



# North America Roadshow Macquarie Capital

November, 2012



# OUTLINE



01

High profitability in first-half 2012

02

Structurally expanding markets

03

Widening our leadership in the premium segment

04

Increasing the contribution of the specialty businesses

05

Strengthening our presence in the growth regions

06

Updated Prospects for 2015





01

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# High profitability in first-half 2012





# High Profitability Supported by the Group's Global Strategy

- €1,320m in **operating income before non-recurring items**, up 36% vs. H1 2011, reflecting:
  - *The Group's strategy and competitive advantages*
    - **Global footprint**
    - **High margins in the Specialty businesses**
    - **Premium positioning**
  - *Quality of management*
    - **Favorable combination of a strong price effect and a less negative impact from raw materials costs**
    - **Improved margins in Truck tires**
- **Volumes** down 8.3%, at a time of weak demand in Europe
- **Free cash flow** at breakeven





# Financial Highlights

2012 & 2011 figures as reported

In € millions	H1 2012	H1 2011
Net Sales	10,706	10,105
Operating Income before non-recurring items	1,320	971
Operating Margin before non-recurring items	12.3%	9.6%
Net Income	915	667
Investment	660	554
Net Debt-to-Equity Ratio	26%	27%
Free Cash Flow*	7	(634)

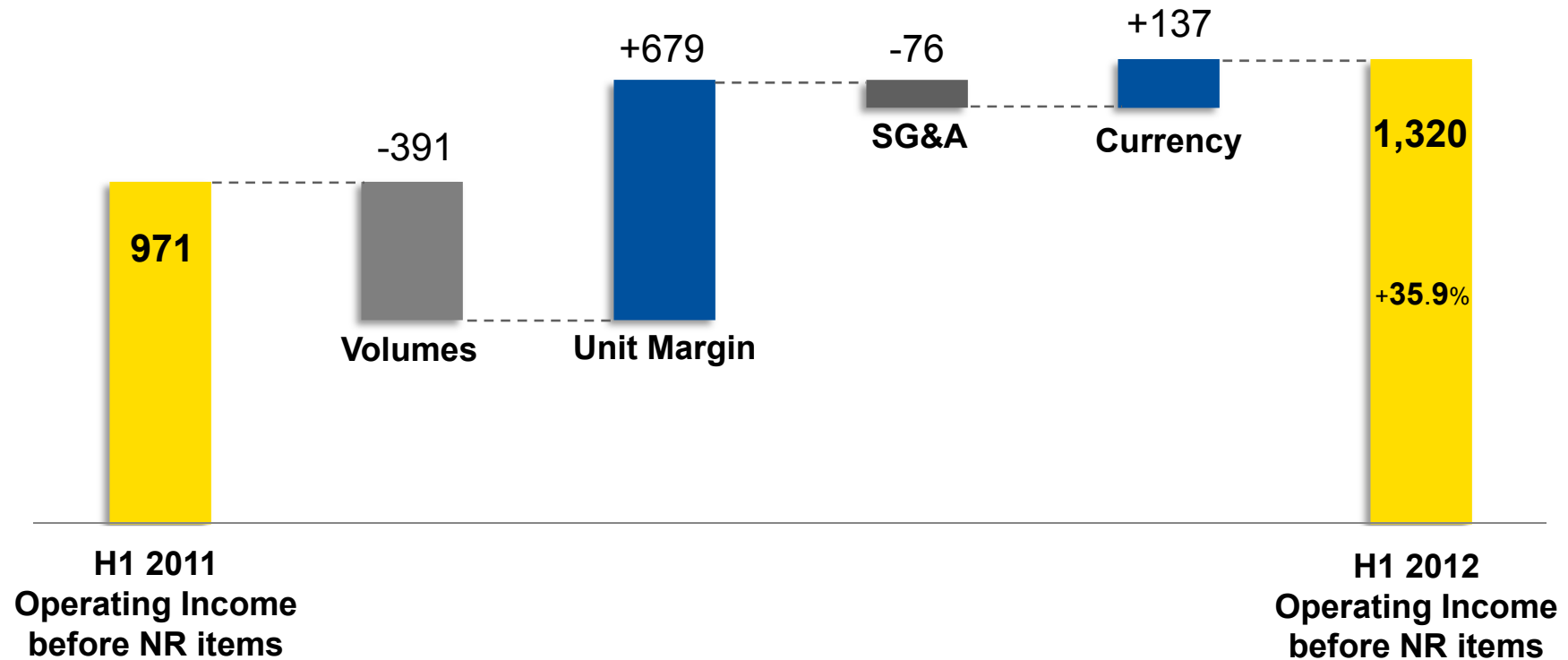
\*Cash flows from operating activities less cash flows used in investing activities





# Growth in Operating Income Led by an Improved Unit Margin

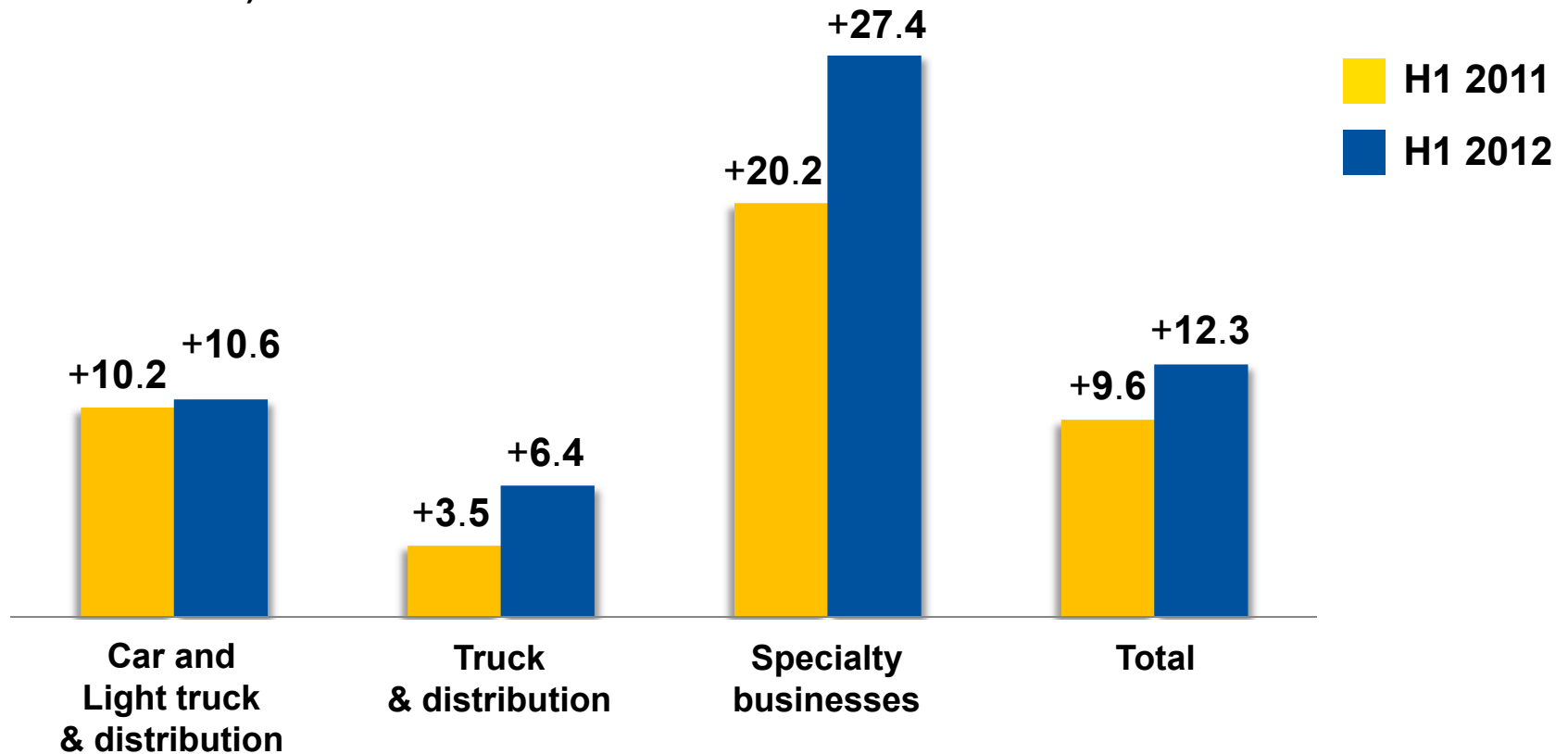
YoY change  
(in € millions)





# Operating Margin Up in Every Business

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





02

# Structurally expanding markets

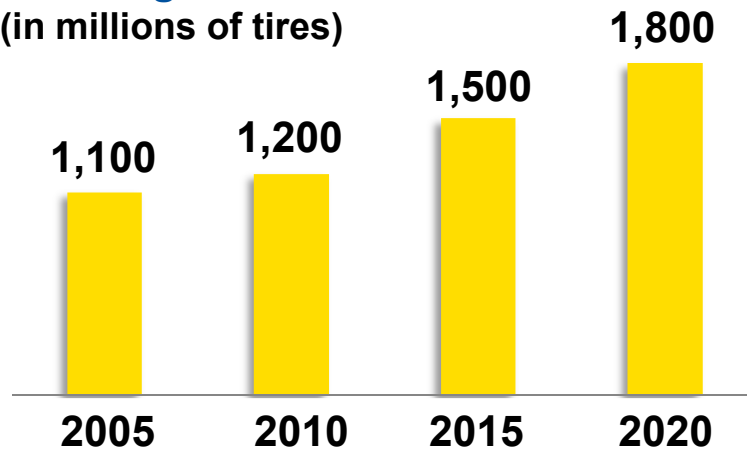




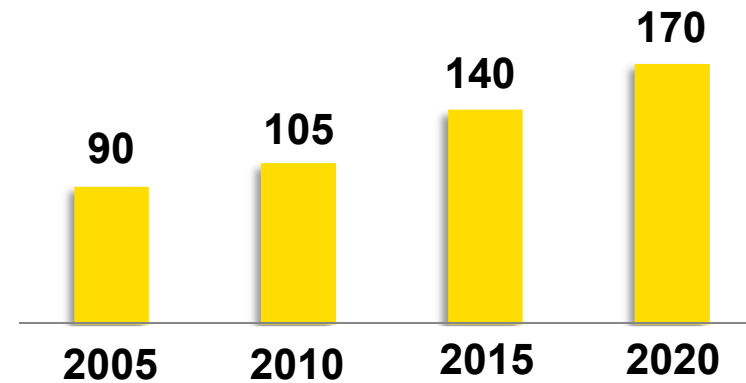


# Tire Markets are Structurally Expanding Over the Mid and Long Terms

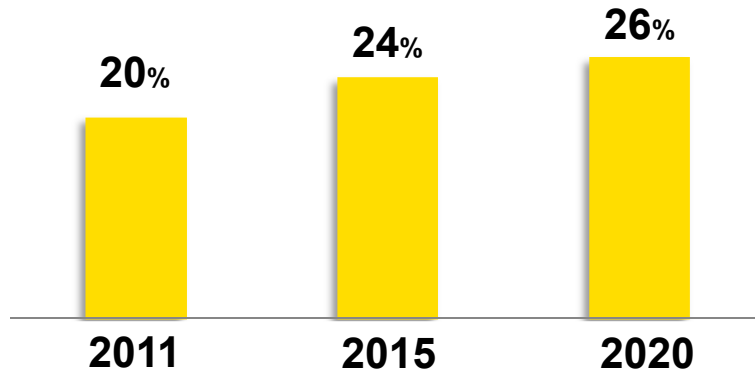
**Car & Light truck tire market**  
(in millions of tires)



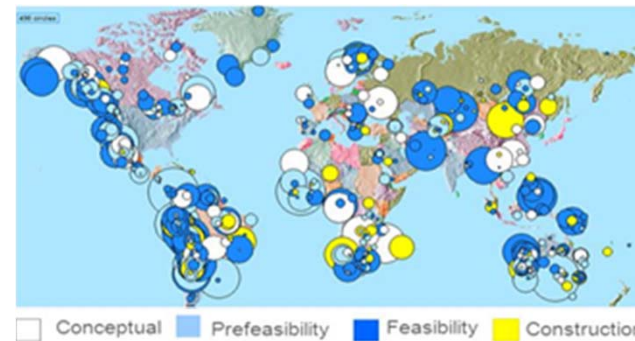
**New radial Truck tire market**  
(in millions of tires)



**% of 17" and over in the total market**



**Mine Greenfield projects (sized by Mt/yr)**



Source: RMG





03

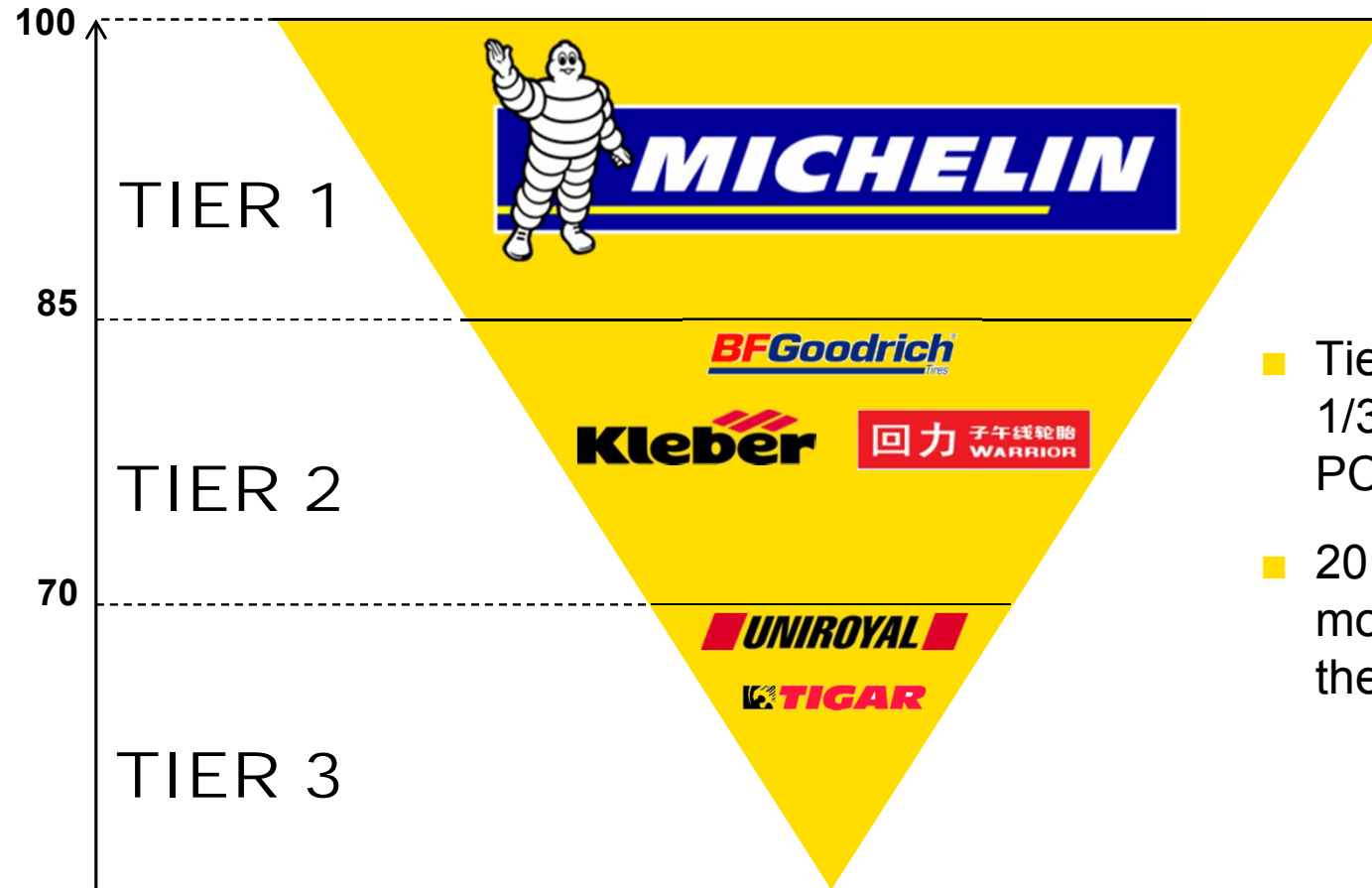
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## Widening our leadership in the premium segment





# MICHELIN: a 100% Premium Brand in Every Market



Price positioning  
(100 = Michelin)

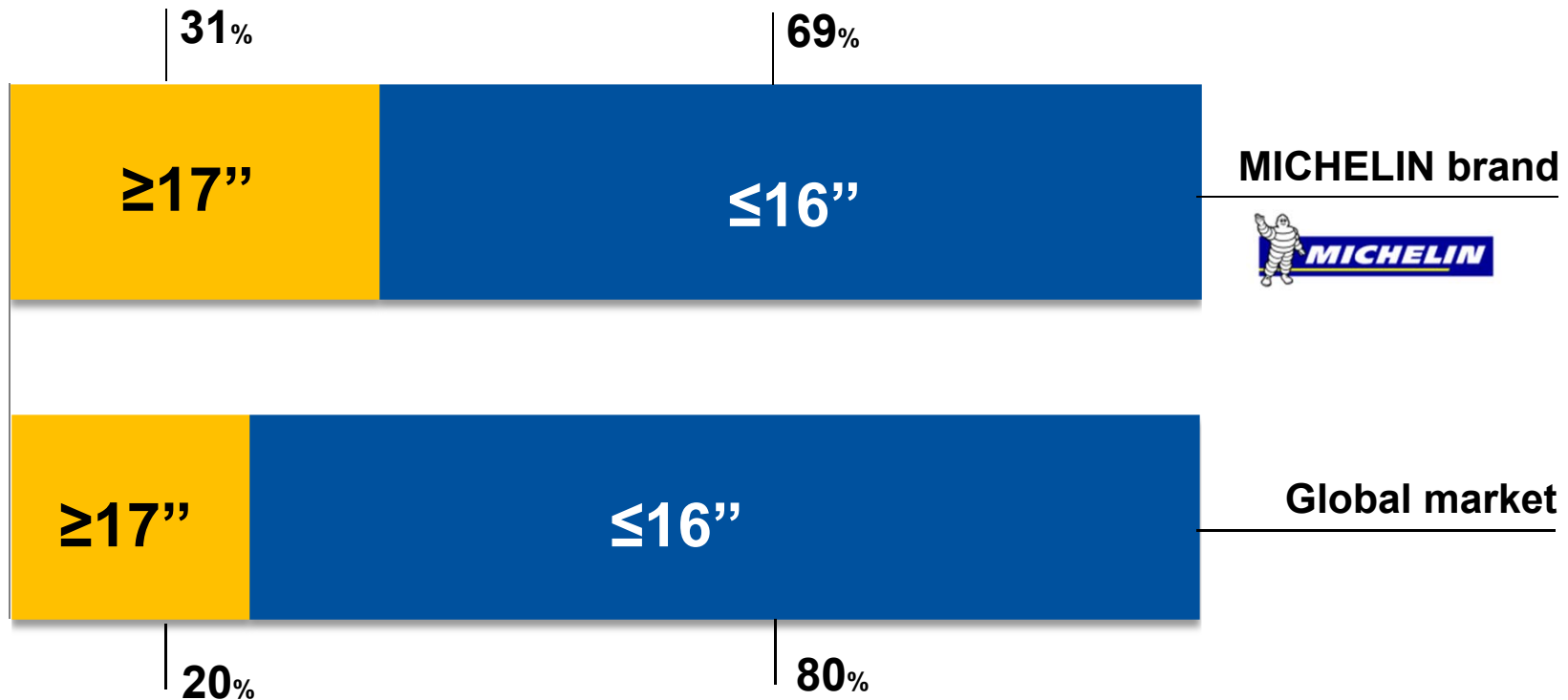
- Tier 1 segment:  
1/3 of the global  
PC/LT tire market
- 2011 sales:  
more than 70% under  
the MICHELIN brand





# MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

Share by PC/LT tire seat size



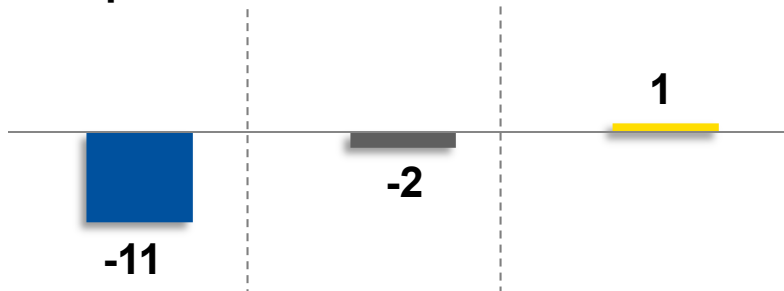


# Premium: Strong Growth Opportunity Seized by Michelin

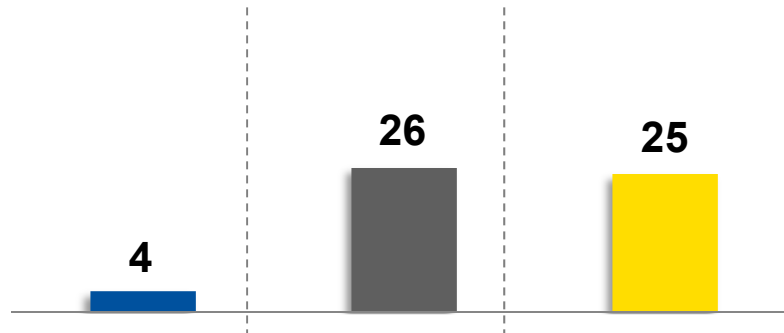
Growth in the replacement Car & Light truck market  
( H1 2012 vs. H1 2011 in %)



Europe



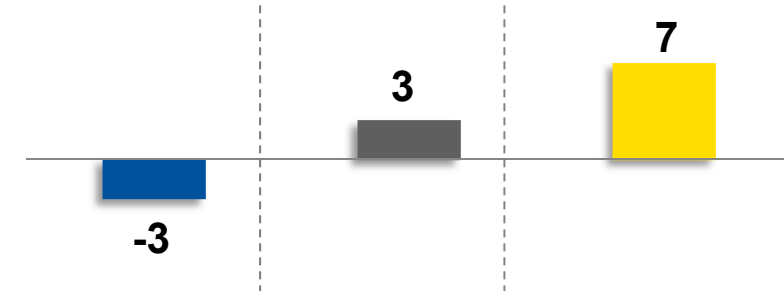
China



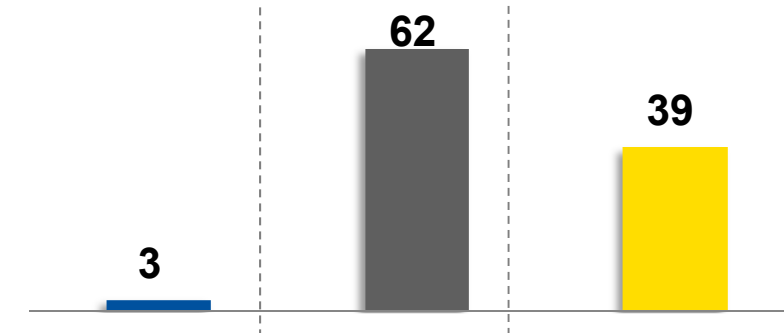
Source: Michelin



North America



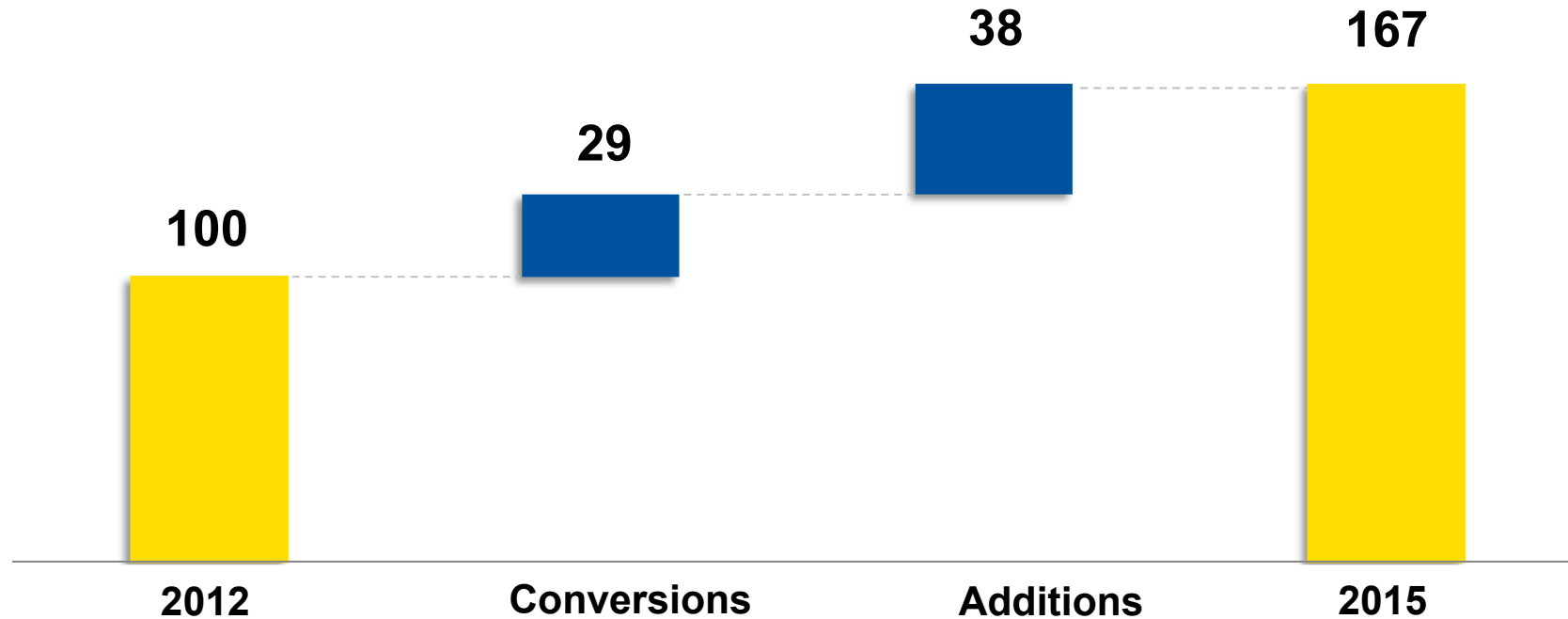
Brazil





# More Capacity to Keep Up with Growing Demand and Widen our Leadership

Group 17" & above capacity  
(base 100 in millions of tires, all brands)





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# Increasing the contribution of the specialty businesses





# Michelin is the Market Leader in Every Specialty Tire Business

## Market leader

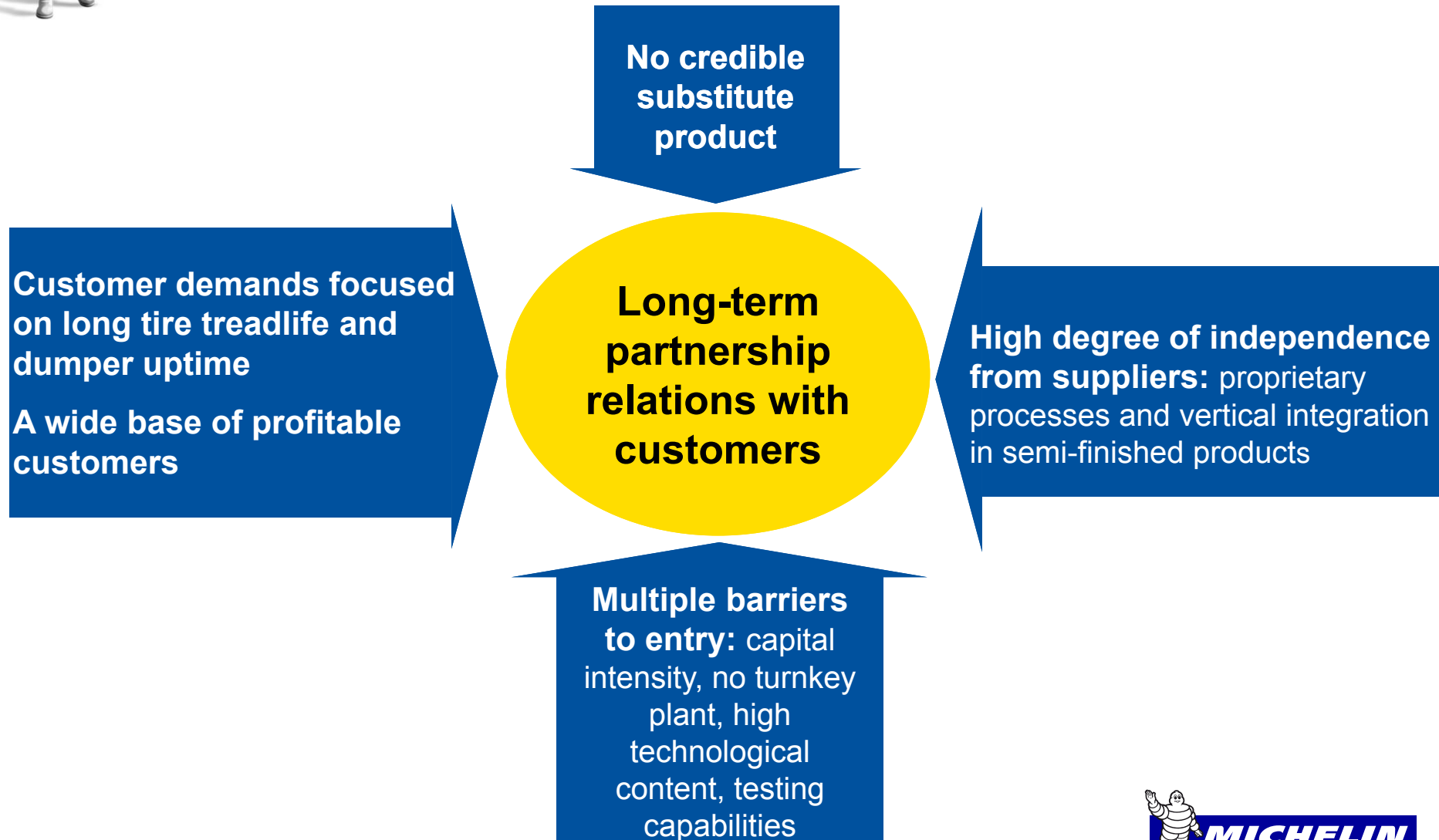
<b>Earthmover</b>	 <b>MICHELIN</b> in radials
Mines	 <b>MICHELIN</b> (co-leader)
Original Equipment	 <b>MICHELIN</b> (co-leader)
Infrastructure	 <b>MICHELIN</b>
<b>Agricultural</b>	 <b>MICHELIN</b> in Europe
Original Equipment	 <b>MICHELIN</b> in Europe
Replacement	 <b>MICHELIN</b>  in Europe
<b>Two-Wheel</b>	 <b>MICHELIN</b> (co-leader) in mature markets
<b>Aircraft</b>	 <b>MICHELIN</b>







# Mining Business: Favorable, Enduring Market Structure





# Mining Business: Favorable Growth and Profitability Outlook

- **Clear visibility thanks to multi-year contracts:**

- **Sales trends:**

*sustained growth in mining markets*

- **Margin trends:**

*long-term contracts with raw materials indexing clauses*

- **Favorable customer mix**





# Investing to Enhance our Competitive Advantage

## ■ Faster investment in Earthmover Tires

- *Capital projects of giant tires (57" & 63") in the United States: \$750 million*
  - Anderson: new plant, first tire in late 2013
  - Lexington: fifth and final phase of the extension
- *Indian project to be finalized*

Higher capital intensity  
with a HIGHER ROI





# Proprietary Production Processes: a Barrier to Entry





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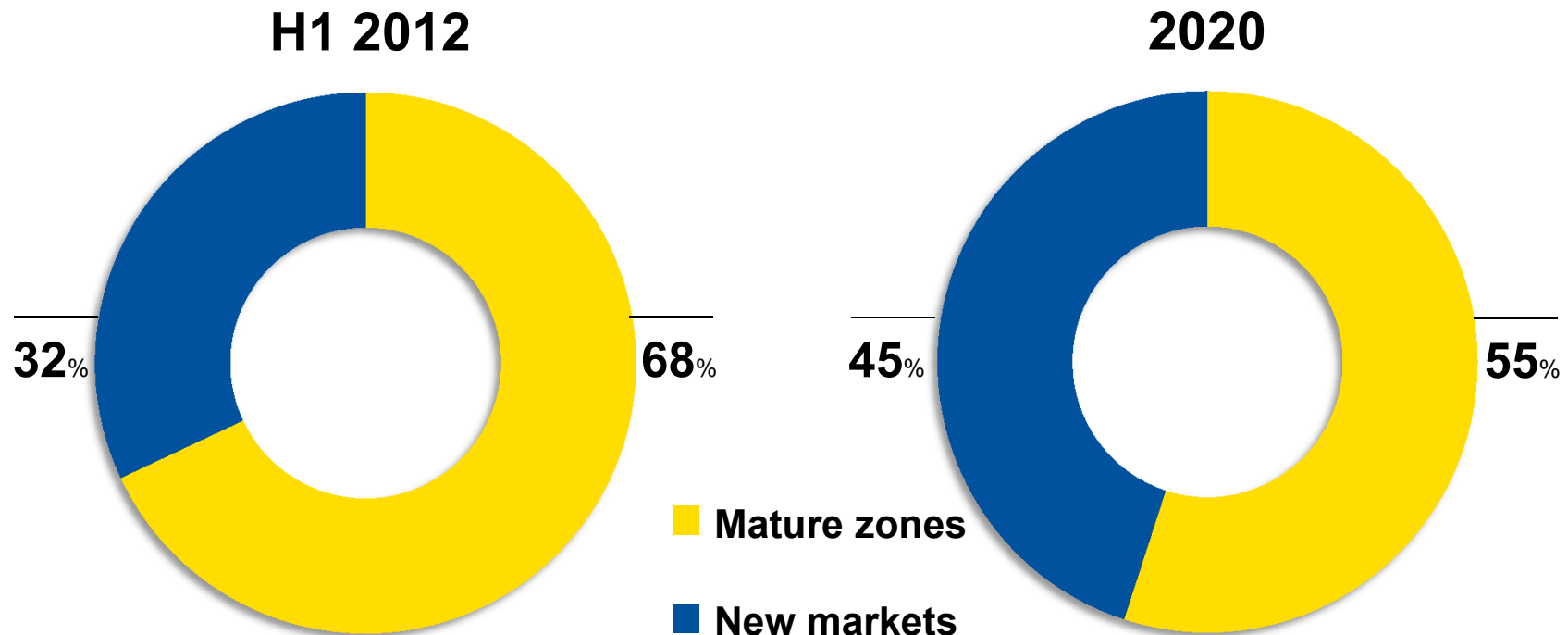
# Strengthening our presence in the growth regions





# A Balanced Global Presence, Increasingly Oriented Towards the New Markets

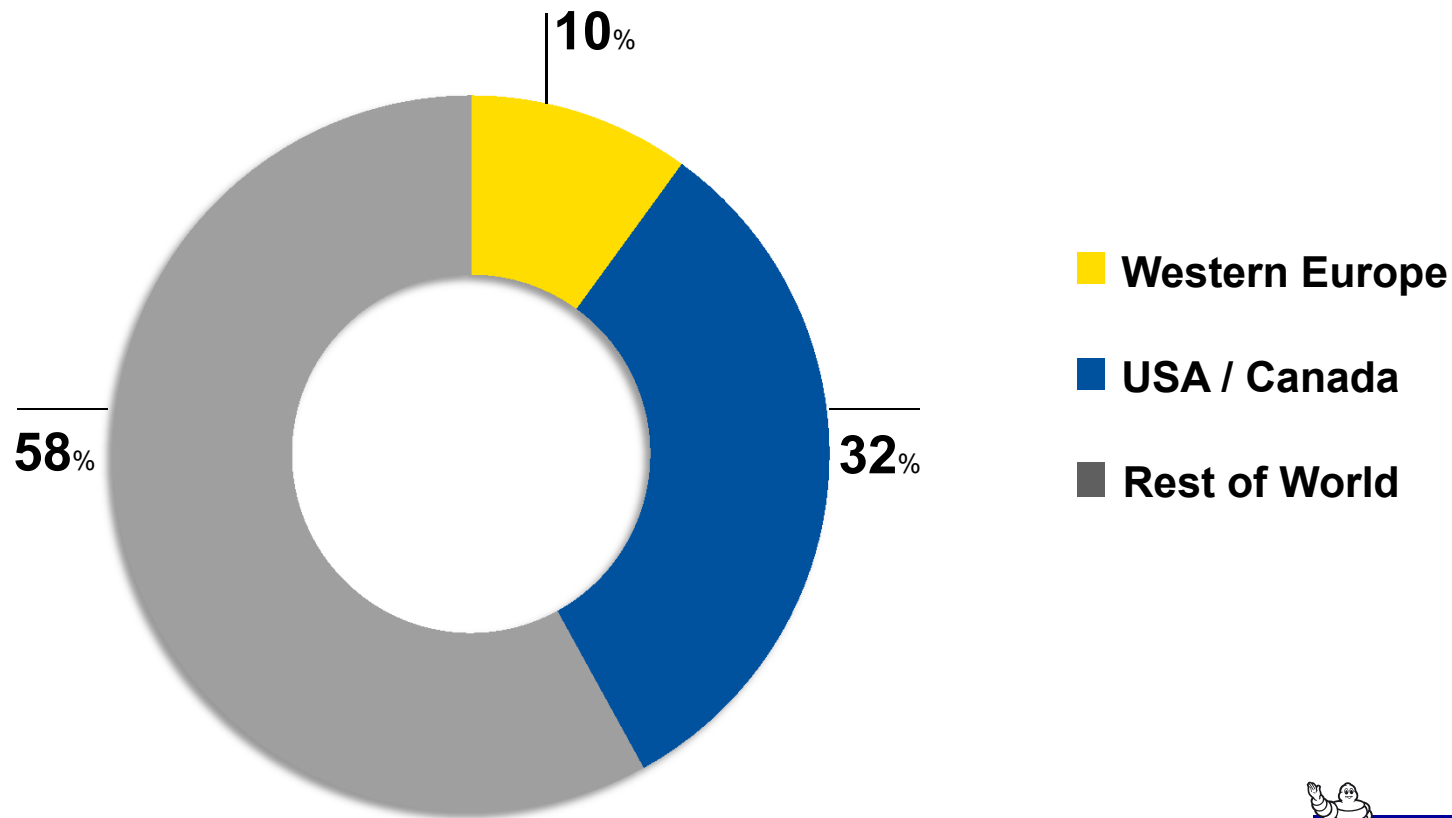
H1 2012 net sales by region  
(% of total net sales in €)





# Investing to Seize Opportunities in New Markets

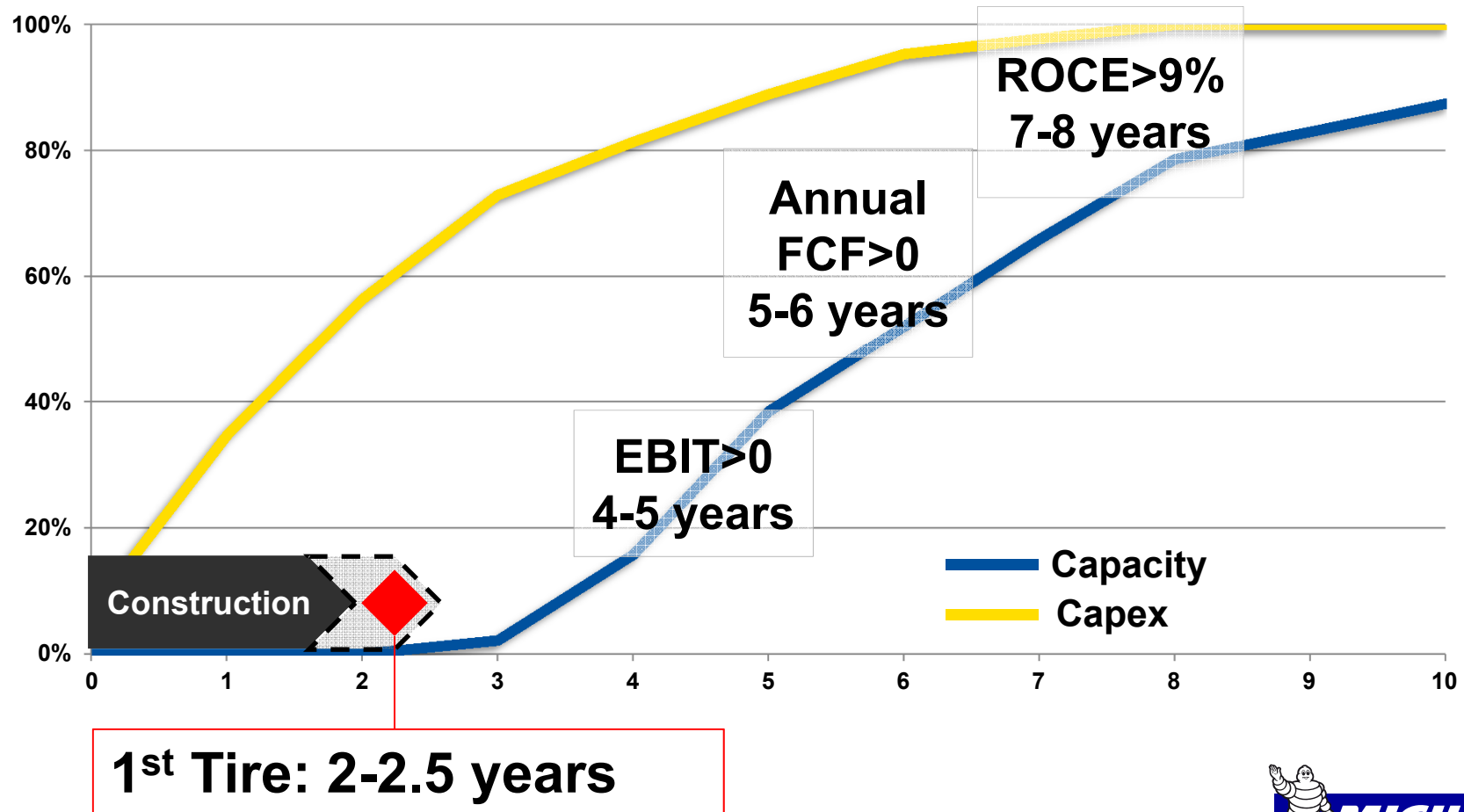
2012-2015 capacity investments by region  
(in % of total expenditure in €)





# Towards a profitable growth

Return on a 200 KT greenfield project







# Brazil: a New Car & Light Truck Plant Already Up and Running



Brazil project	2012	2013	2014	2015	In the end
Capacity (K Tonnes)	2,000	17,000	46,000	51,000	
Capex including upstream costs (€m)	188	71	7	0 Total by end 2015: 480	
ROCE					> 12%





# China: an Ambitious Car & Light Truck and Truck Project, On-Time and On-Budget



China (Shenyang 2)	2012	2013	2014	2015	2018
<b>Car &amp; Light truck and Truck capacity (K Tonnes)</b>	0	25,000	64,000	105,000	210,000
<b>Capex including upstream costs (€m)</b>	270	210	185	85 Total by end-2015 : 1,100	Total project cost: 1,200
<b>ROCE</b>					>12%





# Truck Tire Plant in India Now Under Construction



- **First truck tire expected end of H1 2013**
- **Capacity will eventually reach 100,000 tonnes**
- **Total capex: €560m**



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

## ■ Support growth:

- *Mixing facilities*
- *Cable capacity*
- *Elastomer capacity*



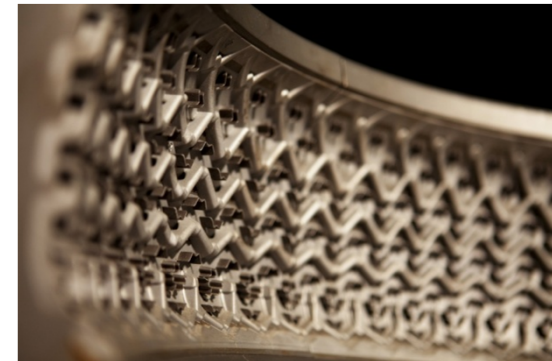
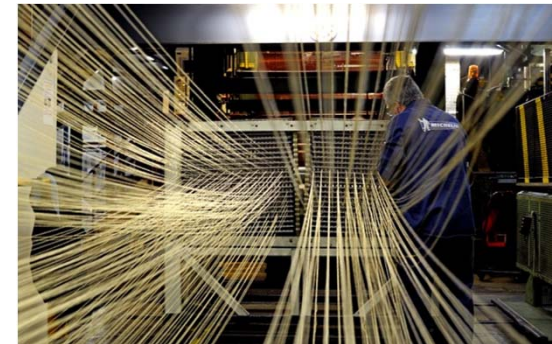




# Investing Upstream to Enhance Our Competitive Strengths and Drive New Growth

## ■ Improve Michelin Total Performance: ~€150m per year

- *Materials = primary innovation vector*
- *New synthetic rubber grades*
  - Improve the balance of performance
  - Optimize process productivity
- *Metals:*
  - Improve the endurance of Truck and Earthmover tire casings
- *Molds:*
  - Manufacture complex-design tread



## ■ 2012-2015 capex : €500m to €550m per year





# Upstream Vertical Integration: a Key Driver of the Premium Strategy

## ■ Make or buy criteria

- *Maximize innovation-driven value for the Group & enhance the Group's expertise and technological leadership*
  - **Synthetic rubbers (~35% internally sourced)**
  - **Truck and Earthmover tire cables (~70% internally sourced)**
- *Secure procurement*
  - **By controlling the competitiveness of internal costs vs. prices offered by our major suppliers**
- *Secure ROI*
  - **Tire performance enabled by vertical integration is a key lever for Michelin tire value**





06

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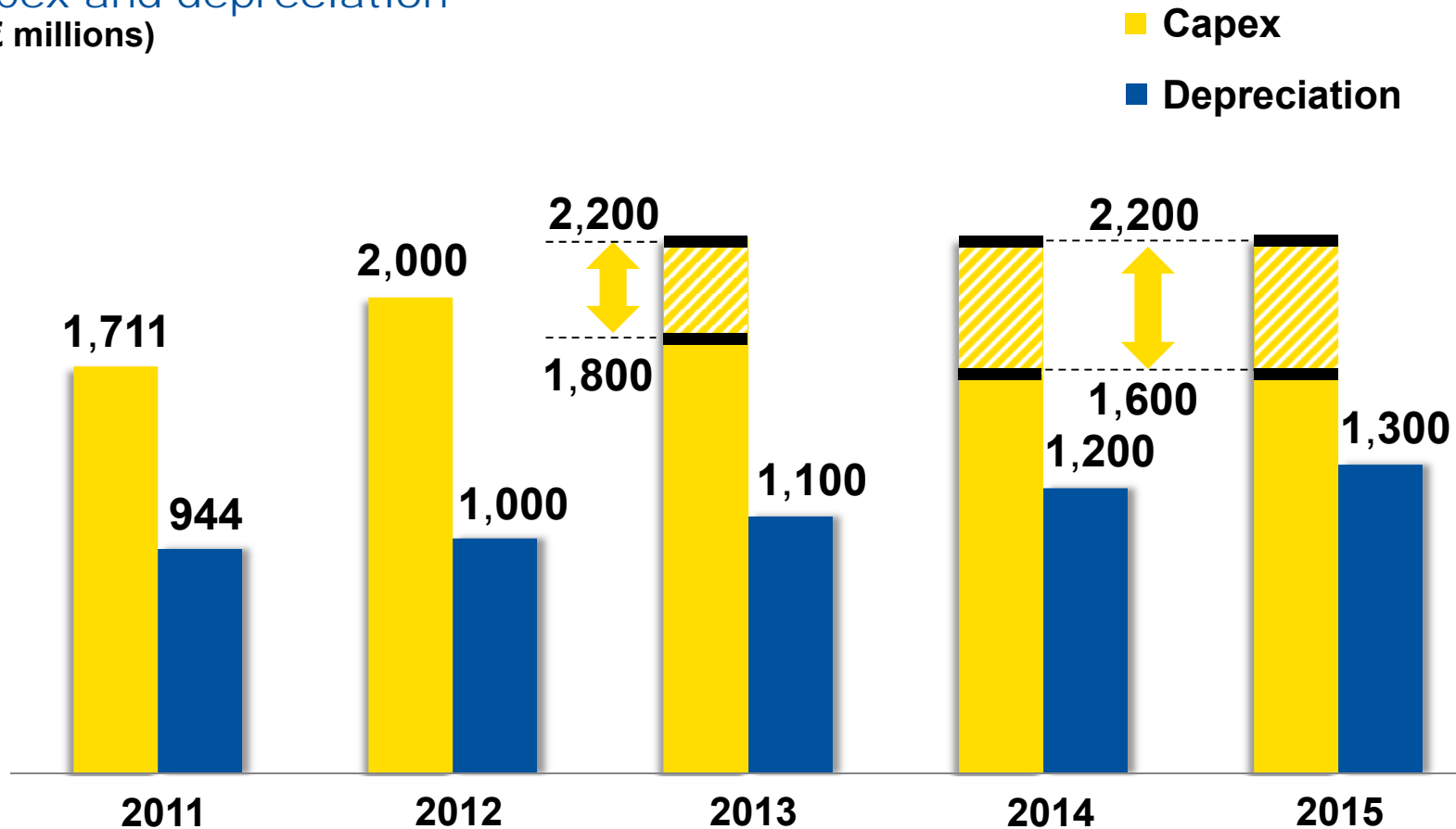
# Updated Prospects for 2015





# Investing to Enhance our Competitive Strengths and Drive New Growth

Capex and depreciation  
(in € millions)

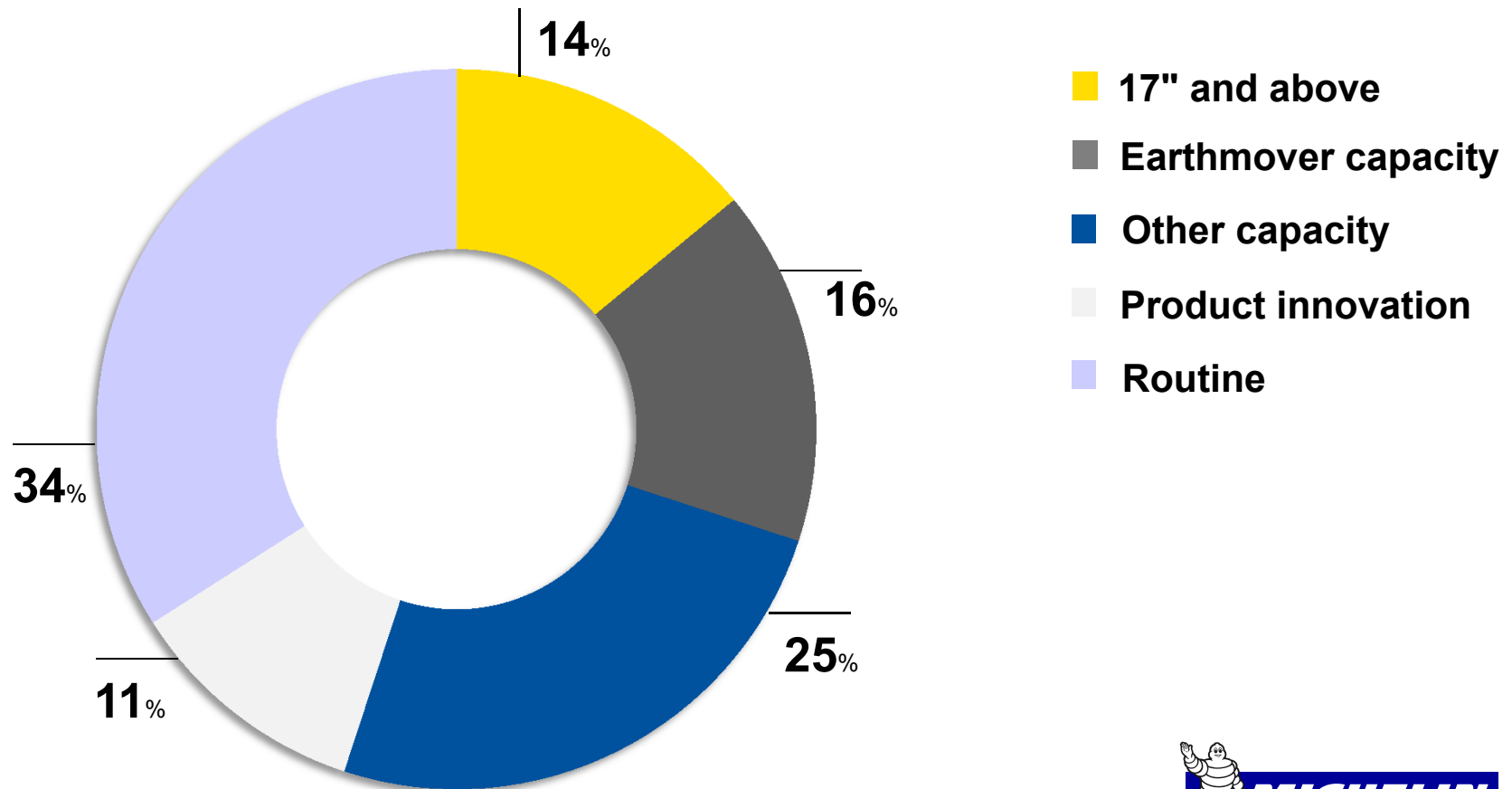






# Innovation and Growth are Driving the 2012-2015 Capacity Capex Program

2012 – 2015 capital projects by type  
(in € millions)

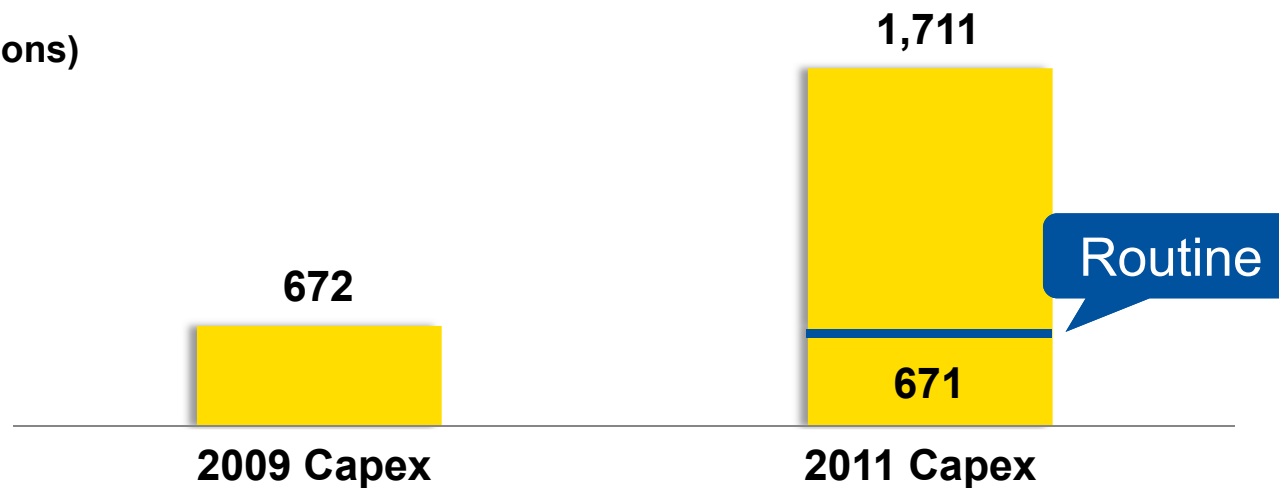




# Demonstrated Ability to Manage Capex

- Routine capex = ~ €700m/€750m
- Sustained careful management of growth capex according to market outlook
  - *2009 demonstrated this capability*

Capex  
(in € millions)





# 2015: Assumptions

## ■ Market environment:

- *Markets growing by 4 to 5% a year, after a year of transition in 2013*
- *Raw materials prices tracking market growth*
- *No sudden sharp spike in raw materials prices*

## ■ Michelin volumes:

- *Growth in line with the market*
- *Faster, sustained improvement in the mix*
- *Higher growth in specialty segments*





## 2015 outlook

**Based on the previous slide assumptions:**

- **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: €1.6bn - €2.2bn per year**
- **Positive free cash flow every year**
- **ROCE > 10% each year**





# Key Takeaways

- **Confidence in the strategy**
- **Capex focused on our competitive strengths and on Michelin Total Performance**
- **Ability to effectively steer the business in line with the prevailing market environment**
- **Focus on ROCE & generating free cash flow**

**Michelin, a unique profile in the auto & tire business with key differentiating factors:**

- **Strongest global brand name**
- **Global footprint**
- **Technology leader**
- **Very robust Specialty tire business**





# Contacts

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# Appendix - Net Sales at September 30, 2012

October 22, 2012





# Net sales up 5.9% to €16.1 billion

## ■ Markets

- *Unfavorable economic environment, especially in Europe*

## ■ Volumes

- *Down 6.7%, in line with expectations*
- *Volumes stable quarter on quarter since the end of 2011*

## ■ Price mix

- *Up 8.2%, still positive despite contractual adjustments in the Earthmover segment*



# OUTLINE



01

**Weak demand, particularly in mature markets**

02

**Net sales in line with expectations**

03

**Reporting segments:  
still favorable price mix**

04

**2012 guidance**





01

Weak demand,  
particularly in  
mature markets

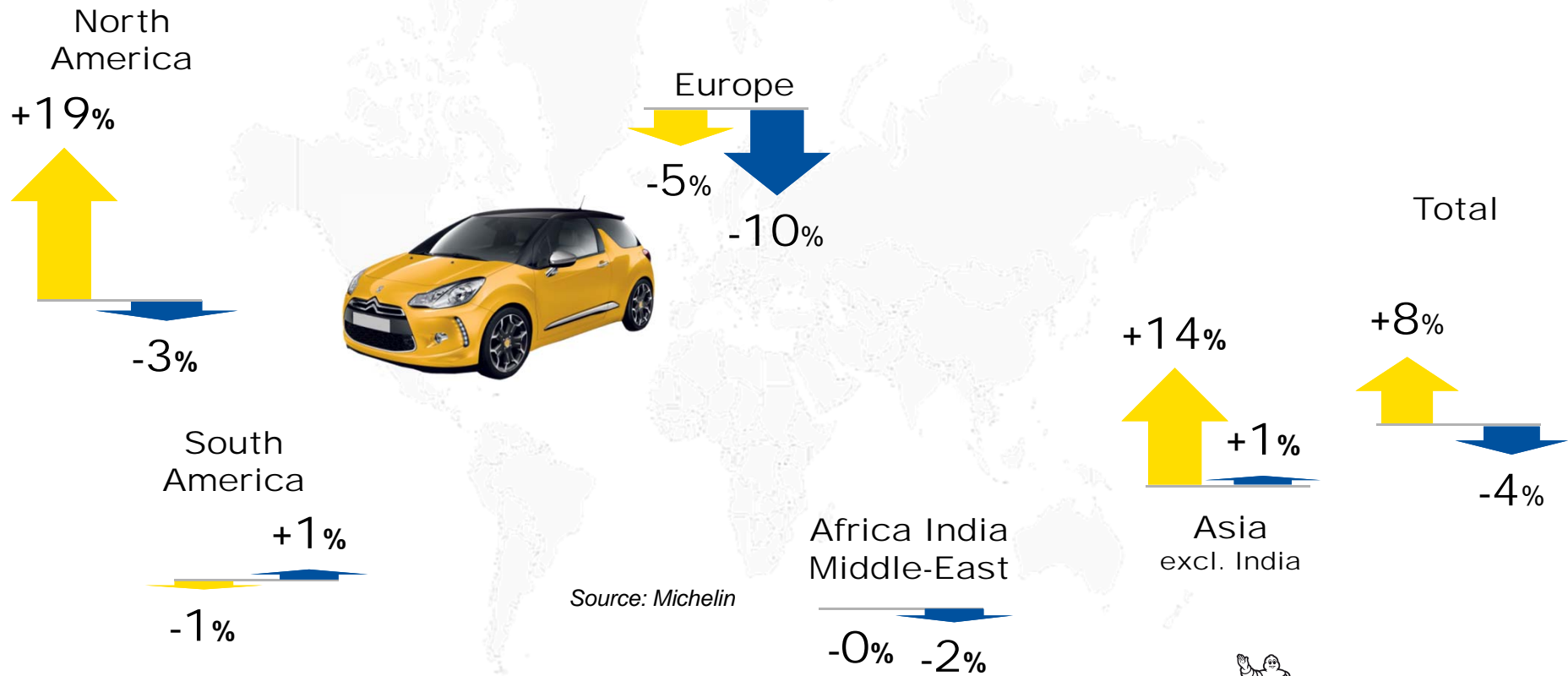




# Passenger car and light truck tires: unfavorable economic environment, especially in Europe

Markets at September 30, 2012  
(% change YoY, based on number of tires)

Original equipment  
Replacement



Source: Michelin

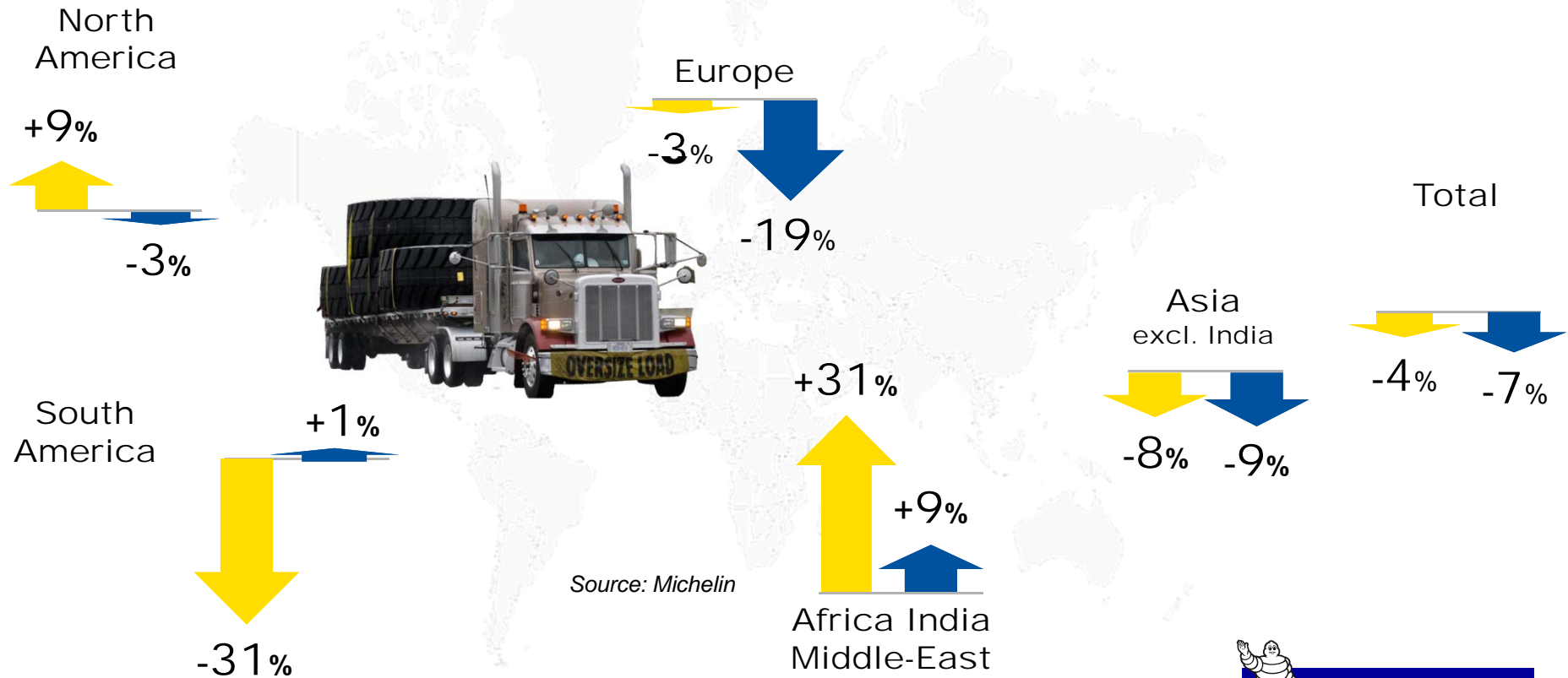




# Truck tires: unfavorable economic environment, especially in Europe

Radial markets at September 30, 2012  
(% change YoY, based on number of tires)

Original equipment  
Replacement

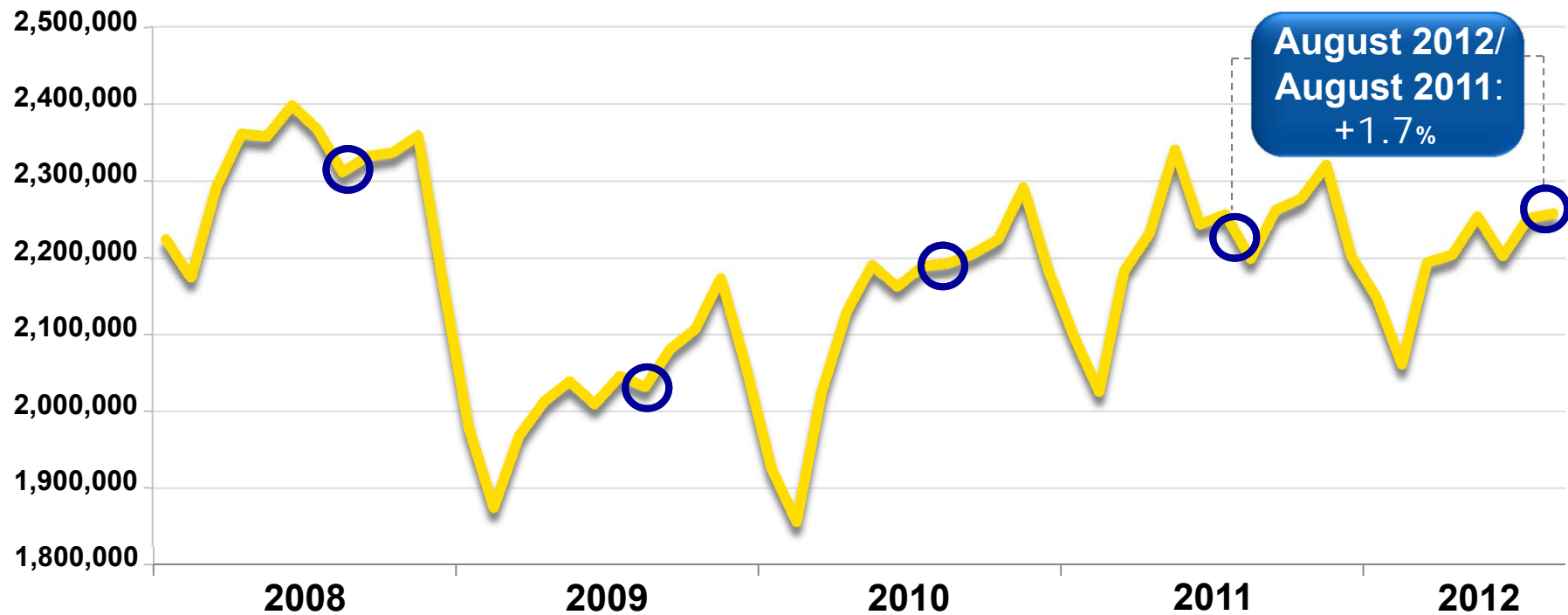




# German freight still lagging 2008 levels

German freight (rolling 3 months)

(Freight kilometers driven in Germany, in thousands)



Source: Bundesamt für Güterverkehr

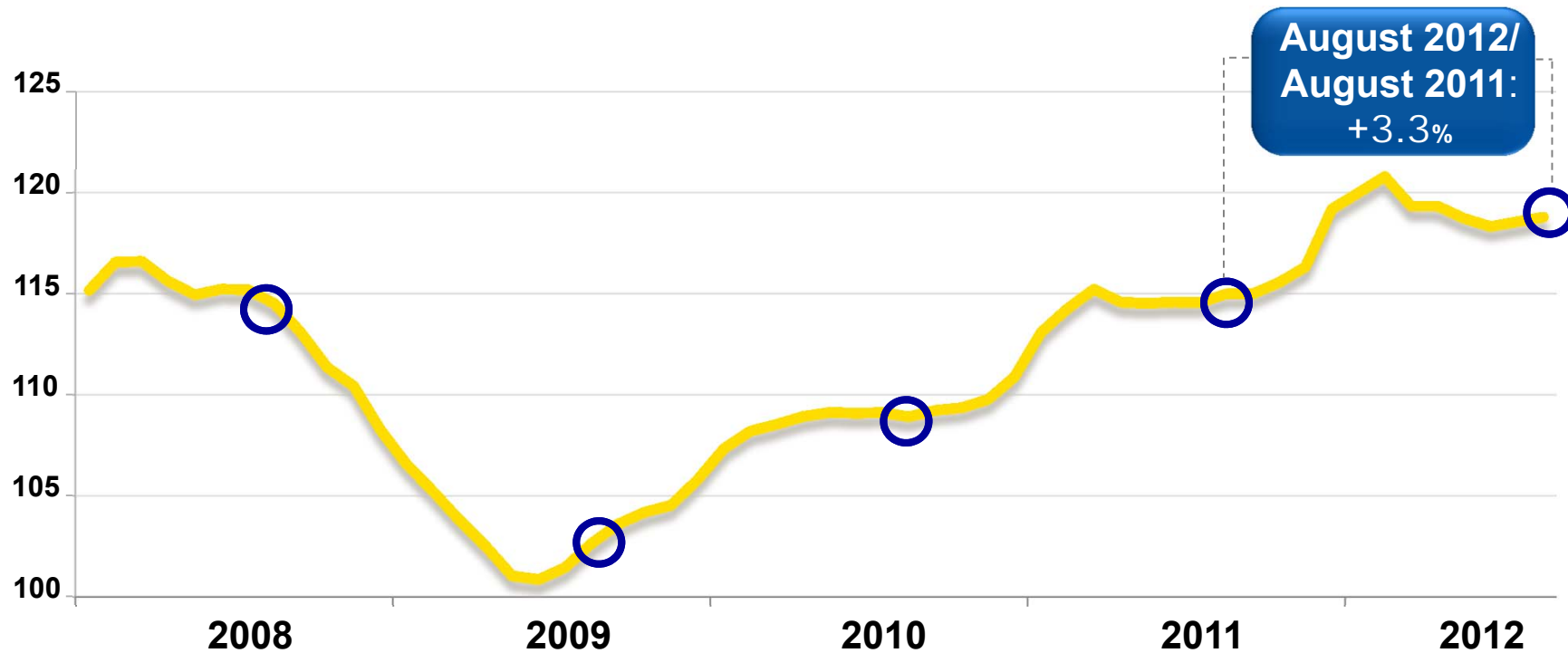




# US freight outpacing 2011 and 2010

US freight (rolling 3 months)

(Freight tonnage in the United States - Base 100 in 2000)



Source: ATA Truck Tonnage Index

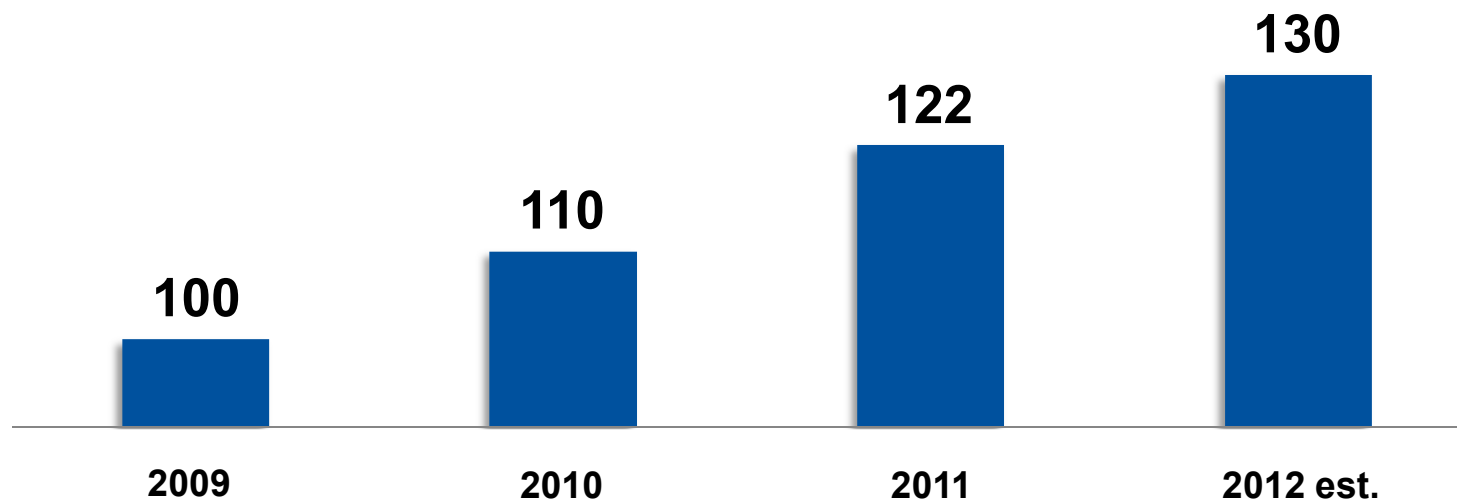




# Specialty tires: robust mining demand

## Mining tire market

(In tonnes, base 100 in 2009)



Source: Michelin







02

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# Net sales in line with expectations

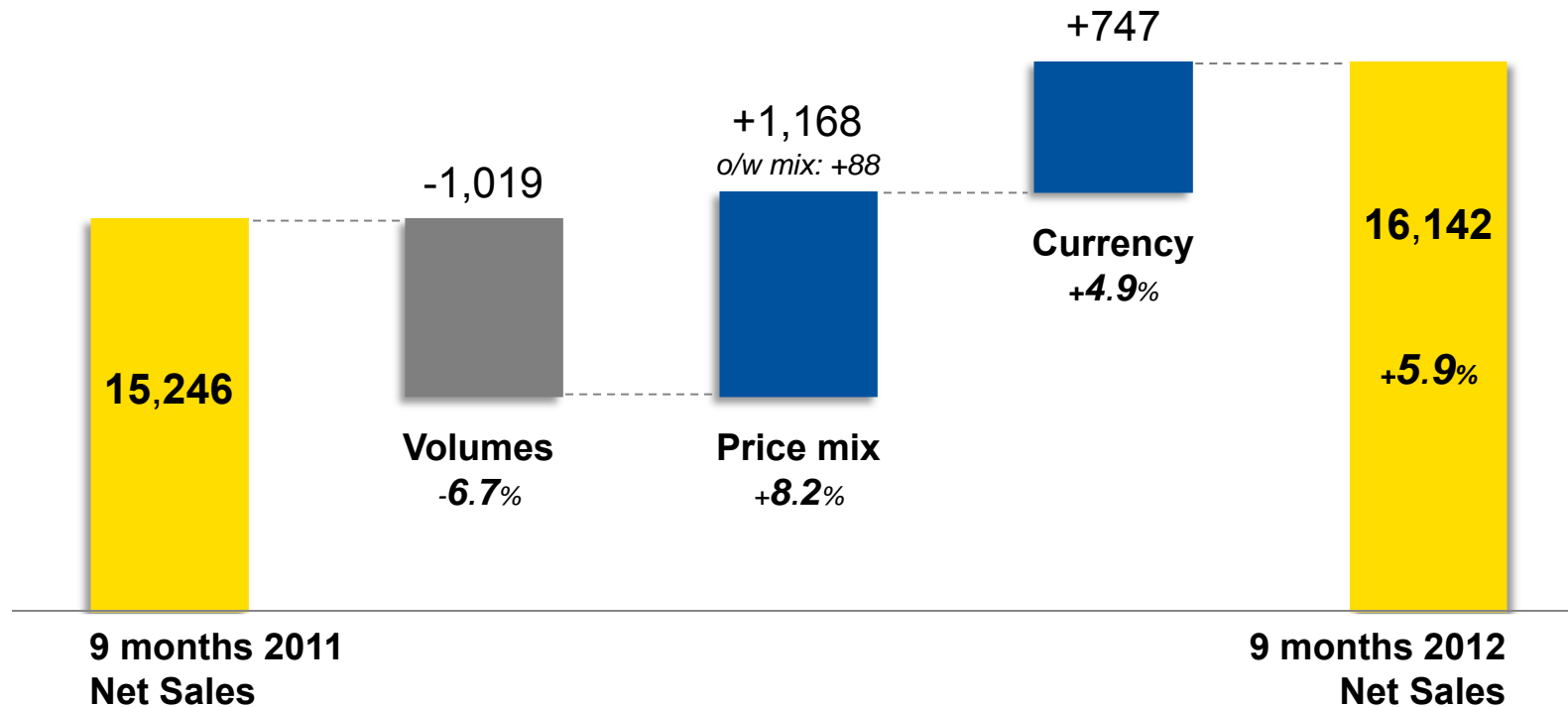




# Growth in net sales led by sustained favorable price mix

## YoY Change

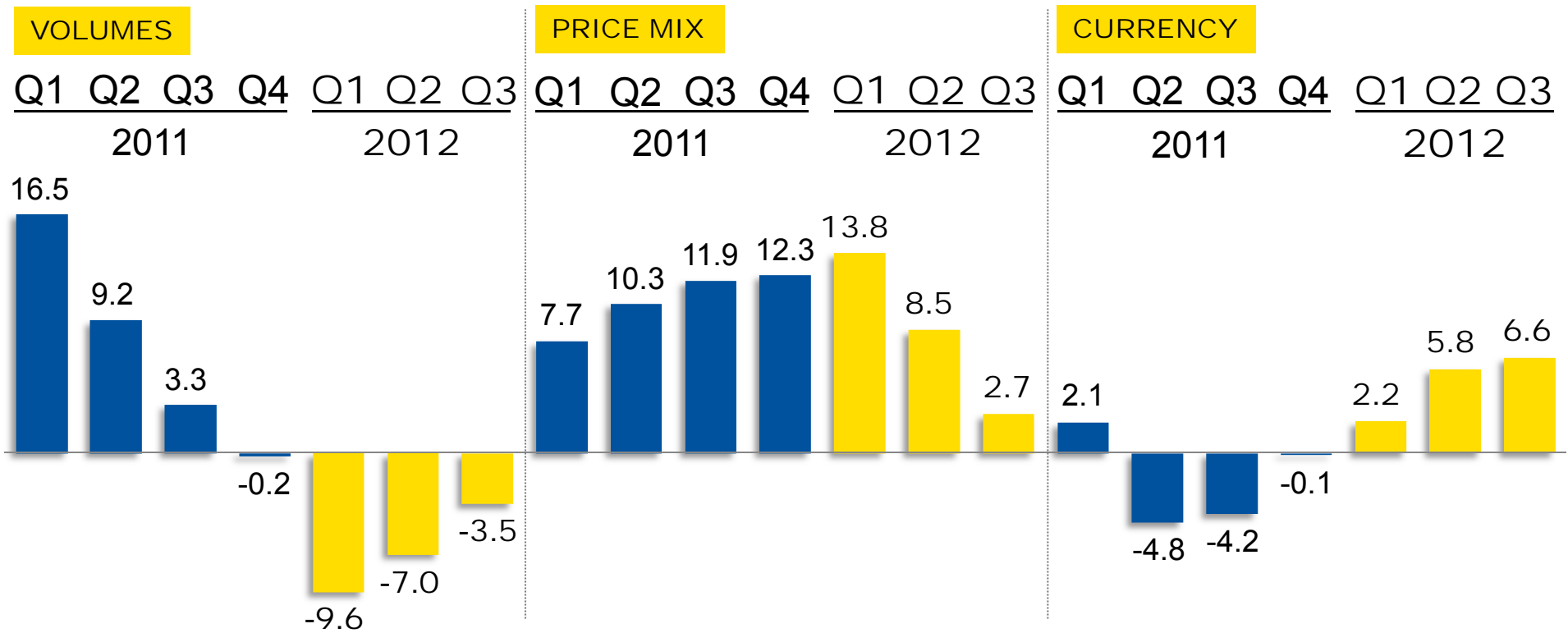
(in € Millions and as a % of Net Sales)





Volumes: weak demand and prior-year comparatives  
 Price mix: still positive despite contractual adjustments in the Earthmover segment

YoY Change  
 (in %)





03

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## Reporting segments: still favorable price mix





# Passenger car and light truck tires and related distribution: price effect and performance of the MICHELIN brand

## Passenger Car and Light Truck



In € millions	9 months 2012	9 months 2011	% Change
<b>Net sales</b>	<b>8,298</b>	7,916	<b>+4.8%</b>
Volume change	-5.6%		

- **OE market expanding, replacement markets more mixed**
- **Volumes down 5.6% versus a 6.4% decline as of June 30, reflecting:**
  - *Stable tonnages sold since end-2011*
  - *Now more favorable bases of comparison*
- **Winter market: performance in line with Group objectives in a market expected to decline**





# Truck tires and related distribution: net sales up thanks to the price and mix effects

## Truck



In € millions	9 months 2012	9 months 2011	% Change
<b>Net sales</b>	<b>5,044</b>	4,995	<b>+1.0%</b>
Volume change	-12.4%		

- **Markets still difficult**
- **Volumes steadily trending slightly upwards quarter after quarter since end-2011**
- **Strong focus on unit margins**
- **Sustained strategic commitment to improving profitability in the Truck tire business**





# Specialty businesses: sustained strong growth in mining tires

## Specialty businesses



In € millions	9 months 2012	9 months 2011	% Change
Net sales	2,800	2,335	+19.9%
Volume change	+4.8%		

### ■ Contrasted markets

#### ● *Earthmover:*

- Sustained strong growth in mining tires
- More challenging market environments in OE and infrastructure

#### ● *Agricultural:*

- Slowing demand despite high farm commodity prices

### ■ Ytd price and mix effects still favorable after the July 1 contractual adjustments

### ■ Positive currency effect





04

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# 2012 Guidance







## 2012 guidance confirmed

- **Clear increase in operating income before non-recurring items**
  - *Raw materials tailwind in H2 between €200m and €300m*
- **Positive free cash flow after capital expenditure increased to around €400m to €500m, before the impact of the Paris building**
  - *Around €2,000m in capex*
- **Slight decline in volumes**
  - *Still uncertain economic environment, especially in Europe*
  - *Annual tonnages down around 5%*





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