



**Bank of America  
Merrill Lynch**  
London  
Autos Conference 2013

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March 20, 2013

## Strong Earnings - over €1 billion in Free Cash Flow Sluggish Markets

- ▶ €2,423m in **Operating Income** before non-recurring items, up 25%:
  - An efficient pricing policy.
  - A global footprint at a time of weak demand, particularly in Europe.
  - Structurally high margins in Specialty tires.
  - Rebound in operating margin in the Truck tire business, despite a sharp market contraction.
- ▶ **Volumes** down 6.4%, with demand remaining flat in the second half.
- ▶ **Free cash flow** of more than €1 billion, demonstrating:
  - The Group's ability to structurally generate cash.
  - The effective integration of value creation into every unit's objectives.

# Financial Highlights

## 2012 & 2011 figures as reported

<i>In € millions</i>	2012	2011
<b>Net Sales</b>	<b>21,474</b>	20,719
<b>Operating Income</b> <i>before non recurring items</i>	<b>2,423</b>	1,945
<b>Operating Margin</b> <i>before non recurring items</i>	<b>11.3%</b>	9.4%
<b>Net Income</b>	<b>1,571</b>	1,462
<b>Investment</b>	<b>1,996</b>	1,711
<b>Net Debt-to-Equity Ratio</b>	<b>12%</b>	22%
<b>Free Cash Flow *</b>	<b>1,075</b>	-19
<b>ROCE</b>	<b>12.8%</b>	10.9%
<b>Dividend</b>	<b>2.40€ **</b>	2.10€

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

\*\*Subject to approval by the Annual Shareholders Meeting of May 17, 2013



February 12, 2013

## ANNUAL RESULTS

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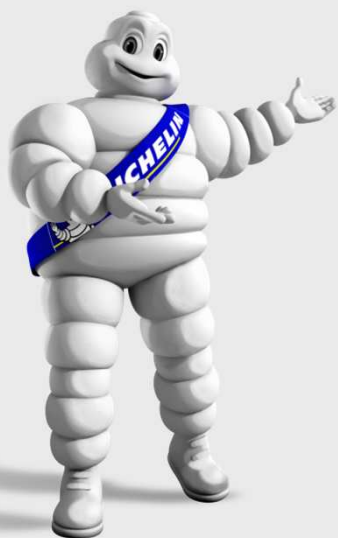


- 1 SLUGGISH MARKETS
- 2 A SOLID PERFORMANCE
- 3 A ROBUST BALANCE SHEET
- 4 RESULTS OF THE COMPETITIVENESS PLAN
- 5 WIDE-RANGING PRODUCT PORTFOLIO AND GEOGRAPHIC EXPOSURE
- 6 OUTLOOK

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## ANNUAL RESULTS

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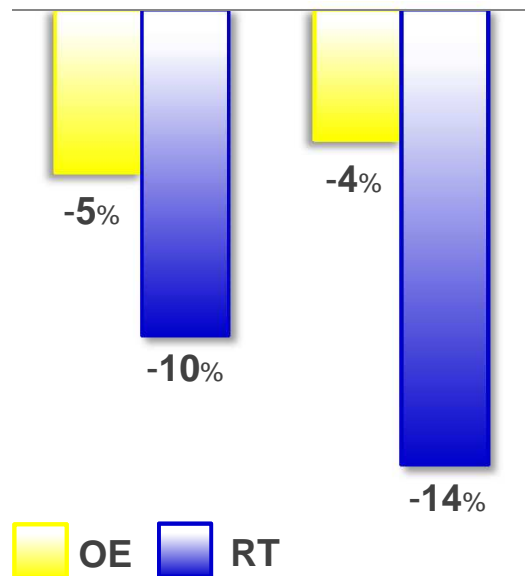
# SLUGGISH MARKETS

# Europe: Sharp Fall-off in Demand, especially in Replacement Markets



## Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)



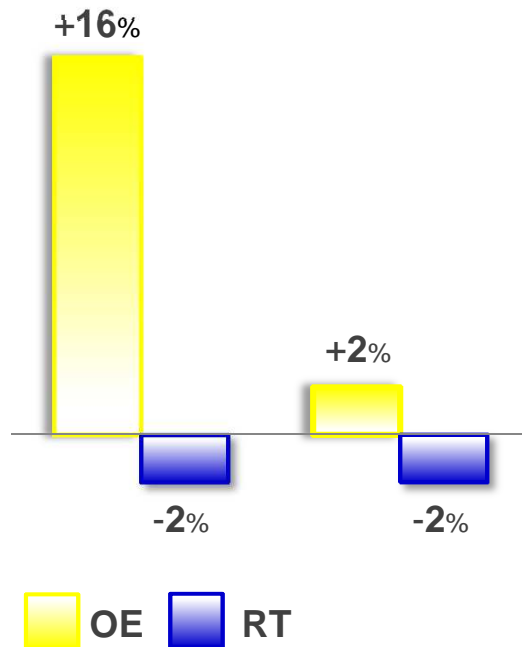
- ▶ An unfavorable economic environment
- ▶ Demand down in every segment
  - Truck tire market excluding Russia lower than in 2009
- ▶ Dealer destocking
  - Dealer inventory levels
    - Normal for Truck tires and summer Car and Light truck tires
    - Still high for winter Car and Light truck tires
- ▶ Sell-out contracted around 50% less than sell-in

# North America: Original Equipment Market Trending Upwards



## Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)



### ► Growth in OE demand

- Aging car, van and truck fleets need to be replaced
- Truck tire market abruptly turned downwards, by 15%, in the fourth quarter

### ► Replacement market below 2007 levels

### ► Dealers

- Truck tire inventory drawdowns in the first half
- Inventories unchanged in the second half compared with the first

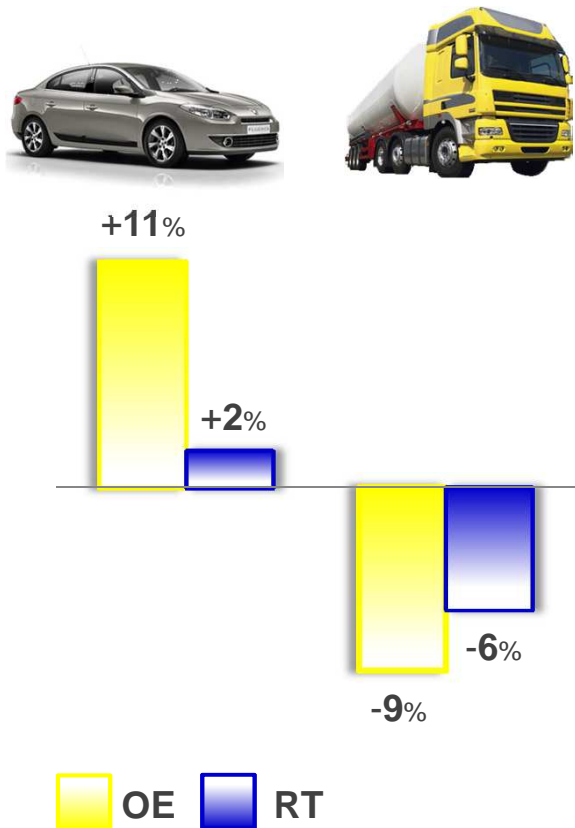


# Asia excluding India: a Year of Transition in China and the Impact of Slower Growth in Exports



## Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)



- ▶ Economic growth in the region has started to cool
  - Truck tire market in China down sharply
  - Demand in ASEAN countries holds firm
- ▶ Technical rebound in Car and Light Truck OE sales due to 2011 natural disasters in Japan and Thailand
- ▶ Dealer inventory drawdowns following the build-up in 2011

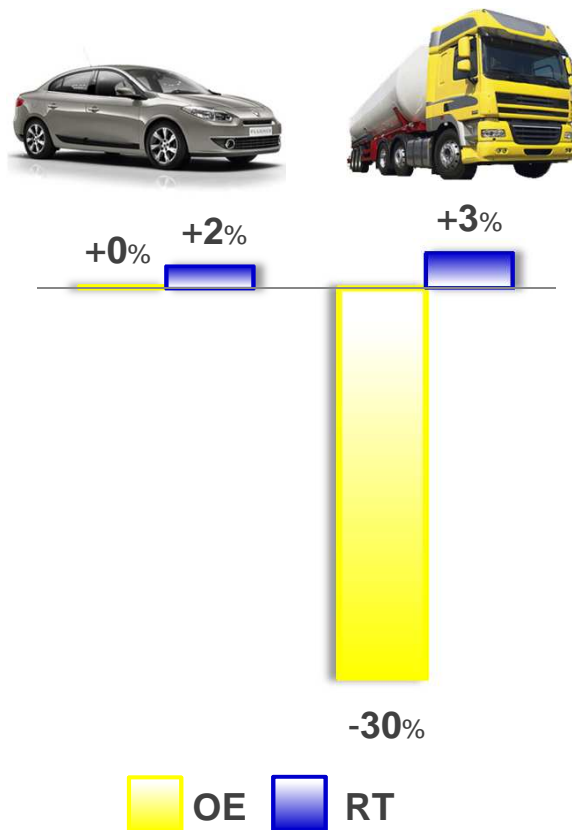


## South America: Limited Growth



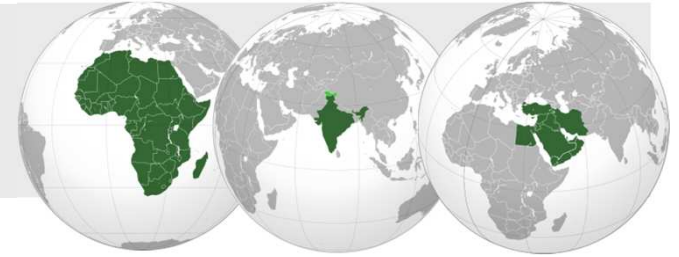
### Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)



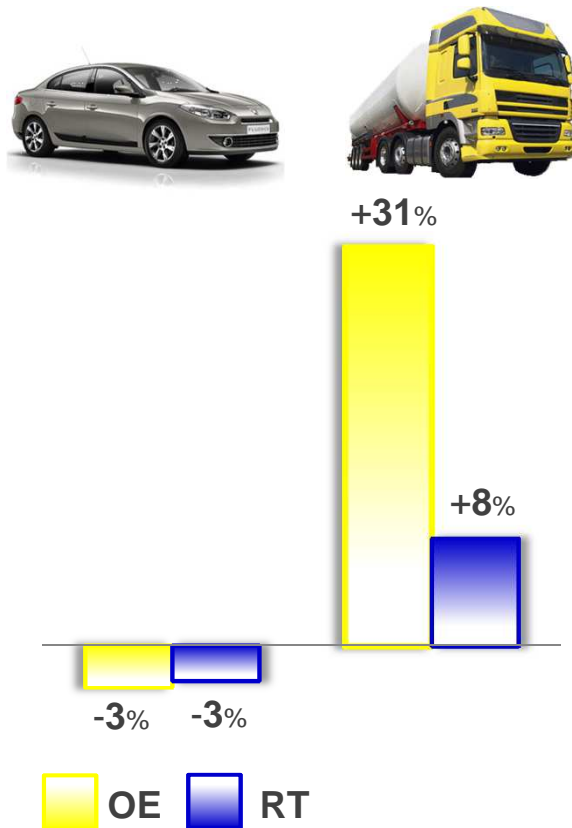
- ▶ Demand up slightly, except for OE Truck tires, which suffered a technical decline following the introduction of Euro V emissions standards
- ▶ Brazil: market upturn in the second half
- ▶ Argentina and Venezuela: growth slowed by customs barriers

# Africa India Middle-East: Weak Car and Light Truck Markets in 2012



## Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)



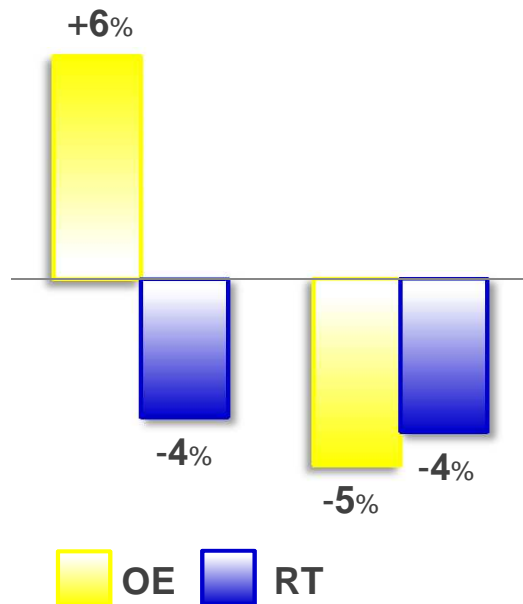
- ▶ Demand dampened by geopolitical situations in the region
- ▶ Continued shift to radials in India

# A Declining Global Market



## Markets at December 31, 2012/2011

(% change YoY, based on number of radial tires)

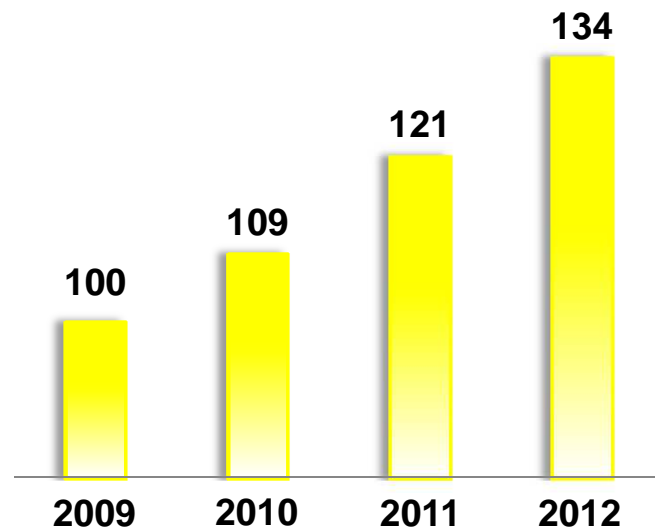


- ▶ Unfavorable OE/RT sales mix
- ▶ Replacement market has fallen back to 2010 levels
- ▶ Continued growth in the new markets, unlike in mature ones

# Earthmover Tires: Sustained Growth in Mining Demand

## Markets at december 31

(% change YoY, based on number of tires)

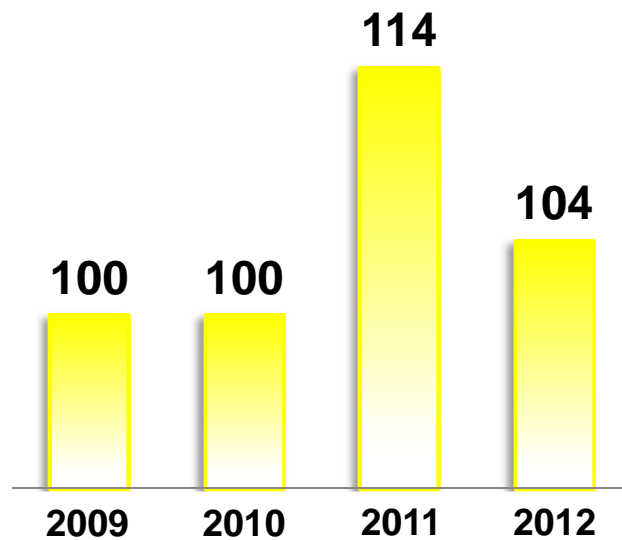


- ▶ Continued growth in mining markets:
  - Led by demand for ore, oil and gas
  - Buoyant market for large tires
- ▶ OE: adjustment in equipment manufacturer inventories
- ▶ Decline in demand for tires used in infrastructure, especially in Europe

# Agricultural Tires: Mature Replacement Markets Hurt by Economic Uncertainty

## Markets at December 31

(% change YoY, based on number of tires)

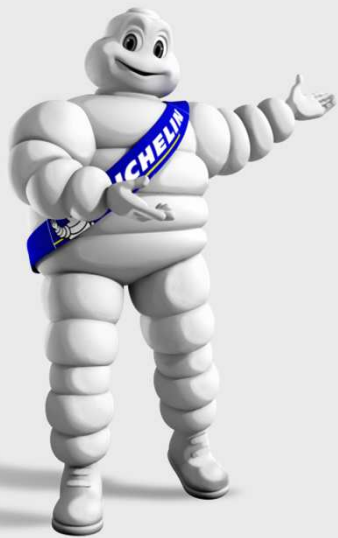


- ▶ Slow-down in replacement
  - Drought in the United States
  - Hesitation in Europe
- ▶ Firm resistance in OE markets

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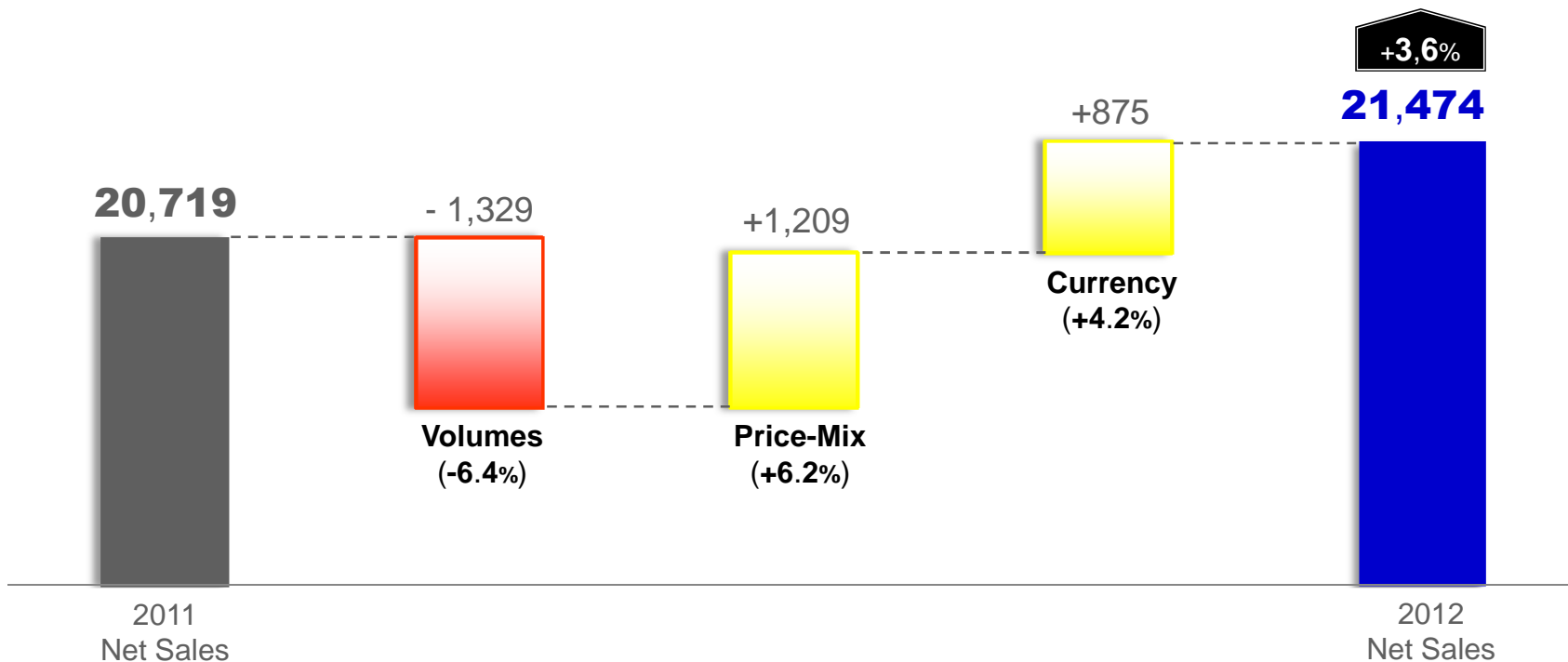
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## A SOLID PERFORMANCE

# Growth in Net Sales Led by Significantly Higher Prices and an Improved Mix

YoY change  
(in € millions)

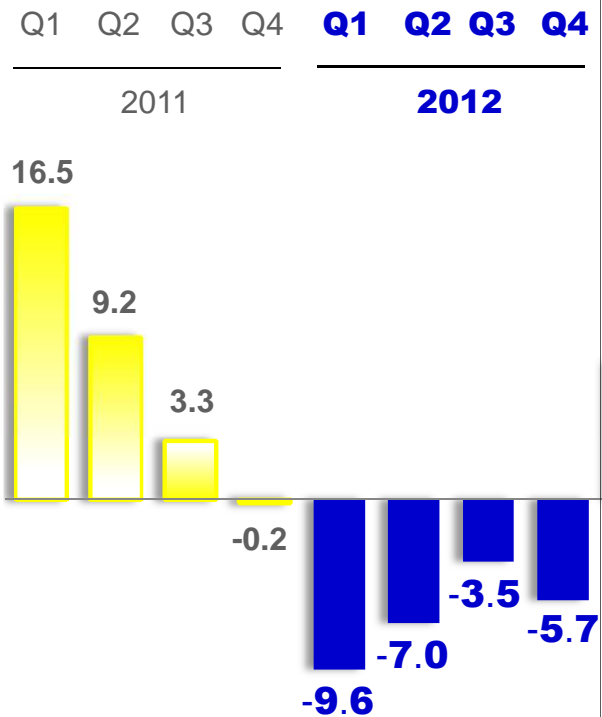


# Q4 Volumes: in Line with Markets

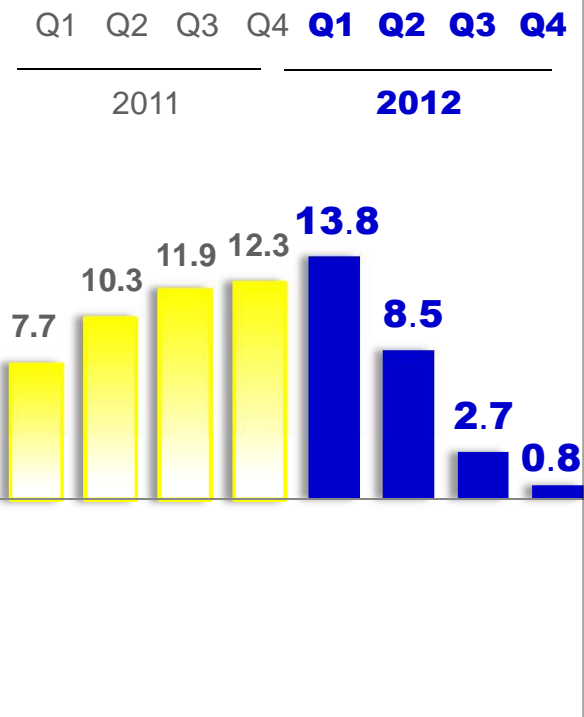
## Q4 Price-Mix: Ongoing Positive Effect despite Clauses

### Change YoY (in %)

#### ► Volumes



#### ► Price-mix



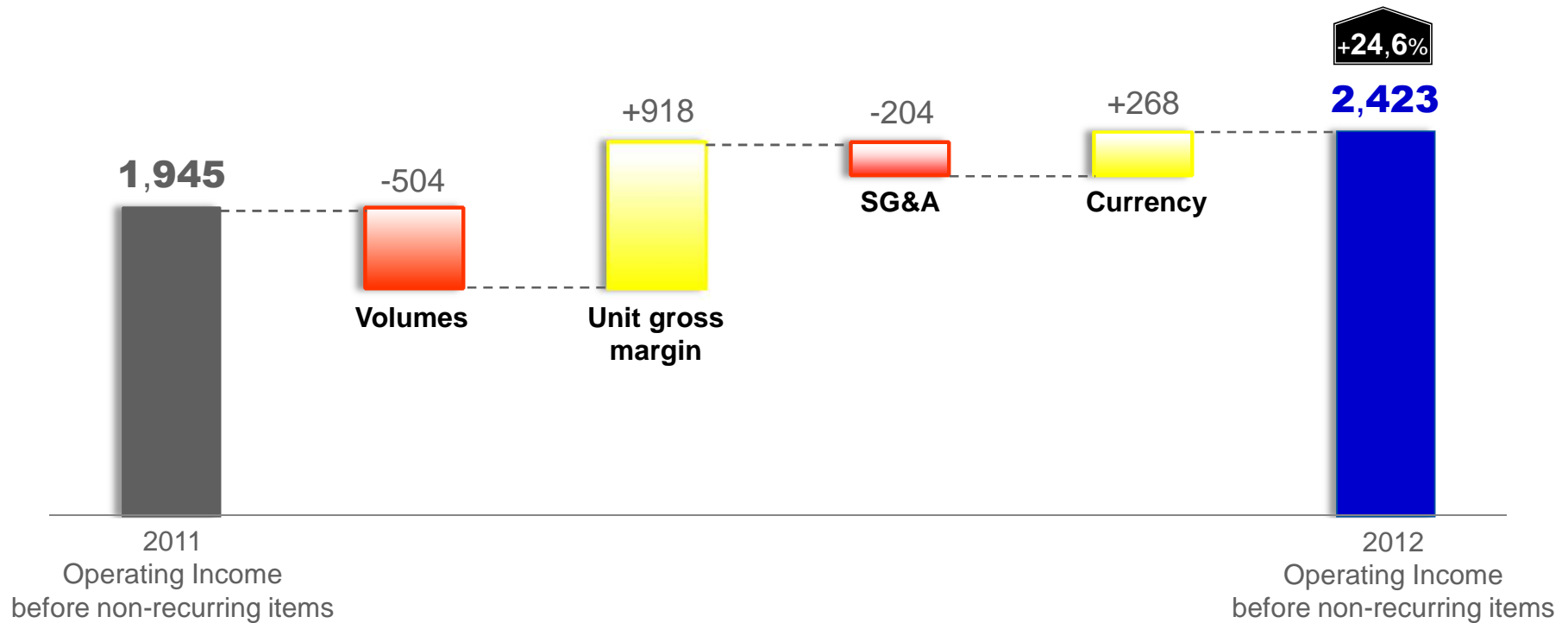
#### ► Currency





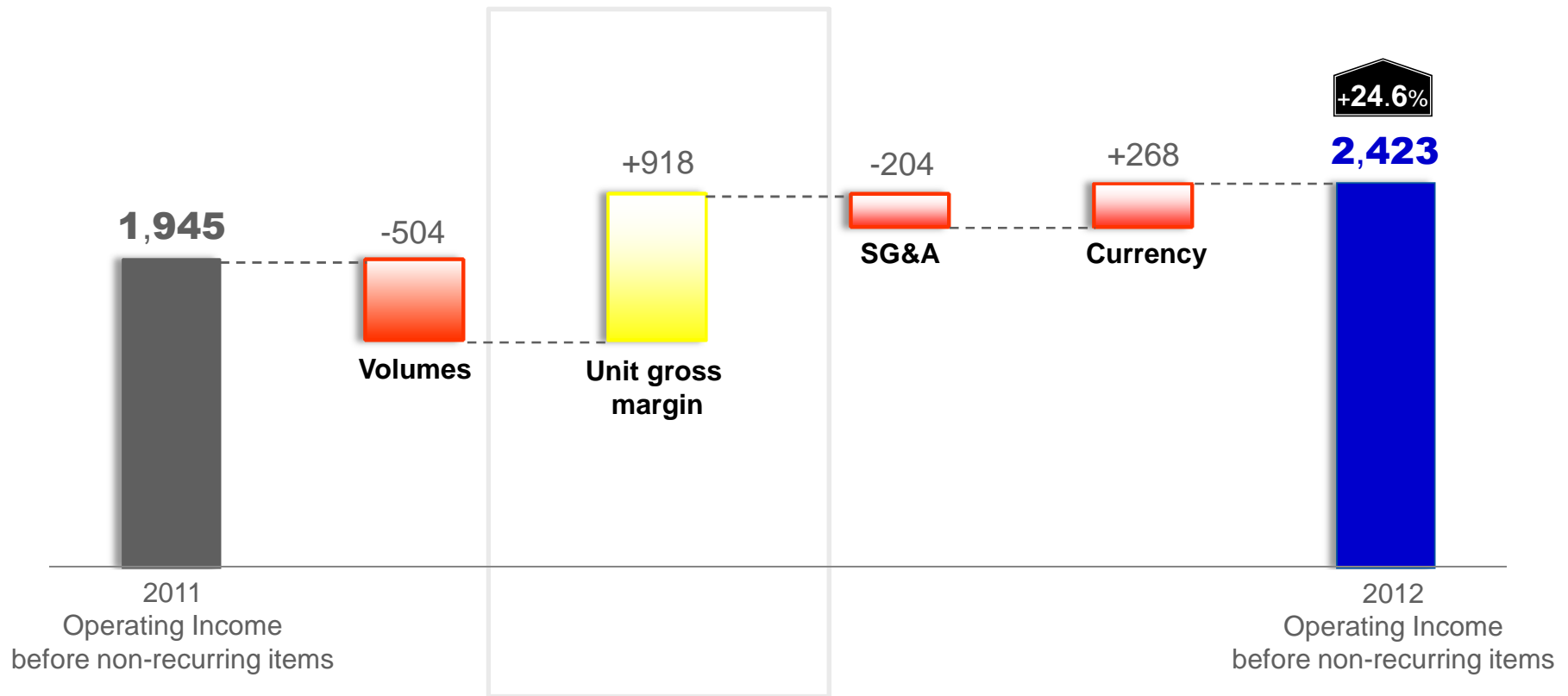
# Operating Income Lifted by the Improvement in Unit Gross Margin

**YoY Change**  
(in € millions)



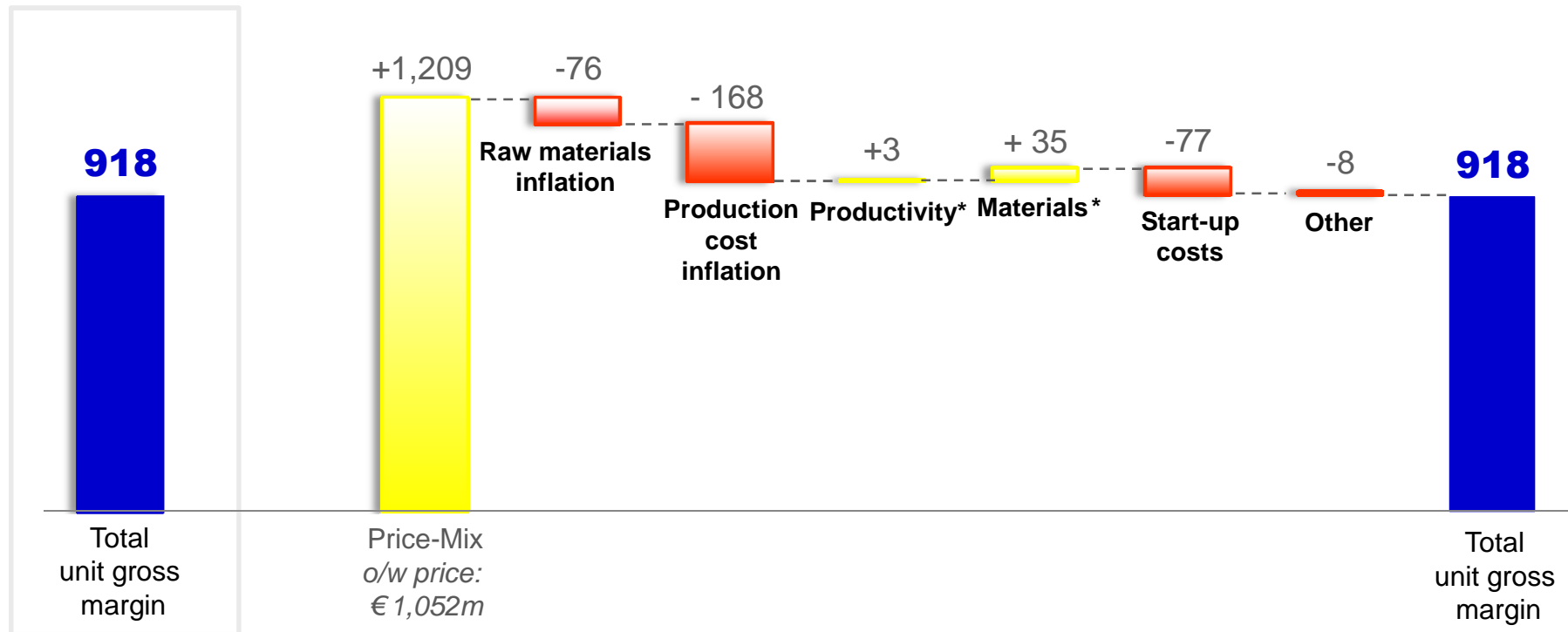
# Operating Income Lifted by the Improvement in Unit Gross Margin

**YoY Change**  
(in € millions)



# Unit Gross Margin Supported by the Efficient Pricing Policy and Premium Positioning

YoY change in components of unit gross margin  
(in € millions)

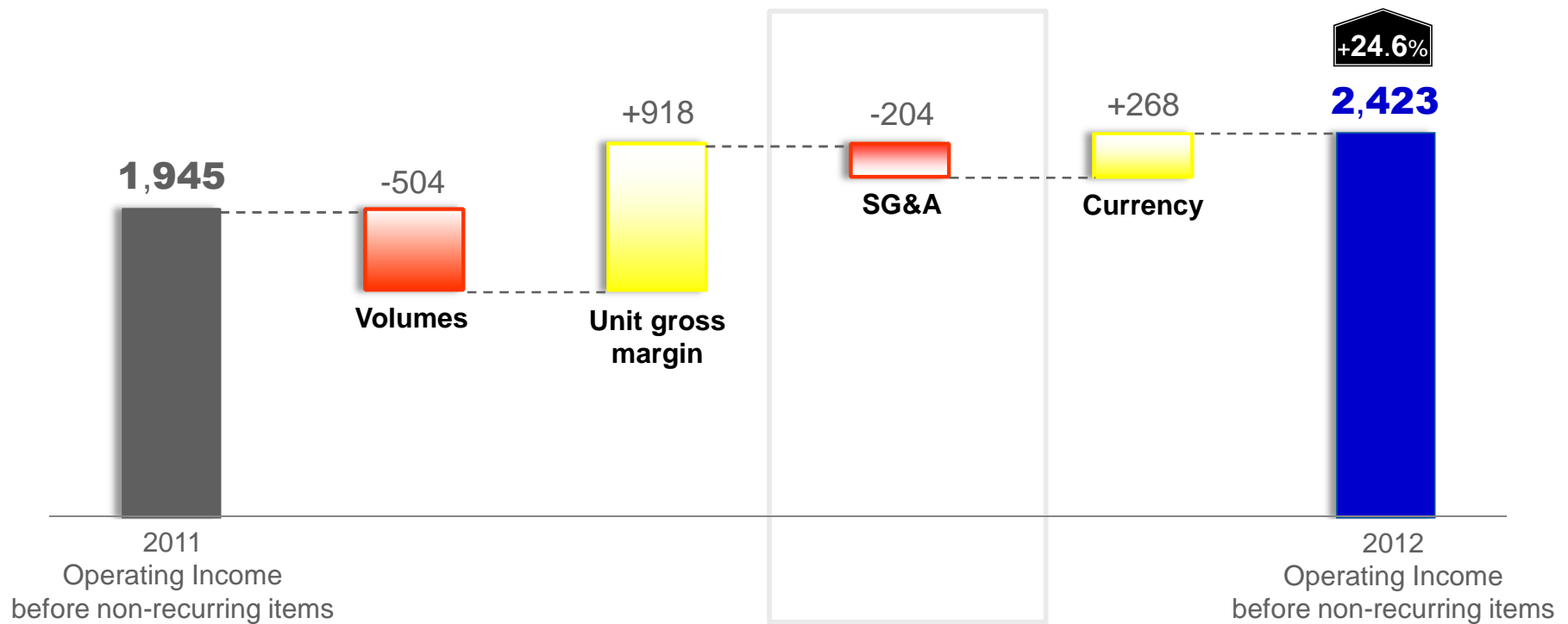


\* Part of the competitiveness plan



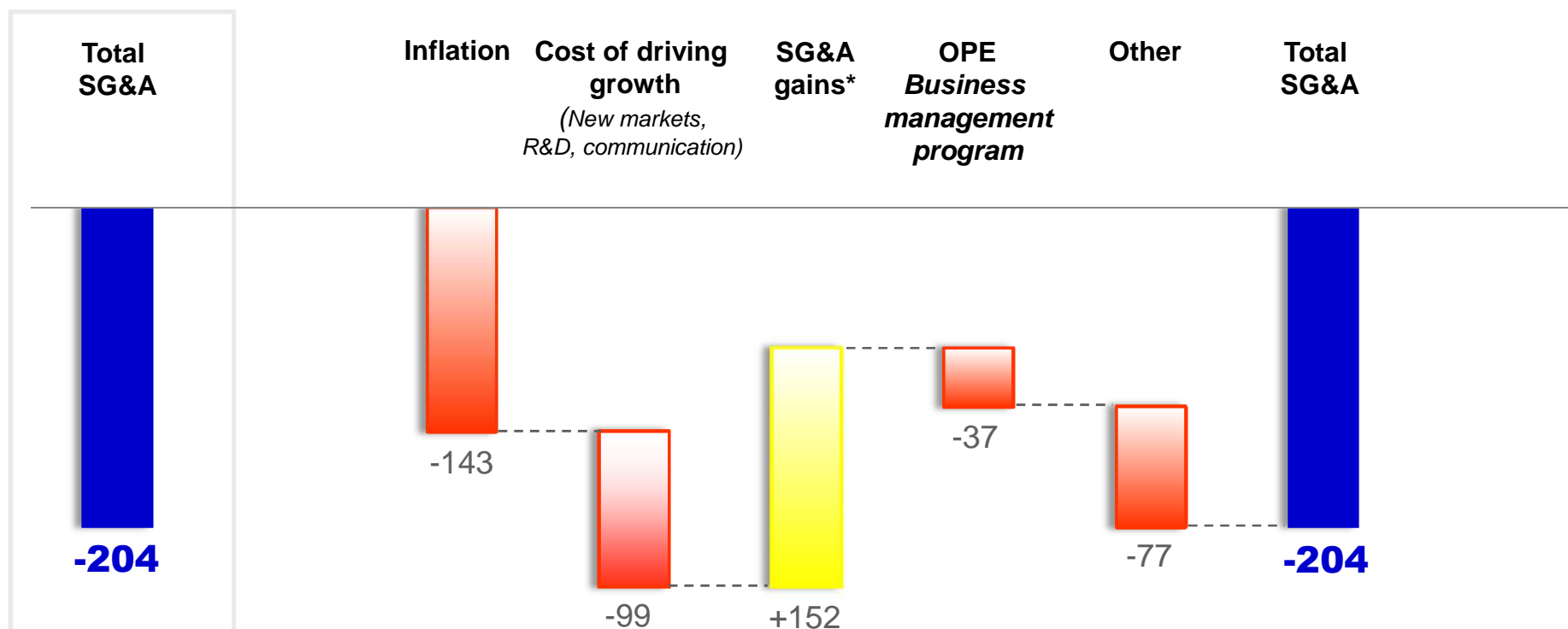
# Operating Income Lifted by the Improvement in Unit Gross Margin

**YoY Change**  
(in € millions)



# SG&A Expense: Initial Impact of the Competitiveness Plan

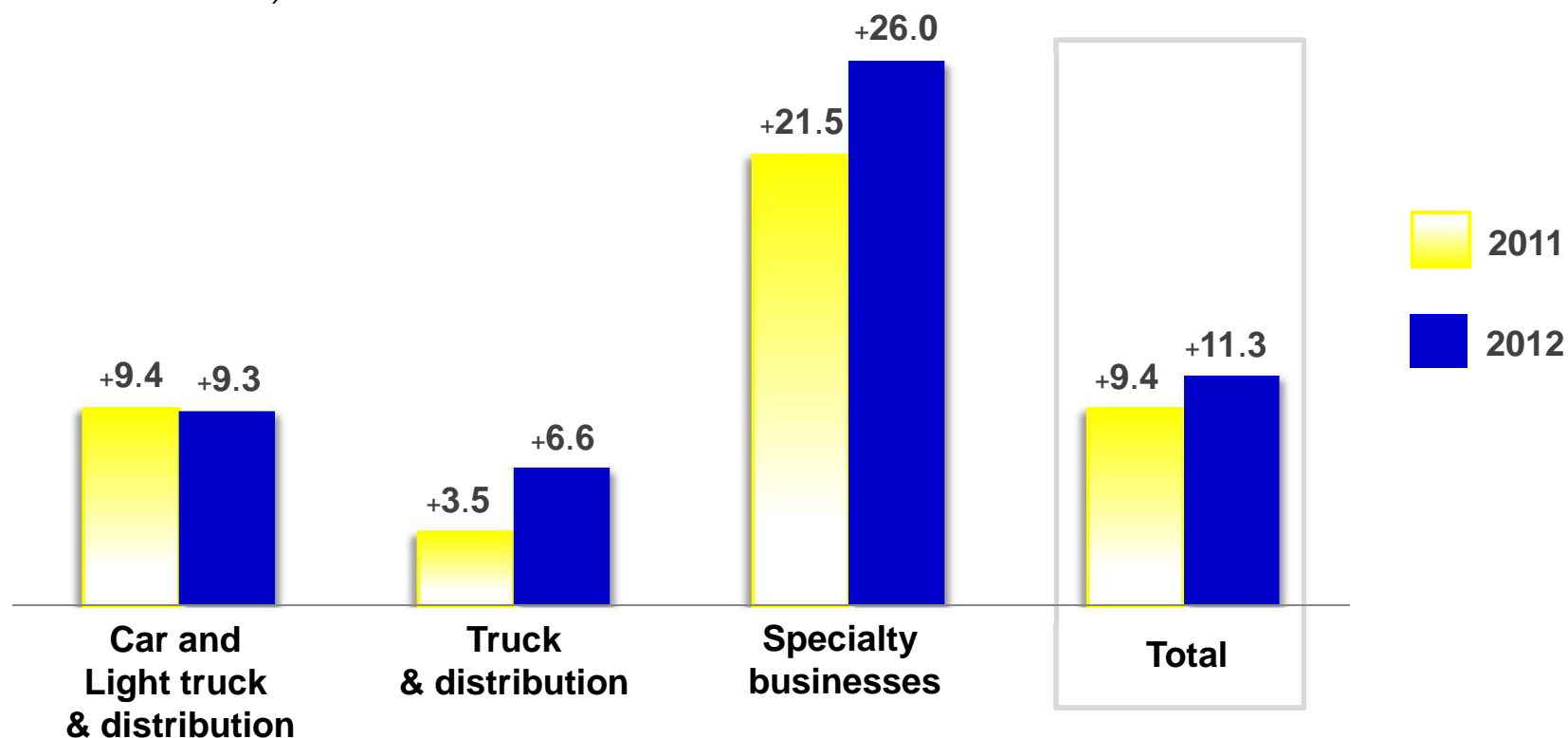
**YoY change in SG&A**  
(in € millions)



\* Part of the competitiveness plan


# Solid Results

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



# Solid Margins in Passenger Car and Light Truck Tires and Related Distribution

## Passenger car and Light truck (in € millions)

	2012	2011	Change
 <b>Net Sales</b> Volume growth	<b>11,098</b> -5.5%	10,780	+2.9%
 <b>Operating Income</b> (before non-recurring items)	<b>1,033</b>	1,018	+1.5%
<b>Operating Margin</b> (before non-recurring items)	<b>9.3%</b>	9.4%	-0.1 pt

- ▶ Firm pricing policy maintained
  - Application of contractual clauses indexing prices to raw material costs in OE had an unfavorable impact in the fourth quarter
- ▶ Sustained improvement in the mix, due to technology and the Michelin brand's premium positioning
  - Success of the Michelin Pilot Super Sport, Alpin 4, Defender and other product lines

# Restored Margins in Truck Tires and Related Distribution

## Truck

(in € millions)

	2012	2011	Change
<b>Net Sales</b>	<b>6,736</b>	6,718	+0.3%
Volume growth	-10.8%		
<b>Operating Income</b> (before non-recurring items)	<b>444</b>	233	+90.6%
<b>Operating Margin</b> (before non-recurring items)	<b>6.6%</b>	3.5%	+3.1 pt

- ▶ Priority focus on turning around the Truck tire business and restoring its margins
- ▶ Volumes reflect lackluster demand
- ▶ 39 product launches and success of the MultiWay product line
- ▶ Favorable impact of raw materials costs



# Specialty Businesses: Structurally High Margins

## Specialty Businesses

(in € millions)

	2012	2011	Change
 			
  <b>Net Sales</b> Volume growth	<b>3,640</b> <b>+1.7%</b>	3,221	+13.0%
<b>Operating Income</b> (before non-recurring items)	<b>946</b>	694	+36.3%
<b>Operating Margin</b> (before non-recurring items)	<b>26.0%</b>	21.5%	+4.5 pts

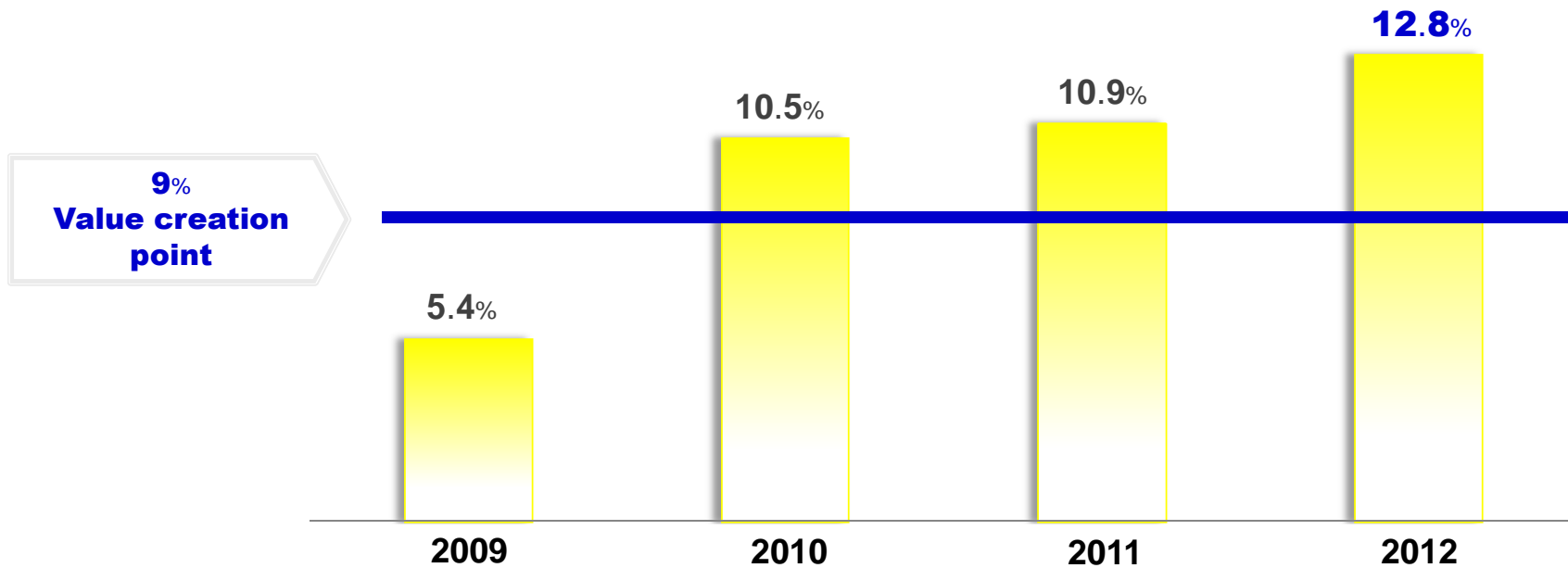
- ▶ Still buoyant mining market
- ▶ Sharp slowdown in Q4 in infrastructure, OE and RT Agricultural tires
- ▶ Rising impact of higher prices throughout the year
  - Price effect slightly negative in Q4 following contractual adjustments for lower raw materials costs
- ▶ Highly favorable currency effect

## Strong Growth in Net Income

<i>In € millions</i>	2012	2011
Net Sales	<b>21,474</b>	20,719
Operating Income <i>(before non-recurring items as a % of net sales)</i>	<b>2,423</b> 11.3%	1,945 9,4%
Non-Recurring Items	<b>46</b>	-
Operating Income	<b>2,469</b>	1,945
Cost of Net Debt	<b>(155)</b>	(206)
Other Financial Income & Expenses	<b>(22)</b>	236
Tax	<b>(736)</b>	(534)
Share of Profit from Associates	<b>15</b>	21
Net Income	<b>1,571</b>	1,462
Earnings per share	<b>8.62</b>	8.14

# Value Created: Sustained Improvement in ROCE despite Faster Deployment of the Capex Program

Return on capital employed (ROCE)



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## ROBUST BALANCE SHEET

## A Business that Structurally Generates Free Cash Flow

<i>In € millions</i>	2012	2011
<b>EBITDA</b>	<b>3,445</b>	<b>2,878</b>
Change in operating WCR	276	(912)
Restructuration Cash Costs	(93)	(145)
Other (Increase)/Decrease in Provisions	(124)	13
Other Operating WCR	271	(5)
<b>Cash Flow from Operations</b>	<b>3,775</b>	<b>1,829</b>
Taxes and Interest Paid	(849)	(632)
Routine Capital Expenditure <i>(Maintenance, IS/IT, Dealerships)</i>	(659)	(671)
<b>Available Cash Flow</b>	<b>2,267</b>	<b>526</b>
Growth Investments	(1,337)	(1,040)
Other Cash Flow from Investing Activities	145	495
<b>Free Cash Flow after Capital Expenditure</b>	<b>1,075</b>	<b>(19)</b>

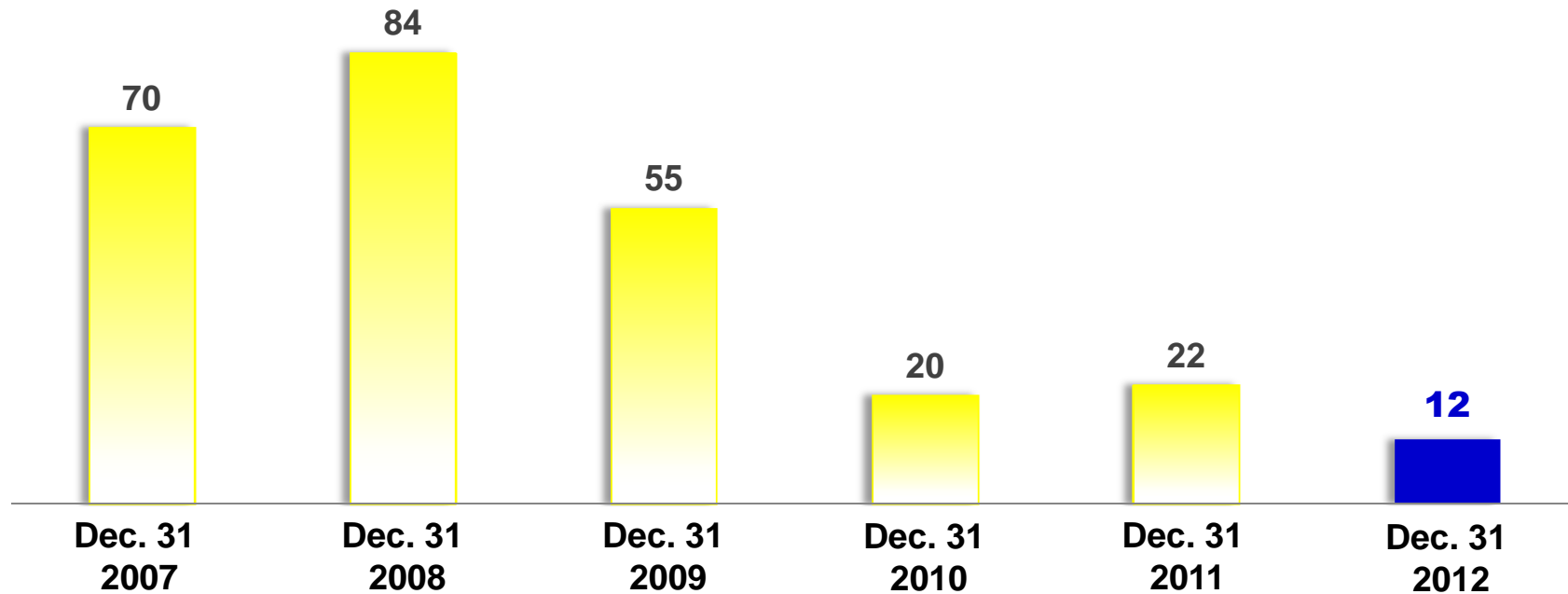
## A Business that Structurally Generates Free Cash Flow

<i>In € millions</i>	2012	2011
<b>Reported free cash flow <sup>(1)</sup></b>	1,075	- 19
<b>WCR impact of raw materials costs <sup>(2)</sup></b>	+ 21	- 739
<b>WCR year-end volume effect <sup>(3)</sup></b>	+ 344	- 200
<b>One off <sup>(4)</sup></b> <i>(Sales of Hankook shares in 2011, sale of the Parisian building in 2012)</i>	+ 111	+ 403
<b>Structural free cash flow <sup>(1) – (2) – (3) – (4)</sup></b>	<b>599</b>	<b>517</b>

- ▶ Clear improvement in EBITDA
  - Structurally high profitability
- ▶ High capex

# Robust Balance Sheet

## Gearing – Net debt/equity (in %)



**S&P and Moody's have upgraded their ratings to respectively BBB+ et Baa1**

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## ANNUAL RESULTS

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## RESULTS OF THE COMPETITIVENESS PLAN



# 2012-2016 competitiveness plan: €1 billion (before inflation and including avoided costs)

	<b>SG&amp;A</b>	<b>Materials used</b>	<b>Manufacturing and Transport</b>
<b>Objective:</b>	-€200m/ -€300m	-€200m	-€500m/ -€600m
<b>Impacts operating income in:</b>	SG&A	Unit gross margin	Unit gross margin / Productivity
<b>Enablers</b>	<ul style="list-style-type: none"> <li>▶ Efficiency program</li> <li>▶ OPE</li> <li>▶ Shared Service Centers, etc.</li> </ul>	<ul style="list-style-type: none"> <li>▶ New lines</li> <li>▶ New materials</li> <li>▶ Scrap process materials, etc.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Best practices (MMW)</li> <li>▶ Standardization</li> <li>▶ Flexibility</li> </ul>

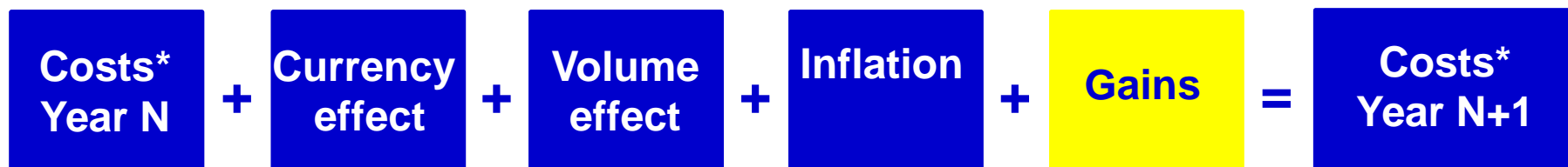
# A Disciplined Method for Valuing Gains

## ► Calculating productivity gains

### ■ Principle:

- Highlight productivity gains before inflation, non-recurring items, the OPE program, depreciation and amortization
- Volume effect based on growth in unit gross margin before start-up costs and at constant exchange rates.

### ■ Method for valuing gains:

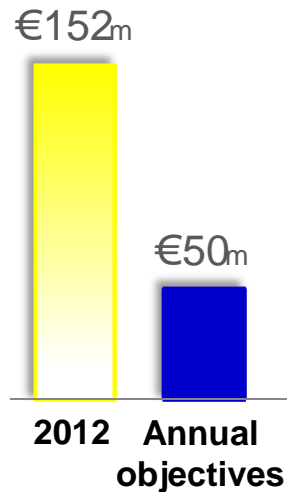


\* Before depreciation and amortization charges

# Competitiveness Plan: €190 million in Gains in 2012, Held Back by Weak Volumes



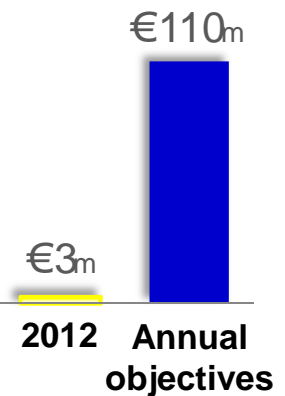
SG&A



Materials

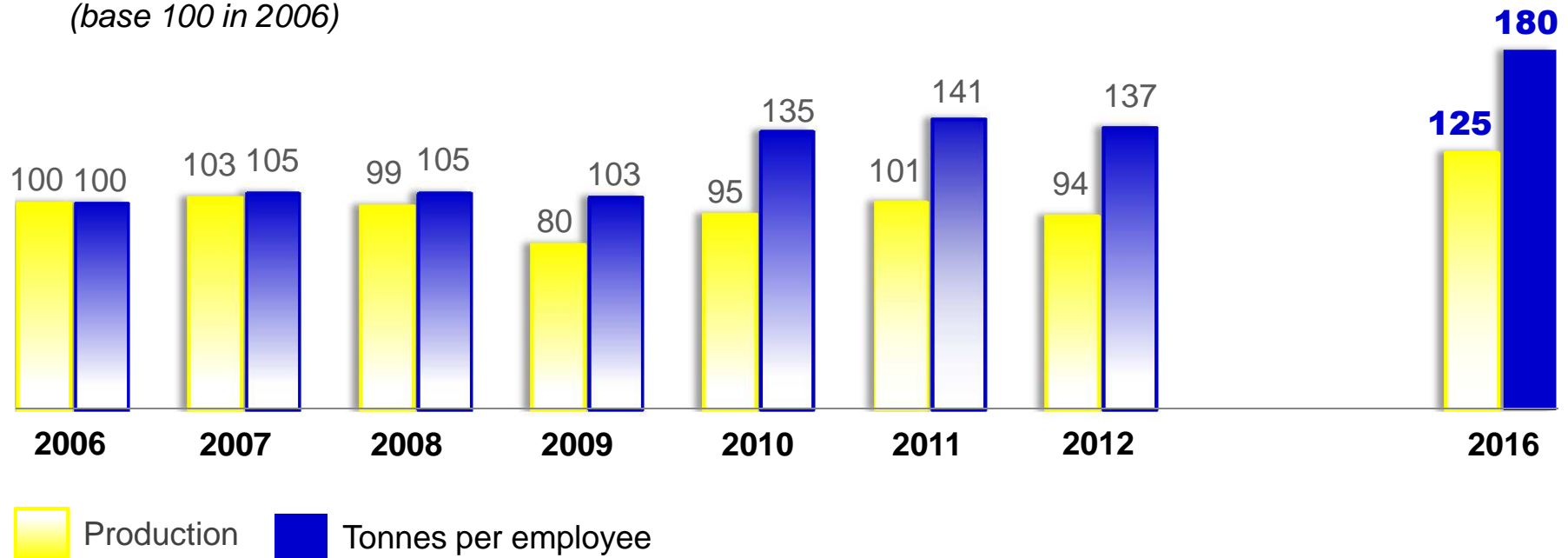


Manufacturing –  
transport



# Improving Output per Employee

**Tonnes per employee**  
(base 100 in 2006)

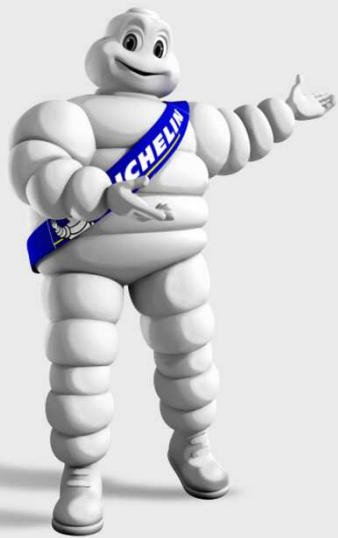


**2005 / 2010: continuous improvement + industrial footprint**  
**2011 / 2015: continuous improvement + growth**

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## ANNUAL RESULTS

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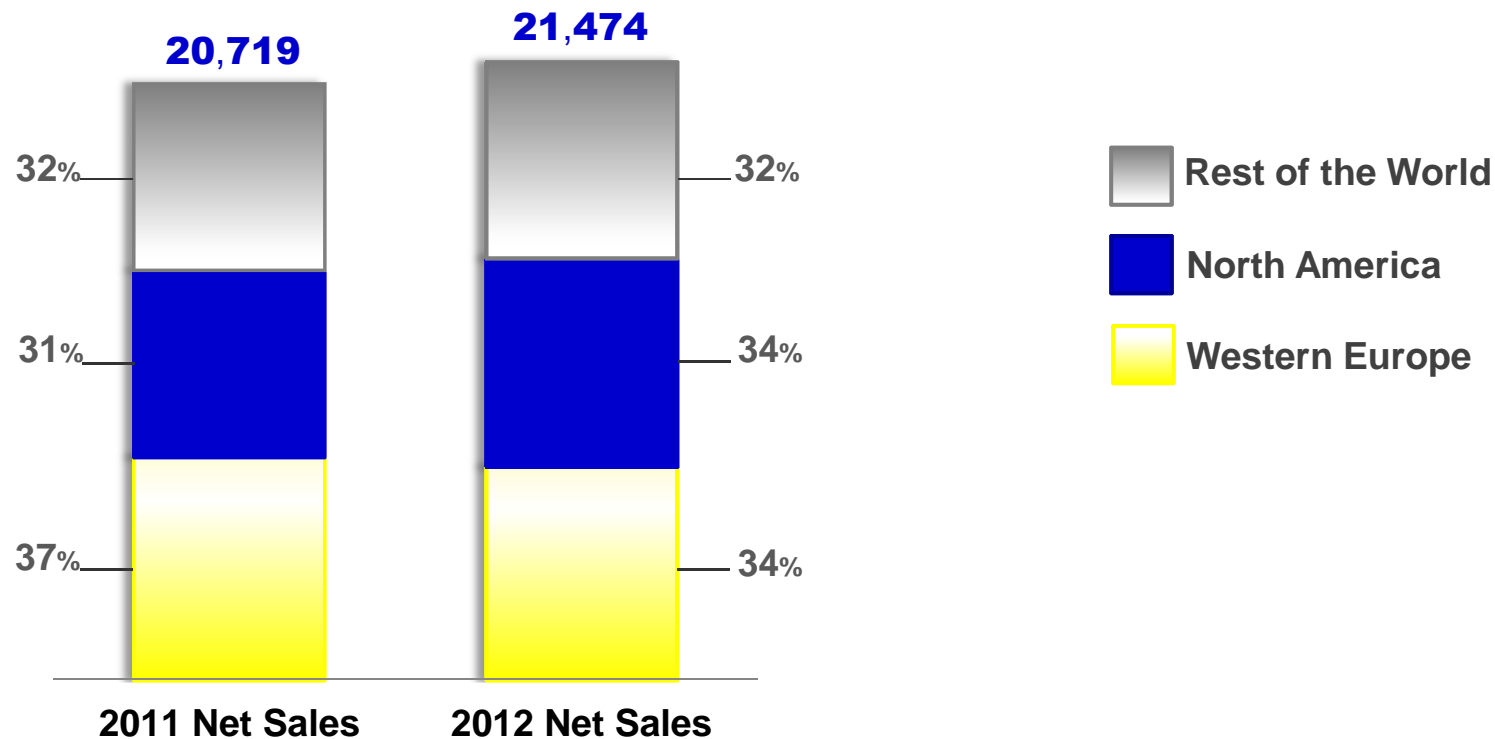
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## WIDE-RANGING PRODUCT PORTFOLIO AND GEOGRAPHIC EXPOSURE

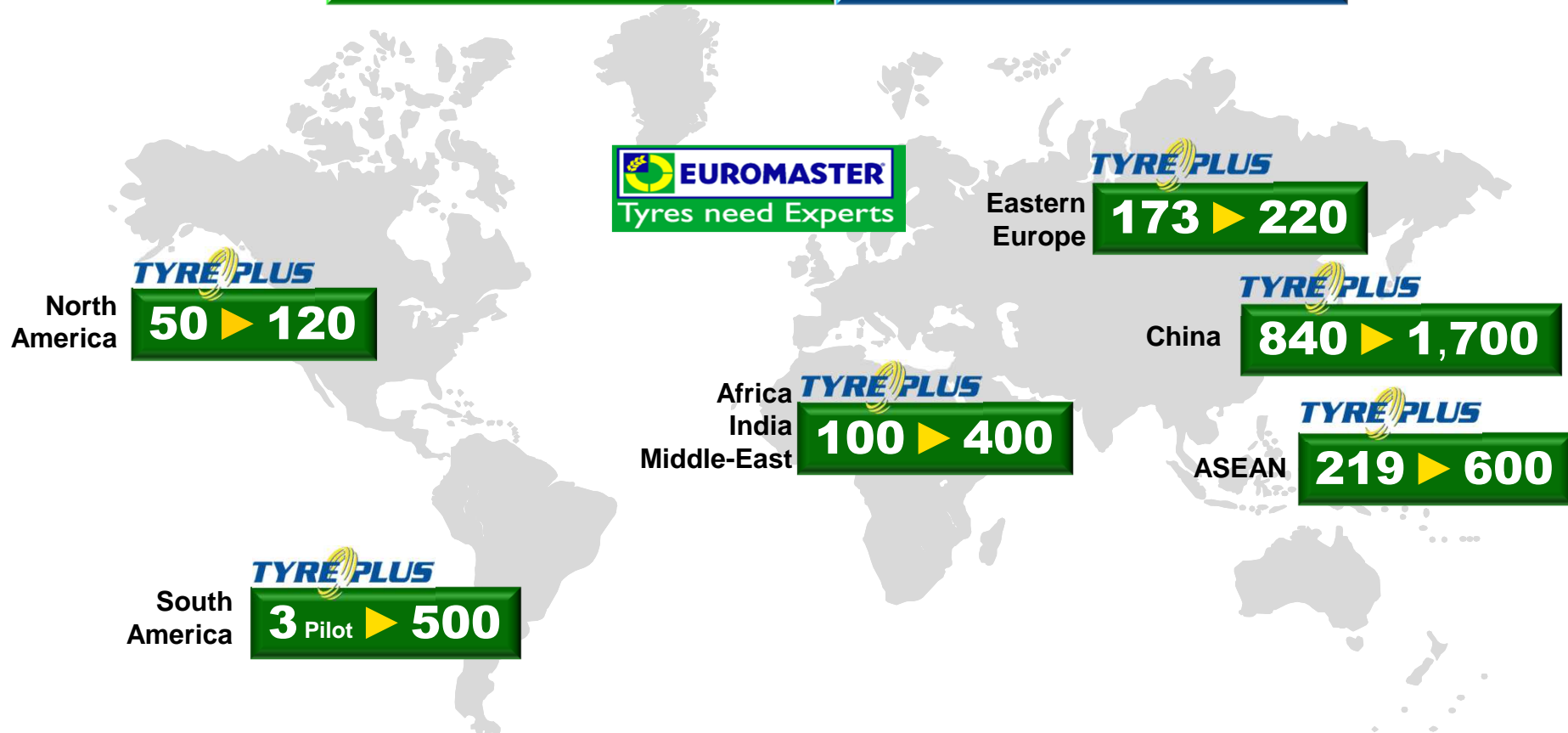
# Balanced Geographic Exposure

## Net sales by region

(as a % of net sales and in € millions)

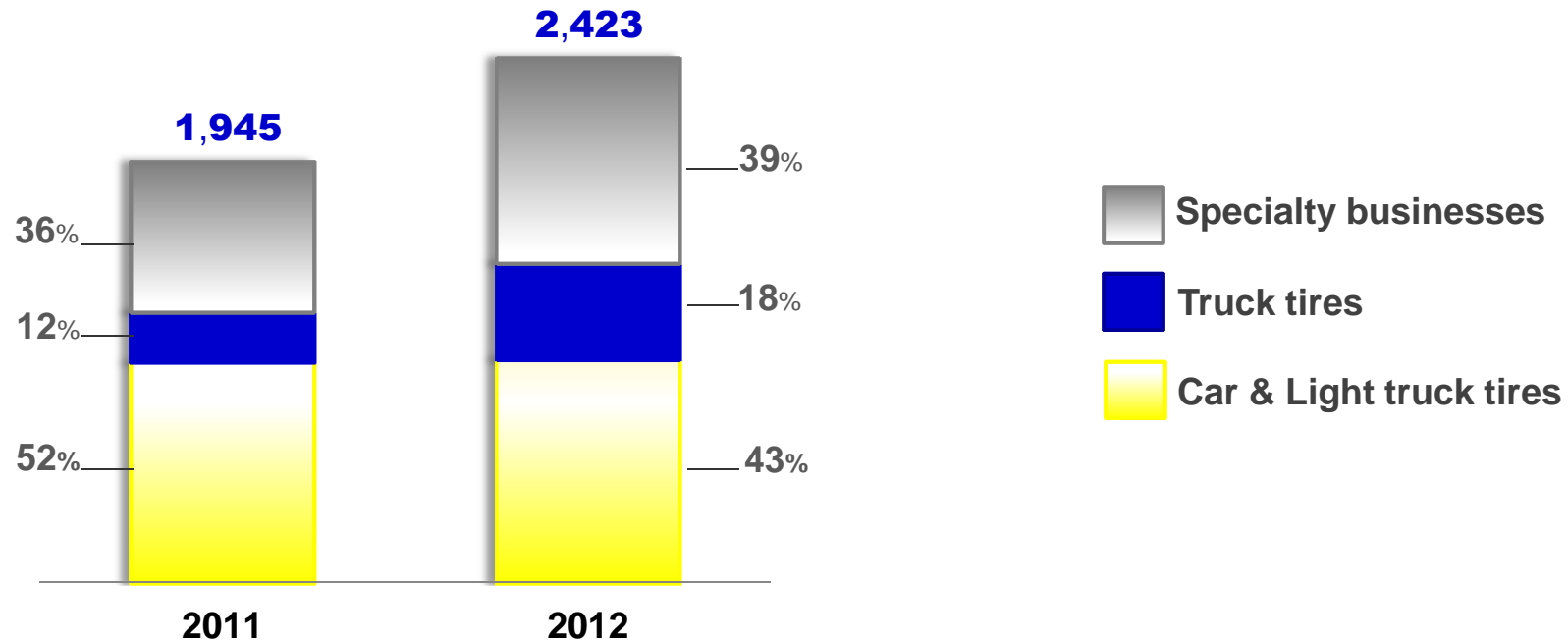


# A Vast Network of Franchised Dealers: 2,000 Points of Sale Today to 5,000 by 2017



# A Balanced Business Portfolio

**Operating income by business**  
(as a % of € million operating income)

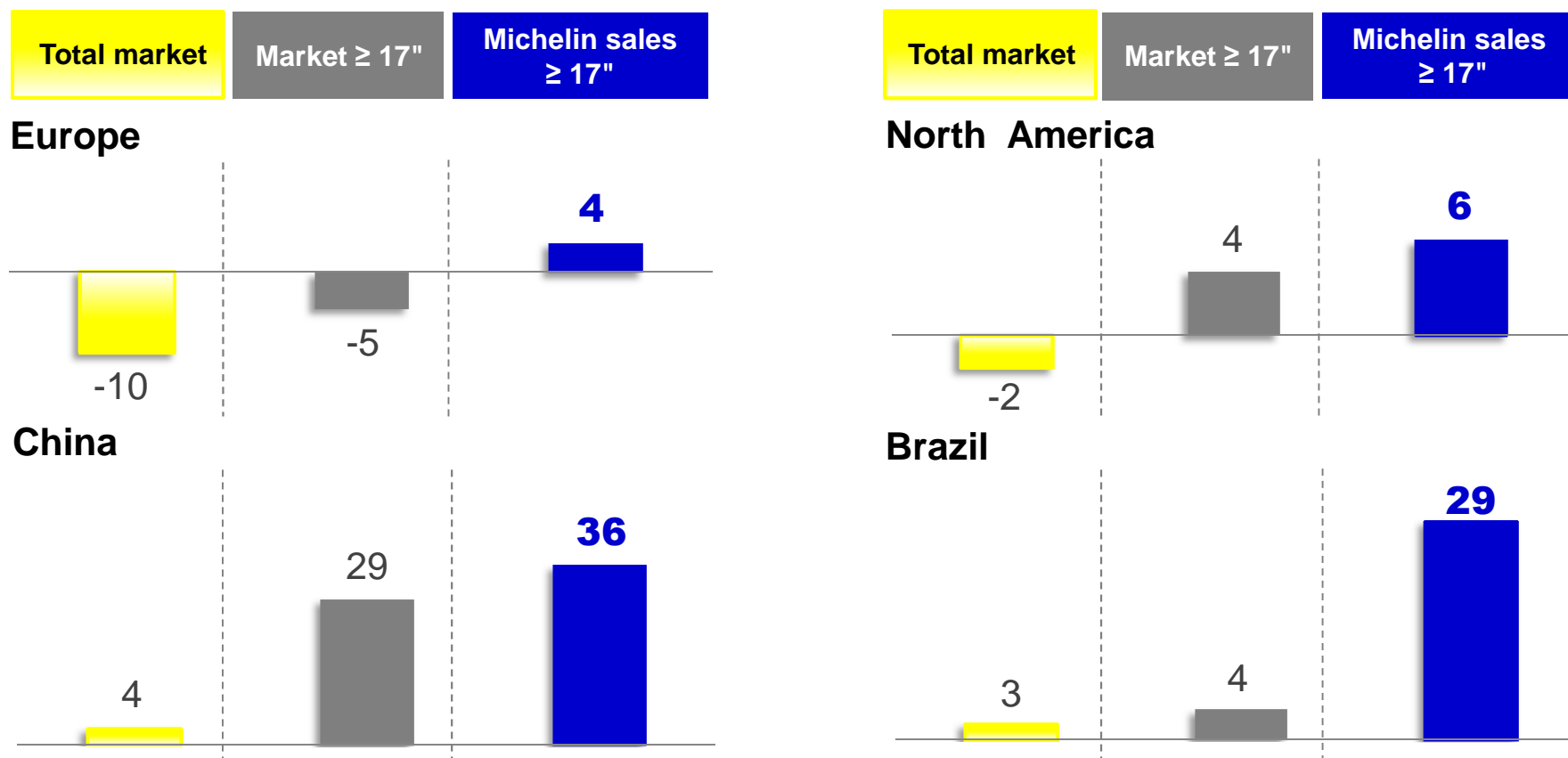




# PC/LT Premium: Strong Growth Opportunity Seized by Michelin

## Growth in the replacement Car & Light truck market

(2012 vs. 2011 in %)



Source: Michelin



# Michelin is Well Positioned to Capture Global Market Growth

## ► Factors driving demand

- Markets: growth in world population
- Michelin strengths: balanced geographic exposure and wide-ranging product portfolio

## ► Improving profitability

- Margin improvement targets for the Truck tires business
- Growing contribution from the Specialty Businesses
- The highest prices the market will bare
- 2015 target: €2.9 billion



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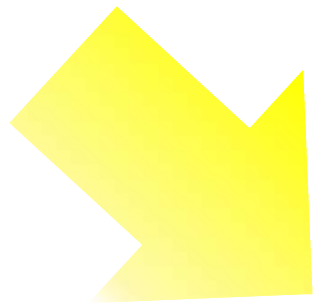
**ANNUAL RESULTS**



**6 OUTLOOK**

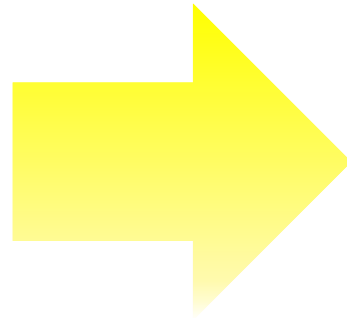


## 2013 Demand: Uncertain in Mature Markets, Rising in the New Markets



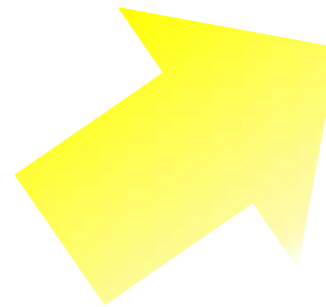
Europe

Car &  
Light truck  
+  
Truck



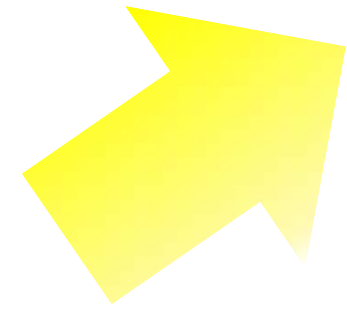
North America

Car &  
Light truck  
+  
Truck



New markets

Car &  
Light truck  
+  
Truck

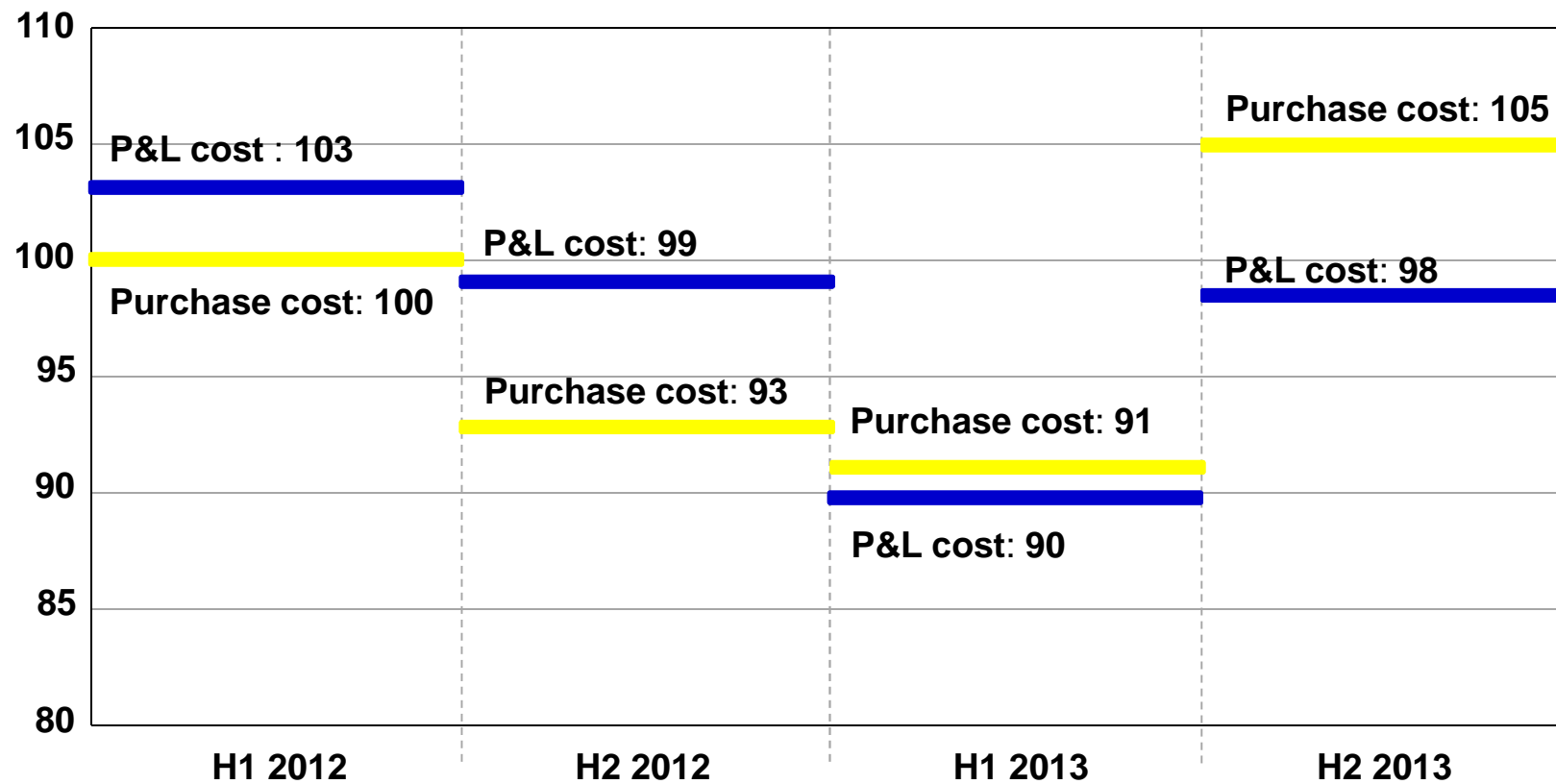


Mining markets

# Raw Materials: €350 – 400 million Favorable Impact, mainly in the First Half

## Michelin assumptions for 2013

with € 1 = 1.311 USD



# Itatiaia - Brazil Car & Light Truck

- ▶ 1<sup>st</sup> tire: February 9, 2012
- ▶ Capacity late 2013: 17,000 tonnes



## Shenyang 2 - China Truck and Car & Light Truck

- ▶ 1<sup>st</sup> Truck tire: January 26, 2013
- ▶ 1<sup>st</sup> Car & Light Truck tire: mid-2013
- ▶ 2013 capacity: 25,000 tonnes





# Chennai – India Truck



► 1<sup>st</sup> Truck tire:  
2<sup>nd</sup> half 2013





# Anderson, SC – USA Earthmover



## ▶ Anderson

- 1<sup>st</sup> tire: late 2013

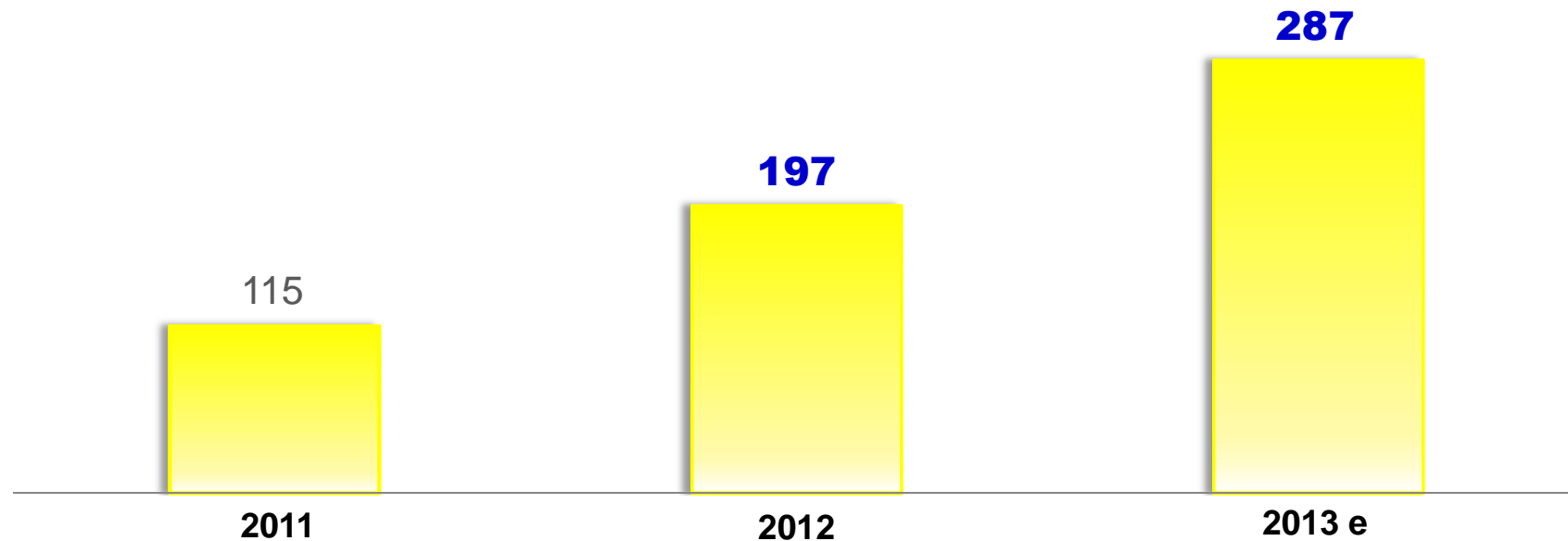
## ▶ Lexington

- 1<sup>st</sup> tire: late 2013
- Increasing capacity in line with market growth

# Start-up Costs on the Rise as the New Plants Come on Stream

## Start-up costs

(in € millions, at current exchange rates)



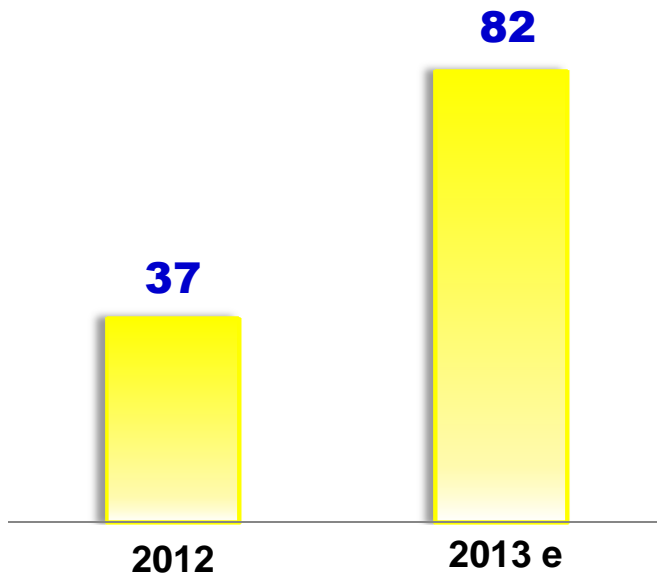
# Managing the Business: Becoming more Agile and Competitive

## Deploying new, standardized, cross-functional operating procedures and information systems

- ▶ Increase sales and market share by offering customers differentiating services
- ▶ Increase the efficiency of accounting & finance, purchasing and sales administration processes
- ▶ Significantly improve supply chain responsiveness and reduce inventory
- ▶ Manage margins more precisely and reduce production costs

# Managing the Business: Becoming more Agile and Competitive

## Costs of deploying the new OPE business management program (in € millions)



- ▶ Annual program costs: around €100 million over the next five years
- ▶ Expected outcomes in 2017:
  - At least a €250 million reduction in inventory
  - At least a €200 million reduction in annual SG&A and supply chain costs

## Guidance: 2013, a Year of Transition

- ▶ Stable volumes
- ▶ Still favorable impact from prices and raw materials
  - Slightly unfavorable impact from prices, primarily due to the application of raw-materials related indexation clauses
    - 30% of net sales are covered by raw materials clauses
    - Clauses triggered a further downward adjustment in prices in early 2013
    - Selected tactical repositionings in replacement markets
  - Lower raw materials costs will save €350-400 million
- ▶ Stable operating income before non-recurring items, based on today's exchange rates
- ▶ Positive free cash flow
  - Capex of between €1.8 billion and €2.2 billion
- ▶ ROCE exceeding 10%

## 2015 Outlook Confirmed

- ▶ 2015 Operating Income before non-recurring items: around €2.9bn
- ▶ Normalized Segment performance:
  - Car & Light truck operating margin before NR items: 10% -12%
  - Truck operating margin before NR items: 7% - 9%
  - Specialty operating margin before NR items: 20% - 24%
- ▶ 2013-2015 capex: €1.8bn - €2.2bn per year
- ▶ Positive free cash flow every year
- ▶ ROCE > 10% each year

# Key Takeaways

- ▶ Benefits of the global, multi-business strategy
- ▶ Benefits of the positioning in the Specialty and Premium markets
- ▶ Solid year
- ▶ Structural generation of free cash flow
- ▶ 2013, a year of transition
- ▶ Further improvements in operational efficiency in the pipeline

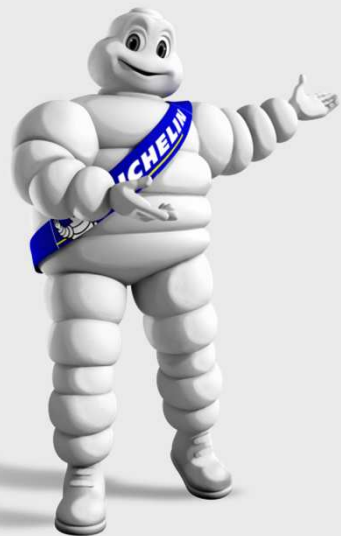


February 12, 2013

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## ANNUAL RESULTS

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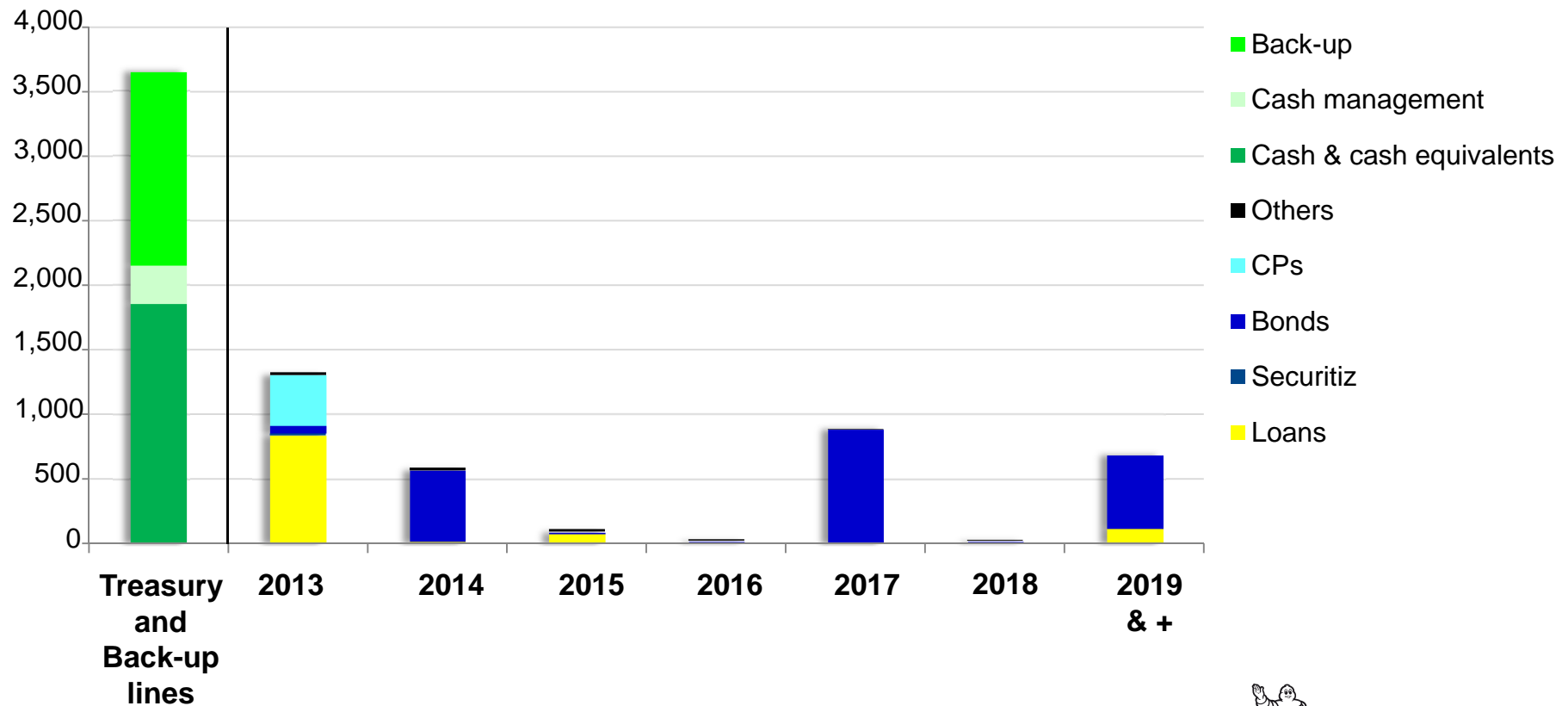
# APPENDICES



# A Comfortable Cash Position

## Debt maturities at December 31, 2012

(Nominal value, in € millions)



## Impact on the 2012 Income Statement of the Change in Accounting for Employee Benefits (IAS19)

<i>In € millions</i>	2012 reported	Accounting change	2012 adjusted for IAS19
Net Sales	21,474	-	21,474
Operating Income <i>before non-recurring items</i>	2,423	+55	2,478
<b>Operating Income</b>	<b>2,469</b>	<b>+55</b>	<b>2,524</b>
Interest Costs <sup>(1)</sup>	(162)	-175	(337)
<b>Income before Taxes</b>	<b>2,307</b>	<b>-120</b>	<b>2,187</b>
Income Tax	(736)	+40	(696)
<b>Net Income</b>	<b>1,571</b>	<b>-80</b>	<b>1,491</b>

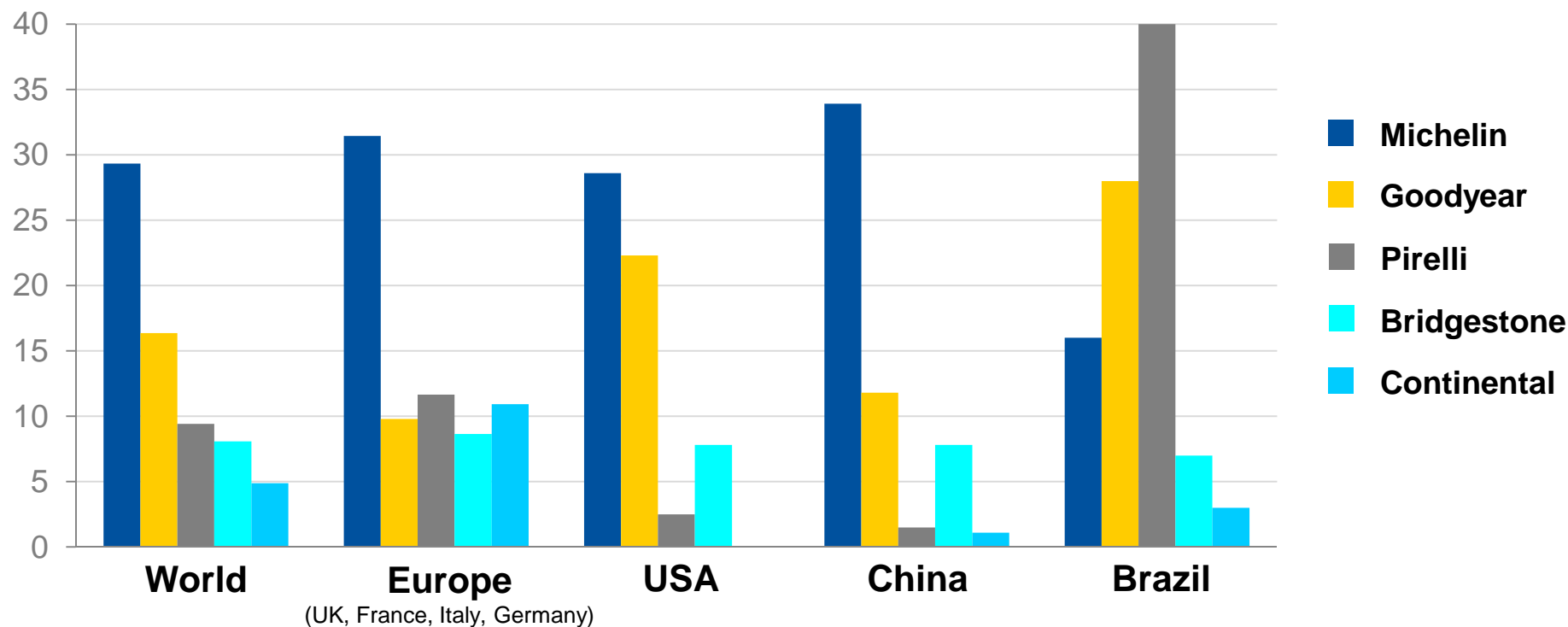
<sup>(1)</sup> Including associates

## Impact on the 2012 Balance Sheet of the Change in Accounting for Employee Benefits (IAS19)

<i>In € millions</i>	2012 reported	Accounting change	2012 adjusted for IAS19
<b>Non-current assets</b>	<b>11,428</b>	<b>- 22</b>	<b>11,406</b>
of which deferred tax assets	1,530	- 22	1,508
<b>Current assets</b>	<b>10,154</b>	<b>-</b>	<b>10,154</b>
<b>Total assets</b>	<b>21,582</b>	<b>- 22</b>	<b>21,560</b>

<b>Equity</b>	<b>8,501</b>	<b>+34</b>	<b>8,535</b>
<b>Non-current liabilities</b>	<b>7,644</b>	<b>- 56</b>	<b>7,588</b>
of which employee benefit obligations	4,679	- 56	4,623
<b>Current liabilities</b>	<b>5,437</b>	<b>-</b>	<b>5,437</b>
<b>Total Equity and Liabilities</b>	<b>21,582</b>	<b>- 22</b>	<b>21,560</b>

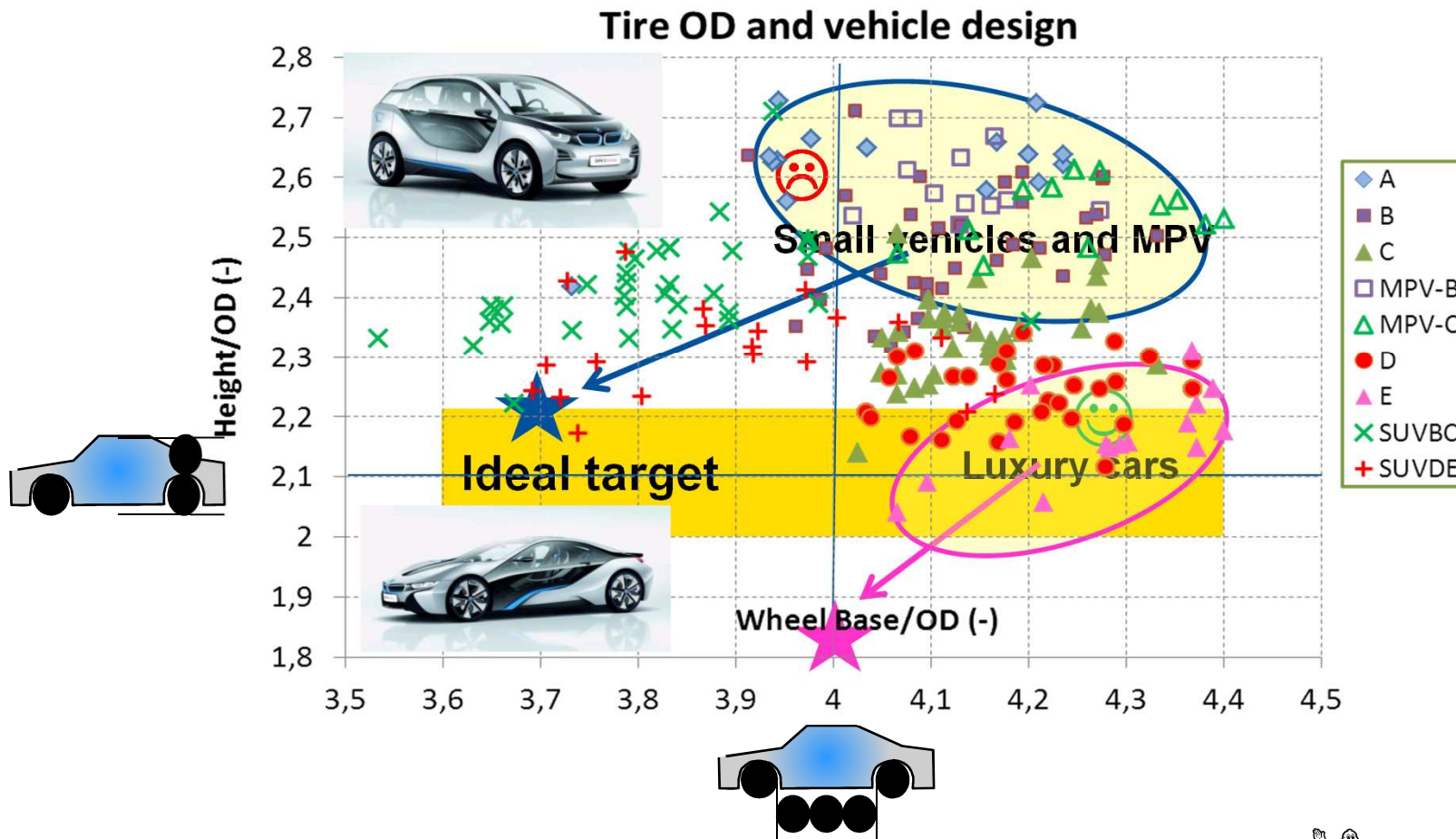
## The Brand Preferred by Premium Consumers with Strong Equity across Key Geographies



Source: 2011 Results Brand Health Research, TNS, Lieberman and Nielsen



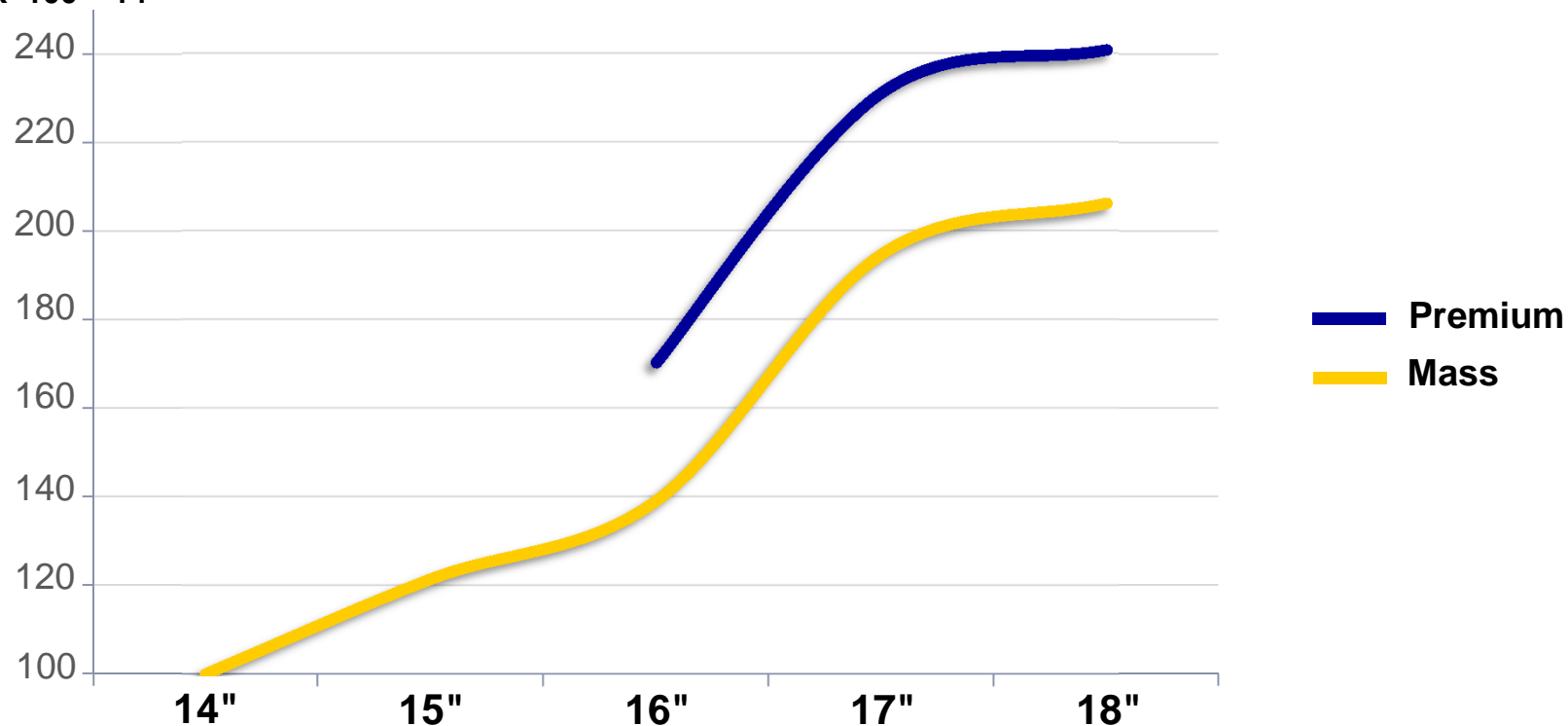
# Car Design Drives Tire Premiumization: Trend for Bigger Wheel Diameter



# Consumers are Ready to Premiumize Price Expectations Reflect Market Upgrading

Question: On average, what price would you be prepared to pay for a tyre?  
We are talking about the tyre alone, not including fitting, balancing or valve-fitting.

Price expectation  
Index 100 = 14"

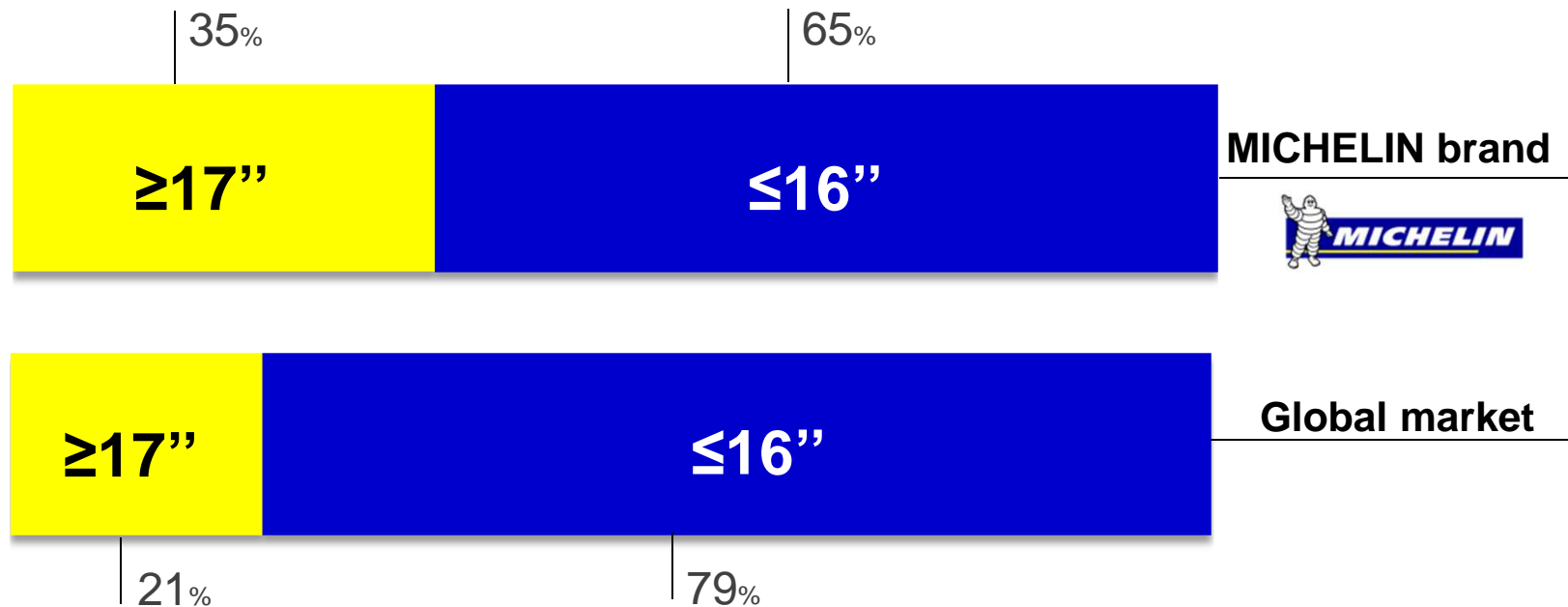


Source: Perceived value Survey Europe G5



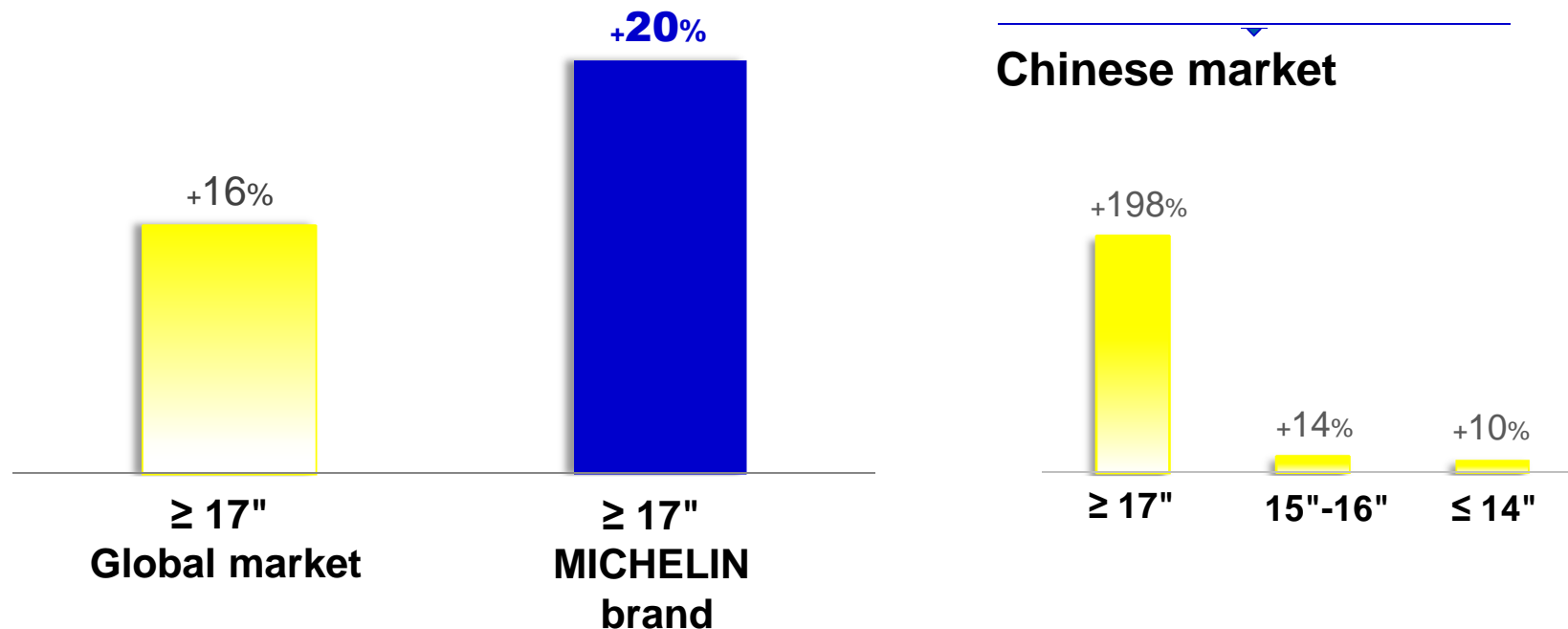
# MICHELIN: Leading the Market in Premium Tires

2012 Passenger Car and Light Truck tire market by size  
(in number of tires)



# MICHELIN: Leading the Market in Premium Tires

Average annual growth (2009 – 2012)



Source: Michelin





# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ► Support growth:

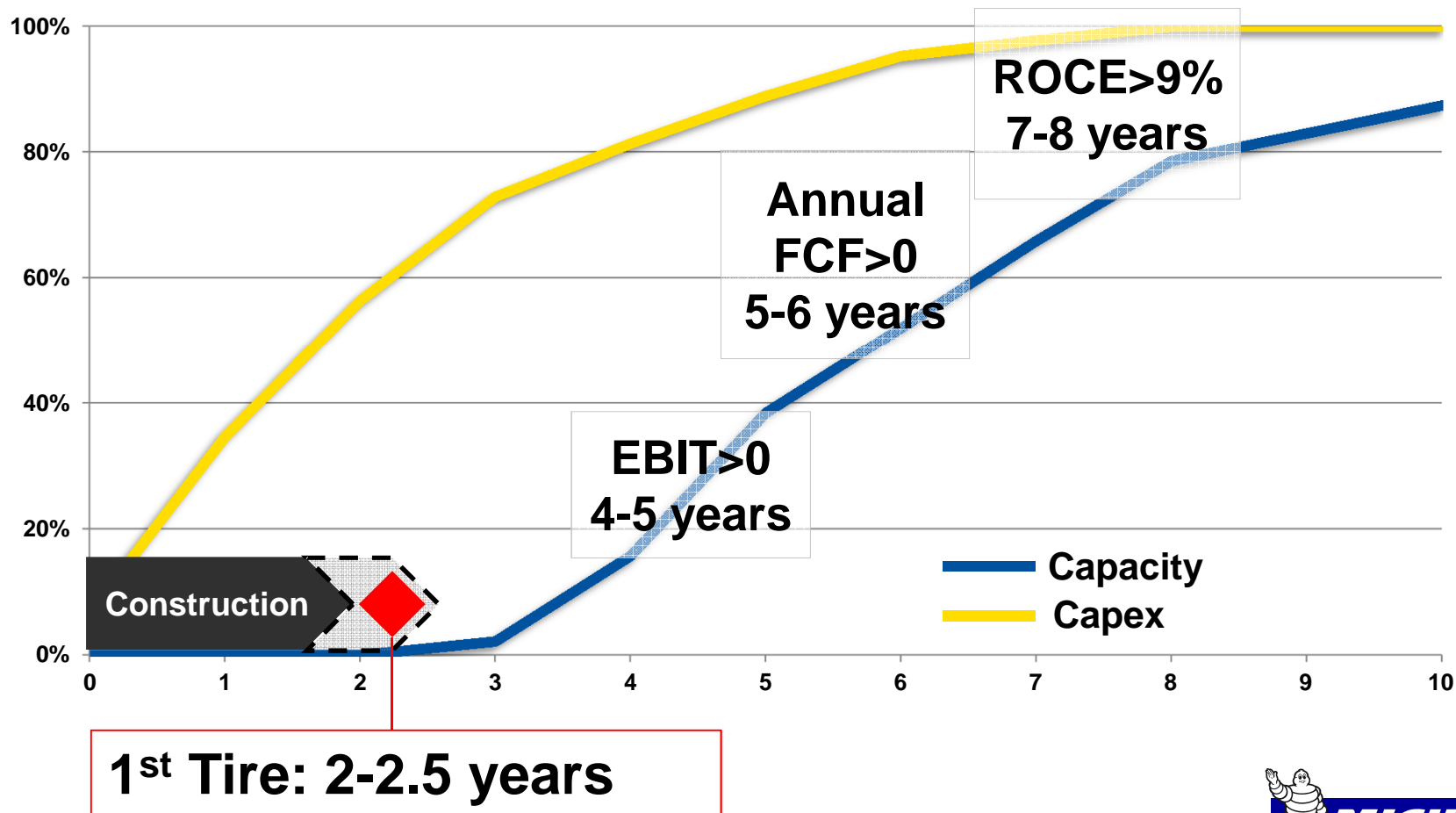
- Mixing facilities
- Cable capacity
- Elastomer capacity

► **2012-2015 capex** : €500m to €550m per year



# Towards a profitable growth

## Return on a 200 KT greenfield project



# Passenger Car and Light Truck Tires Markets

## Markets at February 28, 2013

(% change YoY, based on number of tires)

### February 2013 / 2012

Market	Europe*	North America	Brazil	China
Original Equipment	▼ -13%	▼ -0%	▲ +9%	▼ -13%
Replacement	▼ -8%	▼ -6%	▲ +9%	▼ -10%

### YTD (from January to February 2013)

Market	Europe*	North America	Brazil	China
Original Equipment	▼ -11%	▲ +4%	▲ +15%	▲ +17%
Replacement	▼ -8%	▼ -2%	▲ +9%	▲ +7%

\* Russia and Turkey included



# Truck Tires Markets

## Markets at February 28, 2013

(% change YoY, based on number of tires)

### February 2013 / 2012

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▼ -1%	▼ -14%	▲ +16%
Replacement	▲ +6%	▼ -7%	▼ -2%

### YTD (from January to February 2013)

Market (Radial)	Europe*	North America	Brazil
Original Equipment	▲ +1%	▼ -10%	▲ +43%
Replacement	▲ +7%	▼ -4%	▲ +5%

\* Russia and Turkey included

# Contacts

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