



14TH EUROPEAN CEO SEMINAR EXANE BNP PARIBAS

June 14, 2012



OUTLINE



01

**Q1 Net Sales:
Impact of the 2011 Pricing Policy**

02

**Markets as at May 2012:
Mixed but Still Down Overall**

03

Michelin's Competitive advantages

04

Outlook





01

Q1 Net Sales: Impact of the 2011 Pricing Policy





Q1 Volumes Confirm the Seasonal Trends Expected in 2012

- **Markets down overall, with a contrast between:**
 - *Passenger car & light truck and truck tires, where demand weakened as expected, especially in truck tires and in Europe*
 - *Specialty businesses, which remain buoyant*

- **Sales volumes particularly impacted by:**
 - *A high basis of comparison with first-quarter 2011, when volumes were boosted by sales ahead of price increases, for which Michelin was the forerunner*

- **Sharp improvement in the price-mix:**
 - *Impact of 2011 price hikes and raw materials indexing clauses*
 - *Positive mix*

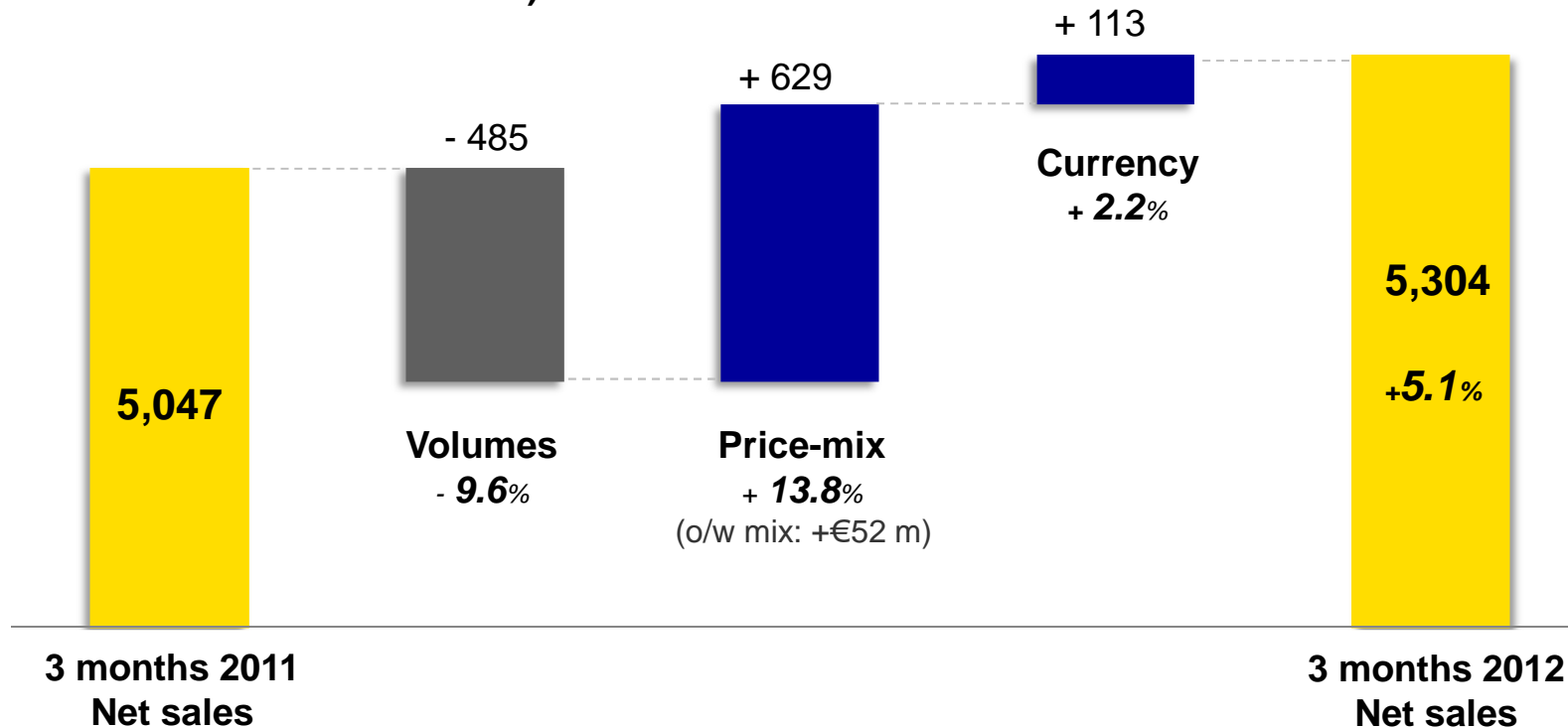




Growth in Net Sales with the Price Mix Amply Offsetting the Decline in Volumes

YoY change

(in € millions and % of net sales)





02

Markets as at May 2012: Mixed but Still Down Overall



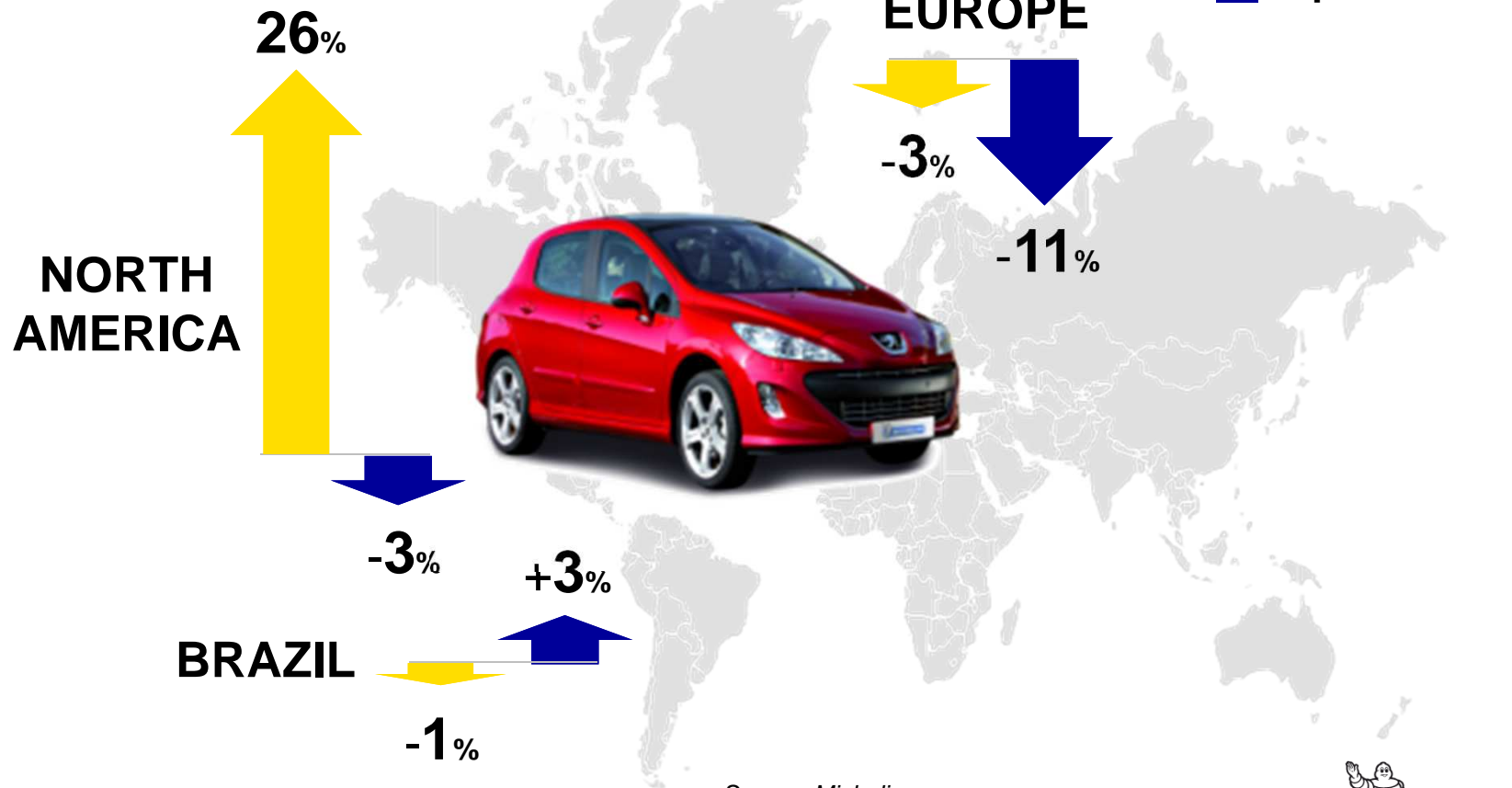


PCLT: RT Sales Dampened by Inventory in Q1 2012 Drawdowns Compared with Buildup in Q1-2011

Markets at May 31, 2012

(% change YoY, based on number of tires)

Original Equipment
Replacement



Source: Michelin





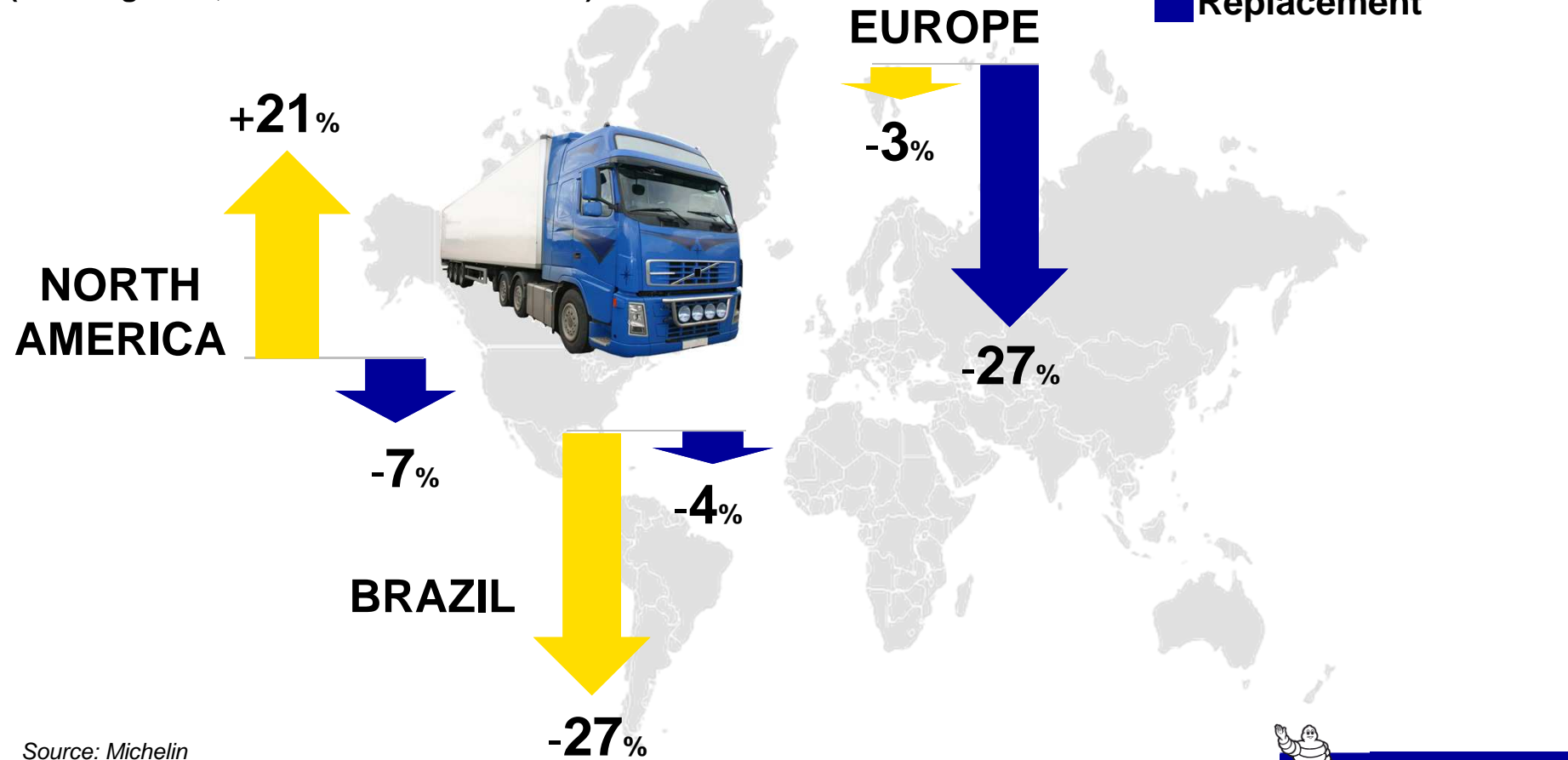
Truck Tires: Steep Fall-Off in Europe

Radial markets at May 31, 2012

(% change YoY, based on number of tires)

Original Equipment

Replacement



Source: Michelin

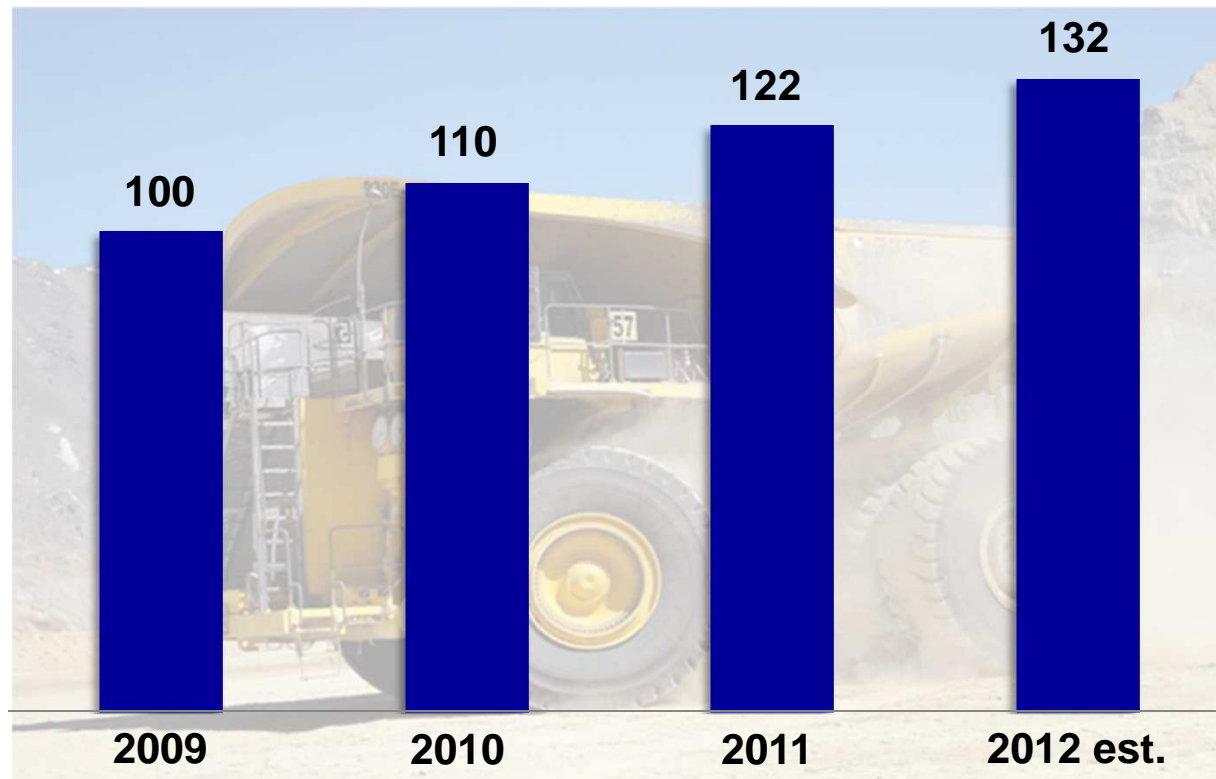




Specialty Businesses: Sustained Growth

Mining Tire Market

(In tonnes, base 100 = 2009)



Source: Michelin





03

Michelin's Competitive Advantages





Two Core Competitive Advantages

Specialty Businesses

Leadership in the Premium Segment



Michelin is the Market Leader in Every Specialty Tire Business

Business	Leading tiremakers	Market leader
Earthmover		in radials
Mines	Bridgestone	(co-leader)
OE	Bridgestone	(co-leader)
Infrastructure	Bridgestone, Goodyear Yokohama, Chinese	
Agricultural		in Europe
OE	Firestone	in Europe
RT	 Firestone, Titan / Goodyear, Trelleborg, BKT	 in Europe
Two-Wheel Mature markets	Pirelli/Metzeler, Bridgestone, Dunlop	(co-leader)
Aircraft	Goodyear, Bridgestone , Dunlop	





Earthmover Tires: Clear Sales Growth and Margin Visibility

- **Technological barriers to entry**
- **Multi-year contracts offer clear visibility for:**
 - *Sales trends: sustained growth in mining markets*
 - *Margin trends: long term contracts with raw materials indexation clauses*
- **Steadily increasing capacity, keeping pace with demand**
 - *Adding marginal capacity*
 - *Earthmover tire facility at the Indian plant*
 - *New plant in South Carolina*





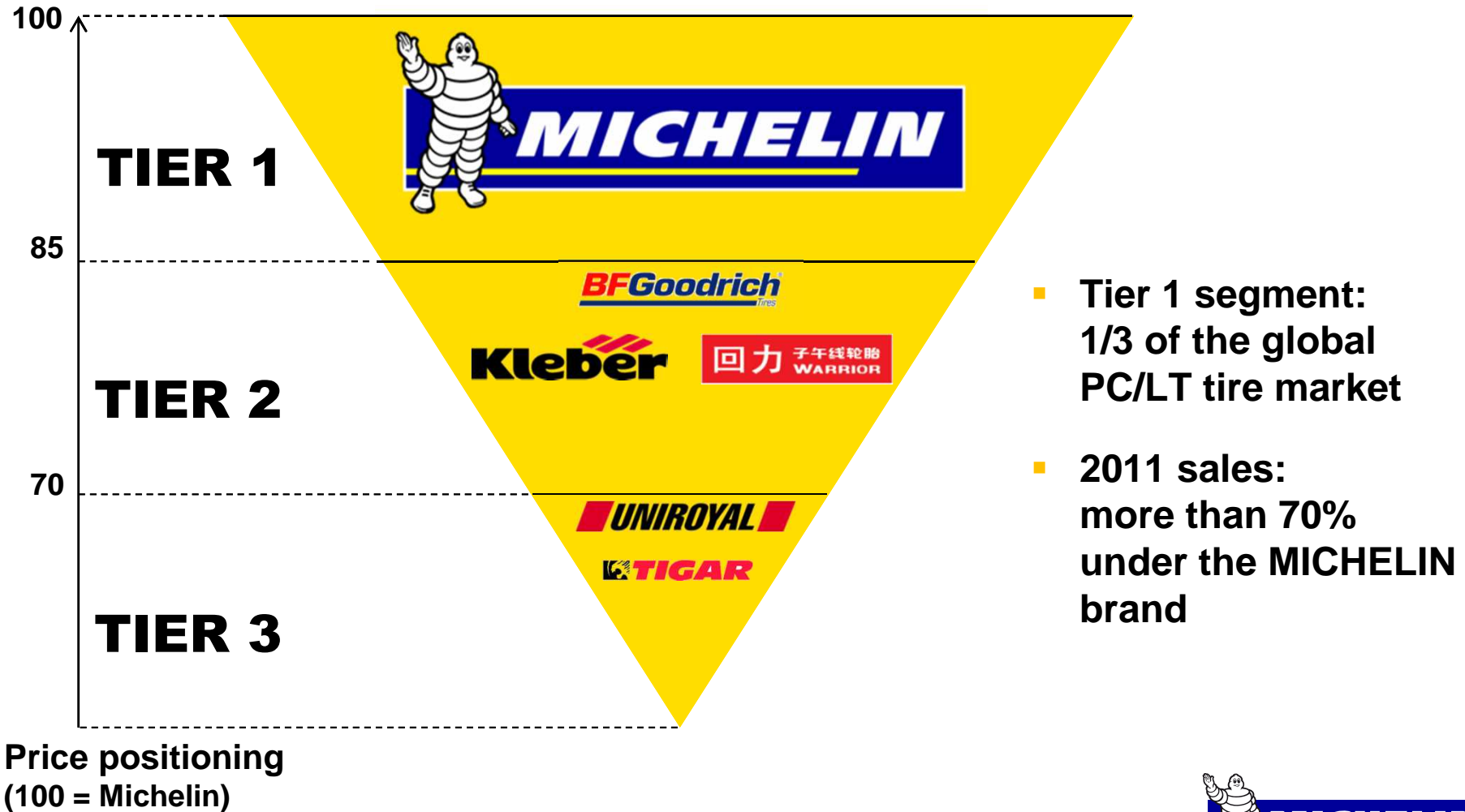
Two Core Competitive Advantages

Specialty Businesses

Leadership in the Premium Segment



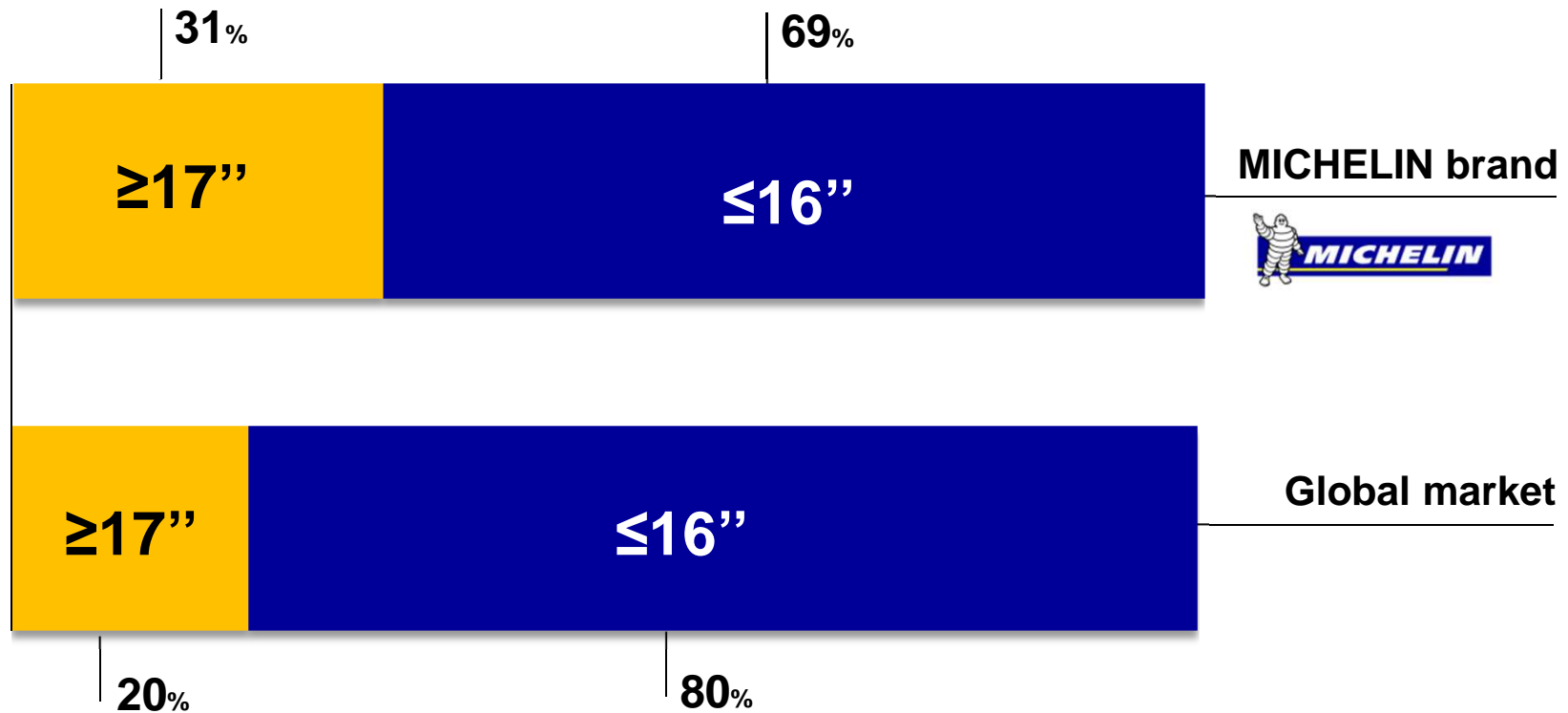
MICHELIN: a 100% Premium Brand in Every Market





MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

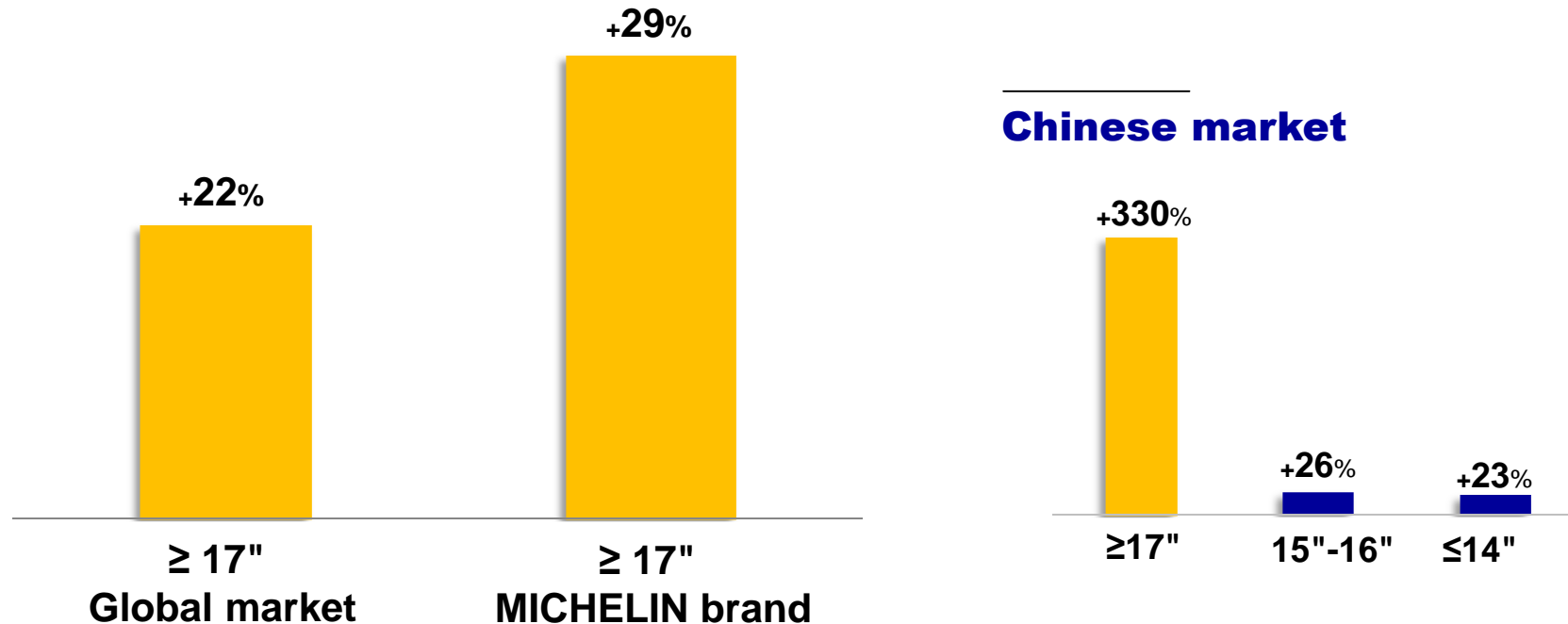
Share by PC/LT tire seat size





MICHELIN is the Benchmark Leader in Premium Tier 1 Segments

2009 – 2011 CAGR by seat size



Source: Michelin





Solid Drivers to Support Sustainable Leadership

- **The preferred brand of premium tirebuyers**
 - *According to surveys of customer perceptions and purchase intentions*
- **Technology carmakers want**
 - *Approved for use on premium brands and models*
- **Performance recognized by specifiers**
 - *Example: 66th JD Power Award since 1989*
- **Leading-edge product plan**

→ Solid competitive advantages to capture faster growth in the premium segment





04

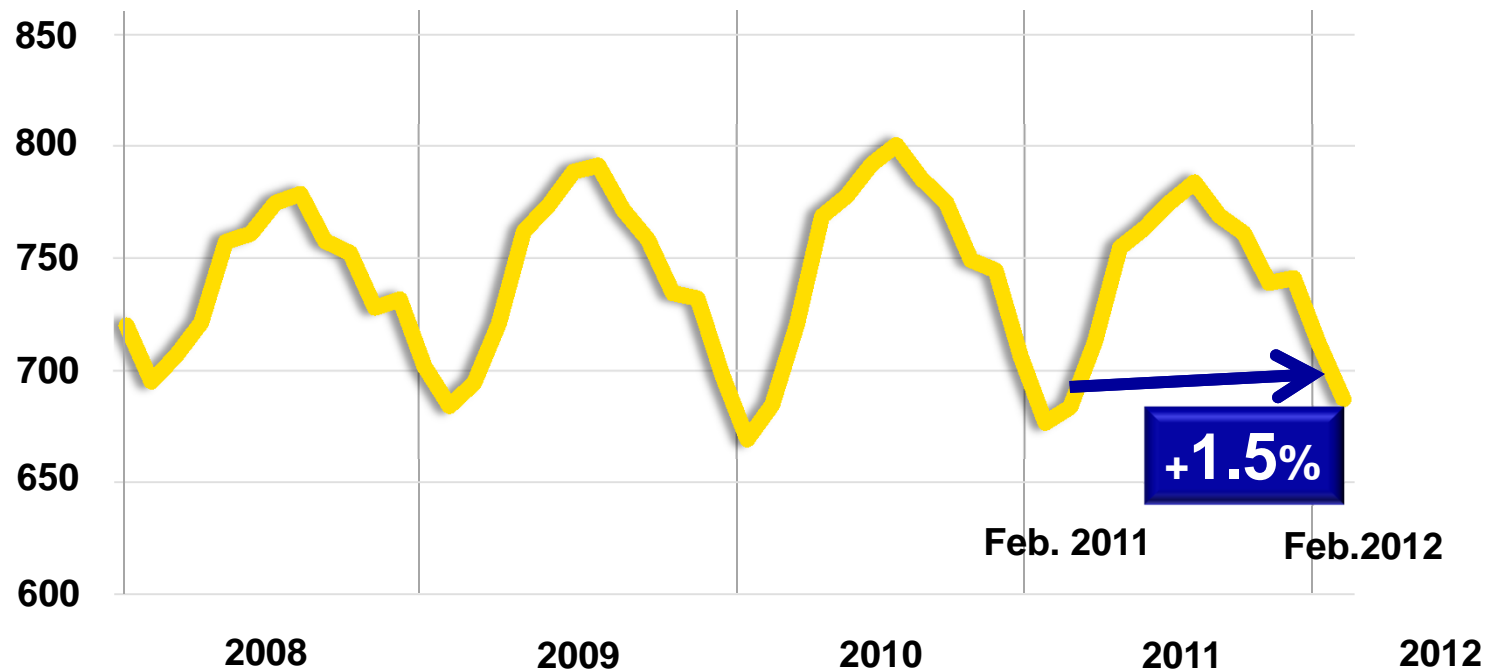
Outlook





US miles driven more supportive

Number of Miles Driven (rolling 3-months) January 2007 – February 2012





German Freight Tonnage runs ahead of 2010 & 2011 levels

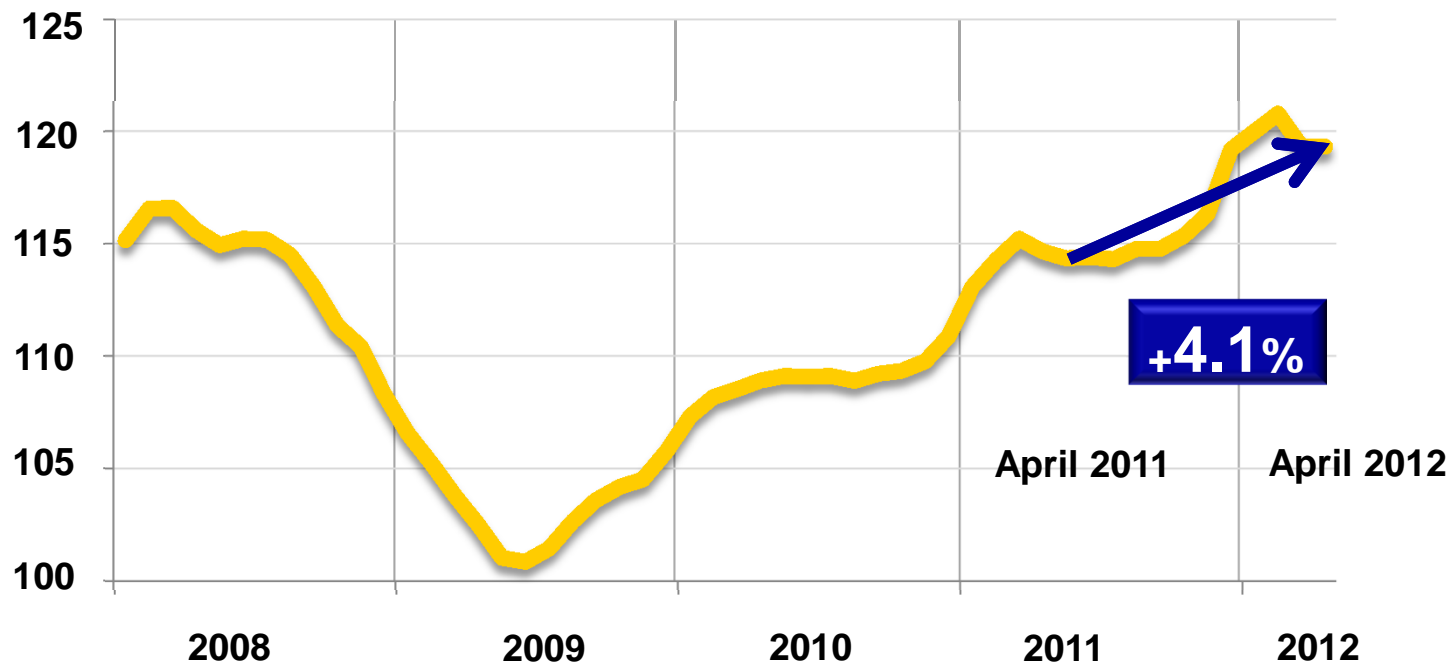
**Freight Mileage on German roads in thousands of km – (rolling 3-months)
January 2008 – March 2012**





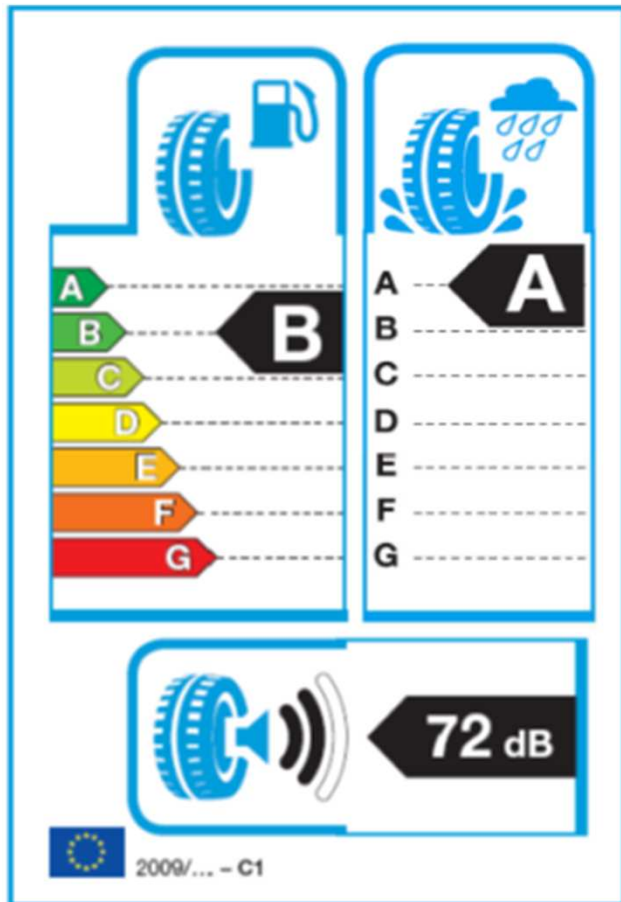
US Freight Tonnage runs ahead of 2008 level

Truck Tonnage Index in the United States (rolling 3-month) January 2008 – April 2012





Tire Performance Evaluation System in Europe



Label

- **Performance thresholds in 3 areas:**
 - *Rolling resistance*
 - *Wet grip*
 - *Noise*
- **Classes**
 - *A-B-C-E-F-G*
 - *Current Excellent class = C*
- **Implementation from 2012**
- **Thresholds scheduled to be lowered from 2016**





Regulation to be gradually introduced

■ Agenda

- *Grading :*
 - *Nov 1, 2012: mandatory grading on all tires*
- *Threshold*
 - *Nov 1, 2012: new tire lines*
 - *Nov 1, 2013: new tire lines + tires on new cars*
 - *Nov 1, 2014: all tires*

■ Initial impacts

- *Better education of end-user*
- *Marketing tool*





Michelin Tire Grading

- **Summer tire grading released June 1, 2012**
 - ***A in wet grip***
 - ***MICHELIN Energy Saver,***
 - ***Primacy 3, Pilot Super Sport,***
 - ***Pilot Sport 3***



- ***B or C in Fuel Efficiency***
 - ***Energy Saver,***
 - ***Primacy 3***



Note that most of the Sport lines have been graded E, reflecting specific performance balance by combining high total mileage and strong grip, even in extreme driving conditions.





The market's best balance of performance

- The market's best balance of performance
 - *Safety in all driving conditions*
 - *Improved fuel efficiency*
 - *Longer total mileage*



Safety

+



Longevity

+



Fuel saving

=





New project update: on schedule and in line with budget

■ Agenda

• *Brazil:*

- 1st passenger car tire on schedule, February 9, 2012
- Training and ramp-up on schedule

• *China:*

- New tire building machine under test in SHY1
- 1st truck tire expected on schedule in summer 2012
- 1st passenger car tire expected in H1 2013

• *India:*

- 1st truck tire expected end of H1 2013

• *US:*

- Ground breaking achieved

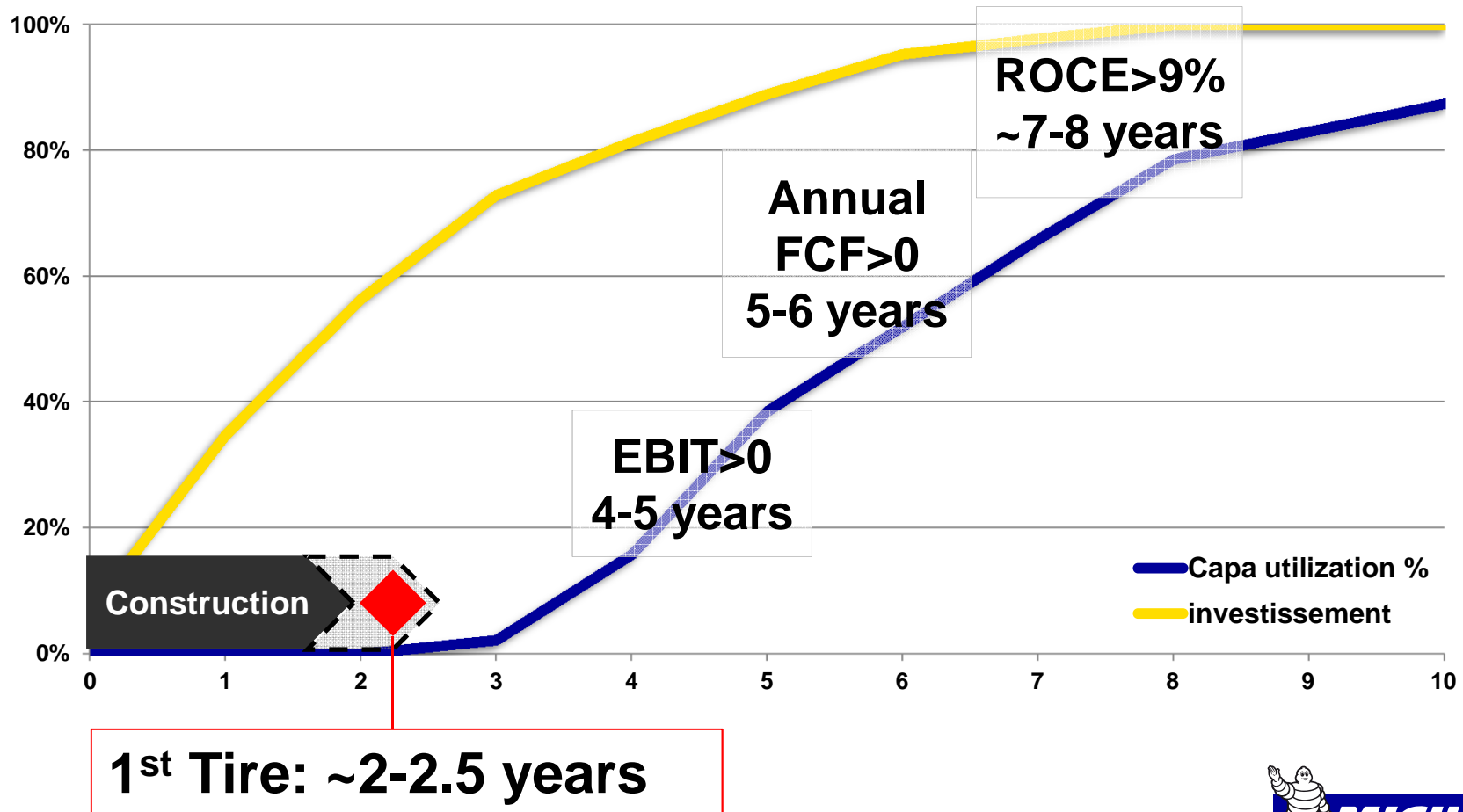
■ Expenses in line with budgets (in local currencies)





Towards a profitable growth

Return on a 200 KT greenfield project





2012 outlook

- **Objective: stable volumes**
- **Favorable price effect despite the contractual adjustments coming in July, expected to be downwards**
- **Raw Materials : tailwind expected in H2 after a headwind in H1**
- **Ambitious €1,900-million capex program**
 - **On schedule**
 - **Focused on the technological segments**
- **Guidance:**
 - **Clear increase in operating income**
 - **Positive free cash flow* after capex and before the impact of the Paris property disposal**

** Based on the raw materials headwind assumption (€300-350m)*





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PC< Tires and Distribution: Dealer Destocking and Hesitant Customers in Q1 2012



Passenger Car and Light Truck

In € millions	Q1 2012	Q1 2011	% Change
Net Sales	2,760	2,683	+2.9%
Volume growth	-8.9%		

- **Volume growth dampened by:**
 - *High prior-year comparatives due to the price increases starting as early as April 2011*
 - *Sustained dealer inventory drawdowns*
 - *Hesitant markets*
- **Full impact of the 2011 pricing policy and the premium strategy**





Truck Tires and Distribution: in Q1 2012, Firm Prices, Volumes in Line with Market Trends



Truck

In € millions	Q1 2012	Q1 2011	% Change
Net Sales	1,604	1,606	-0.1%
Volume growth	-16.3%		

- **Volume performance varied by market:**
 - *Europe down, especially in Southern Europe*
 - *Firmer performance in North America*
- **Dealers are drawing down inventory**
- **Assertive strategy of increasing profitability, in particular by improving price positioning**
- **Product plan now being refreshed**





Specialty Businesses: Sustained Growth, Held Back in Q1 2012 by Lack of Capacity



Specialty Businesses

In € millions	Q1 2012	Q1 2011	% Change
Net Sales	940	759	+23.8%
Volume growth	+6.2%		

- Firm demand and volumes
- Prices holding steady and still positive impact from raw materials clauses

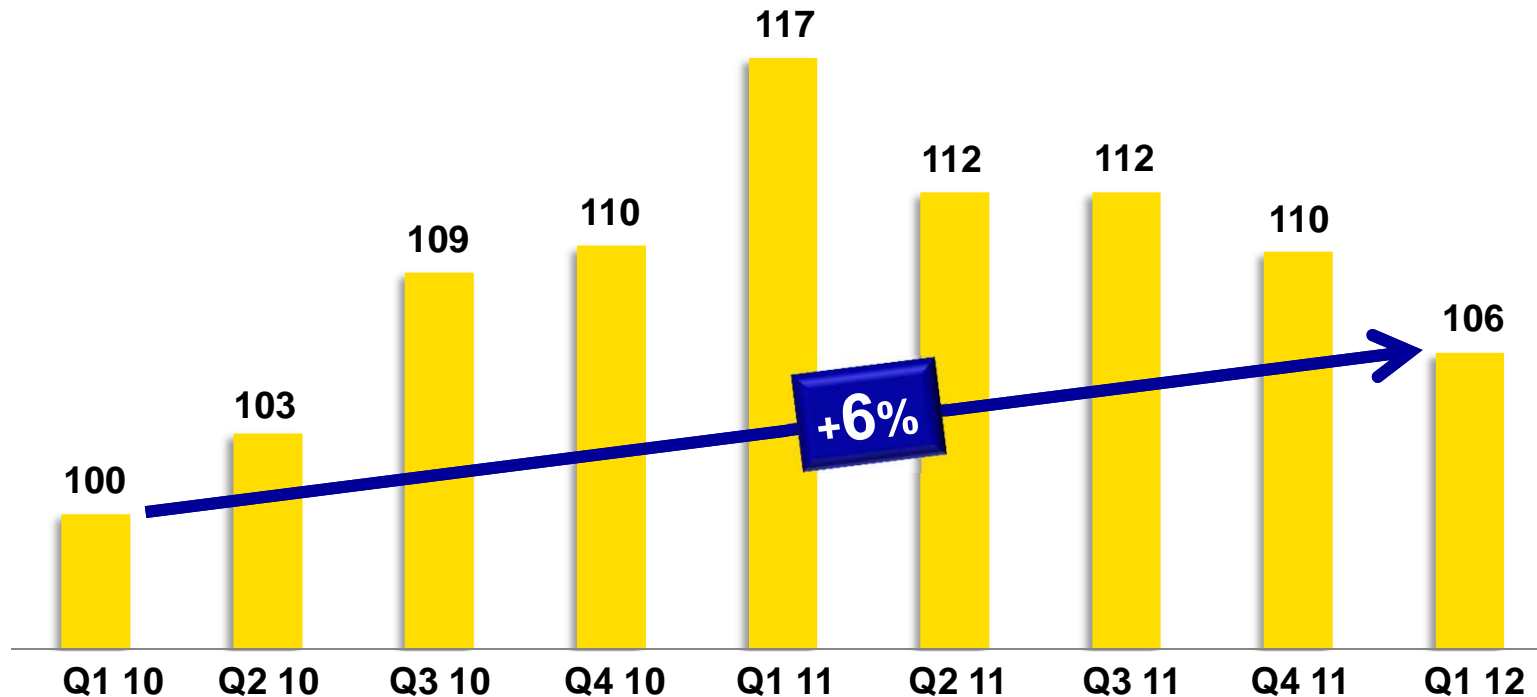




High Prior-Year Comparatives and Dealer Inventory Drawdowns

Tonnages sold

(Base 100 = Q1 2010)





2011 Financial Highlights

2011 & 2010 figures as reported

In € millions	2011	2010
Net Sales	20,719	17,891
Operating Income	1,945	1,695
Operating Margin	9.4%	9.5%
Net Income	1,462	1,049
Investment	1,711	1,100
Net Debt-to-Equity Ratio	22%	20%
Free Cash Flow*	(19)	426
ROCE	10.9%	10.5%

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

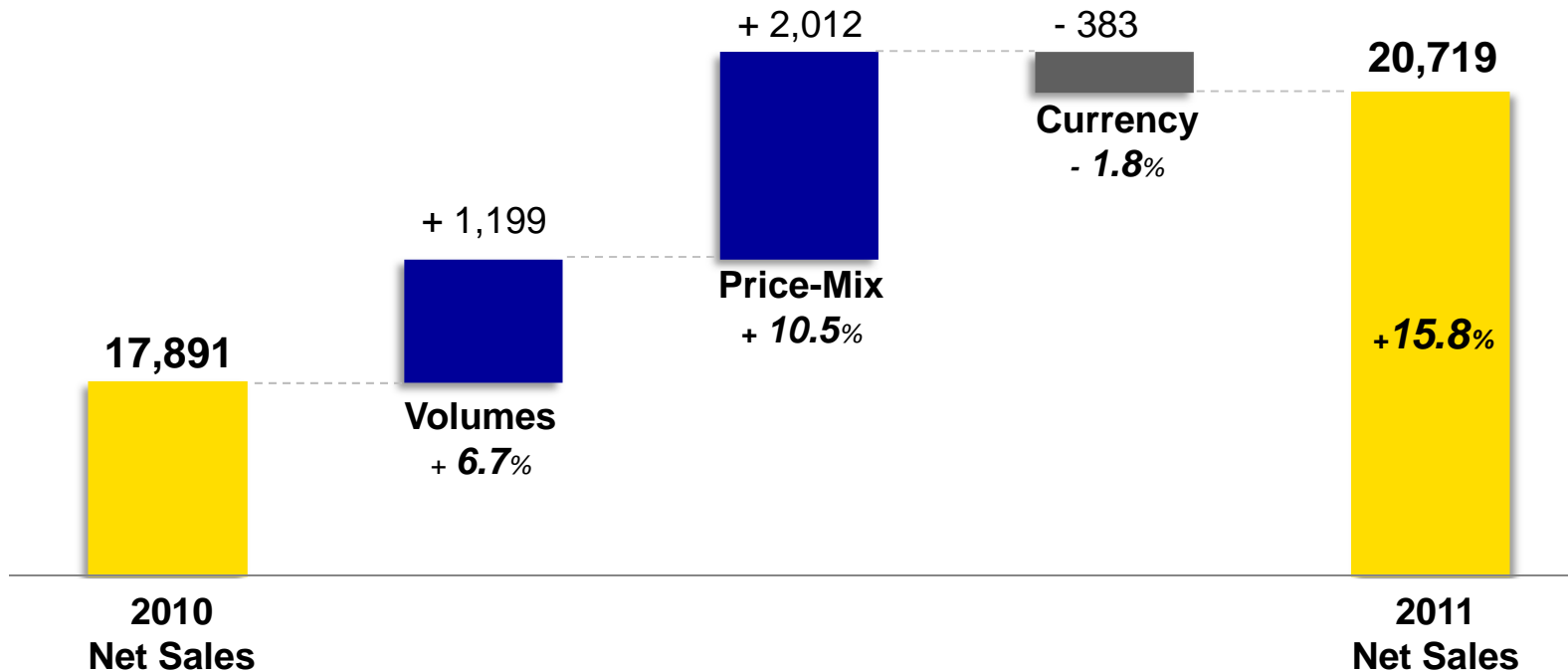




Higher 2011 Net Sales, Led by Pricing Power and Sales Performance

YoY change

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

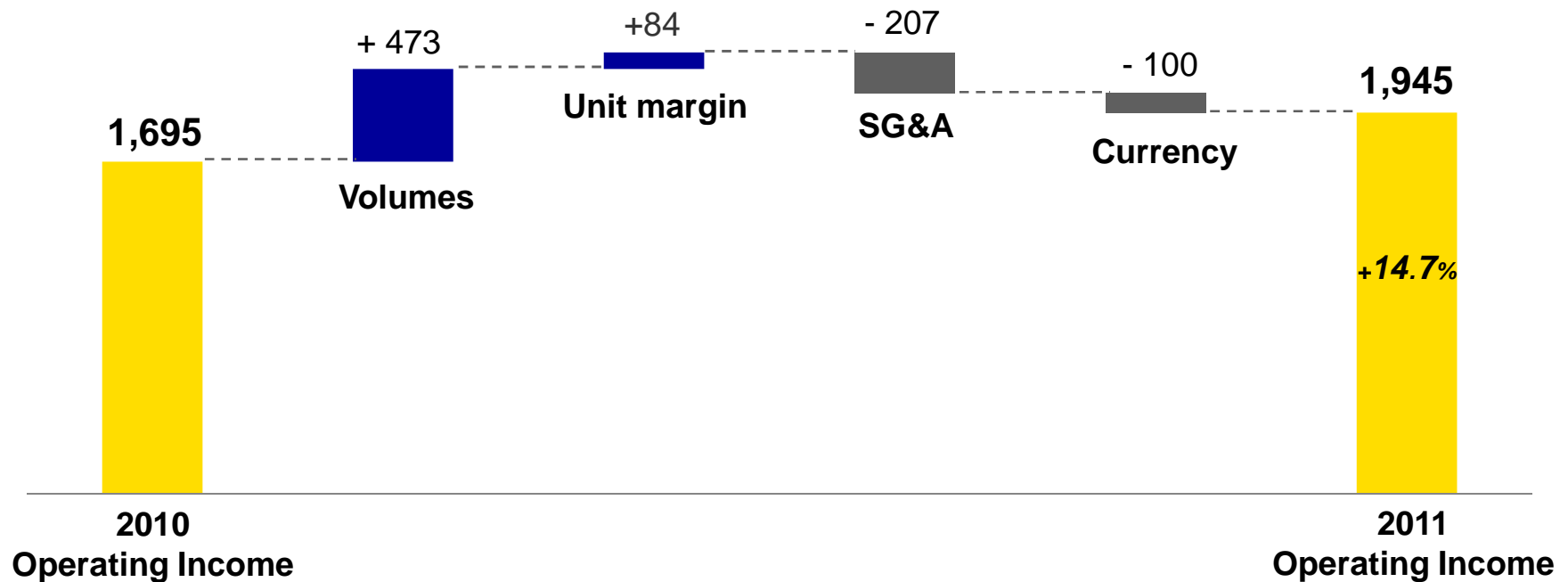




2011 Operating Income Up as Targeted

YoY change

(in € millions)

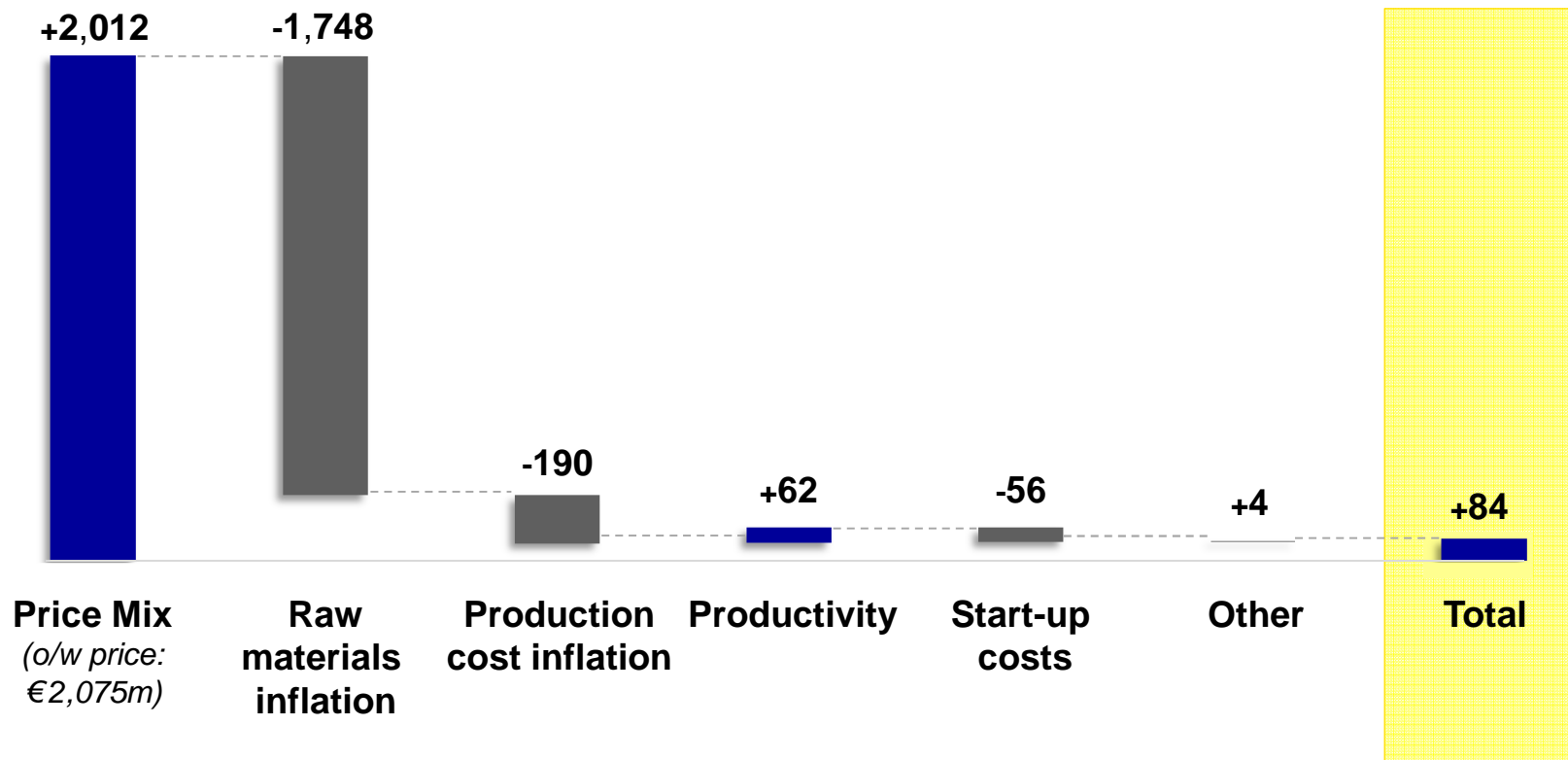




2011 Price-mix Gains Exceeded the Increase in Raw Materials Costs

YoY change in unit margin components

(in € millions)





2011: Spending to Build Future Growth

YoY change in SG&A

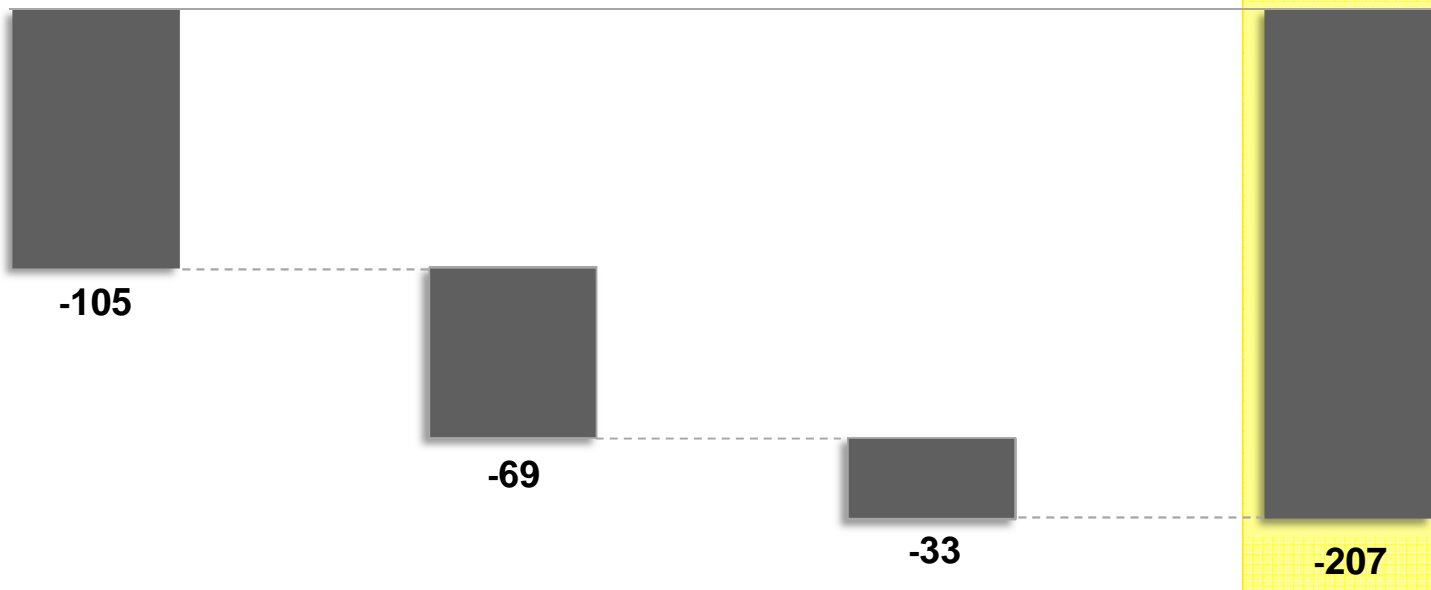
(in € millions)

Cost of driving growth
*(New markets,
R&D, communication)*

Inflation

Other

Total





2011: Recurring Business Structurally Generates Free Cash Flow

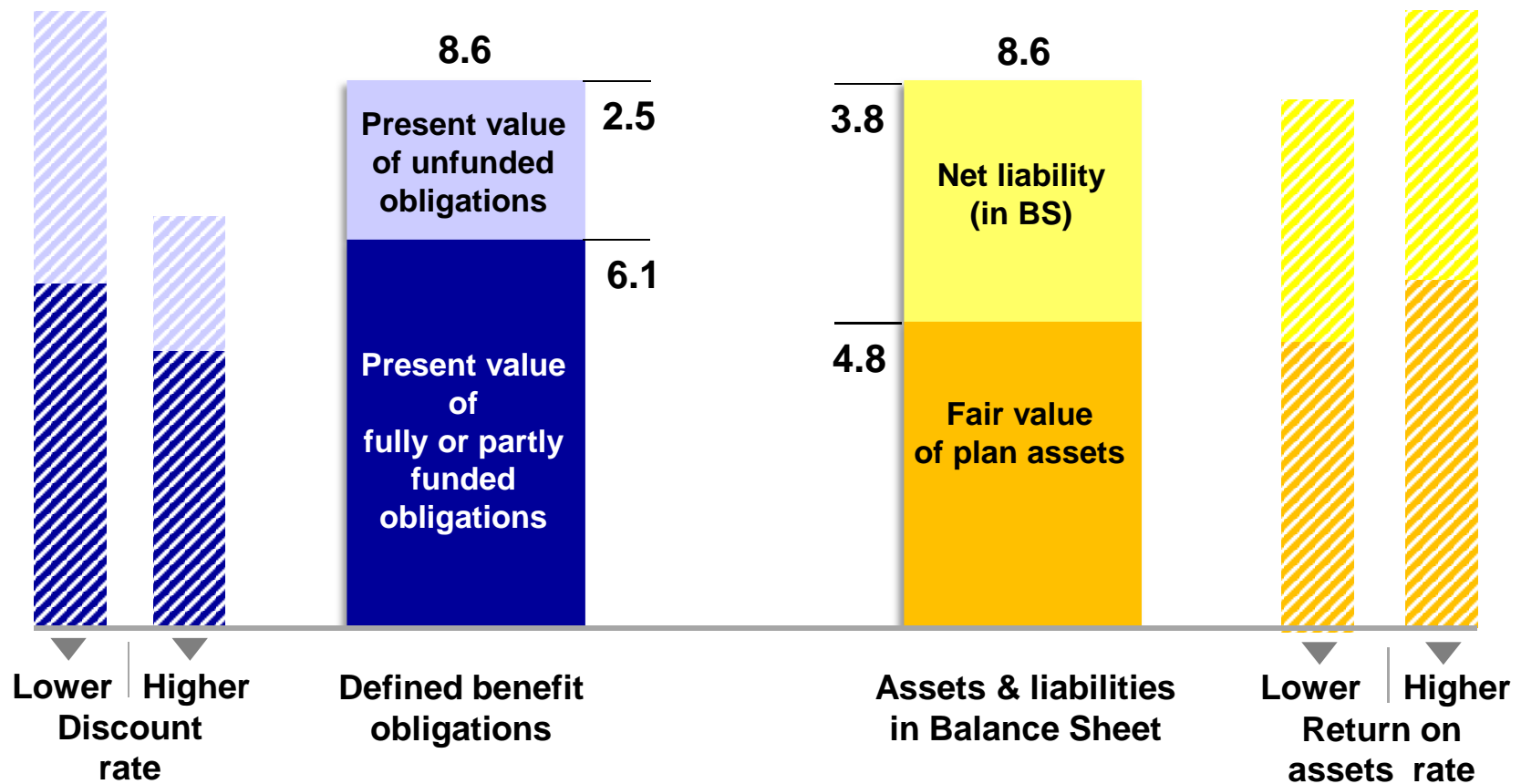
In € millions	2011	2010
EBITDA	2,878	2,660
Change in WCR	(912)	(461)
Restructuring Cash Costs	(145)	(229)
Change in Operating Provisions	13	(194)
Other Operating WCR	(5)	20
Cash Flow from Operations	1,829	1,796
Taxes and Interest Paid	(632)	(474)
Routine Capital Expenditure (Maintenance, IS/IT, Dealerships)	(671)	(565)
Available Cash Flow	526	757
Growth Investments	(1,040)	(535)
Other Cash Flow from Investing Activities (o/w disposal of Hankook shares)	495	204
Free Cash Flow	(19)	426





Higher interest rates decrease the obligation Lower interest rates increase the obligation

December 2011 Financial position of Defined Benefits plans
(in € billions)





Benefits: impact in P&L and Balance Sheet

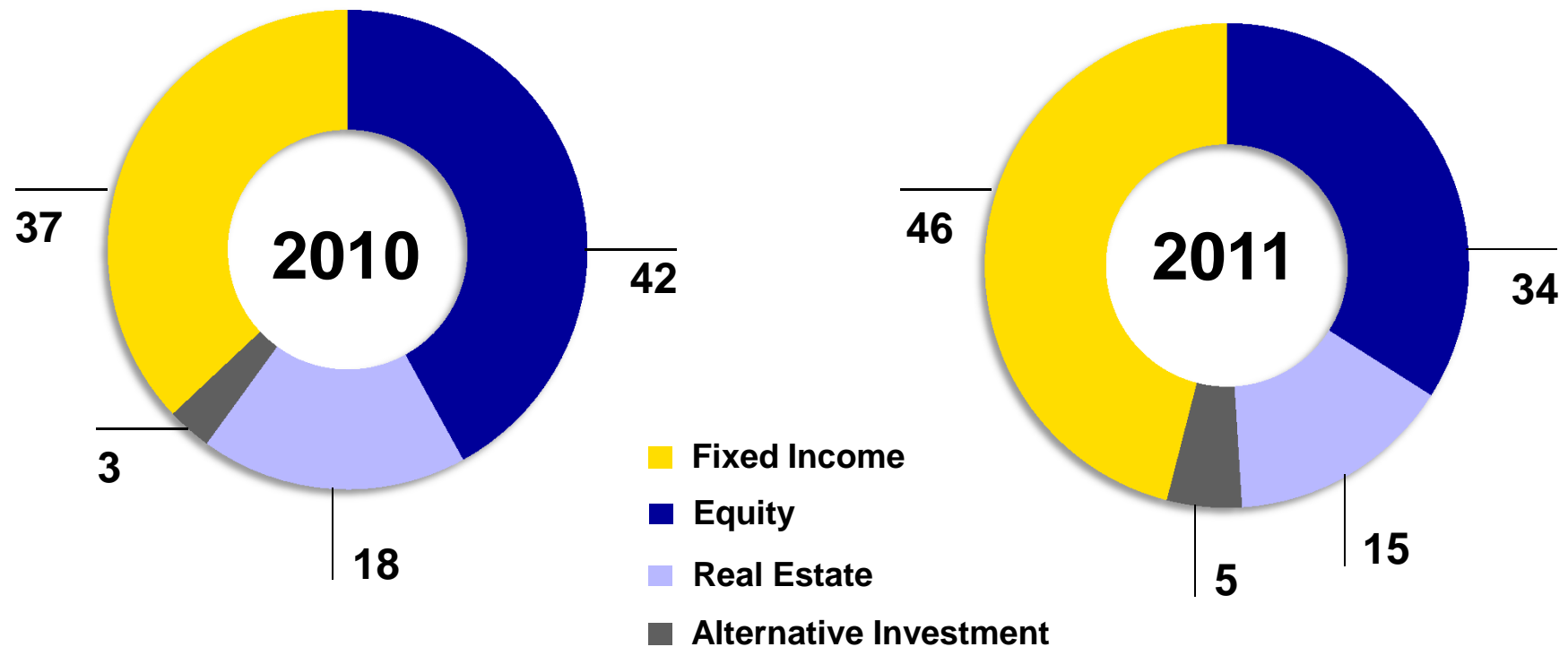
- **Funding requirements based on local regulations**
 - *US: 100% funding over 7 years*
 - *UK: 100% funding over 15 years*
 - **Obligation and discount rate are steadily reviewed**
 - *US: Every year*
 - *UK: every 3 years*
- ➔ **Amount of annual contribution (refer to Financial report page 123)**
- **Balance Sheet**
 - *Net defined benefit obligation recognized as a defined benefit liability*
 - *Any actuarial gains and losses recognized in Other Comprehensive Income*
 - **P&L**
 - *Net service cost*
 - *Any change in the benefit plans*





Asset Management of the plans: aimed at reducing volatility

Asset Allocation of fully and partly funded US pension plans (in % of total portfolio)

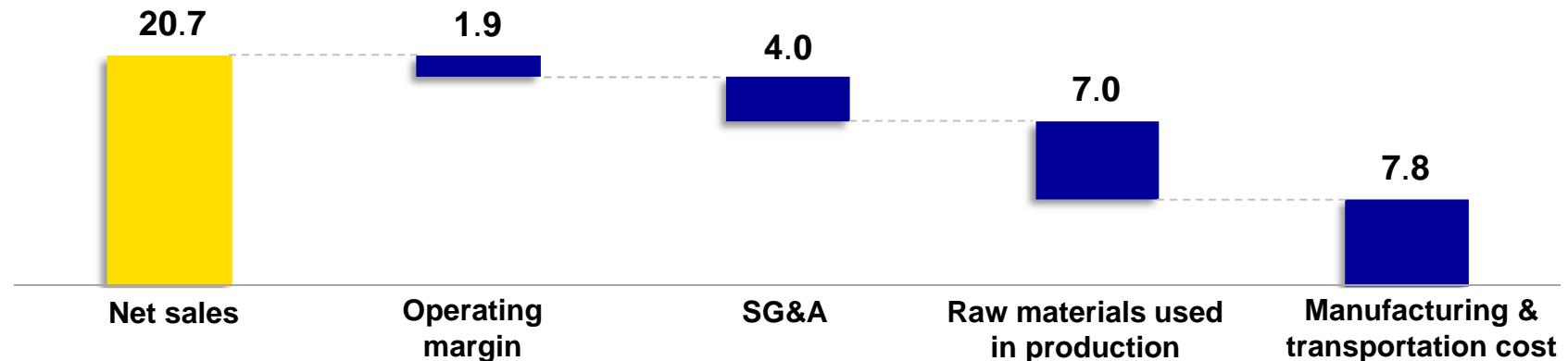




A Competitiveness Program to Drive Growth

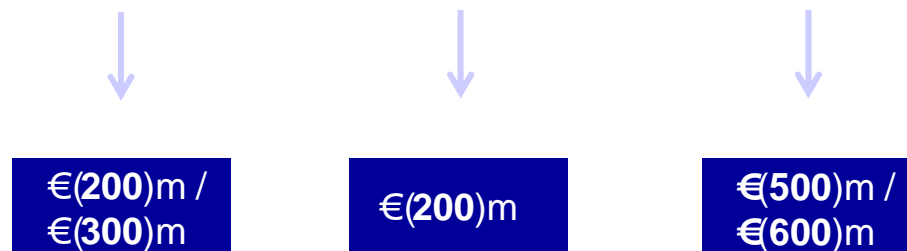
2011 cost structure

(in € billions)



2012 – 2016 competitiveness program

Excl. Inflation and incl. avoided costs



≈ €1 billion in competitiveness gains over five years





2015 Objectives

- **Volume growth: at least 25% over the 2011-2015 period**
- **Annual capex: around €2 billion**
- **2015 operating income: around €2.5 billion**
- **Free cash flow: positive over the 2011-2015 period**
- **2011-2015 ROCE: > 9% each year**





The Widest and Most Aligned Distribution Network in China

2011 Distribution networks – number of points of sale

Brand	Durable	Advocate	Transactional	Total
Michelin	T+ (Tyreplus) MTC (Michelin Tyre Service Center) MBA (Michelin Business Acceleration) 1,450	MCR (Michelin Certified Retailer) 1,975	MSD (Michelin Selected Dealer) 2,292	5,717
Goodyear	Flagship 110	Service Center 800	Image Shop 700	1,610
Bridgestone	WOC (Wing Of Car) 235	BTS (Bridgestone Tyre Shops) BTS+ (Bridgestone Tyre Shops Plus) 836	BOSS 3,575	4,646
Continental	Best Drive 30	CCS 450	CAR 900	1,380
Hankook	T-Station 64	Tire Town 525	Image Shop 1,434	2,023





Enhanced Distribution Leadership in China

Program		2011	2015
Durable	T+	626	1,150
	MTC/MBA	824	1,400
Advocate	MCR	1,975	2,800
Transactional	MSD	2,292	2,750
Total		5,717	8,100

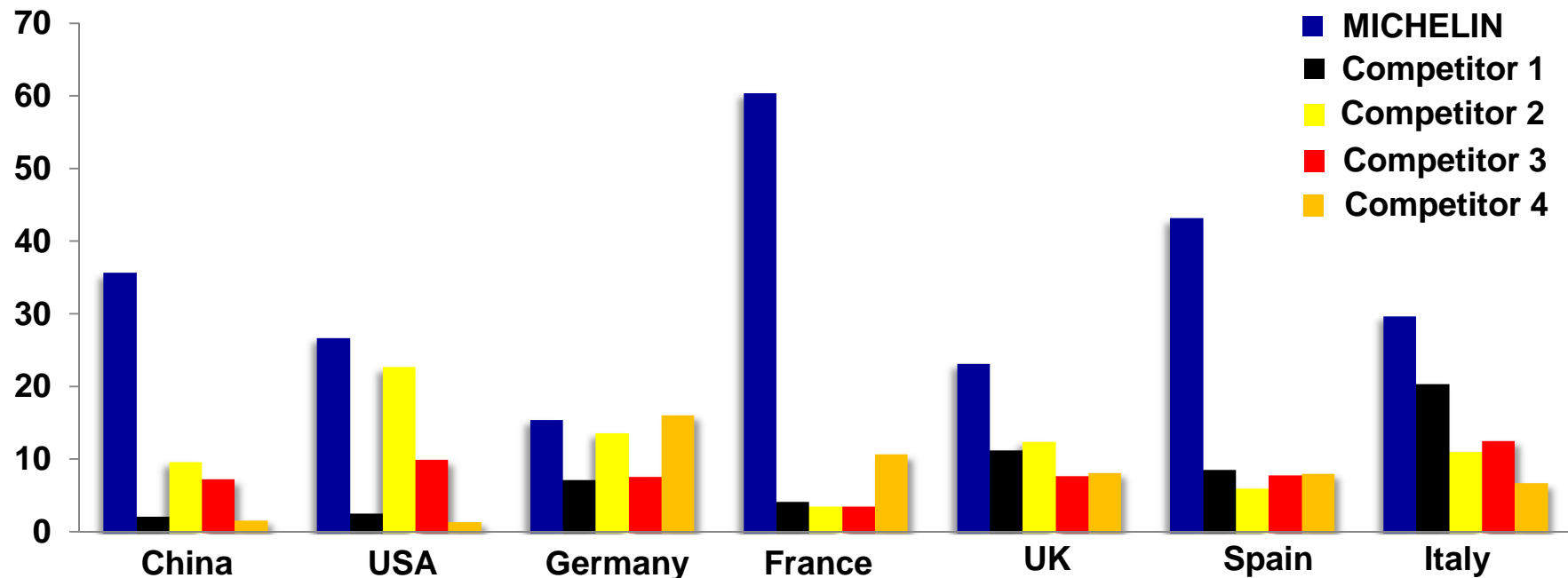
- Tyre Plus was transformed in 2010 into a franchise looking to provide basic car maintenance services and a premium consumer experience.





The Preferred Brand of Premium Tirebuyers

"Which brands among the following would you seriously consider if you were going to buy tires for your car tomorrow?"



Sources: Europe = TNS Sofres, USA = Lieberman Research, China = Nielsen, 2011





2011 Production Capacity: a Global Footprint

2011

Total capacity: 3,460 K tonnes

North America

34%

1,200 K tonnes

South America

5%

160 K tonnes

Western Europe

42%

1,400 K tonnes

Eastern Europe

10%

400 K tonnes

Asia

9%

300 K tonnes





2015 Production Capacity: a Global Footprint

2015

Total capacity: 4,250 K tonnes
Up 23% vs 2011

North America

32%
≈1 350 K tonnes
Up 13% vs 2011

South America

7%
≈300 K tonnes
Up 88% vs 2011

Western Europe

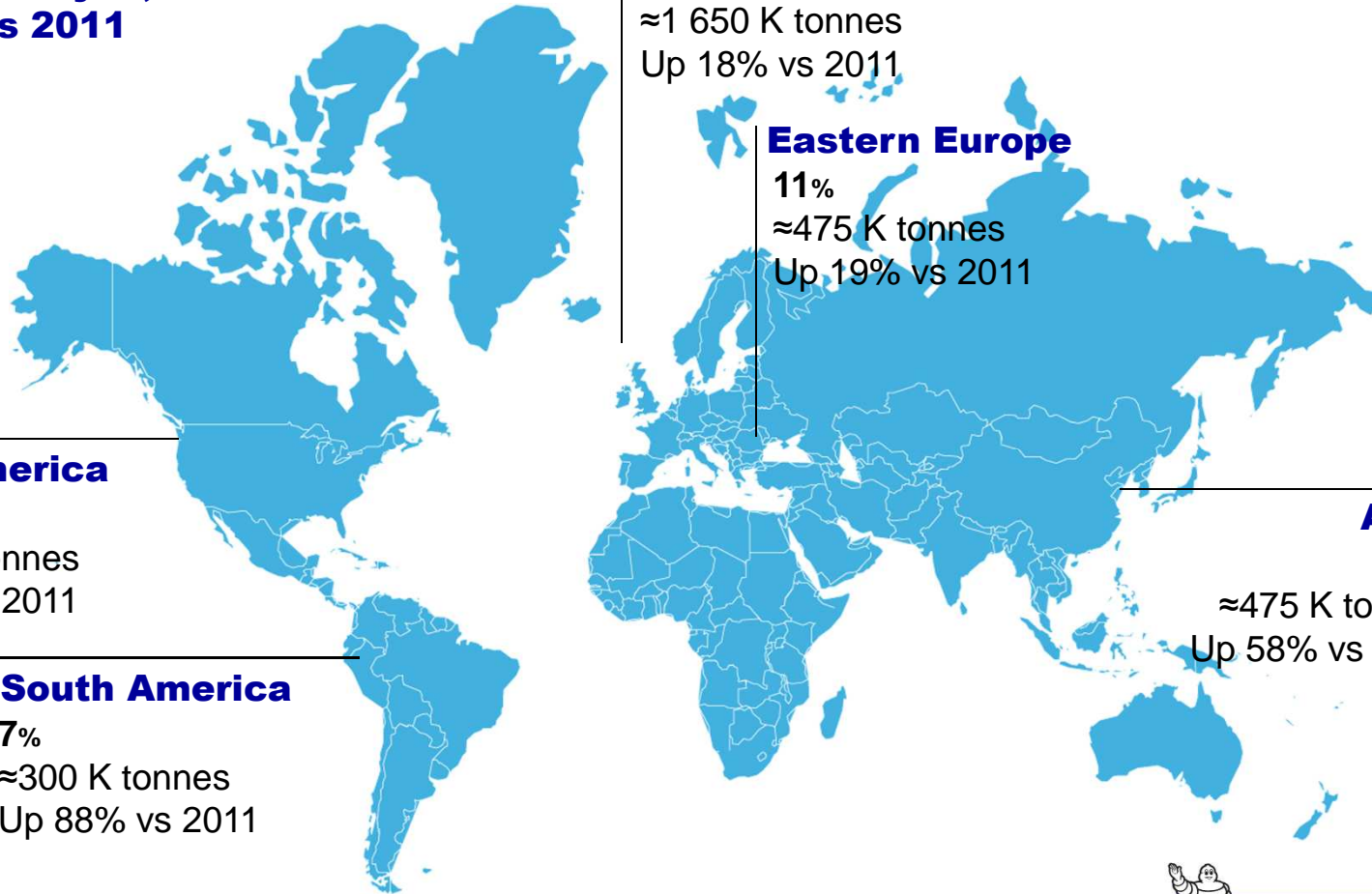
39%
≈1 650 K tonnes
Up 18% vs 2011

Eastern Europe

11%
≈475 K tonnes
Up 19% vs 2011

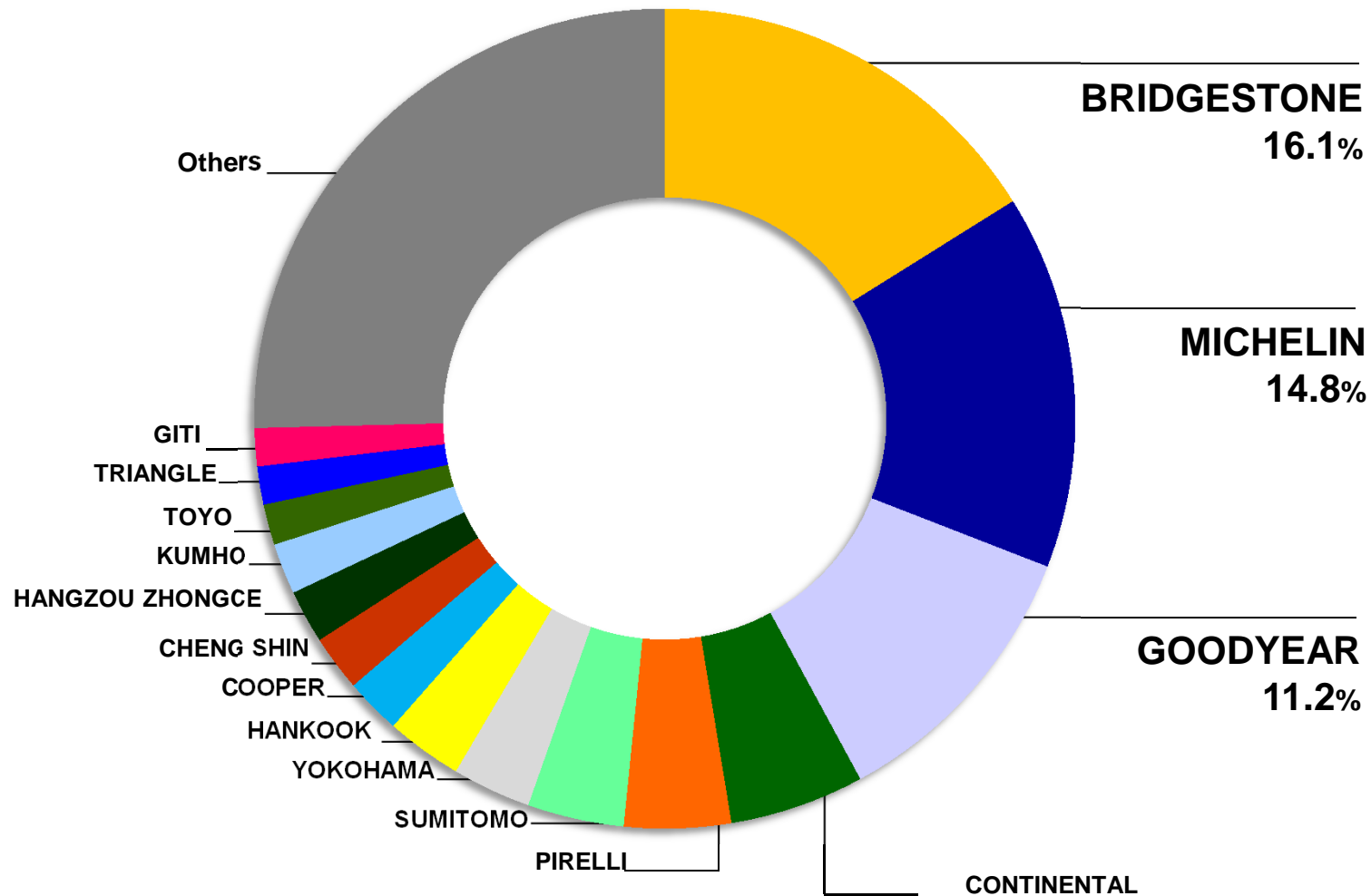
Asia

11%
≈475 K tonnes
Up 58% vs 2011





Tire Business Ranking 2011



Source: Tire Business – Août 2011





A Comprehensive Brand Portfolio

