# FIRST-HALF 2011 FINANCIAL REPORT


A better way forward

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AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This interim financial report was drawn up pursuant to article L451-1-2-III of the French Monetary and Financial Code and articles 222-4 and 222-6 of *Autorité des Marchés Financiers* (AMF) General Regulations.

# 1 PRESS RELEASE



| | |
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# PRESS RELEASE

Clermont-Ferrand, July 29, 2011

**COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN**
**Financial Information for the six months ended June 30, 2011**

**First-half 2011 in line with the Michelin Group road map**
**Net sales up 21% to €10.1 billion**
**Operating income of €971 million for a 9.6% operating margin**
**Net income up 32%**
**2011 objectives: Sales volumes revised upwards and profitability confirmed**

- Sales volumes up 12.6%, reflecting sustained market growth in the first half and the Group's solid sales performance
- A pricing policy that totally offset the increase in raw material prices in the first half
- Operating income up 18% to €971 million
- Investment plan moving forward as scheduled
- Free cash flow reflecting the impact of higher raw material prices and seasonal trends

## Outlook for full-year 2011

The second-half business environment should see ongoing market growth at a pace closer to long-term trends.
Against this backdrop, the Group is aiming for growth in sales volumes of approximately 8% for the full year.
Michelin is diligently pursuing its pricing policy, which is intended to pass on the increase in raw material prices. Together, the price increases announced or implemented to date are expected to offset estimated additional full-year costs of around €1,800 million.
Given the impact of raw materials costs on working capital requirement (amounting to approximately €400-500 million for the full year) and the faster deployment of capital expenditure programs, free cash flow is expected to be temporarily negative in 2011.
Michelin reaffirms its objective of reporting higher operating income in 2011.

| (in € million) | FIRST-HALF 2011 | FIRST-HALF 2010 |
|---|---|---|
| Net sales | 10,105 | 8,349 |
| Operating income before non-recurring income and expenses | 971 | 822 |
| Operating margin before non-recurring income and expenses | 9.6% | 9.8% |
| ■ Passenger car and Light truck tires and related distribution | 10.2% | 10.8% |
| ■ Truck tires and related distribution | 3.5% | 4.9% |
| ■ Specialty businesses | 20.2% | 17.1% |
| Operating income after non-recurring income and expenses | 971 | 822 |
| Net income | 667 | 504 |
| Capital expenditure | 554 | 251 |
| Net Debt | 2,319 | 3,428 |
| Gearing | 27% | 53% |
| Free cash flow(1) | (634) | (30) |
| Employees on payroll(2) | 114,200 | 110,100 |

*(1) Cash flow from operating activities less cash flow used in investing activities and other.*
*(2) At period-end.*

## MARKET REVIEW

In first-half 2011, worldwide demand for tires rose substantially in all regions. Following a sharp increase in the first quarter, growth slowed to a pace closer to long-term trends. During the first half, the market saw ongoing price increases by all tire manufacturers in an environment shaped by sharply higher raw material prices and high capacity utilization rates.

### Passenger car and Light truck tires

| 2011/2010 (% change YoY) | EUROPE* | NORTH AMERICA | ASIA (EXCLUDING INDIA) | SOUTH AMERICA | AFRICA/INDIA/ MIDDLE EAST | TOTAL |
|---|---|---|---|---|---|---|
| Original equipment | +8% | +5% | -5% | +8% | +13% | +2% |
| Replacement | +9% | +1% | +14% | +10% | +3% | +7% |

* *Including Russia and Turkey.*

*Original equipment*

- In Western Europe, the market was impacted in the second quarter by the consequences of the natural disaster in Japan, while demand in Eastern Europe continued to rise sharply.
- Demand in North America, which returned to growth in the first quarter in line with the upswing in new vehicle sales, was adversely affected in the second quarter by the impact of a lack of parts and components from Japan for carmakers.
- In Asia (excluding India), demand contracted by 5% overall. In China, the market remained buoyant, expanding by 3%, despite the impact of the Japanese tsunami and the termination of government-sponsored carbuying incentives.
- In South America, the OE tire market increased by 8%, lifted by a record number of car registrations.

*Replacement*

- In Europe, demand was up 9% in the first half. It was supported by partial dealer inventory rebuilding ahead of the announced early-year price increases and by very strong demand for winter tires.
- In North America, demand was up 1% for the half, following a record number of tire sales in the first quarter. Higher fuel prices in the second quarter and the resulting decrease in distances driven by US motorists weighed on demand at the end of the half. Market growth was driven by the recreational and commercial segments as well as by the high-performance tire segment (V and Z speed rating).
- In Asia (excluding India), markets rose 14% overall during the period. Demand in China increased by 20% for the half, although more slowly late in the period due to i) the fact that early-year demand was lifted by dealer purchases ahead of price increases and ii) a slowdown in the economy and in consumer spending. The Japanese market expanded by a robust 15%, led by restocking to replace tires lost during the natural disaster.
- In South America, replacement tire markets continued to expand, increasing by 10% overall. The Brazilian market widened further, growing by 7%, despite higher interest rates introduced by the government to combat inflationary trends.

### Truck tires

| 2011/2010 (% change YoY) | EUROPE** | NORTH AMERICA | ASIA (EXCLUDING INDIA) | SOUTH AMERICA | AFRICA/INDIA/ MIDDLE EAST | TOTAL |
|---|---|---|---|---|---|---|
| Original equipment* | +61% | +66% | -10% | +22% | +115% | +17% |
| Replacement* | +18% | +14% | +9 % | +17% | +11% | +13% |

* *Radial market only.*
** *Including Russia and Turkey.*

Demand for radial truck tires recovered sharply during the year in every region. In mature markets, the gains came off of low prior-period comparatives, particularly in the OE segment (up 17%).

*Original equipment*

- In Europe, the market expanded by a strong 61%, lifted by favorable prior-period comparatives in the first quarter and sustained exports of new trucks.
- In North America, the market saw robust 66% growth, reflecting new vehicle purchases needed because of the high average age of tractor trucks (nine years).
- In Asia (excluding India), demand fell by 10%, due mainly to a 12% contraction in the Chinese market. The decline in China resulted in particular from a slowdown in construction-related businesses and tighter credit controls.
- In South America, market expansion was driven by rising sales in advance of the introduction of new truck standards and by infrastructure development projects for the 2016 Olympic Games in Brazil.

*Replacement*

- In Europe, the market grew by 18%, exceeding the increase in freight demand, which rises by approximately 2% a year. Growth was led by dealer inventory rebuilding in an environment shaped by the steady round of tire maker price increases and by emerging shortages that encouraged dealers to restock. Note that while the overall market expanded, demand for freight transport was greater in Northern than in Southern Europe.
- In North America, demand increased by 14% compared with the prior-year period. Freight tonnage returned to 2007 levels, while sales to dealers generally kept pace with sales to end-users.
- In Asia (excluding India), the market continued to grow, expanding by 9%, although performance varied from one country to another. In China, the market widened by 10% in the first half although growth slowed considerably in the second quarter due to a slowdown in construction-related businesses and credit-tightening measures.
- In South America, demand rose by a strong 17% although at a slower pace in the second quarter owing to an increase in Brazilian interest rates and other inflation-control initiatives.

### Specialty tires

- **Earthmover tires:** The mining segment continued to expand, growing by more than 10%, led by renewed work on major projects and healthy demand for ore and energy. Supply chain constrictions are beginning to resurface. The original equipment segment experienced a strong recovery that nonetheless fell short of the exceptional levels seen in 2008. The market for tires used in infrastructure projects and quarries pursued its growth path, in both North America and Europe.
- **Agricultural tires:** Global demand in the original equipment market recovered strongly during the first half in North America and Europe, especially in the high-powered farm machinery segment. Sales in the replacement market increased sharply in North America and continued to rise in Europe.
- **Two-wheel tires:** The motorized segments made gains in the first half, especially in North and South America.
- **Aircraft tires:** In the commercial aviation segment, the number of passengers carried continued to increase as did aircraft load factors. The general aviation segment saw a sharp upturn while demand in the military segment remained on a par with 2010.

## FIRST-HALF 2011 NET SALES AND RESULTS

### Net sales

**Consolidated net sales amounted to €10,105 million**, up 21% at current exchange rates compared with first-half 2010.

The 12.6% improvement in sales volumes reflects the Group's market share gains as well as higher year-on-year markets.

The positive 9.0% price mix corresponded almost entirely to the impact of the sustained firm pricing policy and contractual price adjustments. The mix effect, which was not material, combined the unfavorable impact for Truck tires of the stronger recovery in OE volume sales offset by the favorable impact of the improvement in the segment mix, especially in Passenger car and Light truck tires.

The 1.5% negative currency effect resulted from increases in the euro against nearly all currencies in the second quarter, especially the US dollar.

## Earnings

**Operating income before non-recurring income and expenses amounted to €971 million or 9.6% of net sales**, compared with €822 million and 9.8% in first-half 2010. There were no non-recurring items recognized for the period.

The €149-million increase in operating income before non-recurring income and expenses, mainly reflected the favorable impact of higher volumes (€407 million) and the price mix (€829 million), including €842 million from higher prices, which totally offset at the end of June the increase in raw material prices (€848 million). It also includes the cost of the Group's growth initiatives (€95 million), the increase in manufacturing costs (€87 million) and the positive impact of productivity gains (€78 million).

Given the second-quarter changes in exchange rates and the Group's geographic presence, the currency effect was a negative €41 million in the first half and could amount to around €150 million for the full year at current exchange rates.

**Net income for the period came to €667 million.**

## Net financial position

In the first half, **free cash flow was a negative €634 million**. Higher raw materials prices reduced free cash flow by €610 million. Because of the usual seasonal trends in Michelin's operations, related to preparations for winter sales, free cash flow is lower in the first half than in the second.

At June 30, 2011, **gearing stood at 27% while net debt** amounted to €2,319 million.

## Segment information

| | NET SALES | | OPERATING INCOME BEFORE NON-RECURRING INCOME AND EXPENSES | | OPERATING MARGIN BEFORE NON-RECURRING INCOME AND EXPENSES | |
|---|---|---|---|---|---|---|
| (in € million) | H1 2011 | H1 2010 | H1 2011 | H1 2010 | H1 2011 | H1 2010 |
| Passenger Car and Light Truck Tires and Related Distribution | 5,252 | 4,621 | 535 | 497 | 10.2% | 10.8% |
| Truck Tires and Related Distribution | 3,266 | 2,566 | 115 | 126 | 3.5% | 4.9% |
| Specialty businesses | 1,587 | 1,162 | 321 | 199 | 20.2% | 17.1% |
| **Consolidated total** | **10,105** | **8,349** | **971** | **822** | **9.6%** | **9.8%** |

*Passenger car and Light truck tires and related distribution*

Net sales in the Passenger car and Light truck tires and related distribution segment stood at €5,252 million, up 13.7% compared with the first six months of 2010. Sales volumes rose 7.2%, thanks to a solid performance by the MICHELIN brand and the launch of new products, such as the MICHELIN Pilot Super Sport and the BFGoodrich® Rugged Terrain. Net sales in the first half were also lifted by the Group's pricing policy. The slightly positive mix effect reflected the impact of the relative growth in OE and replacement sales and of the sustained improvement in the segment/speed rating mix.

The sharp rise in volumes, supported by growth in all Passenger car and Light truck tire markets and by the strong performance of the MICHELIN brand, the amply positive price-mix in the face of higher raw materials costs and the improvement in manufacturing costs helped to lift operating income before non-recurring income and expenses to €535 million or 10.2% of net sales, compared with €497 million and 10.8% in first-half 2010.

*Truck tires and related distribution*

Net sales in the Truck tires and related distribution segment amounted to €3,266 million, up 27.3% from first-half 2010. Sales volumes rose by 15.6%, supported by a strong marketing performance and first-quarter purchases made ahead of price increases. In particular, Michelin benefited from the successful launch of new products and services.

At a time of sharply rising raw materials costs that were not fully offset by price increases during the first half, operating income before non-recurring income and expenses came to €115 million, or 3.5% of net sales, as the negative currency effect was neutralized by higher volumes, which increased more in the OE segment than the replacement segment.

*Specialty businesses*

Net sales by the Specialty businesses rose by 36.6% to €1,587 million in the first six months of 2011. Volume sales increased by 29.1% in an environment shaped by a rapid recovery in markets and high prices for raw materials and farm commodities. Net sales reflected the favorable impact of the application of contractual clauses indexing prices to raw materials costs.

Operating margin before non-recurring items from the Specialty businesses remained structurally high in the first half, at €321 million or 20.2% of net sales, compared with €199 million and 17.1% in the year-earlier period. The 29.1% increase in tonnage sold, the significant contribution from the Earthmover segment and the contractual clauses indexing prices to raw material prices amply offset the unfavorable currency effect.

## COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

Compagnie Générale des Établissements Michelin reported a profit of €276 million in first-half 2011.

The financial statements were presented to the Supervisory Board at its meeting on July 25, 2011. The audit was completed and the auditors' report was issued on the same date.

## FIRST-HALF 2011 HIGHLIGHTS

- Michelin continues to raise prices in response to rising raw materials costs.
- The Michelin Group signs a memorandum of understanding with Double Coin and Huayi.
- Michelin North America is investing USD 200 million in Lexington, South Carolina, to further expand its tire building capacity in Passenger Car and Light Truck.
- Launch of the new MICHELIN Pilot Super Sport tire, engineered for sports sedans.
- In China, Michelin launches the new MICHELIN ENERGY™ XM2 tire, specially engineered for use in the BRIC countries.
- The MICHELIN X® MultiWay™ 3D range of truck tires introduced in Europe.
- Michelin to supply tires for China's first commercial airliner, the COMAC C919.

*A full description of first-half 2011 highlights*
*may be found on the Michelin website: www.michelin.com/corporate/finance*

## Presentation and Conference call

First-half 2011 results will be reviewed with analysts and investors during a conference call in English – with simultaneous interpreting in French – today, Friday July 29, at 11:00 am CEST (10:00 am UT). If you wish to participate, please dial-in one of the following numbers from 10:50 am CEST:

| | |
|---|---|
| ■ From France | 01 70 77 09 41 |
| ■ From the UK | 0203 367 9462 |
| ■ From North America | +1 866 907 5925 |
| ■ From the rest of the world | +44 203 367 9462 |

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

## First-Half 2011 Financial Report

The First-Half Financial Report for the period ending June 30, 2011 may be downloaded from the www.michelin.com/corporate website, in the Finance/Regulated Information section.
It has also been filed with the *Autorité des marchés financiers* (AMF).
The report contains:

- The business review for the six months ended June 30, 2011;
- The consolidated financial statements and notes for the period;
- The Statutory Auditors' review report on the interim financial information for 2011.

## Investor Calendar

**Quarterly information for the nine months ended September 30, 2011:**
Wednesday, October 26, 2011 after close of trading
**2011 net sales and results:**
Friday, February 10, 2012 before start of trading

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# 2 SLIDESHOW

FIRST-HALF 2011 RESULTS 11


FIRST-HALF 2011
RESULTS
July 29, 2011
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## A first-half in line with the Group road map

- Sustained growth in markets during the half
- Sales volumes up 12.6% reflecting market growth and the Group's solid sales performance
- Pricing policy that totally offset the increase in raw material prices in the first half
- Operating income up 18% to €971 million
- Investment plan moving forward as scheduled
- Free cash flow reflecting the impact of higher raw material prices on working capital requirement and seasonal trends

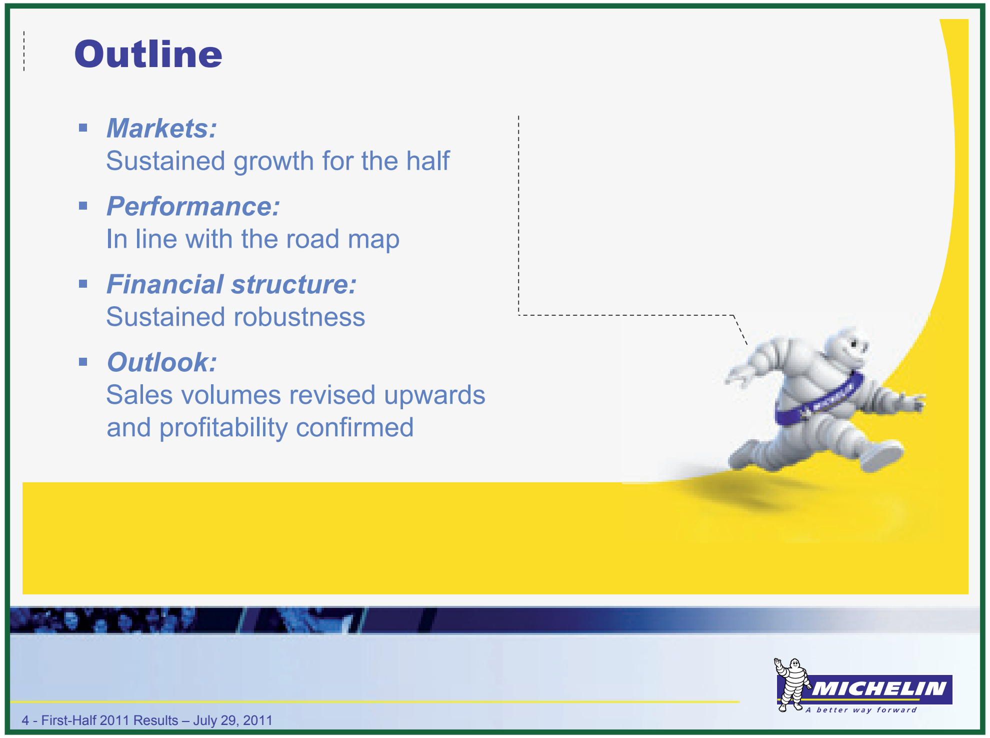
2 - First-Half 2011 Results – July 29, 2011

## First-half 2011 financial highlights

| *In € millions* | H1 2011 |
|---|---|
| Net Sales | 10,105 |
| Operating Income (before non-recurring items) | 971 |
| Operating Margin (before non-recurring items) | 9.6% |
| Net Income | 667 |
| Investments | 554 |
| Net Debt-to-Equity Ratio | 27% |
| Free Cash Flow* | - 634 |

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

3 - First-Half 2011 Results – July 29, 2011


Outline
Markets:
Sustained growth for the half
Performance:
In line with the road map
Financial structure:
Sustained robustness
Outlook:
Sales volumes revised upwards
and profitability confirmed
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4 - First-Half 2011 Results – July 29, 2011


Markets: Sustained growth
for the half
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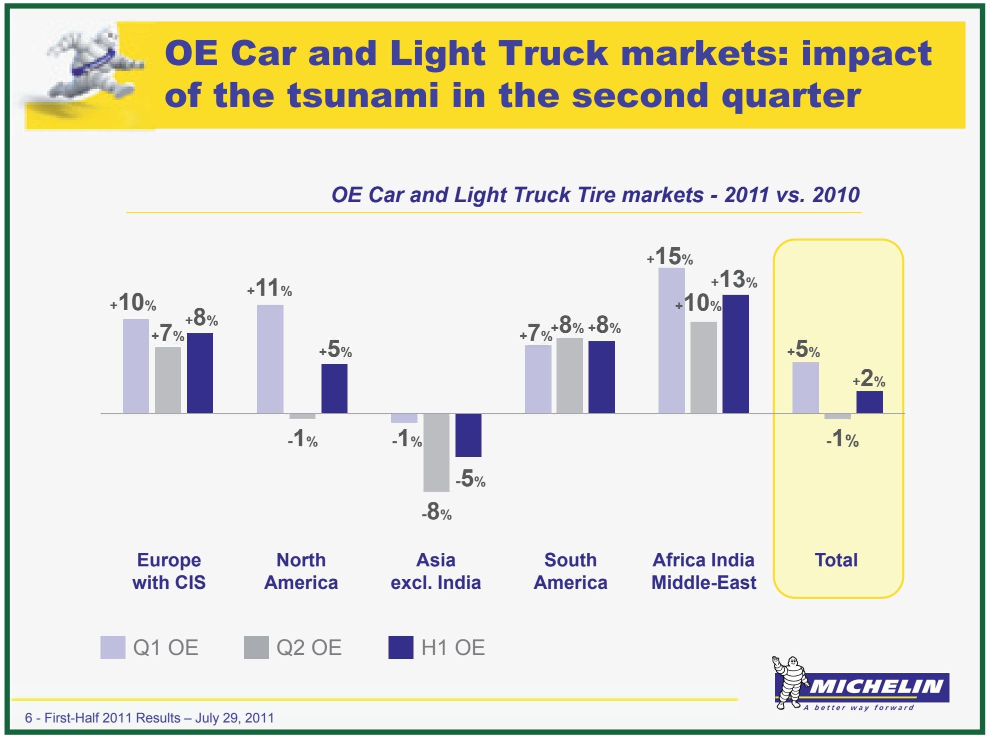
5 - First-Half 2011 Results – July 29, 2011


OE Car and Light Truck markets: impact of the tsunami in the second quarter
OE Car and Light Truck Tire markets - 2011 vs. 2010
+10%
+7%
+8%
+11%
-1%
+5%
-1%
-8%
-5%
+7%
+8%
+8%
+15%
+10%
+13%
+5%
-1%
+2%
Europe with CIS
North America
Asia excl. India
South America
Africa India Middle-East
Total
Q1 OE
Q2 OE
H1 OE
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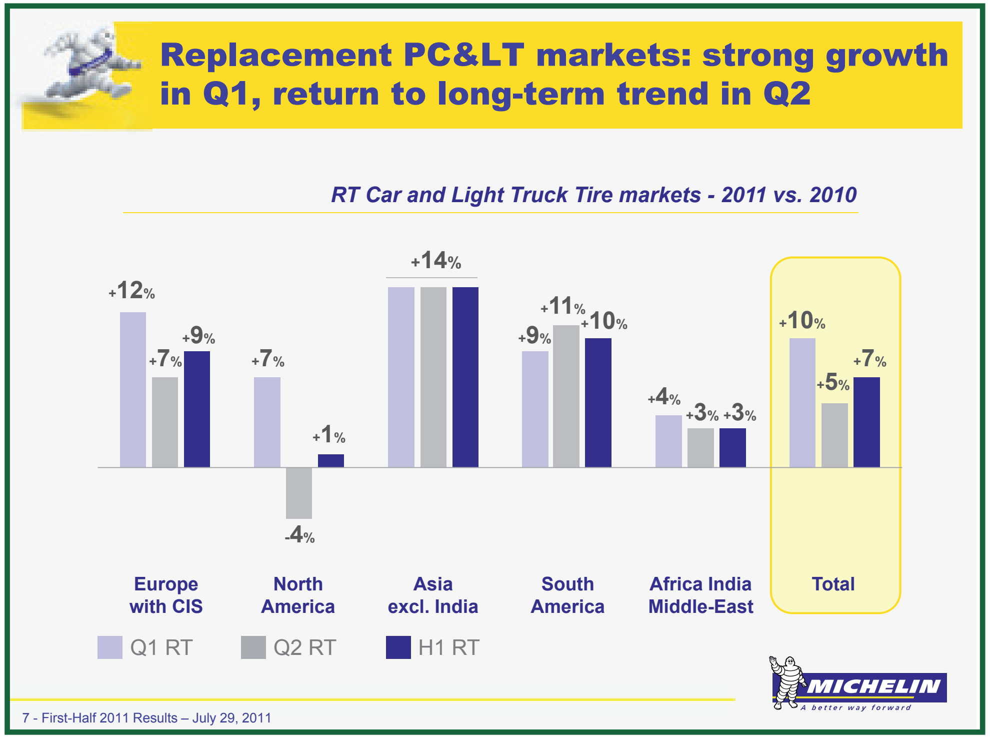
6 - First-Half 2011 Results – July 29, 2011


Replacement PC&LT markets: strong growth in Q1, return to long-term trend in Q2
RT Car and Light Truck Tire markets - 2011 vs. 2010
+12%
+7%
+9%
+7%
-4%
+1%
+14%
+9%
+11%
+10%
+4%
+3%
+3%
+10%
+5%
+7%
Europe with CIS
North America
Asia excl. India
South America
Africa India Middle-East
Total
Q1 RT
Q2 RT
H1 RT
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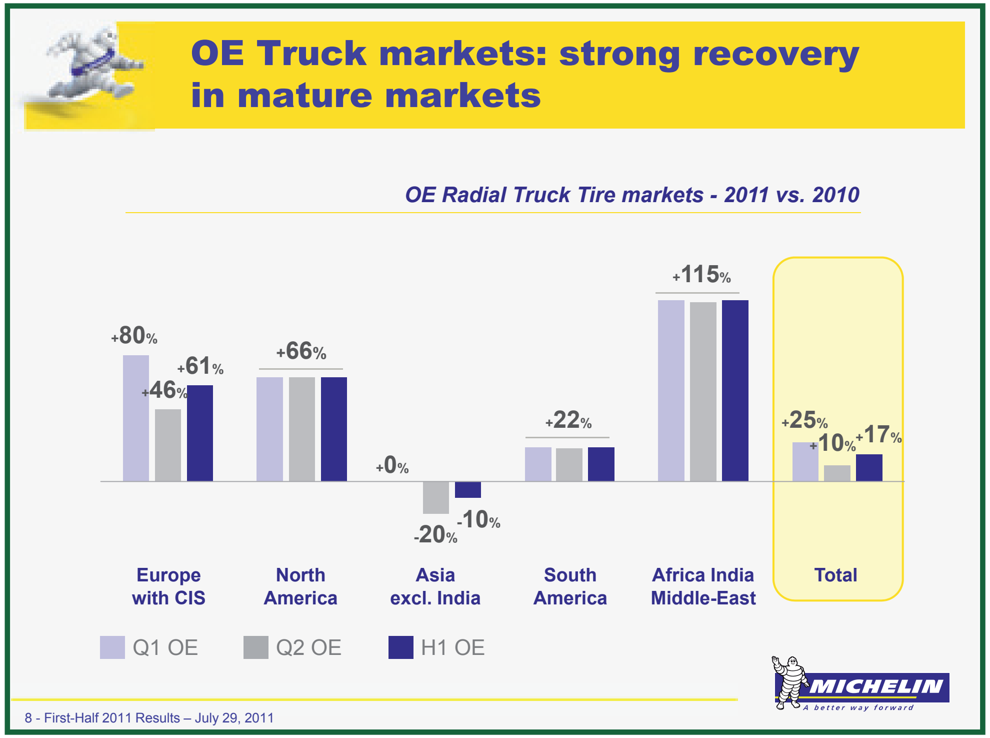
7 - First-Half 2011 Results – July 29, 2011


OE Truck markets: strong recovery in mature markets
OE Radial Truck Tire markets - 2011 vs. 2010
+80%
+46%
+61%
+66%
+0%
-20%
-10%
+22%
+115%
+25%
+10%
+17%
Europe with CIS
North America
Asia excl. India
South America
Africa India Middle-East
Total
Q1 OE
Q2 OE
H1 OE
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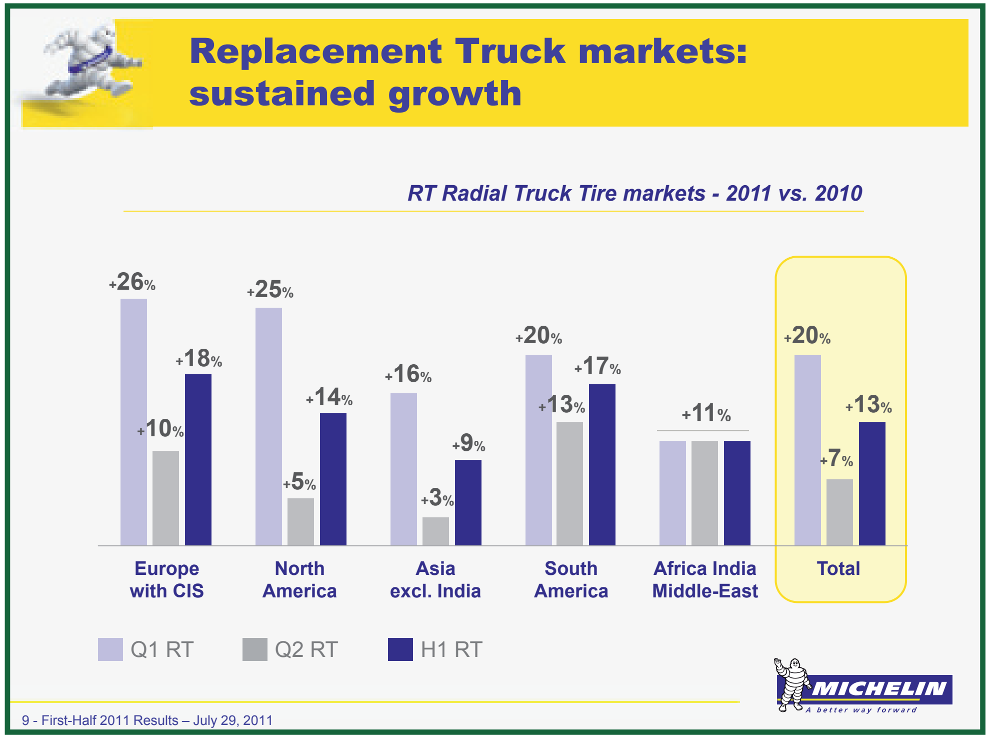
8 - First-Half 2011 Results – July 29, 2011


Replacement Truck markets: sustained growth
RT Radial Truck Tire markets - 2011 vs. 2010
+26%
+10%
+18%
+25%
+5%
+14%
+16%
+3%
+9%
+20%
+13%
+17%
+11%
+20%
+7%
+13%
Europe with CIS
North America
Asia excl. India
South America
Africa India Middle-East
Total
Q1 RT
Q2 RT
H1 RT
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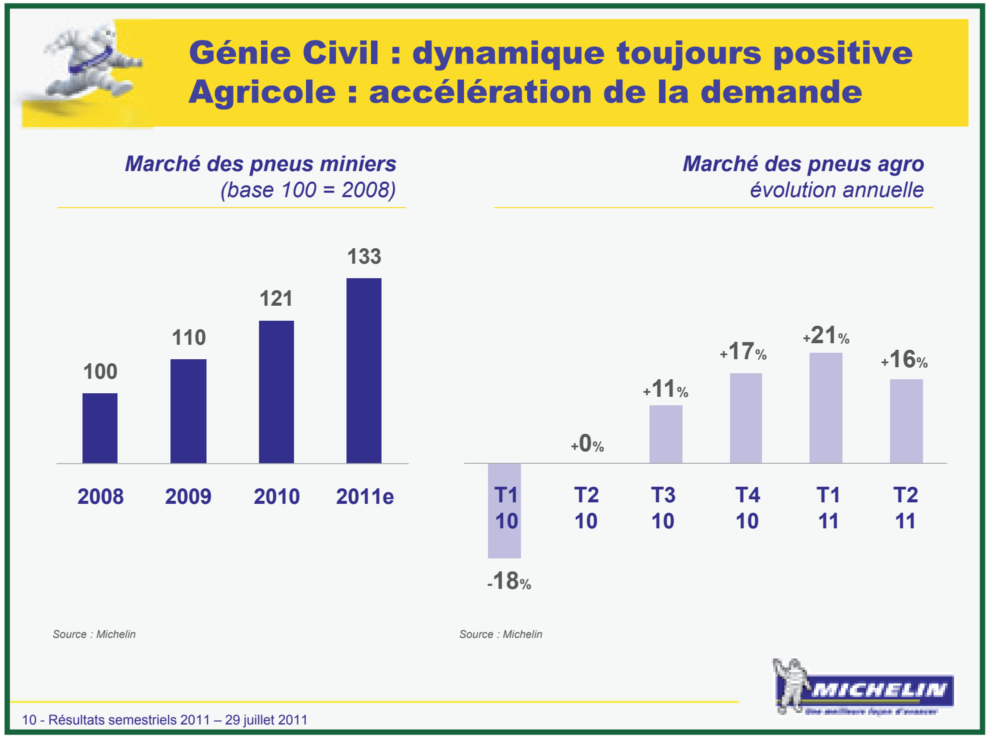
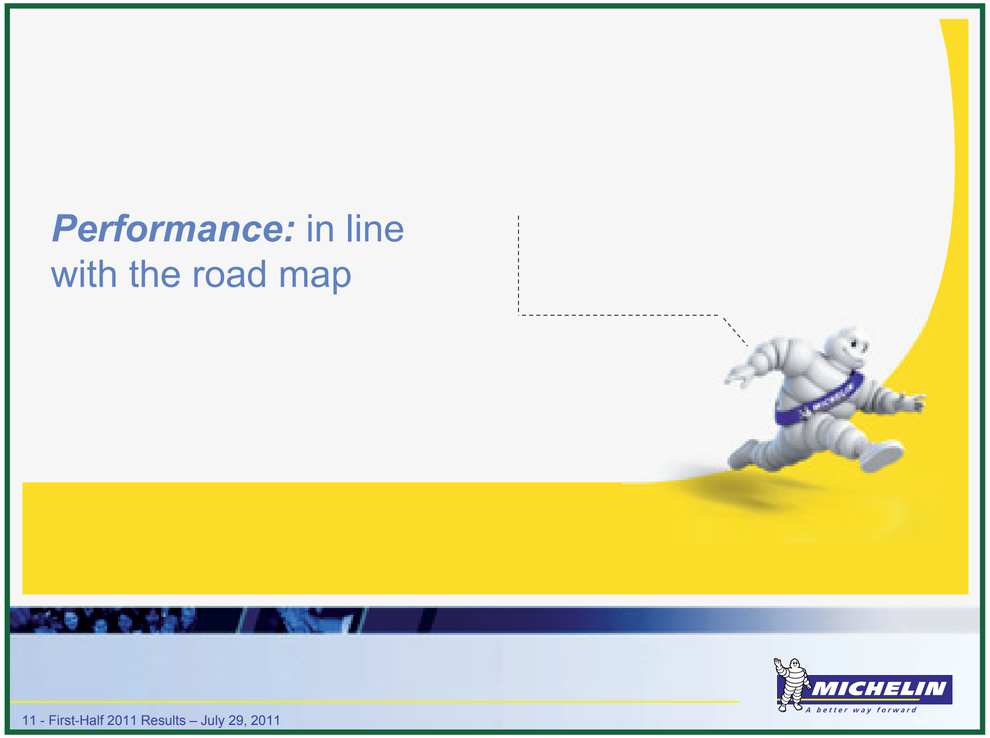
9 - First-Half 2011 Results – July 29, 2011


Génie Civil : dynamique toujours positive
Agricole : accélération de la demande
Marché des pneus miniers
(base 100 = 2008)
100
110
121
133
2008
2009
2010
2011e
Marché des pneus agro
évolution annuelle
-18%
+0%
+11%
+17%
+21%
+16%
T1 10
T2 10
T3 10
T4 10
T1 11
T2 11
Source : Michelin
Source : Michelin
MICHELIN
10 - Résultats semestriels 2011 – 29 juillet 2011


Performance: in line
with the road map
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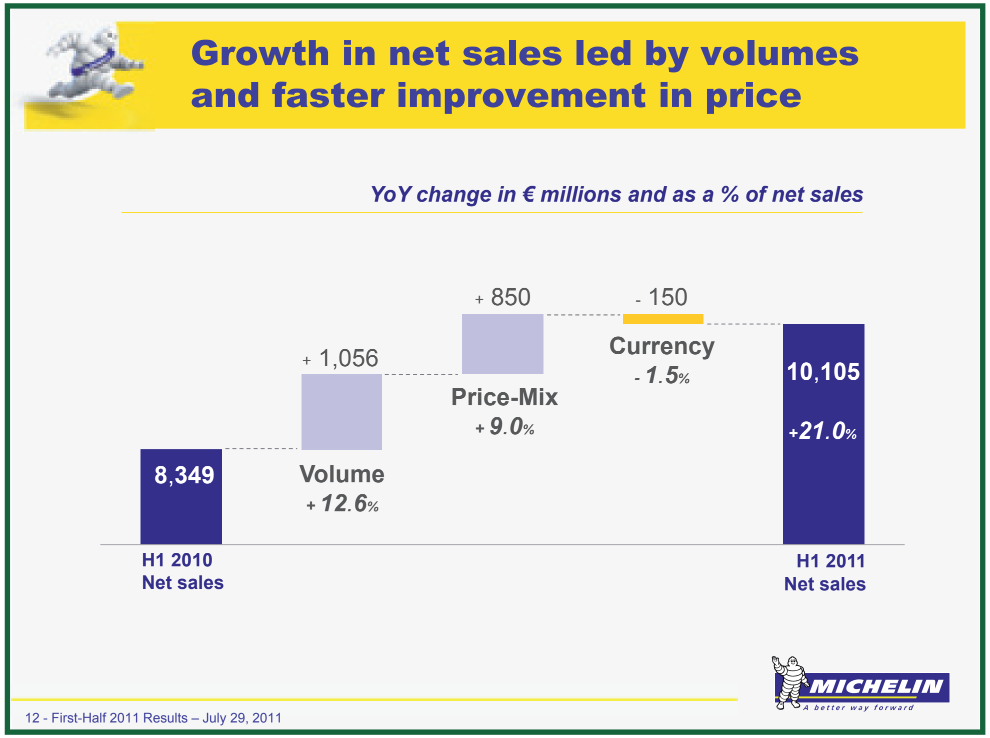
11 - First-Half 2011 Results – July 29, 2011


Growth in net sales led by volumes and faster improvement in price
YoY change in € millions and as a % of net sales
8,349
H1 2010
Net sales
+ 1,056
Volume
+ 12.6%
+ 850
Price-Mix
+ 9.0%
- 150
Currency
- 1.5%
10,105
+21.0%
H1 2011
Net sales
MICHELIN
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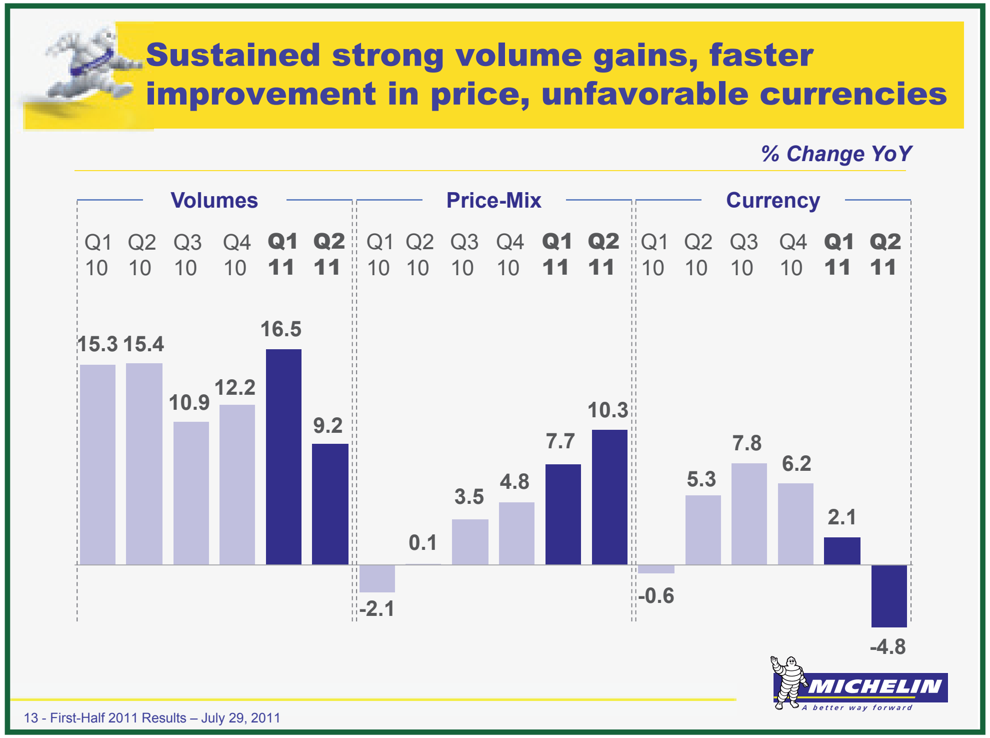
12 - First-Half 2011 Results – July 29, 2011


Sustained strong volume gains, faster improvement in price, unfavorable currencies
% Change YoY
Volumes
Price-Mix
Currency
Q1 10
Q2 10
Q3 10
Q4 10
Q1 11
Q2 11
15.3
15.4
10.9
12.2
16.5
9.2
-2.1
0.1
3.5
4.8
7.7
10.3
-0.6
5.3
7.8
6.2
2.1
-4.8
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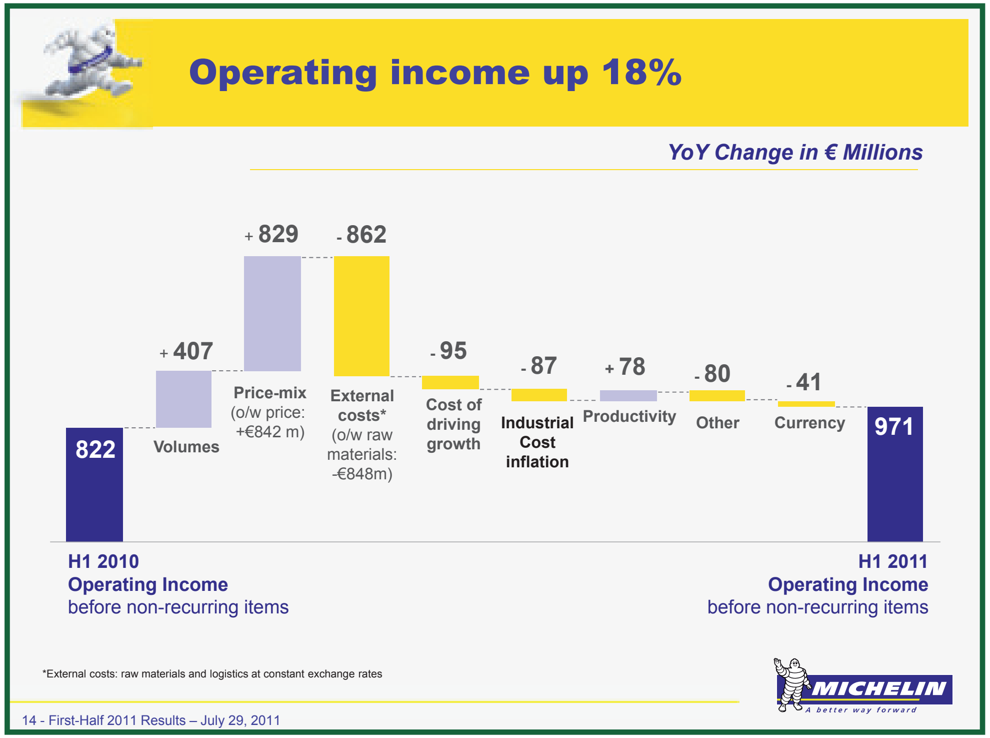
13 - First-Half 2011 Results – July 29, 2011


Operating income up 18%
YoY Change in € Millions
+ 829
- 862
+ 407
- 95
- 87
+ 78
- 80
- 41
822
Volumes
Price-mix (o/w price: +€842 m)
External costs* (o/w raw materials: -€848m)
Cost of driving growth
Industrial Cost inflation
Productivity
Other
Currency
971
H1 2010 Operating Income before non-recurring items
H1 2011 Operating Income before non-recurring items
*External costs: raw materials and logistics at constant exchange rates
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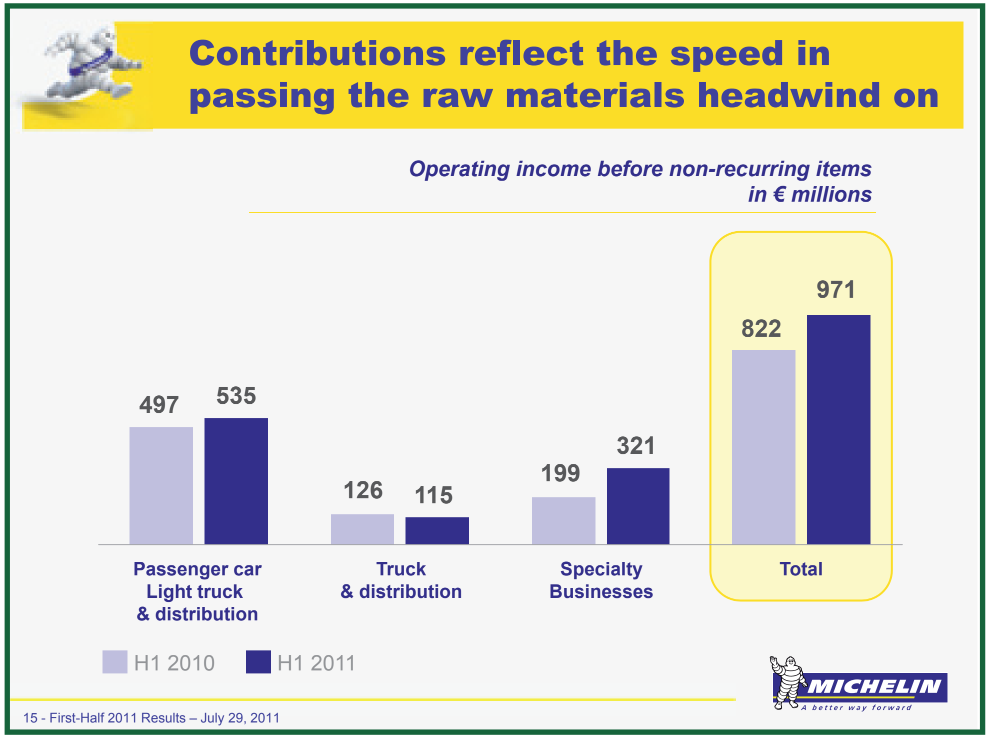
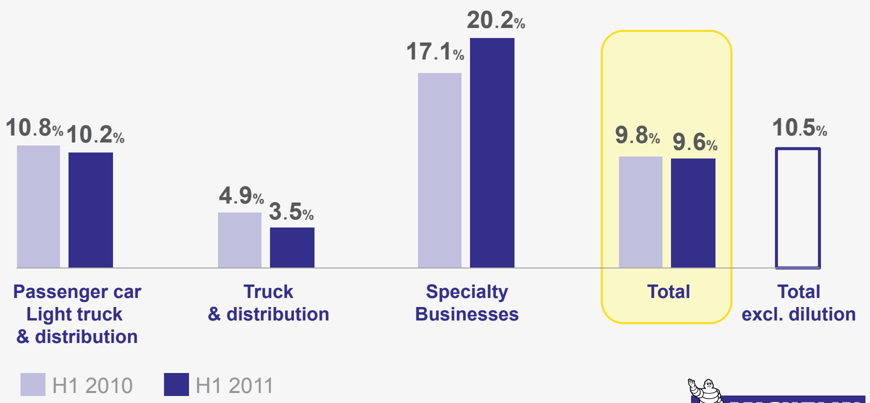
14 - First-Half 2011 Results – July 29, 2011


Contributions reflect the speed in passing the raw materials headwind on
Operating income before non-recurring items in € millions
497
535
126
115
199
321
822
971
Passenger car Light truck & distribution
Truck & distribution
Specialty Businesses
Total
H1 2010
H1 2011
MICHELIN
A better way forward
15 - First-Half 2011 Results – July 29, 2011

## Margins reflect the pace in passing the raw materials headwind on

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




MICHELIN
A better way forward

16 - First-Half 2011 Results – July 29, 2011

## Historically high financial performance

*Passenger car & Light truck*

| *In € millions* | H1 2011 | H1 2010 |
|---|---|---|
| Net Sales<br>volume growth | 5,252<br>+7.2% | 4,621 |
| Operating Income<br>(before non-recurring items) | 535 | 497 |
| Operating Margin<br>(before non-recurring items) | 10.2% | 10.8% |

- **Solid marketing performance**
- **Price mix that entirely offset the impact of higher raw material costs**
- **High production capacity utilization rates**
- **Successful launch of the MICHELIN Pilot Super Sport and BFGoodrich® Rugged Terrain and Advantage T/A lineups**

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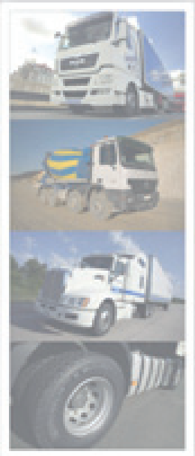
## Impact of raw material costs and faster growth in the OE segment

*Truck*



| *In € millions* | H1 2011 | H1 2010 |
|---|---|---|
| Net Sales<br>volume growth | 3,266<br>+15.6% | 2,566 |
| Operating Income<br>(before non-recurring items) | 115 | 126 |
| Operating Margin<br>(before non-recurring items) | 3.5% | 4.9% |

- Negative impact of OE/replacement mix
- Impact of natural rubber prices
- Delayed effect of contractual price adjustments in the OE segment
- Unfavorable currency effect
- Ongoing demand for the X-One tire range

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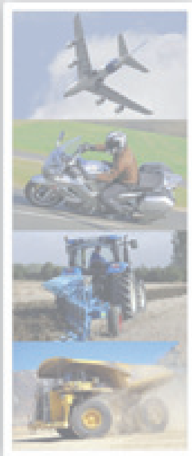
## Results that are structurally high and lifted by expanding markets

*Specialty Businesses*



| *In € millions* | H1 2011 | H1 2010 |
|---|---|---|
| Net Sales<br>volume growth | 1,587<br>+29.1% | 1,162 |
| Operating Income<br>(before non-recurring items) | 321 | 199 |
| Operating Margin<br>(before non-recurring items) | 20.2% | 17.1% |

- Contractual price adjustments
- Unfavorable currency effect

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## Net income up 32%

| *In € millions* | H1 2011 | H1 2010 |
|---|---|---|
| Net Sales | 10,105 | 8,349 |
| Operating Income<br>(before non-recurring items)<br>*% of Net Sales* | 971<br><br>*9.6%* | 822<br><br>*9.8%* |
| Non-Recurring Items | - | - |
| Operating Income | 971 | 822 |
| Cost of Net Debt<br>Other Financial Income and Expenses | (80) | (132) |
| Tax | (232) | (199) |
| Share of Profit from Associates | 8 | 13 |
| Net Income | 667 | 504 |

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## ***Financial structure:***
*sustained robustness*

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## €610 million impact on WCR due to higher raw material costs

| In € millions | H1 2011 | H1 2010 |
|---|---|---|
| EBITDA (before non-recurring items) | 1,440 | 1,305 |
| *Change in Inventory* | *(749)* | *(527)* |
| *Change in Trade Receivables* | *(417)* | *(259)* |
| *Change in Trade Payables* | *30* | *87* |
| *Taxes and Interests Paid* | *(286)* | *(319)* |
| *Change in Operating Provisions* | *(55)* | *(45)* |
| *Other WCR* | *79* | *37* |
| Cash Flow from Operations | 42 | 279 |
| *Gross Investments* | *(554)* | *(251)* |
| *Other* | *(122)* | *(58)* |
| Free Cash Flow* | (634) | (30) |

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

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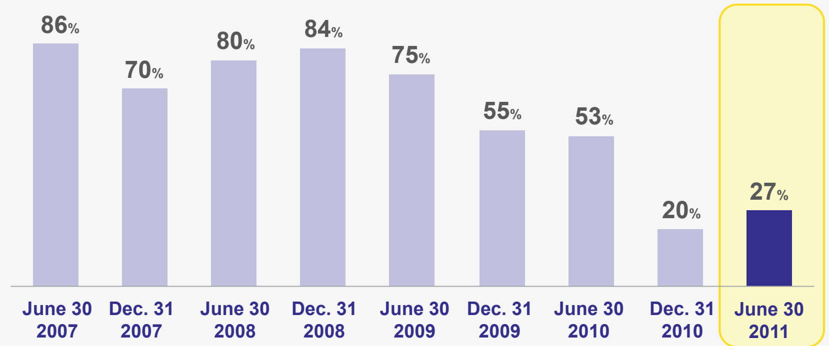
## Robust financial structure: flexibility and room to manoeuver

*Gearing – Net Debt / Equity Ratio*

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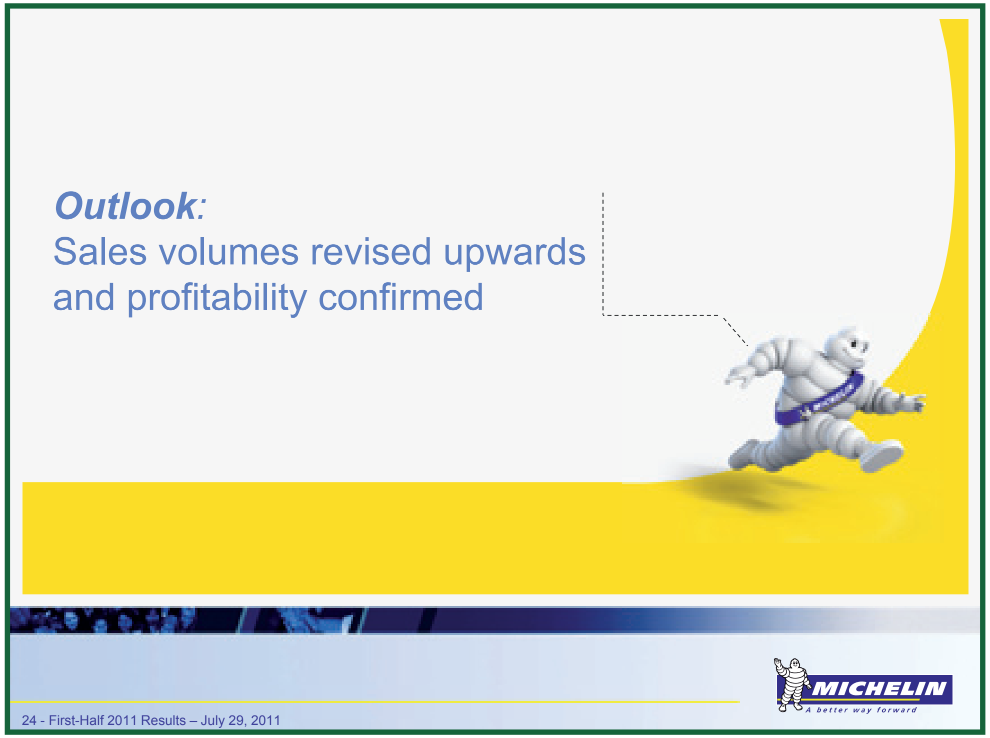
Outlook:
Sales volumes revised upwards
and profitability confirmed
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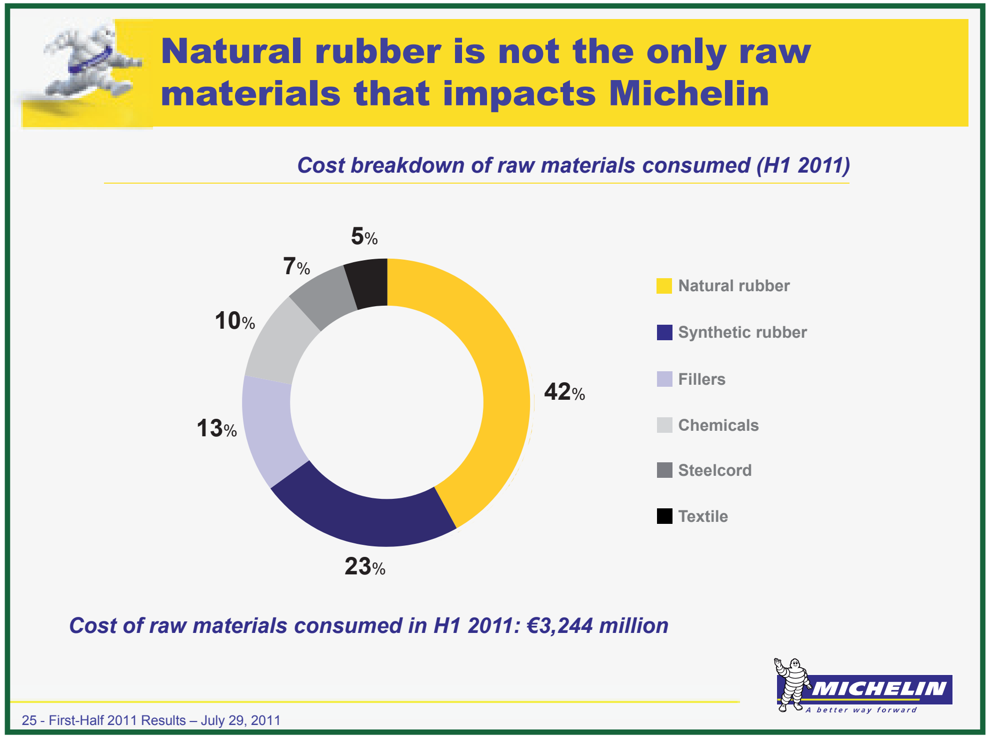
24 - First-Half 2011 Results – July 29, 2011


Natural rubber is not the only raw materials that impacts Michelin
Cost breakdown of raw materials consumed (H1 2011)
5%
7%
10%
13%
23%
42%
Natural rubber
Synthetic rubber
Fillers
Chemicals
Steelcord
Textile
Cost of raw materials consumed in H1 2011: €3,244 million
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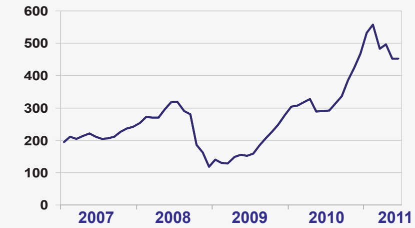
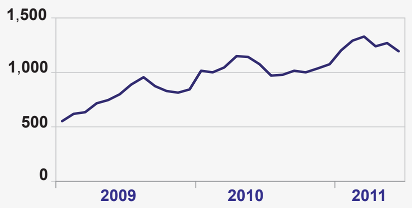
## Prices of raw materials other than natural rubber are also rising

*Natural rubber prices (TSR20 - $/ton)*

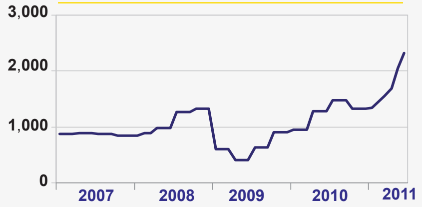



*Brent oil prices ($/bbl)*


*Styrene prices (€/ton)*




*Butadiene prices (Europe – €/ton)*

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## Raw materials: nearly 100% of the full year headwind offset

- **Negative impact of raw material prices amounting to approximately €1.8 billion**
  - Impact varies from one reporting segment to another depending on their raw materials mix
  - Underlying assumptions
    - Average annual price of natural rubber: **$4.84 per kg**
    - Average annual price of oil (Brent) : **$110 per barrel**
- **Impact of price increases already implemented or announced: approximately €1.8 billion or nearly 100% of cost increases**

**The Group is determined to offset increases in raw material costs**

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## Investment projects moving forward as scheduled

China

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## Investment projects moving forward as scheduled

India

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## Investment projects moving forward as scheduled

Brazil

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## FY outlook: sales volumes revised upwards and profitability confirmed

- Volumes: growth of around 8%
- Maintaining a dynamic pricing policy in the face of a negative impact related to higher raw material costs estimated at approximately €1.8 billion
- Negative impact of the rise in the euro
  - Estimated negative impact of approximately €150 million for the full year at current exchange rates
- Operating income higher
- Free cash flow temporarily negative in 2011 because of the impact of raw material costs on WCR (estimated at €400-500 million for the year) and accelerated investment program

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## Disclaimer

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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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# 3

# FIRST-HALF BUSINESS REVIEW


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# 3.1. TIRE MARKETS

## A GLOBAL MARKET WORTH SOME USD 127 BILLION[1]

The global tire market totaled USD 127 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 confirms 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, 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.

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

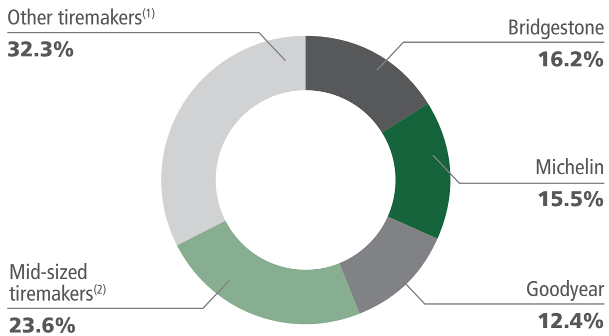
### New standards

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 at end 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 from 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.

### New approaches

The Michelin Challenge Bibendum, the global summit for sustainable mobility held in May this year in Berlin, brought together car and truck makers, academics, equipment manufacturers, energy suppliers, research institutes, public authorities and non-governmental organizations to forge a shared vision of tomorrow's safer, cleaner transportation. Tires play a key role in reducing fuel consumption and Michelin contributes directly to sustainable mobility by developing innovative solutions and breakthrough technologies, such as In-Wheel Motor assemblies.

**THE GLOBAL TIRE MARKET BY MANUFACTURER**

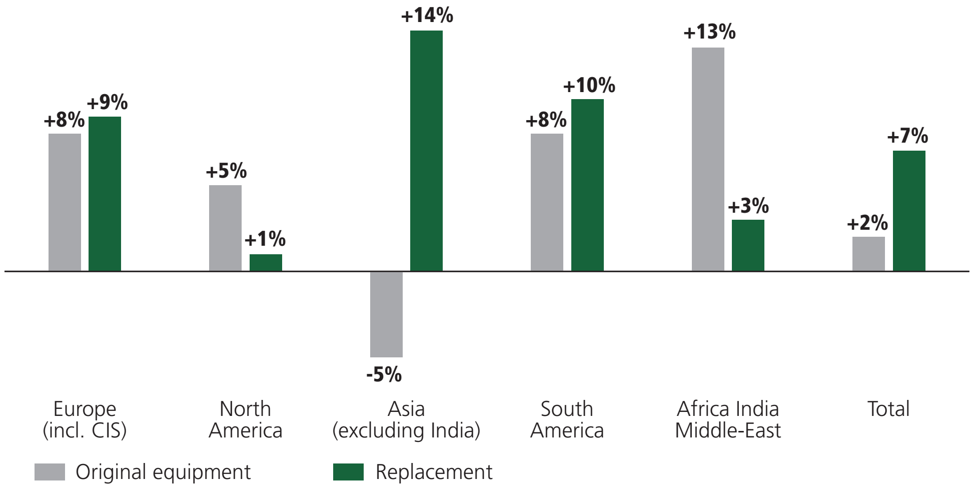



*Source: 2009 sales in US dollars, published in Tire Business, August 30, 2010.*
*(1) Tiremakers with a less than 2% market share according to the Tire Business ranking.*
*(2) Tiremakers with a 2-6% market share according to the Tire Business ranking.*

## FIRST-HALF 2011 MARKET REVIEW

Tire demand was robust in all regions of the world during the first half of 2011, although after a dynamic first quarter, the pace of growth slowed to a level more in line with the long-term trend rate. All tire makers increased their prices regularly during the period, in response to the steep rise in raw materials costs, and capacity utilization rates remained high throughout the industry. The **Passenger car and Light truck** markets continued to grow, led by the replacement segment which rose 7%. The OE segment was up by a more modest 2% due to the second quarter impact of the natural disaster in Japan.

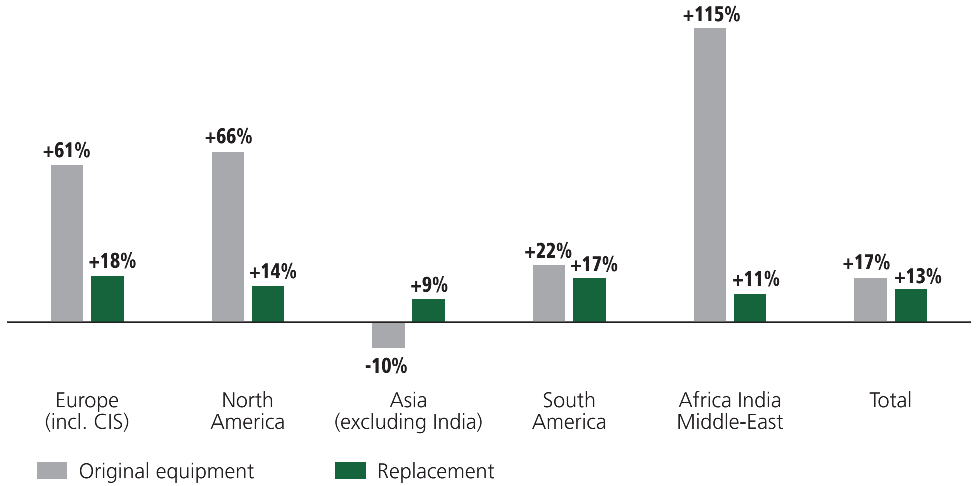
**THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, FIRST-HALF 2011 *VS.* FIRST-HALF 2010**




*Source: Michelin estimates.*

In the **Truck** markets, demand for radials recovered sharply in every region. In mature markets, the gains came off of low prior-year comparatives, particularly in the OE segment (up 17%).

**THE GLOBAL TRUCK TIRE MARKET, FIRST-HALF 2011 *VS.* FIRST-HALF 2010**




*Source: Michelin estimates – Radial tires.*

## REPLACEMENT MARKETS

Replacement markets grew strongly, despite steady price rises everywhere and supply problems in some markets.

### Passenger car and Light truck tires

| PASSENGER CAR AND LIGHT TRUCK REPLACEMENT MARKETS (in millions of tires) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 2ND-QUARTER 2011/2010 | 1ST-QUARTER 2011/2010 |
|---|---|---|---|---|---|
| Europe(1) | 173.7 | 158.8 | +9% | +7% | +12% |
| North America(2) | 128.4 | 127.2 | +1% | -4% | +7% |
| Asia (excluding India) | 102.0 | 89.6 | +14% | +14% | +14% |
| South America | 30.4 | 27.7 | +10% | +11% | +9% |
| Africa India Middle-East | 41.3 | 40.1 | +3% | +3% | +4% |
| **Total** | **475.8** | **443.5** | **+7%** | **+5%** | **+10%** |

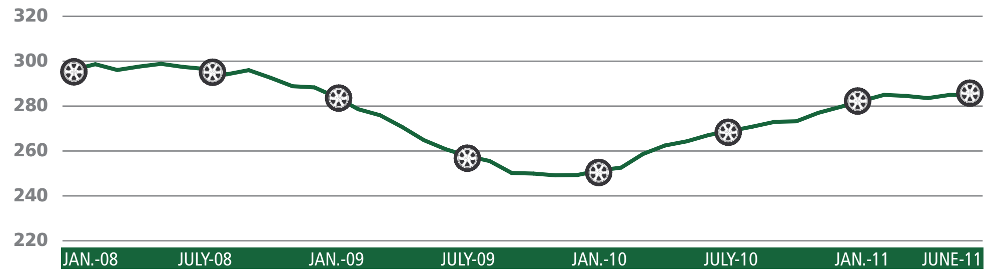
*(1) Including Russia and Turkey.*
*(2) United States, Canada and Mexico.*

*Michelin estimates.*

**In Europe,** up 9%, the market was supported by partial dealer inventory building ahead of announced price increases and by strong demand for winter tires. First quarter comparatives were low as the market was still in the recovery phase in early 2010. By country, in first half 2011 the market was down 11% in the United Kingdom, 7% in Spain and 1% in France, and was up 10% in Germany, 9% in Turkey and 6% in Italy. The most buoyant markets were in Eastern Europe, up 49% including 42% growth in Russia, reflecting vibrant domestic demand and the favorable economic environment.
As expected, growth in the high-performance tire segment (W,Y and Z speed ratings and SUV tires) continued to outpace the market. In first-half 2011, premium brands accounted for nearly half of European demand.

**THE EUROPEAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET**

In millions of tires – moving 12 months – Excluding Russia

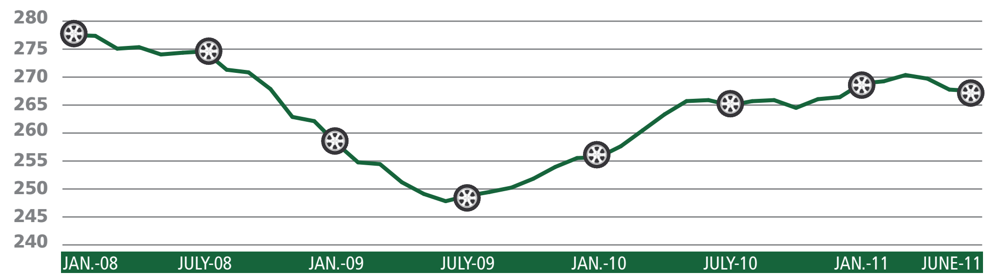



*Michelin estimates.*

**In North America**, demand was up by 1% after a record number of tires were sold in the first quarter. Higher gasoline prices in the second quarter prompted American drivers to cut down on their car use, adversely impacting tire demand at the end of the period. The markets expanded 1% in the United States and Canada and 2% in Mexico. The recreational, commercial and premium (V and Z speed ratings) segments were the main growth drivers.

**THE NORTH AMERICAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET**

In millions of tires – moving 12 months




*Michelin estimates.*

**In Asia (excluding India),** markets rose 14% overall during the period. Demand in China was up 20%. A certain loss of momentum was observed in this market at the end of the period, due to dealer early buying at the beginning of the year, the economic slowdown and major floods in the Yangtze basin. The Japanese market grew by a strong 15%, as dealers replaced inventories lost during the earthquake and tsunami. At the same time, the shortage of new vehicles drove up demand in the replacement tire segment. The market in Southeast Asia continued to expand, led by Indonesia and Vietnam.

**In South America,** replacement tire markets continued to grow, rising 10% over the period. The Brazilian market expanded by a healthy 7%, despite the interest rate hikes decided by the federal government in a bid to curb inflationary pressures. Demand was also significantly higher in Argentina and Colombia.

**In the Africa-India-Middle East region** the market grew 3% overall, lifted by an 8% increase in tire demand in India.

## Truck tires

| TRUCK MARKETS* REPLACEMENT (in millions of tires) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 2ND-QUARTER 2011/2010 | 1ST-QUARTER 2011/2010 |
|---|---|---|---|---|---|
| Europe(1) | 8.6 | 7.2 | +18% | +10% | +26% |
| North America(2) | 9.7 | 8.5 | +14% | +5% | +25% |
| Asia (excluding India) | 19.9 | 18.2 | +9% | +3% | +16% |
| South America | 4.9 | 4.2 | +17% | +13% | +20% |
| Africa India Middle-East | 5.9 | 5.3 | +11% | +11% | +11% |
| **Total** | **48.9** | **43.4** | **+13%** | **+7%** | **+20%** |

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

*Michelin estimates.*

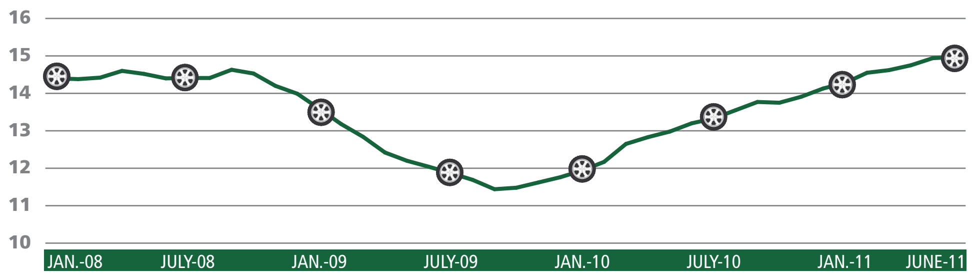
**In Europe,** the 18% increase in truck tire sales outpaced growth in the road freight market, which is expanding at the rate of around 2% a year. Momentum was created by dealer inventory building, after the first-half 2010 period of destocking that led to low comparatives. In addition, dealer inventories grew following early buying ahead of the price rises announced by all tire makers, in a context of some tire shortage.

The overall market trend masked sharp regional contrasts in freight markets between Northern Europe which was more dynamic and Southern Europe.

The market in Eastern Europe was up by a very strong 46%, lifted by the vibrant economic conditions particularly in Russia. Demand for steel radials grew 73%, significantly outpacing demand for the traditional textile radials more commonly offered by local tire makers.

### THE EUROPEAN REPLACEMENT TRUCK TIRE MARKET

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

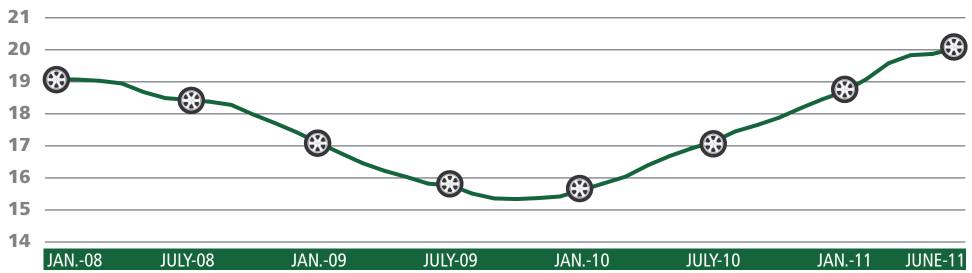



*Michelin estimates.*

In **North America**, road freight volumes returned to their 2007 level and sales to dealers generally kept pace with end-user sales, leading to 14% market growth in the first half.

**THE NORTH AMERICAN REPLACEMENT TRUCK TIRE MARKET**

In millions of radial tires – moving 12 months




*Michelin estimates.*

In **Asia (excluding India)**, the market expanded 9% overall, with wide differences between countries.
In China, the market grew 10% over the period but with a significant loss of momentum in the second quarter due to the slowdown in construction activity and government measures to restrict the availability of credit.
In Southeast Asia, where the market was up 10%, growth in demand for radials outpaced that for cross-plys. The shift to radials was due to higher natural rubber prices which made cross-plys more expensive because they use more of this raw material. Early buying by dealers to beat the price rises announced by many tire makers also helped to drive up demand in the period.
In **South America,** the market was up by a strong 17%. A certain loss of momentum was observed in the second quarter, however, probably due to the effect of measures to check inflation (such as the increase in the Brazilian central bank's base rate). In addition, appreciation of the Brazilian real drove up volumes of imported tier 2/tier 3 brands.
Markets in the **Africa-India-Middle East region** expanded 11%, led by India (+77%) and the ongoing shift toward radials.

## ORIGINAL EQUIPMENT MARKETS

The **Original Equipment** markets enjoyed strong growth in the first quarter of 2011. The uptrend continued in the second quarter in the Truck segment, but growth in the Passenger car segment was held back by the consequences of the earthquake in Japan.

### Passenger car and Light truck tires

| PASSENGER CAR AND LIGHT TRUCK ORIGINAL EQUIPMENT MARKETS (in millions of tires) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 2ND-QUARTER 2011/2010 | 1ST-QUARTER 2011/2010 |
|---|---|---|---|---|---|
| Europe[1] | 50.8 | 46.8 | +8% | +7% | +10% |
| North America[2] | 31.1 | 29.6 | +5% | -1% | +11% |
| Asia (excluding India) | 76.6 | 80.2 | -5% | -8% | -1% |
| South America | 10.6 | 9.8 | +8% | +8% | +7% |
| Africa India Middle-East | 14.5 | 12.9 | +13% | +10% | +15% |
| **Total** | **183.6** | **179.4** | **+2%** | **-1%** | **+5%** |

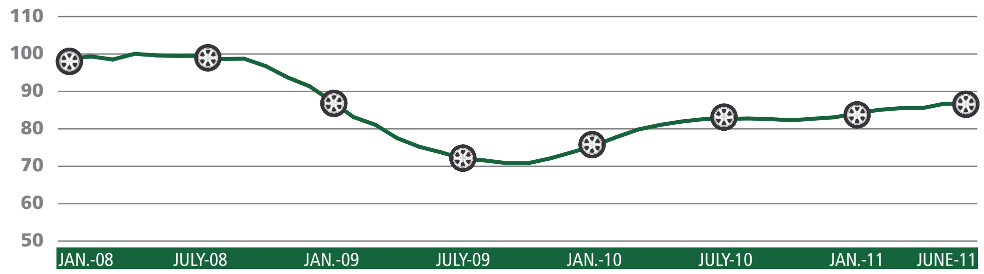
*(1) Including Russia and Turkey.*
*(2) United States, Canada and Mexico.*

*Michelin estimates.*

**In Europe,** the market rose 8% over the first half. Demand in Western Europe was hit in the second quarter by the consequences of the earthquake in Japan, while the markets in Eastern Europe and Russia went from strength to strength.

**THE EUROPEAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET**

In millions of tires – moving 12 months – Excluding Russia

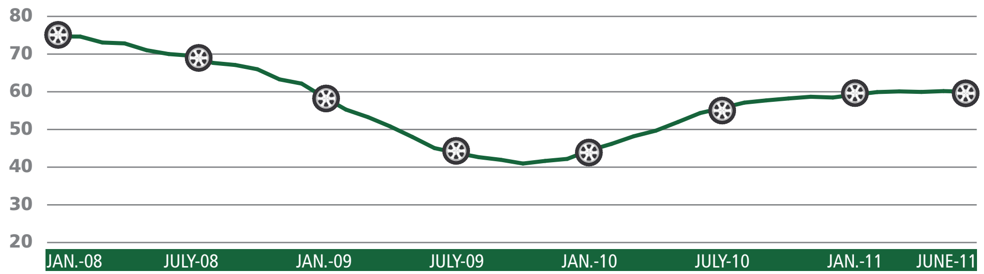



*Michelin estimates.*

**In North America,** demand picked up in the first quarter along with the recovery in the new car and Light truck markets, but was hit in the second quarter by the consequences of the earthquake in Japan for car makers, who experienced problems in sourcing parts and components. Despite this, the market nevertheless grew 5% during the first half.

**THE NORTH AMERICAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET**

In millions of tires – moving 12 months




*Michelin estimates.*

**In Asia (excluding India),** demand was down 5% overall. In China, the market grew 3% despite the effects of the Japanese earthquake and tsunami on the supply chain and the termination of government-sponsored carbuying incentives. Markets in Southeast Asia, Japan and South Korea were more severely affected by the consequences of the Japanese natural disaster.

**In South America,** the overall market rose 8% on the back of record automobile registrations.

**In the Africa-India-Middle East region,** markets were unaffected by the consequences of the Japanese earthquake and tsunami and grew 13% overall.

## Truck tires

| TRUCK MARKETS* ORIGINAL EQUIPMENT (in millions of tires) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 2ND-QUARTER 2011/2010 | 1ST-QUARTER 2011/2010 |
|---|---|---|---|---|---|
| Europe(1) | 2.9 | 1.8 | +61% | +46% | +80% |
| North America(2) | 2.6 | 1.6 | +66% | +66% | +66% |
| Asia (excluding India) | 6.5 | 7.2 | -10% | -20% | -0% |
| South America | 1.4 | 1.2 | +22% | +21% | +22% |
| Africa India Middle-East | 0.8 | 0.4 | +115% | +114% | +115% |
| **Total** | **14.1** | **12.1** | **+17%** | **+10%** | **+25%** |

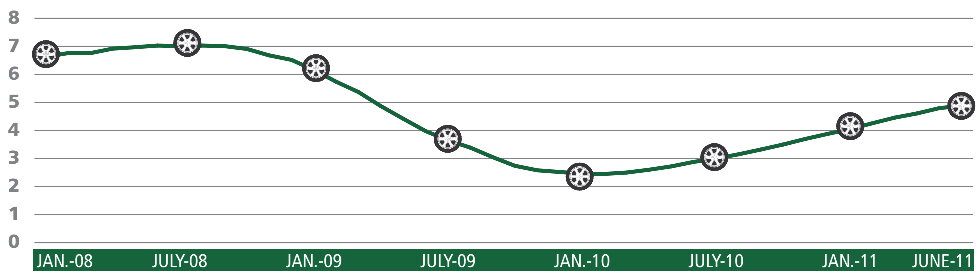
* Radial only.
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.

*Michelin estimates.*

In **Europe,** the market was up by a very strong 61% over first-half 2010 which represented a low basis of comparison as demand was still relatively weak. First-half 2011 demand in the OE segment was also led by high levels of truck production for export markets.

**THE EUROPEAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET**

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

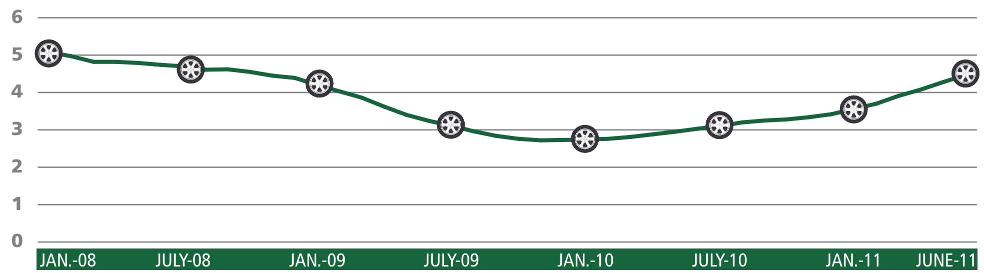



*Michelin estimates.*

In **North America,** the market surged by 66%, reflecting strong demand for new trucks due to the high average age of tractors (around 9 years).

**THE NORTH AMERICAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET**

In millions of radial tires – moving 12 months




*Michelin estimates.*

In **Asia (excluding India),** the market was down 10%. This was mainly due to the 12% decline in China that was triggered primarily by the slowdown in construction activity and by government measures to restrict the availability of credit

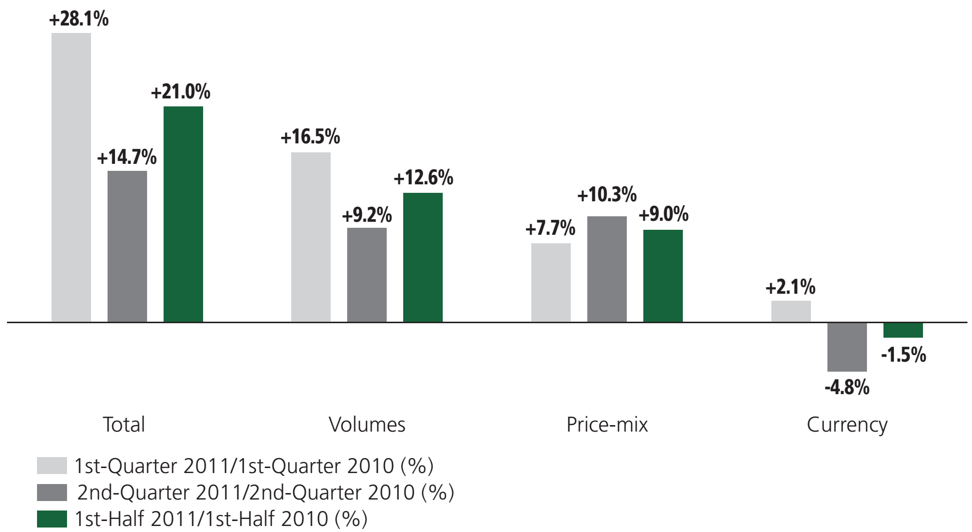
In **South America,** the market expanded by a strong 22%, led mainly by early truck purchases ahead of the planned change in heavy truck technical standards and by infrastructure projects in preparation for the 2016 Olympic Games to be hosted by Brazil.

**In the Africa-India-Middle East region,** the Original Equipment market surged by 115%.

# 3.2. NET SALES

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | % CHANGE | 2ND-QUARTER 2011 | 2ND-QUARTER 2010 | % CHANGE | 1ST-QUARTER 2011 | 1ST-QUARTER 2010 | % CHANGE |
|---|---|---|---|---|---|---|---|---|---|
| Net sales | 10,105 | 8,349 | +21.0% | 5,058 | 4,408 | +14.7% | 5,047 | 3,941 | +28.1% |
| *Excluding currencies* | | | *+22.1%* | | | *+19.2%* | | | *+25.1%* |

## ANALYSIS OF NET SALES




**Net sales** amounted to €10,105 million in first-half 2011, up 21.0% at current exchange rates from €8,349 million in the year-earlier period. The main factors underlying this growth were as follows:

- Higher volumes boosted sales by 12.6%, reflecting market share gains and increased market demand compared with first-half 2010;
- Changes in price mix generated 9.0% growth, corresponding almost entirely to the impact of i) the sustained firm pricing policy and ii) contractual price adjustments, which had been unfavorable in first-half 2010. The mix effect was not material, as the unfavorable impact on Truck tires of the sharper upturn in OE sales was offset by the favorable effect on Passenger car and Light truck tires of improvement in the segment mix;
- The effect of changes in exchange rates was a negative 1.5%, reflecting the euro's appreciation against the US dollar and most of the other main currencies in the second quarter.

| (in € million and %) | 1ST-HALF 2011/2010 | | 2ND-QUARTER 2011/2010 | | 1ST-QUARTER 2011/2010 | |
|---|---|---|---|---|---|---|
| **Total change** | **+1,756** | **+21.0%** | **+650** | **+14.7%** | **+1,106** | **+28.1%** |
| Volumes | +1,056 | +12.6% | +406 | +9.2% | +650 | +16.5% |
| Price-mix | +850 | +9.0% | +498 | +10.3% | +352 | +7.7% |
| Currency | -150 | -1.5% | -254 | -4.8% | +104 | +2.1% |
| Scope | - | - | - | - | - | - |

## NET SALES BY REPORTING SEGMENT

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2011/2010 | 2ND-QUARTER 2011 | 2ND-QUARTER 2011/2010 | 1ST-QUARTER 2011 | 1ST-QUARTER 2011/2010 |
|---|---|---|---|---|---|---|
| **Group** | **10,105** | **+21.0%** | **5,058** | **+14.7%** | **5,047** | **+28.1%** |
| Passenger car/Light truck and related distribution | 5,252 | +13.7% | 2,569 | +6.7% | 2,683 | +21.2% |
| Truck and related distribution | 3,266 | +27.3% | 1,660 | +22.5% | 1,606 | +32.5% |
| Specialty businesses(1) | 1,587 | +36.6% | 828 | +28.4% | 759 | +46.8% |

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

In first-half 2011, sharply higher volumes and the Group's responsive pricing strategy helped to drive growth in net sales across all reporting segments.

### Passenger car and Light truck tires and related distribution – Analysis of net sales

**In Europe,** the increase in sales reflected market growth, Michelin's solid market positions and demand for winter tires in the dealer networks. The new MICHELIN Pilot Super Sport tire, engineered for sports sedans, was an immediate success.

**In North America,** the Group reported strong sales in both the OE and the Replacement markets, despite the impact on new vehicle production output of the problems experienced by certain carmakers in sourcing parts and components from Japan.

**In South America,** the Group performed well in dynamic markets, despite tighter tire supply.

**In Asia (excluding India),** Michelin's OE sales – along with those of its competitors – were affected by the sourcing problems experienced by certain car makers after the Japanese earthquake, while its Replacement sales were strong in a buoyant environment.

**In the Africa-India-Middle East region,** sales performance tracked the market.

**In all,** net sales in the Passenger car and Light truck tires and related distribution segment stood at €5,252 million for the period, up 13.7% on first-half 2010.

Sales volumes were up 7.2%, reflecting the good performance of the MICHELIN brand and new product launches, notably the MICHELIN Pilot Super Sport, and the BFGoodrich Rugged Terrain and Advantage T/A.

The Group's pricing policy also helped to drive top-line growth.

In addition, the mix effect improved slightly, reflecting the impact of the relative growth in OE and Replacement sales and of the sustained improvement in the segment/speed rating mix.

### Truck tires and related distribution – Analysis of net sales

In **Europe,** the Group held onto its market share in both the OE and Replacement segments. Price rises offset most of the negative effect of high raw materials costs. Replacement tire prices were increased twice during the period, and OE contracts now provide for prices to be adjusted twice a year.

In Eastern Europe, Michelin outpaced average market growth, helped by the opening of the first retreading unit in its Russian plant, its product quality and brand reputation, and, above all, the shift in demand toward steel radials.

In **North America,** the Group maintained its positions stable despite the significant price increases applied in this market and tight tire supplies.

In **South America,** the Group outperformed the market, thanks to greater product availability compared with the competition, a product plan focused on tier-1 brands and efficient sales networks.

In **Asia (excluding India),** sales in China were in line with the market and the Group held onto its market share. In Southeast Asia, sales growth outpaced the market.

**In the Africa-India-Middle East region,** Michelin kept pace with market growth. In India, the Group's market share is now sufficiently large to attract the attention of dealers.

**In all,** net sales in the Truck tires and related distribution segment amounted to €3,266 million for the period, up 27.3% on first-half 2010.

Sales volumes were up 15.6%, sustained by robust marketing performance and early buying ahead of price increases. Growth drivers included the successful launch of the MICHELIN X® MultiWay™ 3D range, the new benchmark in multi-purpose truck tires used by regional transporters in Europe, development of the Michelin Commercial Service Network in the United States and the popular MICHELIN X One tire.
During the first half, the Group kept up its firm pricing policy in all of its markets.
The mix effect reflected the impact of the relative growth in OE and Replacement sales.

### Specialty Businesses – Analysis of net sales

**Earthmover tires:** Sales in the mining segment continued to rise, with renewed work on major projects and strong demand for ore, oil and gas helping to drive double-digit growth. The supply chain came under renewed pressure as the main operators sought to guarantee future deliveries. The OE market rebounded strongly, although it is not yet back to the exceptionally high level reached in 2008. Demand for earthmover tires in the infrastructure and quarry markets continued to grow both in North America and in Europe, while the markets in South America and Asia also expanded.
In all, Michelin's net sales in the earthmover market were sharply higher than in first-half 2010. The positive price effect reflected the application of contractual indexation clauses based on raw materials prices. Sales increased across all market segments and Michelin improved its positions on all continents.

**Agricultural tires:** OE demand recovered strongly in the first half, both in North America and in Europe, particularly in the high-powered farm machinery segment. The Replacement market rose sharply in North America and continued to expand in Europe.
Michelin's net sales in this segment reflected a surge in volumes compared with first-half 2010. Growth was led by the OE market, notably in North America and in the high-powered farm machinery segment. The Michelin Ultraflex Technologies range went from strength to strength in both the OE and Replacement markets.

**Two-wheel tires:** The "motorized" segments expanded rapidly in first-half 2011, particularly in the North American and South American markets. The Japanese market alone was down on the year-earlier period. In emerging markets, the trend is towards more powerful scooters and motorcycles.
Michelin reported higher net sales in the first half, holding onto its positions thanks to the outstanding success of the Pilot Road 3, the first motorcycle tire to integrate X Sipe Technology which offers better grip in the wet. Further advances were made in North America in the high performance Replacement market as well as in the OE market with tires for the Harley Davidson cruiser models.

**Aircraft tires:** The Commercial Aviation market reflected continued growth in passenger numbers and improved load factors, particularly on long-haul flights. The General Aviation market rebounded during the year, while the Military segment remained stable compared with first-half 2010.
Michelin's sales were up slightly on the year-earlier period. The Group's contract to supply tires to the US Air Force was renewed and Michelin was the only tire maker approved to supply tires for China's COMAC 919 narrow-body airliner.

**ViaMichelin**'s sales were stable in first-half 2011. The website continued to attract growing numbers of visitors. Enhanced by the addition of a travel section, the site now offers traffic information for seven European countries, weather information and information about tourist destinations, hotels and leisure activities. The **Maps & Guides** business, comprising roadmaps, tourist guides and the famous MICHELIN Guide, continued to expand. Internally, the first steps were taken during the first half in the project to merge the ViaMichelin and Maps & Guides businesses.

**In all,** net sales from the Specialty Businesses segment totaled €1,587 million, an increase of 36.6% over first-half 2010. Sales volumes of specialty tires rose 29.1% in fast-growing markets driven by higher raw materials and agricultural foodstuff prices, and net sales were further boosted by the application of price indexation clauses.

## CURRENCY RATES AND THE CURRENCY EFFECT

At current exchange rates, consolidated net sales rose by 21.0% in first-half 2011.
The increase takes into account a negative currency effect of €150 million, due mainly to the euro's appreciation in the second quarter against the US dollar and most of the other main currencies.

| AVERAGE EXCHANGE RATE | 1ST-HALF 2011 | 1ST-HALF 2010 | % CHANGE |
|---|---|---|---|
| Euro/USD | 1.404 | 1.330 | +5.6% |
| Euro/CAD | 1.371 | 1.376 | -0.3% |
| Euro/MXN | 16.700 | 16.863 | -1.0% |
| Euro/BRL | 2.289 | 2.390 | -4.2% |
| Euro/GBP | 0.868 | 0.871 | -0.3% |
| Euro/JPY | 115.062 | 121.560 | -5.3% |
| Euro/CNY | 9.183 | 9.079 | +1.1% |
| Euro/THB | 42.697 | 43.433 | -1.7% |

## NET SALES BY REGION

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2011/1ST-HALF 2010 | 2ND-QUARTER 2011 | 1ST-QUARTER 2011 |
|---|---|---|---|---|
| **Group** | **10,105** | **+21.0%** | **5,058** | **5,047** |
| Europe | 4,450 | +22.3% | 2,184 | 2,266 |
| North America (incl. Mexico) | 3,229 | +15.3% | 1,629 | 1,600 |
| Other | 2,426 | +27.1% | 1,245 | 1,181 |

| (in € million) | 1ST-HALF 2011 | % OF TOTAL | 1ST-HALF 2010 | % OF TOTAL |
|---|---|---|---|---|
| **Group** | **10,105** | | **8,349** | |
| Europe | 4,450 | 44.0% | 3,640 | 43.6% |
| North America (incl. Mexico) | 3,229 | 32.0% | 2,800 | 33.5% |
| Other | 2,426 | 24.0% | 1,909 | 22.9% |

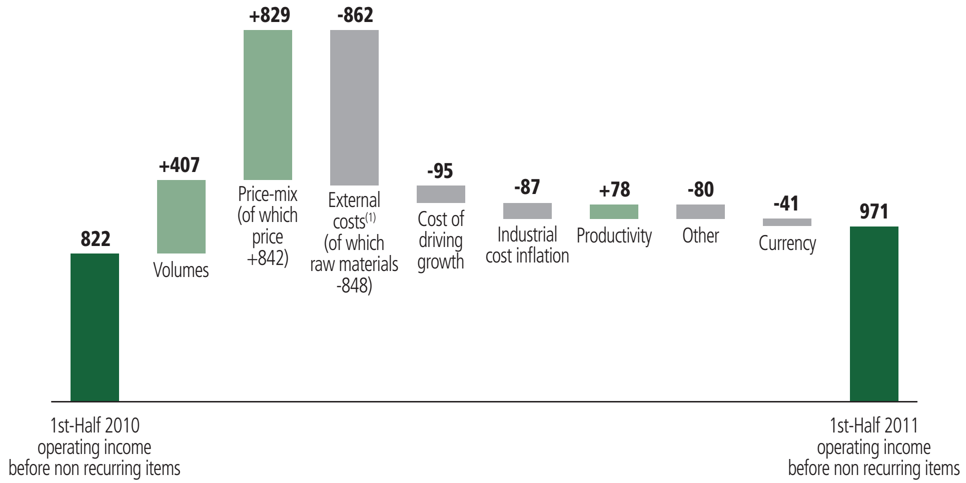
Consolidated net sales improved in every geography, but at a faster pace in new markets. In tonnage, these markets accounted for 34% of first-half sales volumes *versus* 33% in the year-earlier period.

# 3.3. CONSOLIDATED INCOME STATEMENT REVIEW

| (in € million, except per share data) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/1ST-HALF 2010 | 1ST-HALF 2011 (% of net sales) | 1ST-HALF 2010 (% of net sales) |
|---|---|---|---|---|---|
| **Net sales** | **10,105** | **8,349** | **+21.0%** | | |
| Cost of sales | (7,166) | (5,714) | +25.4% | 70.9% | 68.4% |
| **Gross income** | **2,939** | **2,635** | **+11.5%** | **29.1%** | **31.6%** |
| Sales and marketing expenses | (932) | (847) | +10.0% | 9.2% | 10.1% |
| Research and development expenses | (292) | (274) | +6.6% | 2.9% | 3.3% |
| General and administrative expenses | (718) | (631) | +13.8% | 7.1% | 7.6% |
| Other operating income and expenses | (26) | (61) | -57.4% | 0.3% | 0.7% |
| **Operating income before non-recurring income and expenses** | **971** | **822** | **+18.1%** | **9.6%** | **9.8%** |
| Non-recurring income and expenses | - | - | - | - | - |
| **Operating income** | **971** | **822** | **+18.1%** | **9.6%** | **9.8%** |
| Cost of net debt | (88) | (135) | -34.8% | 0.9% | 1.6% |
| Other financial income and expenses | 8 | 3 | NM | 0.1% | 0.0% |
| Share of profit from associates | 8 | 13 | -38.5% | 0.1% | 0.2% |
| **Income before taxes** | **899** | **703** | **+27.9%** | **8.9%** | **8.4%** |
| Income tax | (232) | (199) | +16.6% | 2.3% | 2.4% |
| **Net income** | **667** | **504** | **+32.3%** | **6.6%** | **6.0%** |
| ■ Attributable to the shareholders of the Company | 667 | 503 | +32.6% | 6.6% | 6.0% |
| ■ Attributable to non-controlling interests | - | 1 | NM | | |
| **Earnings per share** (in €) | | | | | |
| ■ Basic | 3.73 | 3.26 | +14.4% | | |
| ■ Diluted | 3.66 | 3.20 | +14.4% | | |

## ANALYSIS OF CONSOLIDATED OPERATING INCOME BEFORE NON-RECURRING ITEMS

In € million




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

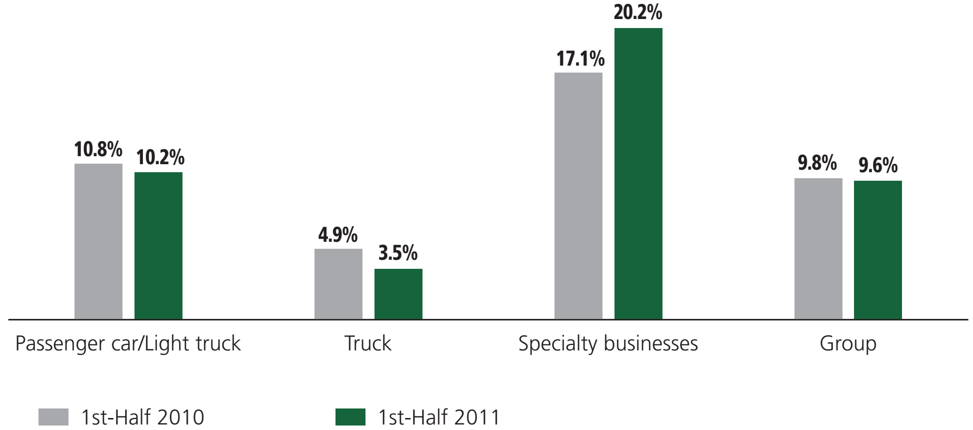
**Consolidated operating income before non-recurring items** amounted to €971 million or 9.6% of net sales in first-half 2011, compared with €822 million and 9.8% of net sales in the year-earlier period. There was no non-recurring items recognized for the period.

The €149 million improvement in operating income before non-recurring items included:

- The €407 million positive impact of sharply higher sales volumes, reflecting the Group's good performance in a period of robust market growth;
- The €842 million positive price effect. The Group's firm pricing policy ensured that the price increases applied during the period fully offset the €848 million negative effect of higher raw materials costs;
- The limited €13 million negative mix effect, with the sharper upturn in OE sales offset by the improvement in the segment, geographic and brand mixes;
- The €95 million cost of driving growth;
- The €87 million industrial cost inflation;
- The €78 million gains in productivity;
- The €41 million negative currency effect. At current exchange rates, the currency effect could amount to around €150 million for the full year.

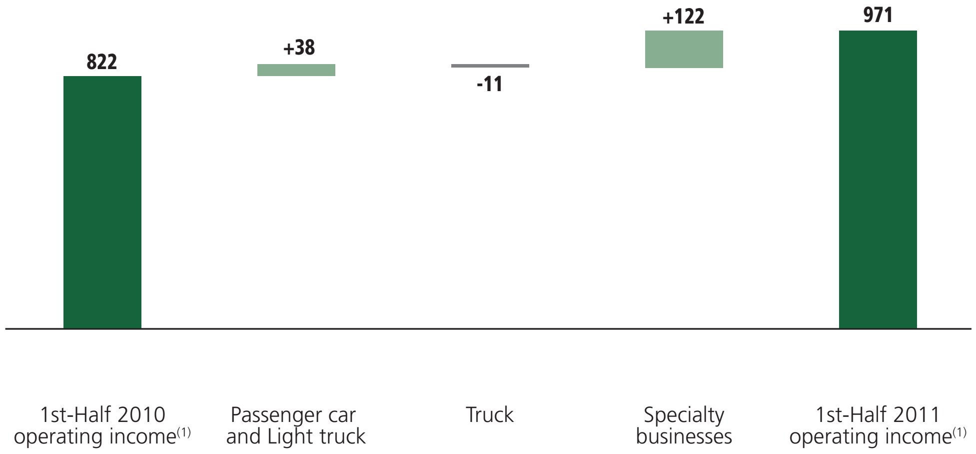
## OPERATING INCOME BEFORE NON-RECURRING ITEMS BY REPORTING SEGMENT

**Operating margin before non-recurring items by reporting segment**




- 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.

In € million




*(1) Before non-recurring items.*

### 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) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 1ST-HALF 2011 (% of Group total) | 1ST-HALF 2010 (% of Group total) |
|---|---|---|---|---|---|
| Net sales | 5,252 | 4,621 | +13.7% | 52% | 55% |
| Operating income before non-recurring items | 535 | 497 | +7.6% | 55% | 61% |
| Operating margin before non-recurring items | 10.2% | 10.8% | -0.6pt | | |

**Operating income before non-recurring items** from the Passenger car and Light truck tires and related distribution business amounted to €535 million or 10.2% of net sales in first-half 2011, compared with €497 million and 10.8% of net sales in the year-earlier period.

The improvement was led by the following factors:

- The sharp 7.2% increase in sales volumes, boosted by the growth in demand in every Passenger car and Light truck market and by the strong performance of the MICHELIN brand;
- The very positive price effect, attributable to the price increases applied during the period which fully offset the negative impact of higher raw materials costs;
- Tight control over manufacturing costs at time of high capacity utilization.

### Truck tires and related distribution – Analysis of operating income before non-recurring items

| TRUCK AND RELATED DISTRIBUTION (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 1ST-HALF 2011 (% of Group total) | 1ST-HALF 2010 (% of Group total) |
|---|---|---|---|---|---|
| Net sales | 3,266 | 2,566 | +27.3% | 32% | 31% |
| Operating income before non-recurring items | 115 | 126 | -8.7% | 12% | 15% |
| Operating margin before non-recurring items | 3.5% | 4.9% | -1.4pt | | |

**Operating income** before non-recurring income and expenses from the Truck tires and related distribution business amounted to €115 million or 3.5% of net sales in first-half 2011.

The decline compared with first half 2010 can be explained as follows:

- The higher cost of raw materials was not entirely offset by sales price increases in the first half of 2011. However, the rises already applied or announced should ensure that the increased costs are fully covered by the end of December;
- Faster growth in OE sales *versus* Replacement sales led to a negative mix effect;
- The currency effect was negative;
- Conversely, higher sales volumes lifted operating income before non-recurring items by 15.6%.

### Specialty Businesses – Analysis of operating income before non-recurring items

| SPECIALTY BUSINESSES (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/2010 | 1ST-HALF 2011 (% of Group total) | 1ST-HALF 2010 (% of Group total) |
|---|---|---|---|---|---|
| Net sales | 1,587 | 1,162 | +36.6% | 16% | 14% |
| Operating income before non-recurring items | 321 | 199 | +61.3% | 33% | 24% |
| Operating margin before non-recurring items | 20.2% | 17.1% | +3.1pt | | |

**Operating income** before non-recurring items from the Specialty Businesses stood structurally high in first-half 2011, at €321 million or 20.2% of net sales, compared with €199 million and 17.1% in the year-earlier period.

This growth primarily reflected the following factors:

- The increase in sales volumes (29.1%);
- The significant contribution from the Earthmover tires business;
- Contractual price adjustments, which had a negative impact in first-half 2010;
- The negative effect of changes in exchange rates.

## OTHER INCOME STATEMENT ITEMS

### Raw materials

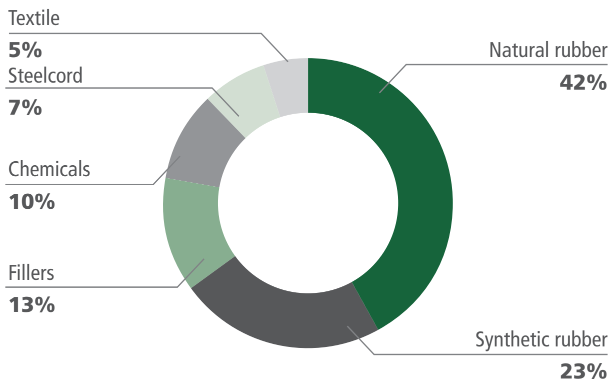
The cost of **raw materials** recognized in the income statement under "cost of sales" (€3,244 million in first-half 2011) is determined by valuing raw materials, semi-finished and finished product inventories using the weighted average cost method. This method tends to spread fluctuations in purchase 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 first-half 2011, the raw materials cost recognized in cost of sales included the €848 million effect of higher prices, as well as the volume and currency effects. Changes in spot rubber prices affect the income statement 5-to-6 months later for natural rubber and 3 months later for synthetic rubber. Increases in raw materials costs are mainly due to the rise in natural rubber prices since the second half of 2010 and the even faster growth in synthetic rubber prices since the beginning of 2011.

Over the full year, higher raw materials prices are expected to have a €1.8 billion negative impact at constant exchange rates. The Group's objective is still to offset the higher costs by raising its prices.

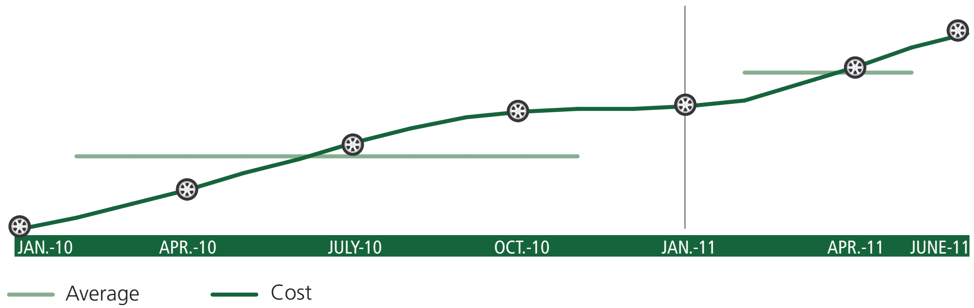
In first-half 2011, **input costs** rose €862 million overall, corresponding to increases in raw materials prices, logistics costs and energy costs.

**RAW MATERIALS RECOGNIZED IN FIRST-HALF 2011 COST OF SALES (€3,244 MILLION)**

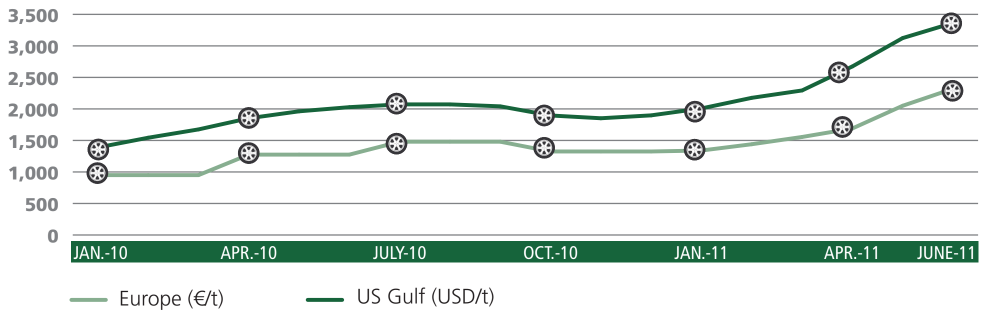


**RAW MATERIALS COSTS RECOGNIZED IN FIRST-HALF 2011 COST OF SALES**

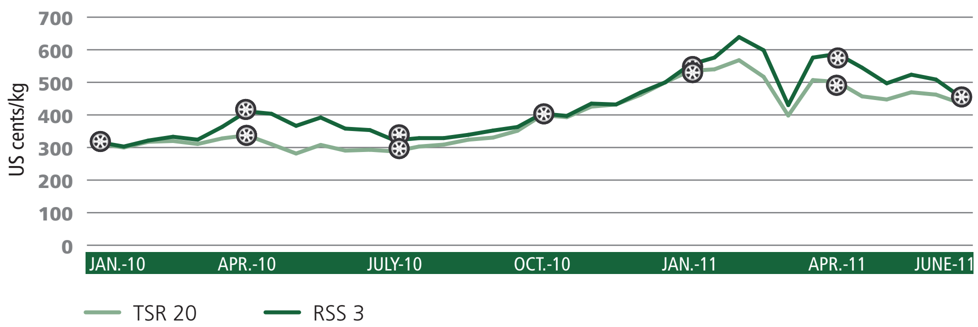
In €/kg




**BUTADIENE PRICES**




**NATURAL RUBBER PRICES (SICOM)**




## Employee benefit costs and number of employees

| (in € million and number of people) | 1ST-HALF 2011 | 1ST-HALF 2010 | % CHANGE |
|---|---|---|---|
| Employee benefit costs | 2,552 | 2,436 | +4.8% |
| As a % of net sales | 25.3% | 29.2% | -3.9pts |
| Total number of employees at June 30 | 114,200 | 110,100 | +3.7% |
| Number of full time equivalent employees at June 30 | 108,100 | 104,200 | +3.8% |
| Average number of full time equivalent employees | 106,800 | 103,100 | +3.6% |

**Employee benefit costs** represented 25.3% of net sales in first-half 2011 *versus* 29.2% in the year-earlier period.

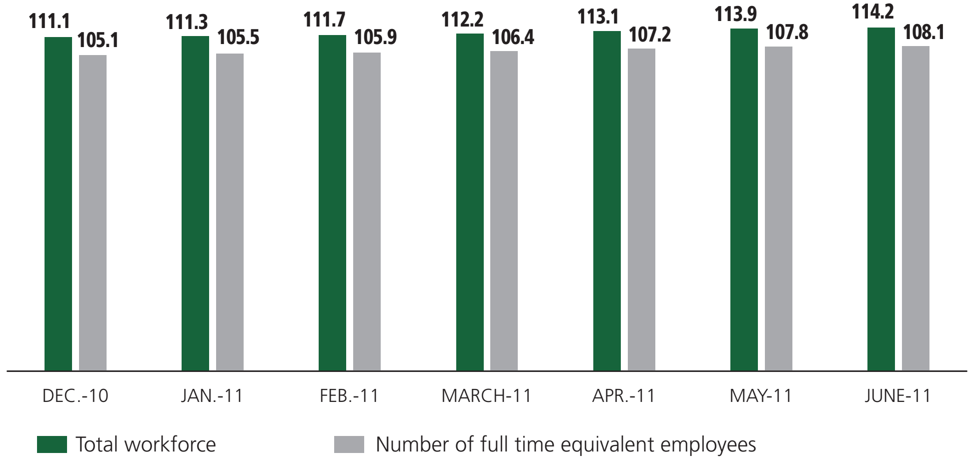
In absolute value and at current exchange rate, employee benefit costs rose 4.8%. The increase in average headcount added 3.6% and wage inflation 1.2%.

The growth in employee numbers was partly due to higher production output. In addition, new skills were hired in all of the Group's new and mature markets to support its ambitious capital expenditure plans.

Rates of wage inflation varied widely depending on the geography, with wages going up much faster in new markets (Asia, South America) than in mature countries.

**NUMBER OF EMPLOYEES**

(in thousands)

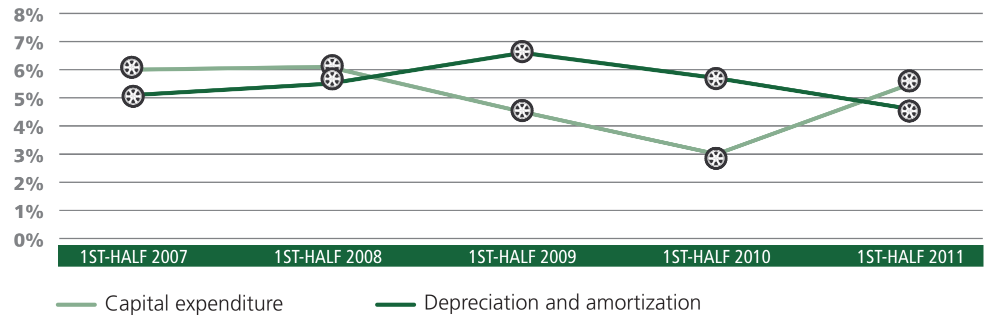



## Depreciation and amortization

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | % CHANGE |
|---|---|---|---|
| Depreciation and amortization | 468 | 478 | -2.1% |
| *As a % of capital expenditure* | *84%* | *190%* | |

**Depreciation and amortization charges** remained almost stable, down 2.1% to €468 million in first-half 2011.

As a % of net sales




## Transportation costs

**Transportation costs** rose by 20.8% to €546 million, reflecting higher volumes and costs. They represented 5.4% of net sales, unchanged from first-half 2010.

## Sales and marketing expense

**Sales and marketing expense** represented 9.2% of net sales in first-half 2011, *versus* 10.1% in the year earlier period. In value, they rose by €85 million to €932 million, mainly due to ongoing investment in communications and advertising.

## Research and development expense

**Research and development expense** stood at €292 million. The 6.6% increase compared with first-half 2010 reflected the Group's strategic decision to strengthen its technological leadership. The relative decline in research and development expense to 2.9% of net sales from 3.3% in first-half 2010 was solely due to the effect on sales of price rises applied to offset higher raw materials costs.

### General and administrative expense

At €718 million, **general and administrative expense** represented 7.1% of net sales, *versus* 7.6% in first-half 2010.

### Non-recurring income and expenses

There was no **non-recurring** items recognized for the period.

### Cost of net debt

The **cost of net debt** declined by €47 million compared with first-half 2010, mainly due to the following factors:

- A €10 million decrease in net interest expense, of which:
  - A €32 million decrease attributable to the reduction in average net debt to €1.9 billion from €3.1 billion in first-half 2010,
  - A €4 million increase from the rise in the average gross interest rate on borrowings, to 5.5% from 5.2% in first-half 2010,
  - An €18 million increase from the negative carry, due to the rise in average invested cash and cash equivalents to €2,114 million in first-half 2011 from €1,067 million in first-half 2010. The negative carry corresponds to the investment of cash and cash equivalents at a rate below the Group's average borrowing cost;
- A €37 million net decrease from other factors, including mark-to-market adjustments of interest rate derivatives used by the Group in order to fix interest rates on certain foreign currency borrowings.

### Other financial income and expenses

**Other financial income and expenses** mainly include exchange gains and losses, dividends, interest income and proceeds from the sale of financial assets. In first-half 2011, they represented net income of €8.3 million. The improvement compared with first-half 2010 was mainly attributable to the €5.5 million increase in net exchange gains, realized mainly on non-convertible currencies.

### Income tax

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | VALUE CHANGE |
|---|---|---|---|
| Income before taxes | 899 | 703 | +196 |
| **Income tax** | **(232)** | **(199)** | **+33** |
| Current tax | (198) | (142) | +56 |
| Withholding tax | (8) | 0 | +8 |
| Deferred tax | (26) | (57) | -31 |

**Income tax expense** amounted to €232 million in first-half 2011, corresponding to an effective tax rate of 25.8%. In first-half 2010, income tax expense amounted to €199 million and the effective tax rate was 28.3%. The lower effective rate in first-half 2011 was mainly due to the fact that certain companies did not pay any tax despite reporting a profit, because they used tax loss carryforwards for which no deferred tax assets had been recognized.

### Consolidated net income and earnings per share

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | VALUE CHANGE |
|---|---|---|---|
| Net income | 667 | 504 | +163 |
| *As a % of net sales* | *6.6%* | *6.0%* | *+0.6pt* |
| ■ Attributable to the shareholders of the Company | 667 | 503 | +164 |
| ■ Attributable to non-controlling interests | - | 1 | -1 |
| Earnings per share (in €) | | | |
| ■ Basic | 3.73 | 3.26 | +0.47 |
| ■ Diluted | 3.66 | 3.20 | +0.46 |

**Net income** came to €667 million or 6.6% of net sales in the first half of 2011, compared with €504 million in first-half 2010. The 32% increase reflected the following factors:

- Favorable factors (€201 million):
  - The €149 million increase in operating income before non-recurring income and expenses,
  - The €52 million favorable change in the cost of net debt and other financial income and expenses;
- Unfavorable factors (€38 million):
  - The €5 million decrease in the Group's share of profit from associates,
  - The €33 million increase in income tax expense.

# 3.4. CONSOLIDATED BALANCE SHEET REVIEW

## ASSETS

| (in € million) | JUNE 30, 2011 | DECEMBER 31, 2010 | TOTAL CHANGE | CURRENCY EFFECT | MOVEMENT |
|---|---|---|---|---|---|
| Goodwill | 394 | 416 | -22 | -22 | 0 |
| Other intangible assets | 380 | 360 | +20 | -7 | +27 |
| Property, plant and equipment (PP&E) | 7,048 | 7,193 | -145 | -188 | +43 |
| Non-current financial assets and other assets | 1,199 | 1,108 | +91 | -35 | +126 |
| Investments in associates | 106 | 93 | +13 | -0 | +13 |
| Deferred tax assets | 780 | 828 | -48 | -25 | -23 |
| **Non-current assets** | **9,907** | **9,998** | **-91** | **-277** | **+186** |
| Inventories | 4,371 | 3,770 | +601 | -148 | +749 |
| Trade receivables | 2,999 | 2,770 | +229 | -87 | +316 |
| Current financial assets | 763 | 882 | -119 | -1 | -118 |
| Other current assets | 689 | 653 | +36 | +19 | +17 |
| Cash and cash equivalents | 728 | 1,590 | -862 | -12 | -850 |
| **Current assets** | **9,550** | **9,665** | **-115** | **-229** | **+114** |
| **Total assets** | **19,457** | **19,663** | **-206** | **-506** | **+300** |

## LIABILITIES AND EQUITY

| (in € million) | JUNE 30, 2011 | DECEMBER 31, 2010 | TOTAL CHANGE | CURRENCY EFFECT | MOVEMENT |
|---|---|---|---|---|---|
| Share capital | 360 | 353 | +7 | - | +7 |
| Share premiums | 3,396 | 3,215 | +181 | - | +181 |
| Reserves | 4,869 | 4,556 | +313 | -184 | +497 |
| Non-controlling interests | 3 | 3 | +0 | +0 | +0 |
| **Equity** | **8,628** | **8,127** | **+501** | **-184** | **+685** |
| Non-current financial liabilities | 2,560 | 3,251 | -691 | -54 | -637 |
| Employee benefit obligations | 2,387 | 2,457 | -70 | -85 | +15 |
| Provisions and other non-current liabilities | 854 | 938 | -84 | -24 | -60 |
| Deferred tax liabilities | 48 | 45 | +3 | -1 | +4 |
| **Non-current liabilities** | **5,849** | **6,691** | **-842** | **-164** | **-678** |
| Current financial liabilities | 1,291 | 896 | +395 | -51 | +446 |
| Trade payables | 1,645 | 1,813 | -168 | -47 | -121 |
| Other current liabilities | 2,044 | 2,136 | -92 | -60 | -32 |
| **Current liabilities** | **4,980** | **4,845** | **+135** | **-158** | **+293** |
| **Total equity and liabilities** | **19,457** | **19,663** | **-206** | **-506** | **+300** |

## GOODWILL

Other than the impact of translation adjustments, there was no change in **goodwill** at June 30, 2011 compared with December 31, 2010.

## PROPERTY, PLANT AND EQUIPMENT

**Property, plant and equipment** stood at €7,048 million at June 30, 2011, down €145 million *versus* December 31, 2010. At constant exchange rates, the period-on-period change was an increase of €43 million.

## NON-CURRENT FINANCIAL ASSETS

**Non-current financial assets** rose by €91 million, mainly due to:

- Fair value adjustments to available-for-sale financial assets;
- Translation adjustments.

## DEFERRED TAX ASSETS AND LIABILITIES

The **net deferred tax asset** contracted by €48 million over the period, mainly reflecting translation adjustments and the use of temporary differences.

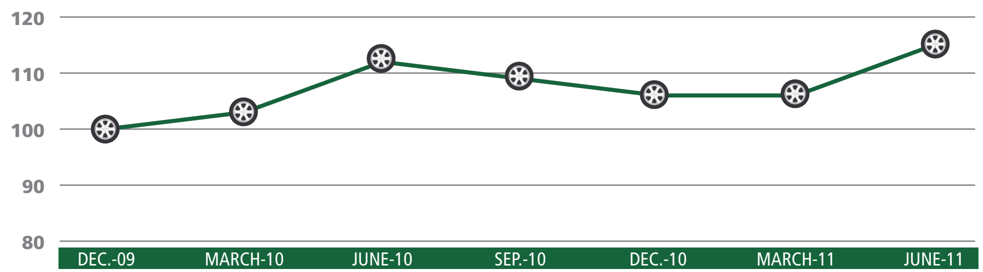
## WORKING CAPITAL REQUIREMENT

| (in € million) | JUNE 30, 2011 | JUNE 30, 2010 | VALUE CHANGE | JUNE 30, 2011 (as a % of net sales, 12-month rolling) | JUNE 30, 2010 (as a % of net sales, 12-month rolling) |
|---|---|---|---|---|---|
| Inventories | 4,371 | 3,833 | +538 | 22.2% | 23.9% |
| Trade receivables | 2,999 | 2,709 | +290 | 15.3% | 16.9% |
| Trade payables | (1,645) | (1,372) | -273 | 8.4% | 8.6% |
| **Working capital requirement** | **5,725** | **5,170** | **+555** | **29.1%** | **32.3%** |

**Working capital requirement** increased by €555 million or 10.7% compared with first-half 2010, due to higher raw materials prices and increased sales volumes. It represented 29.1% of net sales for the period.
**Inventory**, which represented 22.2% of net sales, rose by €538 million *versus* June 30, 2010, primarily due to the increase in the value of raw materials inventory and, to a lesser extent, the impact of higher output.
In tonnage, finished product inventory rose 2.7% compared with June 30, 2010 but remained below normal levels.

**FINISHED PRODUCT INVENTORY**

Quarterly change in volumes (base 100 at December 31, 2009)




**Trade receivables** amounted to €2,999 million at June 30, 2011. The increase of €290 million compared with June 30, 2010 was mainly due to increased sales volumes and higher prices.
**Trade payables** were up by €273 million, as a result of business growth and implementation of the Group's capital expenditure plan.

## CASH AND CASH EQUIVALENTS

**Cash and cash equivalents** fell by €862 million compared with December 31, 2010, to €728 million at June 30, 2011. The decline was mainly due to the €634 million negative free cash flow generated in the first half and to the €138 million in cash dividends paid during the period.

## EQUITY

**Consolidated equity** increased by €501 million to €8,628 million at June 30, 2011 versus December 31, 2010, reflecting the following main factors:

- Favorable factors:
  - Comprehensive income for the period, in the amount of €637 million including:
    - Net income of €667 million,
    - Positive mark-to-market adjustments to available-for-sale financial assets in the amount of €153 million,
    - Negative differences on translating foreign operations for €183 million,
  - Share issues for €188 million, including:
    - 3,128,066 new shares issued in payment of dividends (€177 million),
    - 260,863 shares issued on exercise of stock options (€11 million).

  At June 30, 2011, the **share capital** of Compagnie Générale des Établissements Michelin stood at €359,993,548, comprising 179,996,774 shares corresponding to 228,699,101 voting rights;
- Unfavorable factors:
  - Dividends and other distributions, in an amount of €327 million.

## NET DEBT

**Net debt** stood at €2,319 million at June 30, 2011, up €690 million from December 31, 2010 as a result of the following factors:

- Factors leading to an increase in debt:
  - Negative free cash flow of €634 million generated during the period,
  - The €138 million payment of the cash portion of the dividend,

    At the Annual Meeting, shareholders approved the payment of a 2010 dividend of €1.78 per share, with a reinvestment option. Some 78% of shareholders opted to reinvest their dividend, enabling the Group to save €177 million in cash,
  - Other factors for €11 million;
- Factors leading to a reduction in debt:
  - A €93 million positive currency effect.

### NET DEBT

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 |
|---|---|---|
| **At January 1** | **1,629** | **2,931** |
| Translation adjustment | -93 | +246 |
| Free cash flow[1] | +634 | +12 |
| Distributions | +151 | +66 |
| Other change in equity | -11 | +18 |
| Commitments to purchase shares | -5 | -5 |
| New obligations under finance leases | - | +3 |
| Change in scope and other | +14 | +19 |
| **At June 30** | **2,319** | **3,290** |
| **Change** | **+690** | **+359** |

*(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

**Gearing** at June 30, 2011 stood at 27%, compared with 51% at June 30, 2010 and 20% at December 31, 2010.

The improvement over twelve months was mainly due to the increase in equity, notably following the share issue carried out in the second half of 2010.

The slight increase in the ratio compared with December 31, 2010 was due to the negative free cash flow generated in the first half of 2011.

### Ratings

The solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière Michelin (CFM) 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 | 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.

## PROVISIONS

Provisions and other non-current liabilities declined to €854 million at June 30, 2011 from €938 million at December 31, 2010. The decrease was due to translation adjustments for €24 million and to payments under industrial and sales reorganization plans covered by provisions set up in prior periods. No material new restructuring provisions were recorded during first-half 2011.

## EMPLOYEE BENEFITS

### CHANGE IN FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

| (in € million) | PENSION PLANS | OTHER PLANS | 1ST-HALF 2011 | 1ST-HALF 2010 |
|---|---|---|---|---|
| **Net amount at December 31** | **379** | **1,647** | **2,026** | **2,139** |
| Translation adjustments | 27 | (80) | (53) | 163 |
| Expenses recognized in the income statement (recurring items) | 48 | 52 | 100 | 120 |
| Contributions paid to the funds | (13) | 0 | (13) | (26) |
| Benefits paid directly to the beneficiaries | (19) | (35) | (54) | (51) |
| Portion of benefit expenses recognized within non-recurring restructuring costs | - | - | - | - |
| Changes in scope of consolidation | - | - | - | - |
| **Net amount at June 30** | **422** | **1,584** | **2,006** | **2,345** |

The net obligation recognized in the balance sheet at June 30, 2011 stood at €2,006 million, down €20 million compared with December 31, 2010.

The expense recognized in operating income in first-half 2011 in respect of defined benefit plans amounted to €100 million, unchanged from first-half 2010 and in line with Group projections.

Total payments under defined benefit plans declined by €10 million *versus* year-earlier period to €67 million, including:

- Contributions paid to fund management institutions for €13 million (2010: €26 million);
- Benefits paid directly to employees for €54 million (2010: €51 million).

Contributions to defined contribution plans amounted to €48 million in first-half 2011 *versus* €41 million in the year-earlier period.

# 3.5. CONSOLIDATED CASH FLOW STATEMENT REVIEW

## CASH FLOW FROM OPERATING ACTIVITIES

| (in € million) | 1ST HALF 2011 | 1ST-HALF 2010 | VALUE CHANGE |
|---|---|---|---|
| **EBITDA before non-recurring income and expenses** | **1,440** | **1,305** | **+135** |
| Change in provisions and other non-cash income and expenses | (55) | (55) | +0 |
| Taxes and interests paid | (286) | (320) | +34 |
| Change in working capital, net of impairments | (1,057) | (651) | -406 |
| Change in inventory | (749) | (527) | -222 |
| Change in net trade receivables | (417) | (259) | -158 |
| Change in trade payables | 30 | 87 | -57 |
| Other | 79 | 48 | +31 |
| **Cash flows from operating activities** | **42** | **279** | **-237** |

**EBITDA** before non-recurring income and expenses amounted to €1,440 million, up 10% from €1,305 million in first-half 2010. The improvement reflected the growth in operating income before non-recurring items.

## CAPITAL EXPENDITURE

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | 1ST-HALF 2011/1ST-HALF 2010 | 1ST HALF 2011 (% of net sales) | 1ST-HALF 2010 (% of net sales) |
|---|---|---|---|---|---|
| **Gross purchases of intangible assets and PP&E** | **554** | **251** | **+303** | **5.5%** | **3.0%** |
| Investment grants received and change in capital expenditures payables | 144 | 53 | +91 | 1.4% | 0.6% |
| Proceeds from sale of intangible assets and PP&E | (26) | (17) | -9 | 0.3% | 0.2% |
| **Net additions to intangible assets and property, plant and equipment** | **672** | **287** | **+385** | **6.7%** | **3.4%** |

**Purchases of intangible assets and property, plant and equipment** came to €554 million in first-half 2011. This was more than double the €251 million spent in the year-earlier period, due to implementation of the Group's growth plan. Total capital expenditure represented 5.5% of net sales *versus* 3.0% in first-half 2010.

Expenditure for the construction of new plants in Brazil, China and India continued to rise, representing over €180 million in first-half 2011, most of which was for the construction of buildings.

The main capital projects by Product Line were as follows:

**Passenger car and Light truck tires:**

- Projects to increase capacity, improve productivity and refresh product lines, at:
  - Cuneo (Italy),
  - Bad-Kreuznach (Germany),
  - Vitoria (Spain),
  - Fort Wayne and Ardmore (United States),
  - Laem Chabang (Thailand),
  - etc.;
- Construction of a new warehouse at Cholet in France.

**Truck tires**

- Projects to improve productivity and refresh product lines, at:
  - Homburg (Germany),
  - Valladolid (Spain),
  - Tours (France),
  - Waterville and Spartanburg (North America),
  - Campo Grande (Brazil),
  - etc.

**Specialty products**

- Projects to increase mining tire capacity at the Lexington, SC plant in the United States and the Vitoria plant in Spain;
- Projects to increase agricultural equipment tire capacity at the Troyes plant in France and the Olsztyn plant in Poland.

In line with the usual project phasing, capital expenditure will increase in the second half, with the total spend for the year expected to amount to some €1.7 billion.

## 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) | 1ST-HALF 2011 | 1ST-HALF 2010 |
|---|---|---|
| **Cash flows from operating activities (A)** | **42** | **279** |
| Net additions to intangible assets and property, plant and equipment | (672) | (287) |
| Investments in shareholdings | 117 | (22) |
| **Cash flows from investing activities (B)** | **(555)** | **(309)** |
| **Net cash flows from cash management financial assets and borrowing collaterals (C)** | **121** | **(18)** |
| **Free cash flow (A + B - C)** | **(634)** | **(12)** |

Due to the usual seasonal fluctuations in activity, with the preparation of the winter season, **free cash flow** generated in the first half is always lower than that for the second half.

In this context, the Group generated negative free cash flow of €634 million in first-half 2011 compared with a negative €12 million in the year-earlier period, reflecting the net impact of the following main factors:

- Favorable factors:
  - €135 million increase in EBITDA, led by higher sales volumes;
- Unfavorable factors:
  - The change in working capital requirement, which rose €1,057 million in first-half 2011 (including €610 million due to higher raw materials costs) *versus* a more limited €651 million increase in the year-earlier period, due to:
    - A €749 million increase in inventory in first-half 2011 *versus* a €527 million increase in the same period of 2010, mainly reflecting higher unit values,
    - A €417 million increase in trade receivables in first-half 2011 *versus* a €259 million increase in the same period of 2010, mainly reflecting higher prices,
  - The €303 million increase in capital expenditure, in line with the growth plan.

# 3.6. OUTLOOK FOR FULL-YEAR 2011

The second-half business environment should see ongoing market growth at a pace closer to long-term trends.
Against this backdrop, the Group is aiming for growth in sales volumes of approximately 8% for the full year.
Michelin is diligently pursuing its pricing policy, which is intended to pass on the increase in raw material prices. Together, the price increases announced or implemented to date are expected to offset estimated additional full-year costs of around €1,800 million.

Given the impact of raw materials costs on working capital requirement (amounting to approximately €400-500 million for the full year) and the faster deployment of capital expenditure programs, free cash flow is expected to be temporarily negative in 2011.
Michelin reaffirms its objective of reporting higher operating income in 2011.

# 3.7. RELATED PARTIES

There were no new material related party transactions during the first half of 2011, nor any material changes in the related party transactions described in the 2010 Registration Document.

# 3.8. RISK MANAGEMENT

The Michelin Group's principal risks have been identified and are described in the 2010 Registration Document.

# 3.9. CONSOLIDATED KEY FIGURES AND RATIOS

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|
| Net sales | 10,105 | 8,349 | 17,891 | 14,807 | 16,408 | 16,867 | 16,384 |
| % change | +21.0% | +17.0% | +20.8% | -9.8% | -2.7% | +3.0% | +5.1% |
| Total employee benefit costs | 2,552 | 2,436 | 4,836 | 4,515 | 4,606 | 4,732 | 4,718 |
| as a % of sales | 25.3% | 29.2% | 27.0% | 30.5% | 28.1% | 28.1% | 28.8% |
| Number of employees (full time equivalent) | 108,100 | 104,200 | 105,100 | 102,700 | 110,300 | 113,500 | 115,800 |
| Research and development expenses | 292 | 274 | 545 | 506 | 499 | 571 | 591 |
| as a % of sales | 2.9% | 3.3% | 3.0% | 3.4% | 3.0% | 3.4% | 3.6% |
| EBITDA before non-recurring income and expenses | 1,440 | 1,305 | 2,660 | 1,802 | 1,848 | 2,468 | 2,209 |
| Operating income before non-recurring income and expenses | 971 | 822 | 1,695 | 862 | 920 | 1,645 | 1,338 |
| Operating margin before non-recurring income and expenses | 9.6% | 9.8% | 9.5% | 5.8% | 5.6% | 9.8% | 8.2% |
| Operating income | 971 | 822 | 1,695 | 450 | 843 | 1,319 | 1,118 |
| Operating margin | 9.6% | 9.8% | 9.5% | 3.0% | 5.1% | 7.8% | 6.8% |
| Cost of net debt | 88 | 135 | 236 | 262 | 330 | 294 | 315 |
| Other financial income and expenses | 8 | 3 | 10 | 10 | (3) | 29 | 135 |
| Income before taxes | 899 | 703 | 1,498 | 207 | 520 | 1,071 | 942 |
| Income tax | 232 | 199 | 449 | 103 | 163 | 299 | 369 |
| Effective tax rate | 25.8% | 28.3% | 30.0% | 49.8% | 31.3% | 27.9% | 39.2% |
| Net income | 667 | 504 | 1,049 | 104 | 357 | 772 | 573 |
| as a % of sales | 6.6% | 6.0% | 5.9% | 0.7% | 2.2% | 4.6% | 3.5% |
| Dividends paid to shareholders(1) | 315 | 147 | 147 | 145 | 230 | 208 | 193 |
| Cash flows from operating activities | 42 | 279 | 1,322 | 2,123 | 915 | 1,862 | 1,191 |
| as a % of sales | 0.4% | 3.3% | 7.4% | 14.3% | 5.6% | 11.0% | 7.3% |
| Gross purchases of intangible assets and PP&E | 554 | 251 | 1,100 | 672 | 1,271 | 1,340 | 1,414 |
| as a % of sales | 5.5% | 3.0% | 6.1% | 4.5% | 7.7% | 7.9% | 8.6% |
| Financing cash flow (excluding cash management financial assets) | (676) | (291) | (896) | (616) | (1,274) | (1,429) | (1,230) |
| as a % of sales | 6.7% | 3.5% | 5.0% | 4.2% | 7.8% | 8.5% | 7.5% |

| (in € million) | 1ST-HALF 2011 | 1ST-HALF 2010 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|
| Net debt[2] | 2,319 | 3,290 | 1,629 | 2,931 | 4,273 | 3,714 | 4,178 |
| Equity[3] | 8,628 | 6,439 | 8,127 | 5,495 | 5,113 | 5,290 | 4,688 |
| Gearing | 27% | 51% | 20% | 53% | 84% | 70% | 89% |
| Net debt[2]/EBITDA | N. App. | N. App. | 0.61 | 1.63 | 2.31 | 1.50 | 1.89 |
| Cash flows from operating activities/Net debt[2] | N. App. | N. App. | 81.2% | 72.4% | 21.4% | 50.1% | 28.5% |
| Net interest charge average rate[4] | 9.9% | 6.8% | 6.3% | 6.2% | 6.0% | 6.4% | 6.3% |
| Operating income before non-recurring items/Net interest charge[4] | 9.9 | 7.6 | 9.1 | 3.5 | 3.5 | 6.1 | 4.2 |
| Free cash flow[5] | (634) | (12) | 426 | 1,507 | (359) | 433 | (39) |
| ROE[6] | N. App. | N. App. | 12.9% | 1.9% | 7.0% | 14.7% | 12.2% |
| ROCE[7] | N. App. | N. App. | 10.5% | 5.4% | 5.6% | 9.7% | 8.0% |
| **Per share data** (in €) | | | | | | | |
| Net assets per share[8] | 47.9 | 43.1 | 46.0 | 37.2 | 35.2 | 36.7 | 32.6 |
| Basic earnings per share[9] | 3.73 | 3.26 | 6.78 | 0.69 | 2.46 | 5.32 | 3.95 |
| Diluted earnings per share[9] | 3.66 | 3.20 | 6.64 | 0.69 | 2.46 | 5.22 | 3.94 |
| Price-earnings ratio[10] | N. App. | N. App. | 7.9 | 77.7 | 15.3 | 14.8 | 18.4 |
| Dividend for the year | N. App. | N. App. | 1.78 | 1.00 | 1.00 | 1.60 | 1.45 |
| Pay-out ratio[11] | N. App. | N. App. | 30.0% | 140.8% | 40.7% | 30.1% | 36.7% |
| Yield[12] | N. App. | N. App. | 3.3% | 1.9% | 2.7% | 2.0% | 2.0% |
| Share turnover rate[13] | N. App. | N. App. | 188% | 199% | 308% | 216% | 212% |

*(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 (excluding cash flows from cash management financial assets and 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 and first-half 2010 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.*

# 3.10. SHARE INFORMATION

## 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: €2.00;
- Traded in units of: 1.

**Market capitalization**

- €12.139 billion at June 30, 2011.

**Average daily trading volume**

- 1,231,986 shares in first-half 2011.

**Indices**

The Michelin share is included in two leading stock market indices. As of June 30, 2011, it represented:

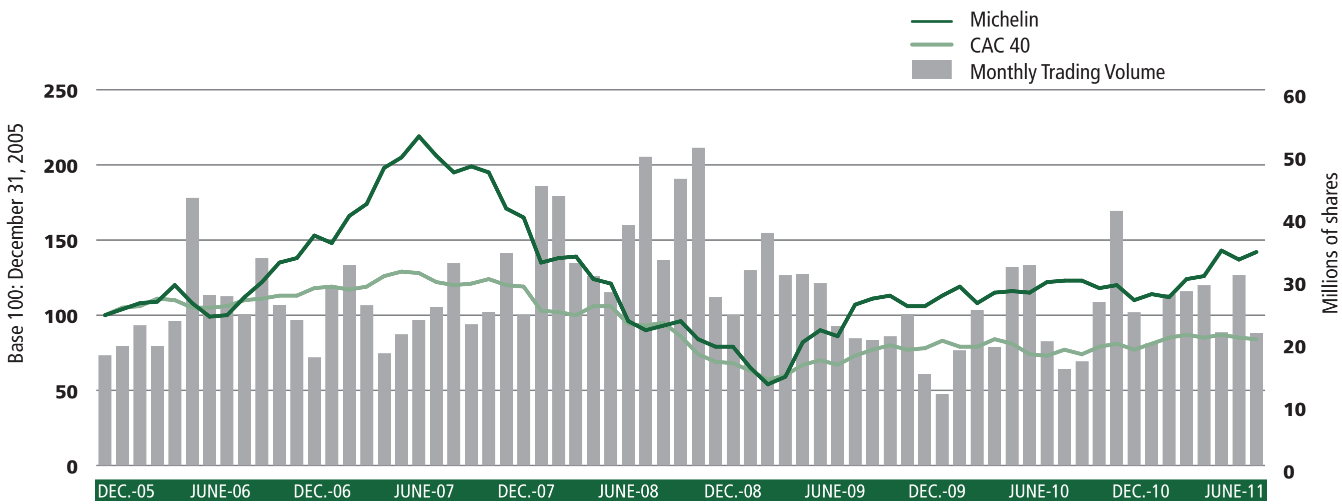
- 1.63% of the CAC 40 index;
- 0.71% of the Euronext 100 index.

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 June 30, 2011)*



## SHARE DATA

| SHARE PRICE (in €) | 1ST-HALF 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| High | 68.54 | 64.51 | 58.67 | 79.90 | 106.70 | 73.30 |
| Low | 52.00 | 48.13 | 22.69 | 30.65 | 67.75 | 43.21 |
| High/low ratio | 1.32 | 1.34 | 2.59 | 2.61 | 1.57 | 1.70 |
| Closing price, end of period | 67.44 | 53.70 | 53.58 | 37.57 | 78.50 | 72.50 |
| Change over the period | +25.6% | +0.2% | +42.6% | -52.1% | +8.3% | +52.7% |
| *Change in the CAC 40 index over the period* | *-4.5%* | *-3.3%* | *+22.3%* | *-42.7%* | *+1.3%* | *+17.5%* |
| **Market value at end of period** (in € billion) | **12.14** | **9.48** | **7.90** | **5.45** | **11.30** | **10.41** |
| Average daily trading volume over the period | 1,231,986 | 1,116,722 | 1,138,691 | 1,740,267 | 1,217,949 | 1,191,679 |
| Average shares outstanding | 176,879,808 | 152,902,704 | 146,184,080 | 144,495,251 | 143,770,101 | 143,390,450 |
| Volume of shares traded over the period | 156,462,184 | 288,114,287 | 291,504,866 | 445,508,266 | 310,577,078 | 303,878,126 |
| **Share turnover ratio** | **177%** | **188%** | **199%** | **308%** | **216%** | **212%** |

*Sources: NYSE Euronext Paris, Michelin.*

## PER-SHARE DATA

| (in € per share, except ratios) | 1ST-HALF 2011 | 1ST HALF 2010 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|---|
| Net assets per share | 47.9 | 43.1 | 46.0 | 37.2 | 35.2 | 36.7 | 32.6 |
| Basic earnings per share | 3.73 | 3.26(1) | 6.78 | 0.69(1) | 2.46 | 5.32 | 3.95 |
| Diluted earnings per share(2) | 3.66 | 3.20(1) | 6.64 | 0.69(1) | 2.46 | 5.22 | 3.94 |
| **Price-earnings ratio** | **N. App.** | **N. App.** | **7.9** | **77.7** | **15.3** | **14.8** | **18.4** |
| Dividend for the year | N. App. | N. App. | 1.78 | 1.00 | 1.00 | 1.60 | 1.45 |
| Pay-out ratio | N. App. | N. App. | 30.0% | 140.8% | 40.7% | 30.1% | 36.7% |
| Yield(3) | N. App. | N. App. | 3.3% | 1.9% | 2.7% | 2.0% | 2.0% |

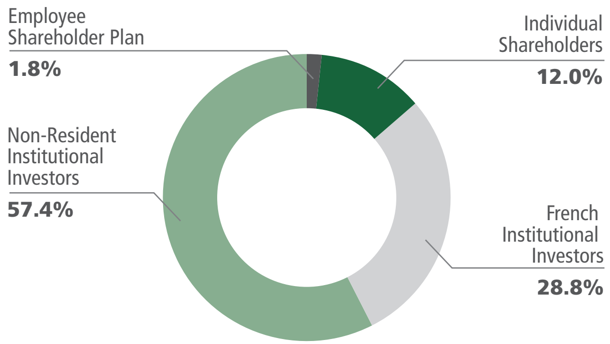
*(1) 2009 and first-half 2010 earnings per share have been restated to take into account the impact of the October 2010 rights issue.*
*(2) Earnings per share adjusted for the effect on net income and on the average number of shares of the exercise of outstanding dilutive instruments.*
*(3) Dividend/Share price at December 31.*

## CAPITAL AND OWNERSHIP STRUCTURE

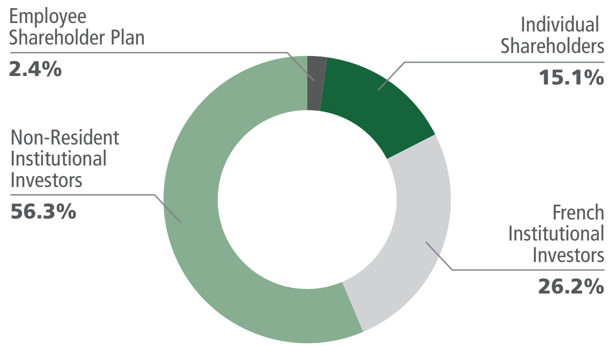
At June 30, 2011:

- Share capital: €359,993,548;
- Shares outstanding: 179,996,774, all fully paid-up;
- Voting rights outstanding: 228,699,101.
- Number of shareholders: 214,037, of which:
  3,474 institutional investors;
  142,514 individual shareholders;
  68,049 employee shareholders.

**CAPITAL STRUCTURE**
*At June 30, 2011*




**VOTING RIGHTS STRUCTURE**
*At June 30, 2011*




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

# 3.11. FIRST-HALF 2011 OPERATING HIGHLIGHTS

## STRATEGY – PARTNERSHIPS – ACQUISITIONS

*Tire Price Increases Announced In Every Market*

In response to rising raw materials costs, Michelin is maintaining its firm pricing policy and has announced price increases in all of its tire ranges and in every market.

*Michelin North America Rewarded in the J.D Power and Associates Original Equipment Tire Customer Satisfaction Study.*

The 2011 honors brings Michelin's lifetime total of J.D Power and Associates awards to 66, more awards than any other tire manufacturer since the study began in 1989.

Michelin North America received the top honors in the Luxury, Passenger Car, High Performance and Light Truck segments. These results confirm that Michelin's product portfolio is well aligned with its OE Customer and Consumer expectations and is enabling future growth opportunities.

*Michelin Among the Top 100 Brands in the Asia Pacific Region*

In the Asia Pacific region, Michelin ranked among the top 100 brands in 2010, placing 48th. This was a clear improvement from 2009, when the Group ranked 60th. Michelin was also the first tiremaker to appear in the 2010 ranking, ahead of its main competitor, which came in 53rd.

*Michelin, One of The World's Most Admired Company*

Once again this year, Michelin was named as having the best reputation among the companies listed in the benchmark CAC 40 stock index.

Carried out by US-based Reputation Institute with France's I&E Consultants, the ranking was based on a survey of more than 3,500 customers, suppliers, employees and civil servants in France that was conducted in January and February 2011. The criteria covered product and service quality, corporate governance, employment, innovation, corporate citizenship, business and financial performance, and leadership.

In addition, according to Fortune magazine, Michelin is the world's most admired company in the Motor Vehicle Parts industry. The Forbes listing stands as the definitive report card on corporate reputations.

*Michelin Receives 2011 BoursoScan Award*

On June 23, leading financial news website Boursorama and its partner OpinionWay presented the 2011 BoursoScan Awards at a ceremony attended by around one hundred representatives from listed companies.

Created ten years ago by Boursorama and OpinionWay, the BoursoScan Awards honor blue-chip companies that actively communicate with their individual investors.

A survey conducted among 7,500 online investors found that the Michelin website plays a key role in its financial communications and meets two essential criteria – it is highly accessible and it provides useful information that is easy to identify.

*Future Mobility Showcased at the Detroit Motor Show*

At the 23rd North American International Auto Show (NAIAS) in Detroit, Michelin unveiled the MICHELIN X-Ice Xi2 and MICHELIN Latitude X-Ice Xi2 winter tires, as well as the all-new high-performance MICHELIN Pilot Super Sport.

Michelin is the only tiremaker to participate in NAIAS, North America's most prestigious auto show.

*Distribution: Extending the TyrePlus Network in Belarus*

After opening its first outlets in Belarus, the TyrePlus network now comprises more than 150 centers in Eastern Europe. TyrePlus is an invaluable asset for Michelin, which was one of the first tire manufacturers to develop a dealership network in Russia, Kazakhstan and Ukraine. Moreover, TyrePlus is the only tire and service dealer network in the Belarusian market.

*Michelin Signs Memorandum of Understanding with Double Coin and Huayi*

In April, a Memorandum of Understanding was signed with Double Coin Holdings Ltd and Shanghai Huayi (Group) Company to create a joint venture to produce and market WARRIOR-brand Passenger Car and Light Truck tires for the Chinese market.

*Michelin Invests in North America*

As demand for its passenger car tires in North America continues to grow, Michelin is investing another USD 200 million in its Lexington, SC facility to further expand its tirebuilding capacity. Michelin has already invested more than USD 1 billion at the plant since it was first opened in 1981. This latest project, whose equipment will be fully installed by the first half of 2013, will create 270 new jobs, phased in over the next two years.

Michelin is also spending USD 50 million to increase production capacity at its Fort Wayne plant in Indiana, which manufactures Passenger Car and Light Truck tires and employs 1,580 people.

These investments are part of the Group's strategy to enhance plant competitiveness in mature markets.

## PRODUCTS – SERVICES – INNOVATIONS

### Passenger Car and Light Truck Tires and Related Distribution

*The New MICHELIN LATITUDE X-Ice North Offers the Market's Most Extensive Line of 4x4 and SUV Winter Tires*

The new studded tire for 4x4s and SUVs, purpose-designed for Nordic winters, reduces braking distances on ice and snow by 6% (1) thanks to its Durastud System, while its Full Active Tread increases traction in snow by 15% (2).

In addition, its energy efficiency has earned the tire the GREEN X sidewall marking.

The more extensive line-up also means that it can be fitted on 90% of 4WDs and SUVs on the market today (3).

*MICHELIN ENERGY™ XM2*

The unrivaled robustness of the MICHELIN ENERGY™ XM2 guarantees user safety by reducing the risk of blowouts and loss of control. The strength and effectiveness of the MICHELIN ENERGY™ XM2 lies in its ability to deliver several benefits at the same time. The robust tire ensures optimal safety – particularly in terms of grip – and offers savings in two areas. First, it lasts longer, which means fewer raw materials are needed to travel a given distance, and second, it increases fuel efficiency. This performance balance is the result of leading-edge technical skills and long-standing expertise.

*(1) On average, compared with its predecessor. Test World 2011 survey on 235/65 R17 T.*
*(2) Compared with its predecessor.*
*(3) Michelin's studded tire ranges cover more than 90% of 4WD configurations sold in Europe in 2010 and 2011.*

*Michelin-Volkswagen Partnership: Mobility with High-Energy Efficiency*

Shared high standards of energy efficiency and heightened safety consciousness are what led Michelin and Volkswagen to combine their technological prowess to create the new Volkswagen One Liter. Presented at the Qatar Motor Show in Doha (Qatar) in January, the XL1 prototype is equipped with MICHELIN ENERGY™ Saver tires, which provide a lower rolling resistance.

To achieve this, the new-generation MICHELIN ENERGY™ Saver tires take performance to a new level thanks to a larger diameter and a narrower width, an innovative rubber mix used for the tread and special siping technology for the tread pattern.

### Truck Tires and Related Distribution

*Michelin Introduces the Michelin Commercial Service Network in February 2011*

Michelin has strengthened its dealership network in the United States by consolidating its leading MRT franchisees into a new network that will offer large, nationwide fleets consistent service across the US, highly responsive emergency road service (ERS) and a comprehensive reporting system to track and manage their tires. The MCSN will enable fleets to maximize their tire performance, retread dealers to retain their largest customers and Michelin to capture all of the value of the network's services. Introduced nationwide, the network is expected to act as a powerful driver of differentiation and brand awareness among trucking fleets for both Michelin and his partners.

*New MICHELIN X® MultiWay™ 3D Range Launched in Europe*

Launched in April, the MICHELIN X® MultiWay™ 3D range is the new benchmark in multi-purpose truck tires used by regional transporters.

It provides safe driving at lower cost while protecting the environment. The range integrates MICHELIN Durable Technologies as well as new-generation sipes.

The MICHELIN X® MultiWay™ 3D range responds to the day-to-day challenges that truckers face, enabling them to arrive on time and meet delivery deadlines in all weather conditions.

*Michelin Differentiates its Product and Service Portfolio in Russia*

Michelin has opened its first retread workshop for heavy truck tires in Davydovo, Russia, with production capacity of 50,000 tires a year. The facility is designed to capitalize on the extraordinary potential of the Russian market, where only 10% of tires are currently retreaded.

### Specialty Businesses

**Earthmover Tires**

*Michelin Launches XDR™ 2 Tire for Rigid Dump Trucks*

Michelin Earthmover has unveiled the MICHELIN® XDR™ 2 tire for severe mining and quarry applications. Designed for rigid dump trucks, it offers up to 20% longer treadlife than its predecessor. Introduced at CONEXPO-CON/AGG, the MICHELIN® XDR™ 2 tire is available in 27R49, 33R51 and 40R57 sizes, with additional sizes scheduled for launch later in the year, including the world's largest tire.

**Agricultural Tires**

*MICHELIN AxioBib IF 900/60R42, the Market's Only 2.15-Meter Tire*

At the SIMA 2011 trade show, Michelin presented a new size tire in the AxioBib range. With a diameter of 2.15 meters, the new tire for very powerful tractors is also the biggest Michelin has ever produced for farm work. The MICHELIN AxioBib IF 900/60R42 will be sold beginning in September 2011.

The MICHELIN AxioBib operates at low pressure, with a footprint that is 16% bigger than a tire made using conventional technology. In addition, it was specially designed to allow very powerful tractors to transmit all of their engine torque.

**Two-Wheel Tires**

*MICHELIN Pilot Road 3*

Michelin has opened a whole new era in the fast-expanding world of Sport Touring Radial tires with the new MICHELIN Pilot Road 3, designed for on-road use on Sportster, Roadster, Touring and GT bikes. The first tire to integrate X Sipe Technology (XST), the Michelin Pilot Road 3 delivers unprecedented performance. It shortens wet braking distance by an average 2.5 meters – the equivalent of a pedestrian crossing – compared with its predecessor (1), while offering superior total mileage (2).

(1) *Braking test of the MICHELIN Pilot Road 3 compared with the MICHELIN Pilot Road 2 performed on wet pavement at the DEKRA Test Center in January 2011 on 120/70 ZR 17 and 190/50 ZR 17 tires (comparative braking distances in a braking test conducted at 50 kph).*

(2) *Treadlife test of the MICHELIN Pilot Road 3 compared with the MICHELIN Pilot Road 2 performed at the DEKRA Test Center in 2010 on 120/70 ZR 17 and 180/55 ZR 17 tires.*

**Aircraft Tires**

*Michelin to Supply Tires for China's First Commercial Airliner*

Michelin has been chosen to develop and supply tires for the COMAC C919, the first commercial airliner designed in China. The contract grew out of an alliance created in November 2009 with Commercial Aircraft Corporation of China. This is the first time that Michelin will provide tires for a Chinese airliner.

A pioneer in radial aircraft tires since 1981, the Group will supply the COMAC C919 with its Michelin Air X radials.

**MICHELIN Maps and Guides**

*MICHELIN Maps Come to China*

Building on its more than a century of expertise in road maps and tourist information, Michelin has published its first series of nine maps in Chinese covering thirteen European countries.

Specifically created for Chinese tourists dreaming of traveling, preparing a European trip or looking to find their way around from one country to another, the collection covers France, Italy, Germany, Spain, Portugal, Andorra, Belgium, Luxembourg, the Netherlands, the United Kingdom, Ireland, Switzerland and Austria.

**Michelin Lifestyle**

*MICHELIN Wheel & Tire Cleaner Voted Product of the Year 2011 in France*

In January, the MICHELIN Wheel & Tire Cleaner won the prestigious "Product of the Year 2011" award in France, based on a polling of 10,000 representative households.

## MICHELIN PERFORMANCE AND RESPONSIBILITY

*Challenge Bibendum 2011*

The 11th edition of the Challenge Bibendum took place in Berlin from May 18 to 22. Created by Michelin in 1998 and now one of the key international events for sustainable mobility, the environmental summit is dedicated to promoting clean, safe and connected mobility.

Over 6,000 participants and 10,000 public visitors gathered at the historic Berlin-Tempelhof airport. 297 vehicles of all types, representative of state-of-the-art clean mobility technologies – electric, hydrogen or optimized internal combustion – occupied the 7.6 acres of tarmac. Four rallies tested these vehicles' performance and participants and public at large were able to test drive them on the 10 miles of especially designed tracks.

72 booths were housed in the Technology Center, showcasing the latest innovations with regards to clean, safe and connected mobility, while 48 workshops and conferences enabled the many invited experts to discuss the key points of tomorrow's mobility. 646 journalists and over 85 opinion leaders covered the event, which was also relayed on the www.challengebibendum.com site and related media.

*Global Road Safety Commitment*

With the governments of 178 countries calling for action, the United Nations General Assembly adopted a resolution in March 2010 making 2011-2020 the Decade of Action for Road Safety and inviting governments, international organizations, NGOs and private businesses to actively contribute to improving the situation. On behalf of Michelin, Managing Partner Jean-Dominique Senard has signed this global commitment, thereby pledging the Group's active support for this international initiative to promote road safety.

Thanks to its steadfast commitment to promoting road safety, the Group has been recognized as an official partner to the Decade of Action.

## RACING

*Michelin Celebrates WRC Return with Emphatic Success in Sweden*

The opening round of the 2011 World Rally Championship in Sweden not only provided the backdrop for Michelin's return to the sport's premier series, but it also produced a resounding triumph for the brand's latest-generation winter rally tire, the MICHELIN X-Ice North.

Michelin also won all of the subsequent cross-country races, thanks to its new MICHELIN Latitude Cross tires.

At Rally Argentina, the sixth round of the World Rally Championship, Sébastien Loeb claimed the 65th win of his career in a Citroën fitted with MICHELIN tires.

In rally racing, Michelin develops tire technologies that enable its partners to stand above the competition by providing them with superior performance in terms of safety, versatility and precision steering.

*2011 Le Mans 24 Hours*

Michelin has won the legendary French endurance race 20 times, including 14 straight victories since 1998. Thanks to its consistent, competitive and versatile tires, Michelin won the LMP1 category, as well as the LM GTE Pro class with Corvette No. 73 after a thrilling battle with the AF Corse's No. 51 Ferrari 458 Italia, and the LM GTE Am with the Corvette No. 50 of the Larbre Compétition team.

In addition to its challenge for outright honors, Peugeot took the win in the MICHELIN GREEN X Challenge, which is especially organized to reward the most energy-efficient performance.

## CORPORATE GOVERNANCE

*2011 Joint Annual Meeting*

The Joint Annual Meeting of Michelin shareholders was held in Clermont-Ferrand, on May 13, 2011, under the chairmanship of Michel Rollier, Managing General Partner, along with Jean-Dominique Senard and Didier Miraton, Non-General Managing Partners.

In light of Mr. Rollier's intention, announced last February, not to complete his term of office, he proposed that shareholders in Extraordinary Meeting elect Jean-Dominique Senard as Managing General Partner, to serve alongside Mr. Rollier and eventually succeed him when the time comes. Mr. Rollier also invited shareholders to approve an adjustment in the Group's corporate governance as part of the succession process.

Shareholders adopted all of the proposed resolutions in particular those intended to adjust the Group's corporate governance:

- The term of office of future Managing Partners will be limited to four years, renewable and revocable;
- There will be a new division of roles in the partnership, with the appointment of a Managing Chairman to lead and guide the Managing Partners;
- The Supervisory Board's powers have been strengthened, with the Board now empowered to assess the quality of the Managing Partners' management.

Shareholders elected Mr. Senard as Managing General Partner for a four-year term. Mr. Rollier remains Managing General Partner according to his current terms of election. He will continue to exercise his current responsibilities and will retire after ensuring a smooth hand-over to Mr. Senard.

Lastly, shareholders authorized a share buyback program at a maximum purchase price per share of €100 and a reduction in the share capital by cancelling the shares purchased under the program.

An authorization to grant shares to Group employees without consideration was also approved.

During the meeting, management reviewed the results for 2010, which saw strong growth in business, an improvement in flexibility and historically high profitability. Building on its competitive strengths, Michelin began 2011 by driving even faster growth, with a dynamic pricing policy and an unprecedented capital expenditure program.

Mr. Senard warmly thanked shareholders for their confidence. He pledged to remain true to the Group's values and, in exercising his new responsibilities, to fulfill its ambitious vision.

In closing, Mr. Rollier emphasized that the conditions are now right to ensure the success of Michelin's new phase of dynamic growth.

*2010 Dividend Reinvestment Plan*

At the Annual Meeting on May 13, Michelin shareholders approved the payment of a 2010 dividend of €1.78 a share, with a reinvestment option on June 20, 2011.

Nearly 60% of the Michelin dividend was reinvested in new shares.

Between May 20 and June 7, 2011, more than 78% of Michelin shareholders exercised their option to reinvest their dividend in new shares.

The dividend reinvestment plan results in the creation of 3.1 million new shares (representing 1.7% of the capital), which have been delivered on June 20, 2011.

The issued shares carry dividend rights from January 1, 2011 and rank *pari passu* with existing shares. Once the shares settled, Michelin's share capital is comprised of 179,735,911 shares with a par value of €2.00 each.

The cash dividend was paid on June 20, 2011.

*Didier Miraton's Departure*

As part of the adjustment in Michelin's corporate governance and executive management team, the Managing General Partners have decided, with the agreement of the Supervisory Board, to put an end to Didier Miraton's appointment as Managing Partner.

In relinquishing his duties as Managing Partner, Didier Miraton will receive, in application of the specified performance criteria and in line with the AFEP/MEDEF code, a total severance payment equivalent to the salary, bonus and other compensation received in respect of 2009 and 2010, *i.e.* a total gross amount of around €1.8 million, or around €820,000 after deduction of withholding taxes.

Michel Rollier, Managing General Partner, paid tribute to Didier Miraton's accomplishments during his years with the Group and thanked him for his dedication to the Group.


# 4 CONSOLIDATED INTERIM FINANCIAL STATEMENTS


**4.1. CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2011** **67**

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# 4.1. CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2011

*Content of the notes to the consolidated interim financial statements*


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## CONSOLIDATED INCOME STATEMENT

| (in € million, except per share data) | NOTE | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|---|
| Net sales | 3 | 10,105 | 8,349 |
| Cost of sales | | (7,166) | (5,714) |
| **Gross income** | | **2,939** | **2,635** |
| Sales and marketing expenses | | (932) | (847) |
| Research and development expenses | | (292) | (274) |
| General and administrative expenses | | (718) | (631) |
| Other operating income and expenses | | (26) | (61) |
| **Operating income before non-recurring income and expenses** | **3** | **971** | **822** |
| Non-recurring income and expenses | 4 | - | - |
| **Operating income/(loss)** | | **971** | **822** |
| Cost of net debt | 5 | (88) | (135) |
| Other financial income and expenses | 5 | 8 | 3 |
| Share of profit/(loss) from associates | | 8 | 13 |
| **Income/(loss) before taxes** | | **899** | **703** |
| Income tax | | (232) | (199) |
| **Net income/(loss)** | | **667** | **504** |
| ■ Attributable to the shareholders of the Company | | 667 | 503 |
| ■ Attributable to the non-controlling interests | | - | 1 |
| **Earnings per share** (in €) | | | |
| ■ Basic | 6 | 3.73 | 3.26 |
| ■ Diluted | | 3.66 | 3.20 |

The notes 1 to 14 are an integral part of the consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|
| **Net income/(loss)** | **667** | **504** |
| Available-for-sale financial assets – change in fair values | 153 | 83 |
| Tax effect – available-for-sale financial assets – change in fair values | - | (1) |
| Available-for-sale financial assets – (gain)/loss recognized in income statement | - | - |
| Cash flow hedges – change in fair values | 3 | - |
| Cash flow hedges – (gain)/loss recognized in income statement | - | - |
| Share of other comprehensive income from associates | (2) | - |
| Currency translation differences | (183) | 435 |
| Other | (1) | - |
| **Other comprehensive income** | **(30)** | **517** |
| **Comprehensive income** | **637** | **1,021** |
| ■ Attributable to the shareholders of the Company | 637 | 1,020 |
| ■ Attributable to the non-controlling interests | - | 1 |

The notes 1 to 14 are an integral part of the consolidated interim financial statements.

## CONSOLIDATED BALANCE SHEET

| (in € million) | NOTE | JUNE 30, 2011 | DECEMBER 31, 2010 |
|---|---|---|---|
| Goodwill | | 394 | 416 |
| Other intangible assets | | 380 | 360 |
| Property, plant and equipment (PP&E) | | 7,048 | 7,193 |
| Non-current financial assets and other assets | | 1,199 | 1,108 |
| Investments in associates | | 106 | 93 |
| Deferred tax assets | | 780 | 828 |
| **Non-current assets** | | **9,907** | **9,998** |
| Inventories | | 4,371 | 3,770 |
| Trade receivables | | 2,999 | 2,770 |
| Current financial assets | | 763 | 882 |
| Other current assets | | 689 | 653 |
| Cash and cash equivalents | | 728 | 1,590 |
| **Current assets** | | **9,550** | **9,665** |
| **Total assets** | | **19,457** | **19,663** |
| Share capital | 7 | 360 | 353 |
| Share premiums | 7 | 3,396 | 3,215 |
| Reserves | 8 | 4,869 | 4,556 |
| Non-controlling interests | | 3 | 3 |
| **Equity** | | **8,628** | **8,127** |
| Non-current financial liabilities | 9 | 2,560 | 3,251 |
| Employee benefit obligations | | 2,387 | 2,457 |
| Provisions and other non-current liabilities | 11 | 854 | 938 |
| Deferred tax liabilities | | 48 | 45 |
| **Non-current liabilities** | | **5,849** | **6,691** |
| Current financial liabilities | 9 | 1,291 | 896 |
| Trade payables | | 1,645 | 1,813 |
| Other current liabilities | | 2,044 | 2,136 |
| **Current liabilities** | | **4,980** | **4,845** |
| **Total equity and liabilities** | | **19,457** | **19,663** |

The notes 1 to 14 are an integral part of the consolidated interim financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| (in € million) | SHARE CAPITAL (NOTE 7) | SHARE PREMIUMS (NOTE 7) | RESERVES (NOTE 8) | NON-CONTROLLING INTERESTS | TOTAL |
|---|---|---|---|---|---|
| **At January 1, 2010** | **295** | **1,987** | **3,210** | **3** | **5,495** |
| Comprehensive income | - | - | 1,020 | 1 | 1,021 |
| Issuance of shares | 4 | 82 | - | - | 86 |
| Dividends and other allocations | - | - | (148) | - | (148) |
| Stock option plans – cost of services rendered | - | - | 5 | - | 5 |
| Acquisition of non-controlling interests | - | - | (18) | - | (18) |
| Other | - | - | (1) | (1) | (2) |
| **At June 30, 2010** | **299** | **2,069** | **4,068** | **3** | **6,439** |
| Comprehensive income | - | - | 485 | - | 485 |
| Issuance of shares | 54 | 1,146 | - | - | 1,200 |
| Dividends and other allocations | - | - | (2) | (1) | (3) |
| Stock option plans – cost of services rendered | - | - | 4 | - | 4 |
| Other | - | - | 1 | 1 | 2 |
| **At December 31, 2010** | **353** | **3,215** | **4,556** | **3** | **8,127** |
| Comprehensive income | - | - | 637 | - | 637 |
| Issuance of shares | 7 | 181 | - | - | 188 |
| Dividends and other allocations | - | - | (327) | - | (327) |
| Stock option plans – cost of services rendered | - | - | 3 | - | 3 |
| Other | - | - | - | - | - |
| **At June 30, 2011** | **360** | **3,396** | **4,869** | **3** | **8,628** |

The notes 1 to 14 are an integral part of the consolidated interim financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

| (in € million) | NOTE | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|---|
| Net income | | 667 | 504 |
| Adjustments | | | |
| ■ Cost of net debt | 5 | 88 | 135 |
| ■ Other financial income and expenses | 5 | (8) | (3) |
| ■ Income tax | | 232 | 199 |
| ■ Amortization, depreciation and impairment of intangible assets and PP&E | | 469 | 483 |
| ■ Non-recurring income and expenses | 4 | - | - |
| ■ Share of loss/(profit) from associates | | (8) | (13) |
| EBITDA before non-recurring income and expenses | | 1,440 | 1,305 |
| Other non-cash income and expenses | 12 | (21) | (9) |
| Change in provisions, including employee benefit obligations | | (34) | (46) |
| Cost of net debt and other financial income and expenses paid | 12 | (113) | (149) |
| Income tax paid | | (173) | (171) |
| Change in working capital, net of impairments | 12 | (1,057) | (651) |
| **Cash flows from operating activities** | | **42** | **279** |
| Purchases of intangible assets and PP&E | | (698) | (304) |
| Proceeds from sale of intangible assets and PP&E | | 26 | 17 |
| Equity investments in consolidated companies, net of cash acquired | | (12) | - |
| Disposals of equity investments in consolidated companies, net of cash sold | | 8 | - |
| Purchases of available-for-sale financial assets | | (2) | - |
| Proceeds from sale of available-for-sale financial assets | | 1 | 1 |
| Cash flows from other financial assets | 12 | 122 | (23) |
| **Cash flows from investing activities** | | **(555)** | **(309)** |
| Proceeds from issuance of shares | 7 | 11 | 3 |
| Dividends paid to the shareholders of the Company | 7 | (138) | (65) |
| Cash flows from financial liabilities | 12 | (197) | (386) |
| Other cash flows from financing activities | | (13) | (25) |
| **Cash flows from financing activities** | | **(337)** | **(473)** |
| **Effect of changes in exchange rates** | | **(12)** | **39** |
| **Increase/(decrease) of cash and cash equivalents** | | **(862)** | **(464)** |
| **Cash and cash equivalents at January 1** | | **1,590** | **1,231** |
| **Cash and cash equivalents at June 30** | | **728** | **767** |

The notes 1 to 14 are an integral part of the consolidated interim financial statements.

# NOTES TO THE CONSOLIDATED INTERIM 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 condensed consolidated interim financial statements were authorized for issue by the Managing Partners on July 25, 2011.
Except as otherwise stated, all amounts are presented in € million.

## NOTE 2 BASIS OF PREPARATION

### 2.1. Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements, and should be read in conjunction with the Group consolidated financial statements for the year ended December 31, 2010, which have been prepared in accordance with IFRS.

### 2.2. Accounting policies

Except as described below, the accounting policies applied in these condensed consolidated interim financial statements are consistent with those applied by the Group in its consolidated financial statements for the year ended December 31, 2010.
Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.
There are no significant new standards, amendments to standards or interpretations that are mandatory for the first time for the financial year beginning January 1, 2011.
The Group has not anticipated the implementation of any standards or interpretations which were not mandatory as at January 1, 2011. This essentially includes IFRS 9 "Financial instruments", which addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 1, 2013. Although the Group has not yet decided when to adopt IFRS 9, it does not expect any significant impact from its adoption.

### 2.3. Critical accounting estimates and judgments

The preparation of these consolidated interim financial statements requires that management uses assumptions and estimates to determine the value of assets and liabilities at the balance sheet date and the amount of income and expenses for the reporting period. The actual results could differ from those estimates.
In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2010, with the exception of changes in estimates that are required in determining the provision for income taxes (see Note 2.2).

### 2.4. Change in the scope of consolidation

The acquisitions or divestments of the period did not have any significant effect on the condensed consolidated interim financial statements.

### 2.5. Seasonality

Usually cash flows during the first half of the year are mainly impacted by higher working capital needs and dividend payments.

## NOTE 3 CONDENSED 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:

- 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 expenses from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), share of profit/(loss) from associates and income tax are managed on a Group basis and are not allocated to operating segments.

The segment information is as follows:

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | | | | SIX MONTHS ENDED JUNE 30, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| Net sales | 5,252 | 3,266 | 1,587 | **10,105** | 4,621 | 2,566 | 1,162 | **8,349** |
| Operating income before non-recurring income and expenses | 535 | 115 | 321 | **971** | 497 | 126 | 199 | **822** |
| *In percentage of net sales* | *10.2%* | *3.5%* | *20.2%* | ***9.6%*** | *10.8%* | *4.9%* | *17.1%* | ***9.8%*** |

Sales between segments are carried at arm's length.
The following table presents segment assets:

| (in € million) | JUNE 30, 2011 | | | | DECEMBER 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| Segment assets | 6,759 | 4,516 | 2,197 | **13,472** | 6,634 | 4,323 | 2,178 | **13,135** |

Segment assets consist of goodwill and other intangible assets, property, plant and equipment, trade receivables and finished products inventories. No operating liabilities are allocated to the segments in the Group's internal reporting.
The geographic information is broken down by zone hereunder:

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | | | | SIX MONTHS ENDED JUNE 30, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | EUROPE | NORTH AMERICA | OTHER | TOTAL | EUROPE | NORTH AMERICA | OTHER | TOTAL |
| Net sales | 4,450 | 3,229 | 2,426 | **10,105** | 3,640 | 2,800 | 1,909 | **8,349** |

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.

## NOTE 4 NON-RECURRING INCOME AND EXPENSES

No non-recurring income or expense was recognized during the first half of 2011 and 2010.

## NOTE 5 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

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

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|
| Interest expenses | (113) | (111) |
| Interest income | 15 | 3 |
| Interest rate derivatives | 8 | (26) |
| Other | 2 | (1) |
| **Cost of net debt** | **(88)** | **(135)** |
| Net income from financial assets (other than cash and cash equivalents and cash management financial assets) | 7 | 5 |
| Currency remeasurement (including currency derivatives) | 5 | (1) |
| Other | (4) | (1) |
| **Other financial income and expenses** | **8** | **3** |

The breakdown of the cost of net debt for the six months ended June 30, 2010 has been modified for comparison purposes with 2011: an expense of €14 million has been reclassified from "Interest rate derivatives" to "Interest expenses".

## NOTE 6 EARNINGS PER SHARE

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

| | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|
| Net income/(loss) (in € million), excluding the non-controlling interests | 667 | 503 |
| ■ Less, estimated grants to the General Partners | (8) | (6) |
| **Net income/(loss) attributable to the shareholders of the Company used in the calculation of basic earnings per share** | **659** | **497** |
| ■ Plus, interest expenses on convertible bonds | 14 | 14 |
| **Net income/(loss) attributable to the shareholders of the Company used in the calculation of diluted earnings per share** | **673** | **511** |
| **Weighted average number of shares** (in thousands of shares) **outstanding used in the calculation of basic earnings per share** | **176,608** | **152,687** |
| ■ Plus, adjustment for share option plans | 427 | 333 |
| ■ Plus, adjustment for convertible bonds | 6,742 | 6,792 |
| **Weighted average number of shares used in the calculation of diluted earnings per share** | **183,777** | **159,762** |
| **Earnings per share** (in €) | | |
| ■ Basic | **3.73** | **3.26** |
| ■ Diluted | **3.66** | **3.20** |

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 potential dilutive shares: share options and convertible bonds. The first semester 2010 earnings per share as reported last year (€3.37 for basic earnings per share and €3.31 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.

## NOTE 7 SHARE CAPITAL AND SHARE PREMIUMS

| (in € million) | SHARE CAPITAL | SHARE PREMIUMS | TOTAL |
|---|---|---|---|
| **At January 1, 2010: 147,436,357 shares outstanding** | **295** | **1,987** | **2,282** |
| Issuance of 1,735,759 shares from the partial payment of dividend in shares | 3 | 79 | 82 |
| Issuance of 83,862 shares from the exercise of share options | 1 | 3 | 4 |
| Other | - | - | - |
| **At June 30, 2010: 149,255,978 shares outstanding** | **299** | **2,069** | **2,368** |
| Issuance of 27,159,876 shares from the October 2010 share capital increase | 54 | 1,138 | 1,192 |
| Issuance of 191,991 shares from the exercise of share options | - | 8 | 8 |
| Other | - | - | - |
| **At December 31, 2010: 176,607,845 shares outstanding** | **353** | **3,215** | **3,568** |
| Issuance of 3,128,066 shares from the partial payment of dividend in shares | 6 | 171 | 177 |
| Issuance of 260,863 shares from the exercise of share options | 1 | 10 | 11 |
| Other | - | - | - |
| **At June 30, 2011: 179,996,774 shares outstanding** | **360** | **3,396** | **3,756** |

The dividend granted to the shareholders during the period was €1.78 per share (2010: €1 per share). The shareholders had the possibility to receive their dividend in cash or the equivalent value in shares. It was settled as follows:

- Cash payment of €138 million (2010: €65 million);
- Issuance of new shares for a net amount of €177 million (2010: €82 million).

## NOTE 8 RESERVES

| (in € million) | TRANSLATION RESERVE | OTHER RESERVES | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| **At January 1, 2010** | **(84)** | **199** | **3,095** | **3,210** |
| Dividends and other allocations | - | - | (148) | (148) |
| Stock option plans – cost of services rendered | - | - | 5 | 5 |
| Acquisition of non-controlling interests | - | - | (18) | (18) |
| Other | - | (1) | - | (1) |
| **Transactions with the shareholders of the Company** | **-** | **(1)** | **(161)** | **(162)** |
| Net income/(loss) attributable to the shareholders of the Company | - | - | 503 | 503 |
| Available-for-sale financial assets – change in fair values | - | 83 | - | 83 |
| Tax effect – available-for-sale financial assets – change in fair values | - | (1) | - | (1) |
| Currency translation differences | 435 | - | - | 435 |
| **Comprehensive income** | **435** | **82** | **503** | **1,020** |
| **At June 30, 2010** | **351** | **280** | **3,437** | **4,068** |
| Dividends and other allocations | - | - | (2) | (2) |
| Stock option plans – cost of services rendered | - | - | 4 | 4 |
| Other | - | 1 | - | 1 |
| **Transactions with the shareholders of the Company** | **-** | **1** | **2** | **3** |
| Net income/(loss) attributable to the shareholders of the Company | - | - | 545 | 545 |
| Available-for-sale financial assets – change in fair values | - | 83 | - | 83 |
| Tax effect – available-for-sale financial assets – change in fair values | - | (1) | - | (1) |
| Cash flow hedges – change in fair values | - | (3) | - | (3) |
| Cash flow hedges – (gain)/loss recognized in income statement | - | 1 | - | 1 |
| Currency translation differences | (141) | - | - | (141) |
| Other | - | 1 | - | 1 |
| **Comprehensive income** | **(141)** | **81** | **545** | **485** |
| **At December 31, 2010** (carried forward) | **210** | **362** | **3,984** | **4,556** |

| (in € million) | TRANSLATION RESERVE | OTHER RESERVES | RETAINED EARNINGS | TOTAL |
|---|---|---|---|---|
| **At December 31, 2010** (brought forward) | **210** | **362** | **3,984** | **4,556** |
| Dividends and other allocations | - | - | (327) | (327) |
| Stock option plans – cost of services rendered | - | - | 3 | 3 |
| **Transactions with the shareholders of the Company** | **-** | **-** | **(324)** | **(324)** |
| Net income/(loss) attributable to the shareholders of the Company | - | - | 667 | 667 |
| Available-for-sale financial assets – unrealized gain/(loss) | - | 153 | - | 153 |
| Cash flow hedges – change in fair values | - | 3 | - | 3 |
| Share of other comprehensive income from associates | - | (2) | - | (2) |
| Currency translation differences | (182) | (1) | - | (183) |
| Other | - | (1) | - | (1) |
| **Comprehensive income** | **(182)** | **152** | **667** | **637** |
| **At June 30, 2011** | **28** | **514** | **4,327** | **4,869** |

## NOTE 9 FINANCIAL LIABILITIES

The carrying amount of the financial liabilities is presented below:

| (in € million) | JUNE 30, 2011 | DECEMBER 31, 2010 |
|---|---|---|
| Bonds | 1,656 | 2,152 |
| Loans from financial institutions and other | 787 | 958 |
| Finance lease liabilities | 69 | 76 |
| Derivative instruments | 48 | 65 |
| **Non-current financial liabilities** | **2,560** | **3,251** |
| Bonds and commercial paper | 821 | 168 |
| Loans from financial institutions and other | 452 | 679 |
| Finance lease liabilities | 12 | 16 |
| Derivative instruments | 6 | 33 |
| **Current financial liabilities** | **1,291** | **896** |
| **Financial liabilities** | **3,851** | **4,147** |

The Group net debt is detailed below:

| (in € million) | JUNE 30, 2011 | DECEMBER 31, 2010 |
|---|---|---|
| Financial liabilities | 3,851 | 4,147 |
| Derivatives recognized as assets | (37) | (41) |
| Borrowing collaterals – non-current portion | (39) | (40) |
| Borrowing collaterals – current portion | - | (4) |
| Cash management financial assets | (728) | (843) |
| Cash and cash equivalents | (728) | (1,590) |
| **Net debt** | **2,319** | **1,629** |

The corporate credit ratings from Standard & Poor's and Moody's remained unchanged during the six months period. The outlook of the Moody's rating moved from stable to positive on January 12, 2011.

## NOTE 10 SHARE-BASED PAYMENTS

Assumptions used to value the share options granted during the period are as follows:

| | |
|---|---|
| Grant date | May 19, 2011 |
| Number of options granted | 252,900 |
| Weighted average share price (in € per share) | 65.01 |
| Exercise price (in € per share) | 66.00 |
| Volatility | 38.08% |
| Risk free interest rate | 3.65% |
| Market value of the option at grant date (in € per option) | 10.07 |

The maximum gain allowed is limited to 100% of the exercise price.

## NOTE 11 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Movements of provisions included in "Provisions and other non-current liabilities" are as follows:

| (in € million) | RESTRUCTURING | LITIGATION | OTHER PROVISIONS | TOTAL |
|---|---|---|---|---|
| **At January 1, 2011** | **366** | **121** | **86** | **573** |
| Additional provisions | 3 | 37 | 9 | 49 |
| Provisions utilized during the year | (70) | (21) | (18) | (109) |
| Unused provisions reversed during the year | (7) | - | (1) | (8) |
| Translation adjustments | (2) | (2) | (2) | (6) |
| Other effects | - | 1 | (1) | - |
| **At June 30, 2011** | **290** | **136** | **73** | **499** |

## NOTE 12 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flow statement are presented in the table below:

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|
| (Gains)/losses on disposal of non-financial assets | (17) | (5) |
| Other | (4) | (4) |
| **Other non-cash income and expenses** | **(21)** | **(9)** |
| Interest and other financial expenses paid | (129) | (166) |
| Interest and other financial income received | 11 | 8 |
| Dividends received | 5 | 9 |
| **Cost of net debt and other financial income and expenses paid** | **(113)** | **(149)** |
| Change in inventories | (749) | (527) |
| Change in trade receivables | (316) | (209) |
| Change in other receivables and payables | 8 | 85 |
| **Change in working capital, net of impairments** | **(1,057)** | **(651)** |
| Purchases of intangible assets | (53) | (33) |
| Purchases of PP&E | (501) | (218) |
| Government grants received | 4 | 6 |
| Change in capital expenditure payables | (148) | (59) |
| **Purchases of intangible assets and PP&E** | **(698)** | **(304)** |
| Increase in other non-current financial assets | (14) | (9) |
| Decrease in other non-current financial assets | 14 | 7 |
| Net cash flows from cash management financial assets | 115 | - |
| Net cash flows from borrowing collaterals | 6 | (18) |
| Net cash flows from other current financial assets | 1 | (3) |
| **Cash flows from other financial assets** | **122** | **(23)** |

| (in € million) | SIX MONTHS ENDED JUNE 30, 2011 | SIX MONTHS ENDED JUNE 30, 2010 |
|---|---|---|
| Increase in non-current financial liabilities | 12 | 48 |
| Decrease in non-current financial liabilities | (66) | (140) |
| Repayment of finance lease liabilities | (11) | (3) |
| Net cash flows from current financial liabilities | (94) | (353) |
| Derivatives | (38) | 62 |
| **Cash flows from financial liabilities** | **(197)** | **(386)** |
| **Details of non cash transactions:** | | |
| ■ Finance leases | - | 3 |
| ■ Decrease of liabilities to minority shareholders | (5) | (5) |
| ■ New emission rights | 12 | 10 |
| ■ Dividends paid in shares (Note 7) | 177 | 82 |

## NOTE 13 RELATED PARTY TRANSACTIONS

There were no new significant related party transactions during the first half of 2011, as well as no significant changes in the related party transactions described in the 2010 Annual Report.

## NOTE 14 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 the interim financial statements for issue.

*Profit-sharing bonus*

On July 13, 2011, the French Parliament passed a bill modifying the 2011 Social Security Funding Act. In its first article, the bill introduces a requirement for companies that increase their dividend compared with the average for the previous two years to grant a profit-sharing bonus to their employees. All employees of the French subsidiaries of the Group are entitled to this bonus. The measure applies to dividends approved after January 1, 2011.

Since the bill was passed after June 30, 2011 and since the mandatory agreement required by the bill between the employer and employees has therefore not yet been negotiated, the expense related to this bonus will be measured and recognized in the second half of the year.

# 5


# STATUTORY AUDITORS' REPORT

STATUTORY AUDITORS' REVIEW REPORT ON THE 2011 INTERIM FINANCIAL INFORMATION 85

# STATUTORY AUDITORS' REVIEW REPORT ON THE 2011 INTERIM FINANCIAL INFORMATION

*This is a free translation into English of the Statutory Auditors' Review Report issued in French and is provided solely for the convenience of English speaking readers. This Report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the shareholders,

In compliance with the assignment entrusted to us by the shareholders and in accordance with the requirements of article 451-1-2 III of the French Monetary and Financial Code (*Code monétaire et financier*) , we hereby report to you on:

- The review of the accompanying condensed interim consolidated financial statements of Compagnie Générale des Établissements Michelin, for the six months ended June 30, 2011;
- The verification of the information contained in the interim management report.

These condensed interim consolidated financial statements are the responsibility of the Managing Partners. Our role is to express a conclusion on these financial statements based on our review.

### *1. Conclusion on the financial statements*

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – the standard of IFRSs as adopted by the European Union applicable to interim financial information.

### *2. Specific verification*

We have also verified the information given in the interim management report on the condensed interim consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim consolidated financial statements.

Neuilly-sur-Seine, July 25, 2011

| | |
|---|---|
| PricewaterhouseCoopers Audit | Deloitte & Associés |
| Christian Marcellin | Dominique Descours |

Statutory Auditors

Members of "Compagnie Régionale" of Versailles

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# 6 STATEMENT BY THE PERSON RESPONSIBLE


STATEMENT BY THE PERSON RESPONSIBLE FOR THE FIRST-HALF 2011 FINANCIAL REPORT 87

# STATEMENT BY THE PERSON RESPONSIBLE FOR THE FIRST-HALF 2011 FINANCIAL REPORT

I hereby declare that, to the best of my knowledge, i) the condensed financial statements for the past six-month period have been prepared in accordance with generally accepted accounting principles and give a true and fair view of the assets, liabilities, financial position and results of the Company and the undertakings included in the consolidation, and ii) the first-half business review on pages 28 to 65 presents a fair review of the material events that occurred in the first six months of the financial year and their impact on the interim accounts, as well as a description of the principal risks and uncertainties for the remaining six months of the year.

Michel Rollier

Design and production: CÔTÉ CORP.

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