
At January 1, 2009	**(300)**	**78**	**3,096**	**2,874**
Dividends and other allocations	-	-	(150)	(150)
Stock option plans – cost of services rendered (notes 7 & 8)	-	-	10	10
Other	-	(1)	34	33
Transactions with the shareholders of the Company	**-**	**(1)**	**(106)**	**(107)**
Net income/(loss) attributable to the shareholders of the Company	-	-	106	106
Available-for-sale financial assets – unrealized gain/(loss)	-	131	-	131
Tax effect – available-for-sale financial assets – unrealized gain/(loss)	-	(8)	-	(8)
Available-for-sale financial assets – realized (gain)/loss recognized in income statement	-	(5)	-	(5)
Cash flow hedges – change in fair values	-	4	-	4
Cash flow hedges – (gain)/loss recognized in income statement	-	-	-	-
Currency translation differences	216	-	-	216
Other	-	-	(1)	(1)
Comprehensive income	**216**	**122**	**105**	**443**
At December 31, 2009	**(84)**	**199**	**3,095**	**3,210**
Dividends and other allocations	-	-	(150)	(150)
Stock option plans – cost of services rendered (notes 7 & 8)	-	-	9	9
Acquisition of non-controlling interests (China, Shanghai M WARRIOR Tire Co., Ltd)	-	-	(18)	(18)
Other	-	-	-	-
Transactions with the shareholders of the Company	**-**	**-**	**(159)**	**(159)**
Net income/(loss) attributable to the shareholders of the Company	-	-	1,048	1,048
Available-for-sale financial assets – unrealized gain/(loss)	-	166	-	166
Tax effect – available-for-sale financial assets – unrealized gain/(loss)	-	(2)	-	(2)
Available-for-sale financial assets – realized (gain)/loss recognized in income statement	-	-	-	-
Cash flow hedges – change in fair values	-	(3)	-	(3)
Cash flow hedges – (gain)/loss recognized in income statement	-	1	-	1
Currency translation differences	294	-	-	294
Other	-	1	-	1
Comprehensive income	**294**	**163**	**1,048**	**1,505**
AT DECEMBER 31, 2010	**210**	**362**	**3,984**	**4,556**

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2010	December 31, 2009
Bonds	2,152	2,158
Loans from financial institutions and other	958	1,288
Finance lease liabilities (note 14.1)	76	88
Derivative instruments (note 16.2)	65	34
Non-current financial liabilities	**3,251**	**3,568**
Bonds and commercial paper	168	185
Loans from financial institutions and other	679	528
Finance lease liabilities (note 14.1)	16	12
Derivative instruments (note 16.2)	33	35
Current financial liabilities	**896**	**760**
FINANCIAL LIABILITIES	**4,147**	**4,328**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Financial liabilities	4,147	4,328
Derivatives recognized as assets (note 16.1)	(41)	(46)
Borrowing collaterals – non-current portion (note 15.2)	(40)	-
Borrowing collaterals – current portion	(4)	-
Cash management financial assets (note 21)	(843)	(120)
Cash and cash equivalents (note 23)	(1,590)	(1,231)
NET DEBT	**1,629**	**2,931**

As mentioned in note 3.7.1, the 2009 net debt have been restated since the Group adopted a new definition of this indicator in 2010.

The fair value of non-current financial liabilities, calculated in accordance with note 3.6, is presented in the table below:

(in € million)	December 31, 2010	December 31, 2009
Bonds	2,384	2,454
Loans from financial institutions and other	958	1,288
Finance lease liabilities	76	88
Derivative instruments	65	34
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**3,483**	**3,864**

26.1. BONDS AND COMMERCIAL PAPER

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

		Carrying amount (in € million)			
		December 31, 2010		December 31, 2009	
Description	Effective interest rates at December 31, 2010	Current	Non-current	Current	Non-current
Subordinated bonds issued by Compagnie Générale des Établissements Michelin • nominal value of €196 million (2009: €231 million) • issued in December 2003 and due in December 2033, unless the Group elects to redeem them earlier between December 2013 and maturity • nominal interest rate of 6.375% until December 2013 and 3-month Euribor +2.95% thereafter • option to defer coupon payments when the Company does not distribute dividends • partially hedged through a €60 million interest rate swap (2009: €60 million) expiring in December 2013 (fair value hedge) (note 16)	6.60% (5.38%) (1)	-	199	-	233
Liability component of zero-coupon convertible bonds (Océanes) issued by Compagnie Générale des Établissements Michelin • net proceeds received of €694 million • annual gross yield of 3.07% • conversion and/or exchange ratio of 1 bond for 1,036 ordinary share (2) • issued in March 2007 and due in January 2017 • amount redeemable at maturity date: €941 million	4.67%	-	712	-	679
Bonds issued by Michelin Luxembourg SCS • nominal value of €750 million • issued in April 2009 and due in April 2014 • nominal interest rate of 8.625% • step-up of 125bp if downgraded below investment grade by at least one rating agency • hedged through a €750 million interest rate swaps (2009: €750 million) expiring in April 2014 (fair value hedge) (note 16)	8.88% (7.28%) (1)	-	764	-	747
Bonds issued by Michelin Luxembourg SCS • nominal value of €478 million (2009: €500 million) • issued in April 2002 and due in April 2012 • nominal interest rate of 6.5%	6.63%	-	477	-	499
Commercial paper issued by Compagnie Générale des Établissements Michelin • nominal value of €168 million (2009: €185 million)	0.86%	168	-	185	-
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE AND TOTAL CARRYING AMOUNTS	**6.33% (5.71%) (1)**	**168**	**2,152**	**185**	**2,158**

(1) After hedging.
(2) The conversion ratio was updated due to the capital increase described in note 24. The previous ratio was one bond for one share.

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26.2. LOANS FROM FINANCIAL INSTITUTIONS AND OTHER

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in note 20 and liabilities arising from put options granted to minority shareholders of subsidiaries.

Loans from financial institutions and other at December 31, 2010 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	CNY	COP	BRL	USD	Other	Total
Fixed rates	1	-	-	-	-	-	-	1
Floating rates	1,050	183	119	73	70	63	78	1,636
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**1,051**	**183**	**119**	**73**	**70**	**63**	**78**	**1,637**
Weighted average effective interest rate	**1.73%**	**1.54%**	**5.00%**	**7.37%**	**7.28%**	**1.12%**	**5.96%**	**2.61%**

The exposure of loans from financial institutions and other to interest rate changes and the contractual repricing dates are as follows:

(in € million)	December 31, 2010	December 31, 2009
6 months or less	1,636	1,815
6-12 months	-	-
1-5 years	1	1
Over 5 years	-	-
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**1,637**	**1,816**

26.3. RATING

At December 31, 2010, the corporate credit ratings sought by the Group are as follows:

		CGEM	CFM
Short-term	Standard & Poor's	A-2	A-2
	Moody's	P-2	P-2
Long-term	Standard & Poor's	BBB	BBB
	Moody's	Baa2	Baa2
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable *	Stable *

* Positive outlook since January 12, 2011.

NOTE 27 EMPLOYEE BENEFITS

According to the laws and regulations applicable in each country, the Group contributes to pension, insurance, healthcare and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary and contributions to general insurance schemes.

Such plans can be either defined benefit plans or defined contribution plans. In the case of defined benefit plans, Group commitments are measured using the Projected Credit Unit method. In the case of defined contribution plans, liabilities correspond to the contributions due.

27.1. DEFINED BENEFIT PLANS

In addition to mandatory social insurance plans, the Group has introduced a number of retirement plans and retiree healthcare plans as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the actuary's model having the same maturities as the liabilities. These rates are compared with other sources of information as iBoxx, Reuters or Bloomberg and the actuaries own benchmarks. If there is a large gap between these sources, the reference rate taken from actuary's model is adjusted. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size up to three rates can be used depending on the steepness of the yield curve. The discount rate in the USA is based on the actuary's Above Median yield curve rates adjusted to reflect the maturities of the liabilities. The discount rate in Canada is based on the PCBond Canadian Corporate Aa Bond full yield curve rates adjusted to reflect the maturities of the liabilities.

The mortality tables used for the pension plans which are funded through insured contracts are the insurers' tables. For the other post retirement main plans the following tables have been used: (i) USA: RP-2000 Static Mortality Table (Nonannuitants projected to 2025 with Scale AA; Annuitants projected to 2017 with Scale AA); (ii) Canada 1994 UP projected 10 years to 2004; (iii) UK: Generational PA92 mc + 3yrs and (iv) Germany Heubeck RT 2005 G.

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2010	December 31, 2009
Present value of fully or partly funded obligations	5,389	-	5,389	4,923
Fair value of plan assets	(4,681)	-	(4,681)	(3,867)
Funded status deficit/(surplus)	**708**	**-**	**708**	**1,056**
Present value of unfunded obligations	592	1,662	2,254	2,056
Unrecognized past service cost	(2)	65	63	65
Unrecognized actuarial gains and losses	(924)	(80)	(1,004)	(1,043)
Unrecognized asset due to application of asset ceiling	5	-	5	5
NET DEFINED BENEFIT OBLIGATION	**379**	**1,647**	**2,026**	**2,139**
Amounts recognized in the balance sheet:				
• As assets in Non-current financial assets and other assets (note 15)			(431)	(235)
• As liabilities in Employee benefit obligations			2,457	2,374
NET LIABILITY			**2,026**	**2,139**

Unrecognized actuarial gains and losses (corresponding to changes in the present value of projected defined benefit obligations or the fair value of defined benefit plan assets) arise primarily from:

- changes in long-term actuarial assumptions such as inflation rate, discount rate, future salary levels and mortality tables; and
- differences between actuarial assumptions and actual experience.

Unrecognized past service cost corresponds to the value of rights that do not vest immediately when a plan amendment or a new plan is introduced.

The Group does not recognize as an asset any surplus in excess of the sum of (a) cumulative unrecognized net actuarial losses and past service cost and (b) the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

At December 31, 2010, unrecognized actuarial losses amounted to €1,004 million (2009: €1,043 million) and unrecognized past service cost amounted to €63 million (2009: €65 million).

At December 31, 2010, the application of the asset ceiling led the Group not to recognize an asset for an amount of €5 million (2009: €5 million).

Movements in net defined benefit obligations recognized in the balance sheet:

(in € million)	Pension plans	Other plans	2010	2009
At January 1	**599**	**1,540**	**2,139**	**2,443**
Translation adjustments	(12)	94	82	26
Expenses recognized in the income statement (recurring items) (note 7)	150	96	246	253
Contributions paid to the funds	(335)	-	(335)	(362)
Benefits paid directly to the beneficiaries	(23)	(83)	(106)	(146)
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	(75)
Changes in scope of consolidation	-	-	-	-
AT DECEMBER 31	**379**	**1,647**	**2,026**	**2,139**

In 2010, the net amount recognized in the consolidated income statement was an expense of €246 million (2009: €178 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2010	Year ended December 31, 2009
Cost of services rendered during the year	59	36	95	88
Interest cost	323	82	405	401
Expected return on plan assets	(299)	-	(299)	(238)
Amortization of actuarial gains/losses during the year	58	(8)	50	24
Past service cost recognized during the year	-	(14)	(14)	15
Effect of plan curtailments and settlements	8	-	8	(40)
Effect of applying the asset ceiling	1	-	1	3
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	(75)
TOTAL RECORDED IN THE INCOME STATEMENT	**150**	**96**	**246**	**178**

Annual charges are determined by independent actuaries at the beginning of each financial year based on the following factors:

- Charge corresponding to acquisition of an additional year of rights ("cost of services rendered during the year");
- Charge corresponding to the discounting adjustment to reflect the reduction in the period until the benefits are due ("interest cost");
- Income corresponding to estimated return on plan assets ("expected return on plan assets");
- Income or charge from annual amortization of actuarial gains or losses ("amortization of actuarial gains/losses during the year");
- Gain/loss resulting from changes in plan benefits ("past service cost recognized during the year");
- Gain/loss resulting from the curtailment or settlement of any plans (curtailments and settlements);
- Gain/loss resulting from the effect of applying the asset ceiling.

27.1.1. Pension Plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary. Such benefits are provided under defined benefit plans or defined contribution plans.

Under defined benefit plans, the Group guarantees the future level of benefits as provided by the plan regulations. The valuation of such defined benefit plans is carried out by independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as German pension plans, a provision is made in the consolidated balance sheet. Defined post-employment benefit plans are mainly found in the United States of America, Canada and the United Kingdom. The future benefits paid by the above plans are generally based on years of service and average end-of-career salaries. Since 2004, Group defined benefit pension plans for the employees of its North American and UK subsidiaries are gradually being phased out in favor of defined contribution pension plans for newly hired employees as well as for future accruals.

Under defined contribution plans, the Group obligation is limited to the payment of established contributions. This does not guarantee the future level of benefits. Annual charges correspond to the contributions due during the year. Currently, Group defined contribution plans mainly consist of 401 K plans in the United States of America and the RRSP plan in Canada.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

				2010				2009
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	2,821	2,626	41	**5,488**	2,360	2,180	24	**4,564**
Translation adjustments	267	73	4	**344**	29	124	4	**157**
Changes in scope of consolidation	-	-	-	**-**	2	16	-	**18**
Current service cost	34	17	1	**52**	28	16	1	**45**
Interest cost	174	146	3	**323**	166	137	2	**305**
Plan reorganization costs generated during the year:								
• Immediately recognized in the income statement	2	7	-	**9**	9	(16)	10	**3**
• Unrecognized costs	-	-	-	**-**	-	-	-	**-**
Benefits paid	(198)	(113)	1	**(310)**	(182)	(143)	-	**(325)**
Other items	(2)	4	2	**4**	-	-	1	**1**
Unrecognized actuarial (gains)/losses generated during the year	110	(40)	1	**71**	409	312	(1)	**720**
Present value of the obligations at the end of the year	**3,208**	**2,720**	**53**	**5,981**	**2,821**	**2,626**	**41**	**5,488**
Fair value of plan assets at the beginning of the year	2,259	1,589	19	**3,867**	1,838	1,350	12	**3,200**
Translation adjustments	219	59	3	**281**	39	107	3	**149**
Changes in scope of consolidation	-	-	-	**-**	-	17	-	**17**
Expected return on plan assets	191	105	2	**298**	148	87	2	**237**
Contributions paid to the plans	247	88	1	**336**	309	46	1	**356**
Administration costs	-	(5)	-	**(5)**	-	(7)	-	**(7)**
Benefits paid by the plans	(197)	(92)	2	**(287)**	(181)	(122)	-	**(303)**
Other items	-	-	-	**-**	-	-	-	**-**
Unrecognized actuarial gains/(losses) generated during the year	107	88	(4)	**191**	106	111	1	**218**
Fair value of plan assets at the end of the year	**2,826**	**1,832**	**23**	**4,681**	**2,259**	**1,589**	**19**	**3,867**
DEFICIT/(SURPLUS) AT THE END OF THE YEAR	**382**	**888**	**30**	**1,300**	**562**	**1,037**	**22**	**1,621**
Deferred items at the beginning of the year	795	231	(4)	**1,022**	544	19	(1)	**562**
Translation adjustments	69	9	(1)	**77**	(10)	5	-	**(5)**
Changes in scope of consolidation	-	-	-	**-**	(1)	-	-	**(1)**
Unrecognized asset due to application of the asset ceiling generated during the year	-	-	-	**-**	(4)	-	-	**(4)**
Amortization of actuarial gains/losses during the year	53	5	-	**58**	37	(6)	-	**31**
Amortization of plan reorganization costs during the year	-	-	-	**-**	-	-	-	**-**
Unrecognized actuarial gains/losses generated during the year	(104)	(138)	5	**(237)**	229	213	(3)	**439**
Unrecognized plan reorganization costs generated during the year	-	-	1	**1**	-	-	-	**-**
DEFERRED ITEMS AT THE END OF THE YEAR	**813**	**107**	**1**	**921**	**795**	**231**	**(4)**	**1,022**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**(431)**	**781**	**29**	**379**	**(233)**	**806**	**26**	**599**

In 2010, the present value of defined benefit pension obligations increased by €-493 million. This increase is due to:

• The effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	€-344 million	(2009: €-157 million)
• Actuarial losses from changes in actuarial assumptions and the difference between assumptions and actual experience	€-71 million	(2009: €-720 million)
• The difference between the costs (service cost and interest cost) and the benefits paid during the year	€-65 million	(2009: €-25 million)
• Changes in plan regulations	€-9 million	(2009: €-3 million)
• Changes in the scope of consolidation	€– million	(2009: €-18 million)
• Other items	€-4 million	(2009: €-1 million)

The fair value of plan assets amounted to €4,681 million at December 31, 2010, showing an increase of €814 million compared to December 31, 2009. The factors behind this increase are as follows:

• The effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	€281 million	(2009: €149 million)
• The difference between the contributions paid to the funds and the benefits paid by the funds	€ 44 million	(2009: €46 million)
• The actual return on plan assets	€489 million	(2009: €456 million)
• Changes in the scope of consolidation	€- million	(2009: €17 million)
• Other items	€– million	(2009: €– million)

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2010 and the previous four periods:

(in € million)	2010	2009	2008	2007	2006
Defined benefit obligation	(5,981)	(5,488)	(4,564)	(5,580)	(6,205)
Plan assets	4,681	3,867	3,200	4,744	4,858
SURPLUS/(DEFICIT)	**(1,300)**	**(1,621)**	**(1,364)**	**(836)**	**(1,347)**
Experience adjustment to:					
• Plan liabilities	86	(10)	(80)	(31)	(2)
• Plan assets	191	219	(1,073)	64	192

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

Experience adjustment to:	2010	2009	2008	2007	2006
• Plan liabilities in percentage of the present value of the obligation (DBO)	1.44%	-0.18%	-1.75%	-0.56%	-
• Plan assets in percentage of the fair value of the assets	4.08%	5.66%	-33.53%	1.35%	3.95%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2010			December 31, 2009		
	North America	Europe	Other	North America	Europe	Other
Discount rate	5.25%	5.36%	10.56%	5.76%	5.50%	10.65%
Rate of salary increases	2.64%	3.46%	6.30%	2.81%	3.49%	6.39%
Average remaining service lives (in years)	10.3	10.8	10.5	10.5	11.2	12.4
Expected return on plan assets	7.43%	6.67%	10.56%	8.00%	6.49%	10.65%

Group obligations are regularly calculated by independent actuaries using the Projected Unit Credit Method based on end-of-career salaries.

The expected return on plan assets is determined for each portfolio taking into account market conditions at the measurement date, portfolio strategic composition as well as long-term returns of each class and sub-class of assets, with an allocation for active manager's performance and deduction of manager's fees.

Two methods are used to determine the expected returns. One is based upon the expected long term inflation as used in the main assumptions plus a spread for each asset class representing the long term expected real return plus a spread for active management and diversification impact, less manager fees. The other one based on swap rates plus a risk premium representing the expected return of each asset class and a spread for active management and diversification impact less manager fees.

The discount rates, salary increase and inflation are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported. On the asset side, the change in the expected return on plan assets can have a significant effect on the following year expected benefit cost.

A one-percentage-point change in these rates compared to those used for 2010 would have the following effect:

	1-point increase	1-point decrease
Effect of discount rate change on the defined benefit obligation (DBO)	-12.20%	15.10%
Effect of discount rate change on the aggregate of current service cost and interest cost	1.00%	-2.30%
Effect of inflation rate change on the defined benefit obligation (DBO)	8.20%	-8.10%
Effect of inflation rate change on the aggregate of current service cost and interest cost	8.70%	-8.60%
Effect of salary increase rate change on the defined benefit obligation (DBO)	3.00%	-2.70%
Effect of salary increase rate change on the aggregate of current service cost and interest cost	4.10%	-3.50%
Effect of interest rate change on the fair value of plan assets	-3.70%	4.10%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

(in € million)	Year ended December 31, 2010				Year ended December 31, 2009			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	34	23	2	**59**	**27**	23	3	**53**
Interest cost	173	146	4	**323**	**169**	138	1	**308**
Expected return on plan assets	(191)	(105)	(3)	**(299)**	**(150)**	(86)	(2)	**(238)**
Amortization of actuarial gains/losses during the year	53	5	-	**58**	**24**	(6)	-	**18**
Past service cost recognized during the year	-	-	-	**-**	**-**	6	9	**15**
Effect of plan curtailments and settlements	2	7	(1)	**8**	**-**	(22)	-	**(22)**
Effect of applying the asset ceiling	1	-	-	**1**	**3**	-	-	**3**
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	**-**	**24**	-	-	**24**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**72**	**76**	**2**	**150**	**97**	**53**	**11**	**161**
Actual return on plan assets	**299**	**193**	**(2)**	**490**	**254**	**198**	**3**	**455**

The asset allocation of fully and partly funded pension plans is as follows:

	December 31, 2010				December 31, 2009			
	Canada	USA	UK	Other	Canada	USA	UK	Other
Equities	52%	42%	49%	10%	56%	40%	54%	8%
Alternative investments (1)	11%	18%	7%	-	9%	18%	-	2%
Real estate	6%	3%	-	8%	-	4%	-	7%
Fixed income and cash	31%	37%	44%	82%	35%	38%	46%	83%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Duration in years of the fixed income portfolio	**12**	**8**	**11**	**N/A**	**15**	**11**	**12**	**N/A**

(1) Hedge funds and private equity.

An internal group of experts, composed by the chairmen of the main investment committee's members, has issued investment guidelines for the use of the local investment committees stating, among other issues, not to invest in any MICHELIN securities or in any properties used by the Group. The Group has no significant amount invested in its own securities. MICHELIN does not occupy or use any of the real estate assets included in the various portfolio.

Detailed information is not available about the underlying assets held in general insurance funds or alternative investments.

Each plan's asset allocation is decided periodically by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent actuaries in consultation with banks or investment management firms. The asset allocation takes into account the structure of employee-related liabilities and their terms.

Group contributions to pension plans and benefit payments made by these plans in 2010 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid/payments made				
2010	247	110	1	358
Estimates of contributions expected to be paid and payments to be made				
2011	19	54	2	75
2012	81	48	1	130
2013	169	80	2	251
2014	165	79	2	246
2015	159	83	3	245
2016-2020	258	419	15	692

The Group makes contributions to fully and partly funded plans in order to meet its future benefit payment obligations to the beneficiaries. The level of contributions is periodically determined by the Group based on factors such as current funding levels, legal and tax considerations and local practice, in consultation, as the case may be, with local Boards and actuaries.

In 2010, on top of the ordinary contributions, it was decided to make advanced contributions in the USA and the UK for amounts which are due in 2011 and 2012 and in Canada for amounts which are due between 2011 and 2016.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies. For funded plans, the estimates of future contributions take into account the changes in regulations that are known to date (Pension Protection Act 2006 in the US and Pension Act 2004 in the UK).

27.1.2. Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The "other post-employment benefits" mainly include health insurance and end of service benefit. The "other defined benefit plans" are mainly found in the United States of America, Canada, France and Italy. "Other long-term benefits" include deferred compensation plans that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally concern the Group European companies and are based on seniority.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued by independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets but are fully accounted for in the Group balance sheet liabilities.

Changes in the financial position of "other defined benefit plans" are as follows:

	December 31, 2010				December 31, 2009			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligation at the beginning of the year	858	632	1	**1,491**	763	702	1	**1,466**
Translation adjustments	80	1	-	**81**	4	1	-	**5**
Changes in scope of consolidation	-	-	-	**-**	-	(3)	-	**(3)**
Current service cost	11	23	-	**34**	8	24	-	**32**
Interest cost	52	29	-	**81**	52	40	-	**92**
Plan reorganization costs generated during the year:								
• Immediately recognized in the income statement	-	(2)	-	**(2)**	-	(109)	-	**(109)**
• Unrecognized costs	-	-	-	**-**	-	(4)	-	**(4)**
Benefits paid	(56)	(26)	-	**(82)**	(52)	(66)	-	**(118)**
Other items	2	1	-	**3**	(1)	2	-	**1**
Unrecognized actuarial (gains)/losses generated during the year	57	(1)	-	**56**	84	45	-	**129**
Present value of the obligations at the end of the year	**1,004**	**657**	**1**	**1,662**	**858**	**632**	**1**	**1,491**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Expected return on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Administration costs	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Unrecognized actuarial gains/(losses) generated during the year	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
DEFICIT/(SURPLUS) AT THE END OF THE YEAR	**1,004**	**657**	**1**	**1,662**	**858**	**632**	**1**	**1,491**
Deferred items at the beginning of the year	(164)	115	-	**(49)**	(279)	104	-	**(175)**
Translation adjustments	(13)	-	-	**(13)**	-	2	-	**2**
Changes in scope of consolidation	-	-	-	**-**	1	-	-	**1**
Amortization of actuarial gains/losses during the year	-	-	-	**-**	(8)	11	-	**3**
Amortization of plan reorganization costs during the year	(3)	(5)	-	**(8)**	21	(19)	-	**2**
Unrecognized actuarial gains/losses generated during the year	22	(8)	-	**14**	101	22	-	**123**
Unrecognized plan reorganization costs generated during the year	63	8	-	**71**	-	(5)	-	**(5)**
DEFERRED ITEMS AT THE END OF THE YEAR	**(95)**	**110**	**-**	**15**	**(164)**	**115**	**-**	**(49)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**1,099**	**547**	**1**	**1,647**	**1,022**	**517**	**1**	**1,540**

In 2010 the present value of other defined benefit plans increased by €-171 million, due to:

- The effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro €-81 million (2009: €-5 million)
- Changes in plan regulations €2 million (2009: €113 million)
- The difference between the costs (service cost and interest cost) and the benefits paid during the year €-33 million (2009: €-6 million)
- Actuarial losses due to changes in actuarial assumptions and to the difference between assumptions and actual experience €-56 million (2009: €-129 million)
- Changes in the scope of consolidation € – million (2009: €3 million)
- Other items €-3 million (2009: €-1 million)

The present value of the defined benefit obligation and experience adjustments are as follows for 2010 and the previous three periods:

(in € million)	2010	2009	2008	2007	2006
Defined benefit obligation	(1,662)	(1,491)	(1,466)	(1,650)	(1,754)
Experience adjustments to plan liabilities	(27)	33	18	19	26
Experience adjustments to plan liabilities (in% of present value of the obligation (DBO)	1.62%	2.21%	1.23%	1.15%	1.48%

The main actuarial weighted average assumptions used to measure obligations for other defined benefit plans are as follows:

	December 31, 2010			December 31, 2009		
	North America	Europe	Other(1)	North America	Europe	Other(1)
Discount rate	5.25%	4.92%	-	5.74%	4.63%	-
Average remaining service lives (in years)	11.1	13.9	-	12.3	12.3	-

(1) The Group has no "Other Defined Benefit Plans" requiring the use of actuarial assumptions outside North America and Europe.

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2010		December 31, 2009	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.84%	5.00%	8.17%	6.35%
Minimum long-term rate of annual growth in healthcare costs	5.00%	5.00%	5.00%	5.00%
Year in which the minimum growth rate will be achieved	2017	2011	2015	2011

The discount rate and the assumed health care cost trend rate are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

A one-percentage-point change in these rates compared to those used for 2010 would have the following effect:

	1-point increase	1-point decrease
Effect of the discount rate change on the defined benefit obligation (DBO)	-10.3%	12.4%
Effect of the discount rate change on the aggregate of current service cost and interest cost	1.0%	-1.6%
Effect of the healthcare cost trend on the healthcare defined benefit obligation	6.9%	-6.0%
Effect of the healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plans	7.6%	-6.4%

Net income and expenses recognized in the income statement are as follows:

	Year ended December 31, 2010				Year ended December 31, 2009			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	11	25	-	**36**	8	26	1	**35**
Interest cost	53	29	-	**82**	53	40	-	**93**
Expected return on plan assets	-	-	-	**-**	-	-	-	**-**
Amortization of actuarial gains/losses during the year	(3)	(5)	-	**(8)**	(5)	11	-	**6**
Past service cost recognized during the year	(23)	9	-	**(14)**	(22)	22	-	**-**
Effect of plan curtailments and settlements	-	-	-	**-**	-	(18)	-	**(18)**
Portion of benefit expenses recognized within non-recurring restructuring costs	-	-	-	**-**	(4)	(95)	-	**(99)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**38**	**58**	**-**	**96**	**30**	**(14)**	**1**	**17**

Group payments made under other defined plans in 2010 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Payments made				
2010	57	26	-	83
Estimates of payments to be made				
2011	68	24	-	92
2012	69	21	-	90
2013	68	26	-	94
2014	69	43	-	112
2015	70	66	-	136
2016-2020	357	364	-	721

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

27.2. DEFINED CONTRIBUTION PLANS

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans. These are mainly found in the United States of America, Canada and the United Kingdom.

In 2010, the contributions paid to such defined contribution plans and expensed amounted to €87 million (2009: €90 million)

NOTE 28 SHARE-BASED PAYMENTS

28.1. STOCK OPTION PLANS

Data related to plans issued before October 2010 (number of options and exercise prices) have been restated to take into account the impact of the capital increase with preferential subscription rights (note 24).

Changes in the number of options granted under stock option plans and their weighted average exercise price are as follows:

	2010		2009	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**59.86**	**4,767,721**	**62.18**	**3,468,763**
Granted before the October 2010 capital increase	54.00	251,100	53.00	1,398,310
Adjusted as part of the October 2010 capital increase	58.60	171,079	-	-
Forfeited before the October 2010 capital increase	61.78	(37,120)	59.79	(32,040)
Forfeited after the October 2010 capital increase	75.17	(3,054)	-	-
Exercised before the October 2010 capital increase	41.91	(206,890)	36.78	(67,312)
Exercised after the October 2010 capital increase	40.11	(68,617)	-	-
AT DECEMBER 31	**58.49**	**4,874,219**	**59.86**	**4,767,721**

1,676,511 of the 4,874,219 options outstanding as at December 31, 2010 are exercisable (2009: 4,767,721 in total and 1,770,591 exercisable).

Assumptions used to value the share options granted in 2010 are as follows:

Grant date	May 12, 2010
Number of options granted	251,100
Weighted average share price (euros per share)	53.56
Exercise price (euros per share)	54.00
Volatility	37.70%
Risk free interest rate	3.78%
Market value of the option at grant date (in euros per option)	9.08

The maximum gain allowed is limited to 100% of the exercise price.

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2010		December 31, 2009	
Grant dates	Vesting dates	Expiry dates	Exercise prices (in € per option)	Number of options outstanding	Exercise prices (in € per option)	Number of options outstanding
May 2002	May 2006	May 2011	42.47	147,472	44.00	202,236
May 2003	May 2007	May 2012	31.13	48,977	32.25	75,275
November 2003	November 2007	November 2012	32.82	113,419	34.00	157,700
May 2004	May 2008	May 2013	38.61	102,900	40.00	145,300
July 2004	July 2008	July 2013	42.96	101,691	44.50	116,200
May 2005	May 2009	May 2014	46.34	217,557	48.00	216,000
November 2005	November 2009	November 2014	46.34	807,632	48.00	857,880
May 2006	May 2010	May 2015	55.99	136,863	58.00	133,900
May 2007	May 2011	May 2016	87.85	1,183,652	91.00	1,154,920
May 2008	May 2012	May 2017	59.85	319,095	62.00	310,000
November 2009	November 2013	November 2018	51.16	1,434,823	53.00	1,398,310
May 2010	May 2014	May 2019	52.13	260,138	-	-
OUTSTANDING STOCK OPTIONS				**4,874,219**		**4,767,721**

28.2. SHARE PURCHASE PLAN

No share purchase plan has been implemented in 2010.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

The carrying amount of provisions and other long-term liabilities is analyzed in the table below:

(in € million)	December 31, 2010	December 31, 2009
Restructuring provisions	366	573
Litigation provisions	121	111
Other provisions	86	90
Provisions	**573**	**774**
Deferred revenue – Government grants	129	128
Other deferred revenue	151	119
Debts towards employees and social security authorities	85	84
Non-current liabilities	**365**	**331**
PROVISIONS AND OTHER NON-CURRENT LIABILITIES	**938**	**1,105**

Movements in provisions during the year:

(in € million)	Restructuring	Litigation	Other provisions	Total
At January 1, 2010	**573**	**111**	**90**	**774**
Additional provisions	40	66	36	142
Provisions utilized during the year	(229)	(54)	(40)	(323)
Unused provisions reversed during the year	(27)	(5)	(9)	(41)
Translation adjustments	10	3	2	15
Other effects	(1)	-	7	6
AT DECEMBER 31, 2010	**366**	**121**	**86**	**573**

29.1. RESTRUCTURING

As at December 31, 2010, the remaining restructuring provisions were mainly related to restructuring taking place in the following countries:

(in € million)	December 31, 2010	December 31, 2009
• France	176	283
• Spain	109	154
• Italy	28	42
• North America	28	50
• Germany	16	-

29.2. LITIGATION

The amounts recognized represent mainly legal claims introduced by non group third parties. The provisions recognized in respect of litigation are booked in the income statement, essentially in the heading "general and administrative costs".

29.3. OTHER PROVISIONS

These amounts represent the risks arising from a commercial, technical or social origin and have been identified by the Group with regard to its clients, suppliers and third parties. These risks arise in the course of the Group ordinary activities.

NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

(in € million)	December 31, 2010	December 31, 2009
Customers – Deferred rebates	825	694
Employee benefits	370	318
Social security liabilities	290	284
Restructuring liabilities	23	57
Current income tax payable	120	136
Other taxes	235	176
Other	273	262
OTHER CURRENT LIABILITIES	**2,136**	**1,927**

NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flow statement are presented in the table below:

(in € million)	Year ended December 31, 2010	Year ended December 31, 2009
(Gains)/losses on disposal of non-financial assets	(5)	(20)
Other	(9)	(8)
Other non-cash income and expenses	**(14)**	**(28)**
Interest and other financial expenses paid	(229)	(258)
Interest and other financial income received	32	39
Dividends received	20	12
Cost of net debt and other financial income and expenses paid	**(177)**	**(207)**
Change in inventory	(584)	759
Change in trade receivables	(338)	182
Change in other receivables and payables	495	6
Change in working capital, net of impairments	**(427)**	**947**
Purchases of intangible assets	(99)	(70)
Purchases of PP&E	(1,001)	(602)
Government grants received	4	3
Change in capital expenditure payables	132	(38)
Purchases of intangible assets and PP&E	**(964)**	**(707)**
Increase in other non-current financial assets	(19)	(26)
Decrease in other non-current financial assets	34	32
Net cash flows from cash management financial assets	(723)	(120)
Net cash flows from borrowing collaterals	(44)	-
Net cash flows from other current financial assets	9	5
Cash flows from other financial assets	**(743)**	**(109)**
Bonds issued by Michelin Luxembourg SCS, maturing in 2014	-	750
Other Increases in non-current financial liabilities	150	368
Decrease in non-current financial liabilities	(201)	(709)
Repayment of finance lease liabilities	(11)	(87)
Repayment of bonds issued by Michelin Luxembourg SCS, matured in 2009	-	(470)
Net cash flows from current financial liabilities	(402)	(664)
Derivatives	27	145
Cash flows from financial liabilities	**(437)**	**(667)**
Details of non cash transactions:		
• Finance leases	3	7
• Put options granted to minority shareholders of subsidiaries	(5)	(17)
• New emission rights	12	7
• Dividends paid in shares (note 24)	82	80

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1. MICHELIN PENSION TRUST LTD UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between MICHELIN Pension Trust Ltd U.K. and MICHELIN U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group issued in 2007 a guarantee towards the pension fund to cover the stream of contributions which its subsidiary will have to make. At December 31, 2010, the discounted guaranteed amount in excess of the amount already recognized in the financial statements amounts to €217 million.

32.2. OTHER COMMITMENTS

The Group has various purchase commitments for materials and services as well as for the acquisition of equipment. These commitments primarily relate to the forecasts of investments and to the level of activity expected in the first half of 2011. They are established under normal market conditions and arise in the course of the Group ordinary activities.

32.3. OTHER CONTINGENCIES

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims. In the opinion of Group management, the outcome of these actions will not have a material adverse effect on the Group financial position or cash flows.

In the opinion of the Group management, there is no governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

There were no significant acquisitions or divestments in 2010.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1. SUBSIDIARIES AND ASSOCIATES

The list of the major Group subsidiaries and associates is included in note 36. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation. Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2010	2009
Income statement		
Expenses for the purchase of products or supply of services	(151)	(79)
Balance sheet		
Financial liabilities	(10)	(21)
Accounts payable	(11)	(9)

34.2. SENIOR MANAGEMENT AND SUPERVISORY BOARD

In 2010, the Managing General Partner received in respect of 2009, an aggregate amount of €0.7 million, proportional to and dependent upon profit (2009 in respect of 2008: €2.5 million). The Managing General Partner has not received any other compensation.

The compensation paid to the non-general Managing Partners in 2010 totaled €3.4 million (2009: €2.0 million). This amount breaks down as follows:

(in € million)	2010	2009
Short term benefits	2.5	1.5
Post-employment benefits	0.9	0.4
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	-	0.1
COMPENSATION PAID TO NON-GENERAL MANAGING PARTNERS	**3.4**	**2.0**

The variable compensation to be paid for 2010 could not be estimated at the date the financial statements were authorized for issue, but will be provided in chapter 4.4 of the Registration Document together with a detailed description of the non-general Managing Partners compensation provisions.

The compensation paid to the members of the Group Executive Council in 2010 totaled €6.6 million (2009: €5.3 million). This amount breaks down as follows:

(in € million)	2010	2009
Short term benefits	4.5	4.1
Post-employment benefits	1.4	0.6
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	0.7	0.6
COMPENSATION PAID TO MEMBERS OF THE GROUP EXECUTIVE COUNCIL	**6.6**	**5.3**

The following fees were paid in 2010 to the Supervisory Board Members (for services rendered in 2009): €0.3 million (2009 for services rendered in 2008: €0.3 million).

NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

The reported amounts of assets and liabilities at the balance sheet date were adjusted, if needed, up to the date when the Managing Partners authorized for issue the 2010 consolidated financial statements.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries within the MICHELIN geographical regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Kaiserslautern	Commercial	99.98
Michelin Finanz Gesellschaft für Beteiligungen AG & Co. OHG	Karlsruhe	Financial	100,00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Société pour le Traitement de l'Information Trinfover	Zellik	Miscellaneous	100.00
Denmark			
Euromaster Danmark A/S	Viborg	Commercial	99.94
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.80
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	99.94
Finland			
Suomen Euromaster Oy	Pori	Commercial	99.94
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Pneumatiques Kléber	Toul	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Société de Développement Mécanique	Wattignies	Manufacturing	100.00
S.O.D.G.	Clermont-Ferrand	Manufacturing	100.00
Euromaster France	Montbonnot Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
ViaMichelin	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot Saint-Martin	Commercial	96.81
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd.	Nyíregyháza	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% of interest
Ireland			
Mireis Limited	Dublin	Miscellaneous	100.00
Miripro Insurance Company Limited	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
The Netherlands			
Eurodrive Services and Distribution N.V.	Amsterdam	Commercial	99.94
Euromaster Bandenservice B.V.	Deventer	Commercial	99.94
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Michelin Finance (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00
Serbia			
Tigar Tyres d.o.o., Pirot	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Bucharest	Commercial	99.82
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
Associated Tyre Specialists Limited	Harrow	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	99.94
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Petit-Lancy	Commercial	99.94
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière Michelin	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA/INDIA/MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa (Proprietary) Limited	Johannesburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% of interest
Nigeria			
Michelin Tyre Services Company Ltd.	Lagos	Commercial	60.28
India			
Michelin India TamilNadu Tyres Private Limited	Chennai	Manufacturing	100.00
Michelin India Tyres Private Limited	New Delhi	Commercial	100.00
NORTH AMERICA			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
Michelin Alberta ULC	Calgary	Financial	100,00
United States of America			
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Michelin Mexico Properties, Inc.	Wilmington	Miscellaneous	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
Mexico			
Industrias Michelin, S.A. de C.V.	Mexico City	Manufacturing & commercial	100.00
SOUTH AMERICA			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Rio de Janeiro	Miscellaneous	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Cali	Manufacturing & commercial	99.94
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA/AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00

Companies	Registered office	Nature	% of interest
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
Michelin Asia (Singapore) Co. Pte. Ltd.	Singapore	Commercial	100.00
Michelin Asia-Pacific Pte Ltd	Singapore	Miscellaneous	100.00
Société des Matières Premières Tropicales Pte. Ltd.	Singapore	Miscellaneous	100.00
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Siam Tyre Phra Pradaeng Co., Ltd.	Samutprakarn	Manufacturing	100.00
Michelin Thai Holding Co., Ltd.	Bangkok	Financial	100.00
Michelin Siam Group Co., Ltd.	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
China			
Michelin Shenyang Tire Co., Ltd.	Shenyang	Manufacturing	100.00
Shanghai Michelin Warrior Tire Co., Ltd.	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Shanghai	Commercial	100.00
Taiwan			
Michelin Chun Shin Ltd.	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
LLC "Michelin Russian Tyre Manufacturing Company"	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN/KOREA			
Japan			
Nihon Michelin Tire Co., Ltd.	Tokyo	Manufacturing & commercial	100.00
South Korea			
Michelin Korea Co., Ltd.	Seoul	Commercial	100.00