

# 3<sup>rd</sup> Annual Global Automotive Conference Goldman Sachs

London, December 8, 2011



# Outline

- **Net sales:** Sustained firm growth
- **Markets:** Slowing momentum
- **Reporting segments:** Varying growth
- **Guidance:** Vigilance and measured optimism
- **2015 Manufacturing:** A strategic advantage for the Company
- **Investment strategy:** Geared towards growth opportunities



*Nine-month Net sales:  
Sustained firm growth*





## **Nine-month Net Sales up 17.3% to €15,246 million**

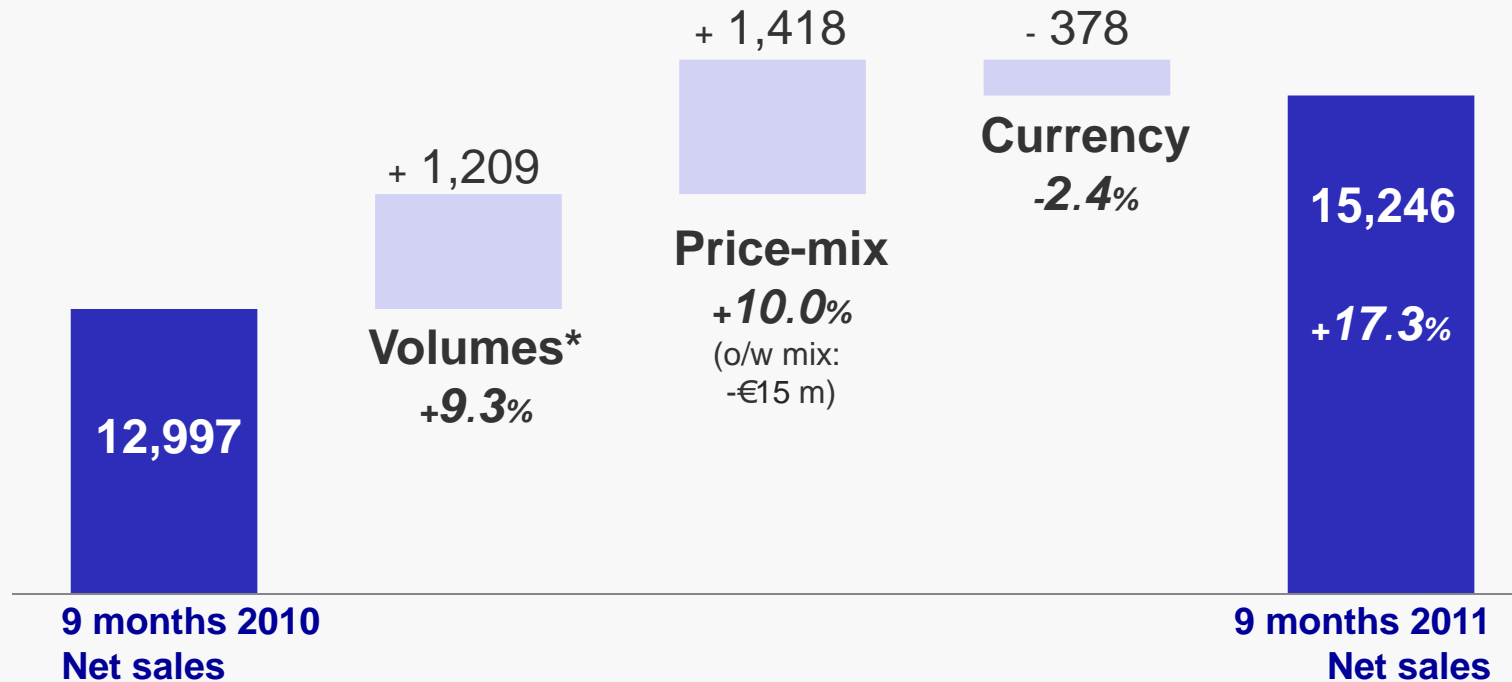
- ▶ **Sales volumes up 9.3%**
- ▶ **Markets expanding, despite slower momentum in the third quarter**
- ▶ **Solid performance by the MICHELIN brand**
- ▶ **Pricing policy added 10.0% to nine-month sales growth and, as announced, will offset the full-year impact of the raw materials headwind**





# Tangible Growth in Sales Volumes Efficient Pricing Policy

YoY Change in € Millions and as a % of Net Sales



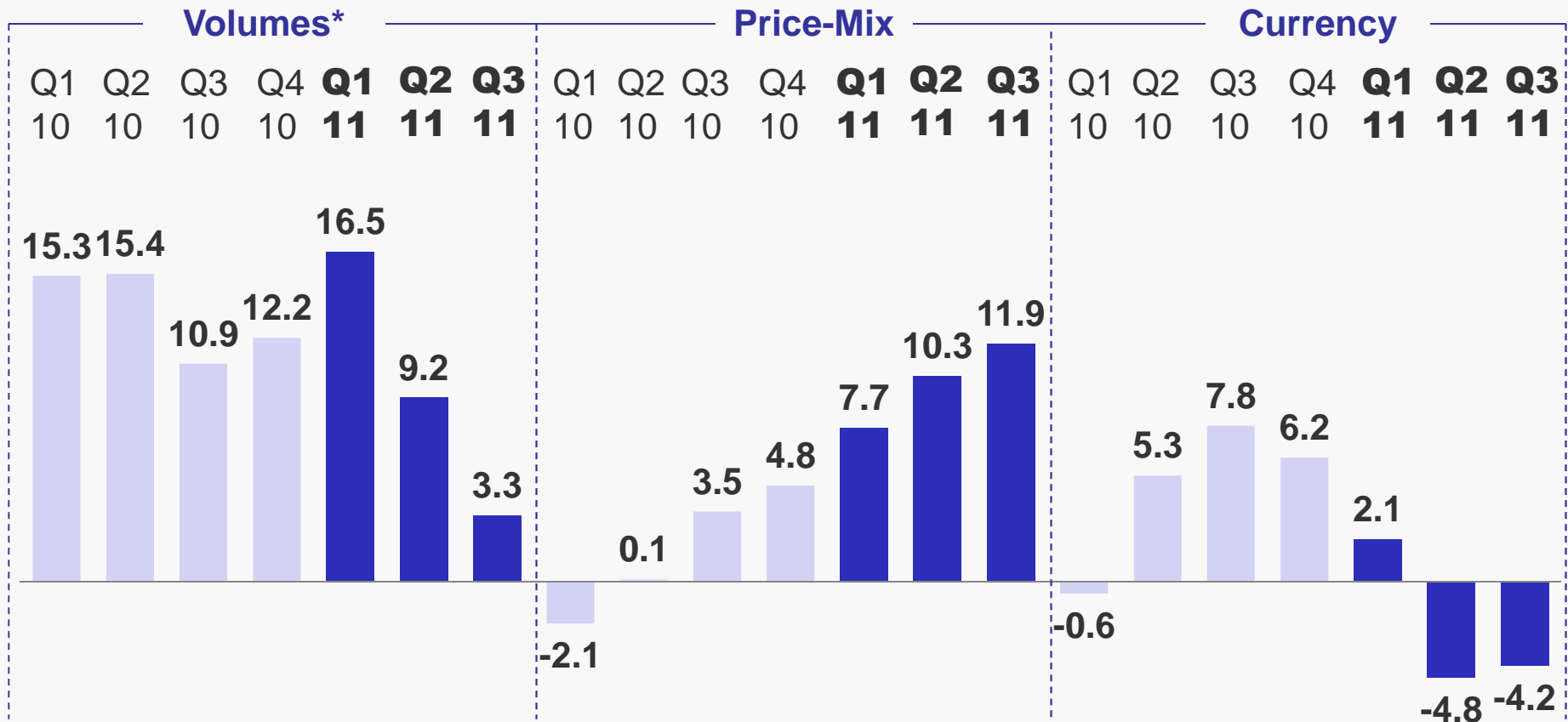
\* Volumes in tonnes





# A Sharply Rising Price Effect

% Change YoY



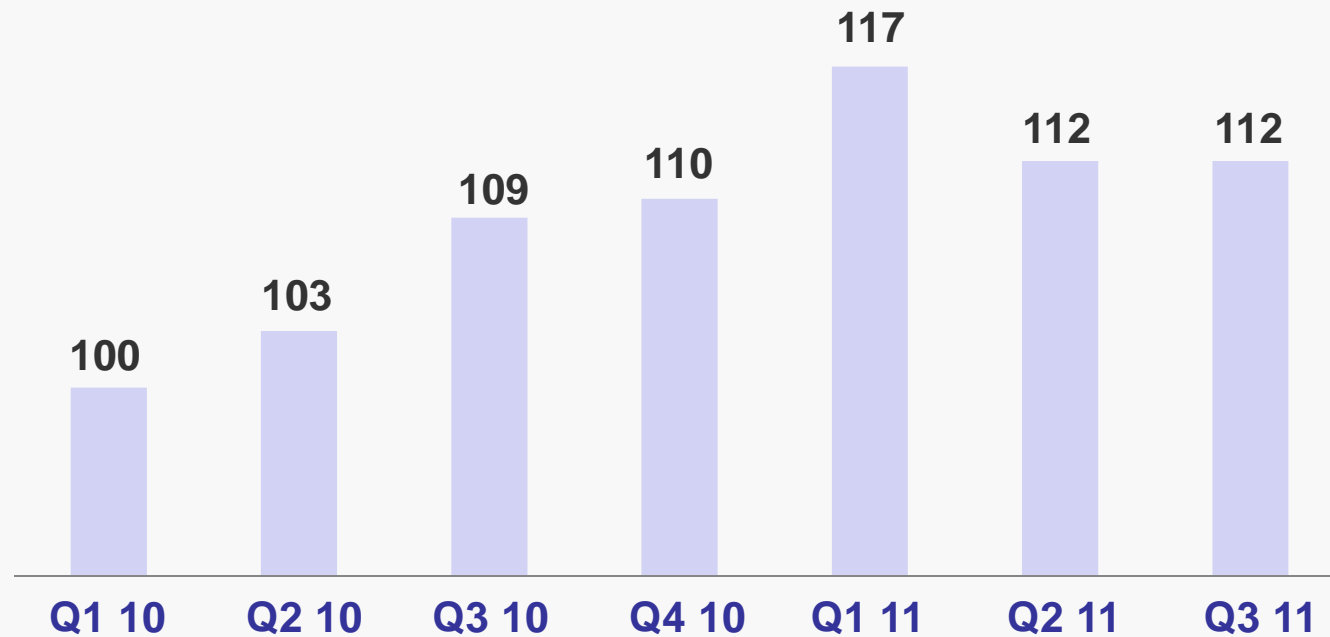
\* Volumes in tonnes





# Robust Volume Growth off of High Prior-year Comparatives

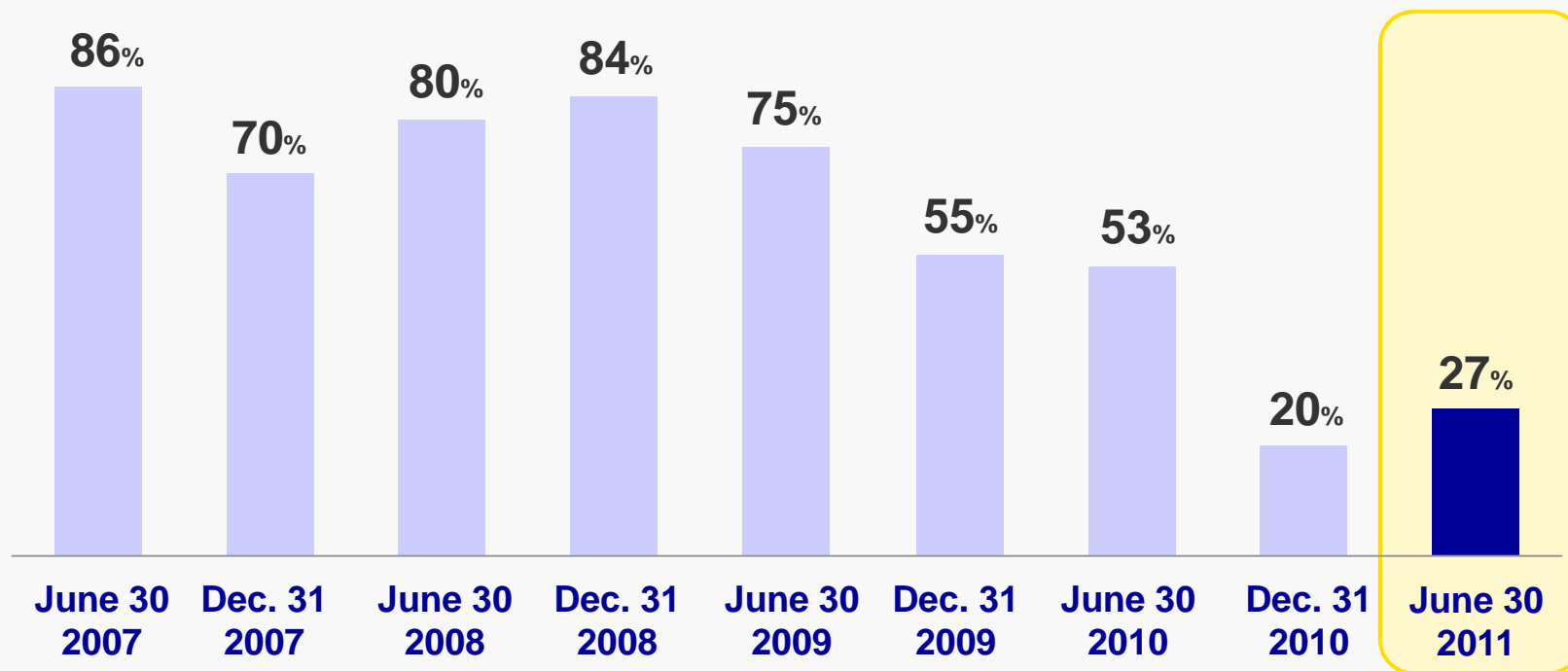
Tonnage (Base 100 = Q1 2010)





# Robust Financial Structure: Flexibility and Room to Manoeuvre

*Gearing – Net Debt / Equity Ratio*





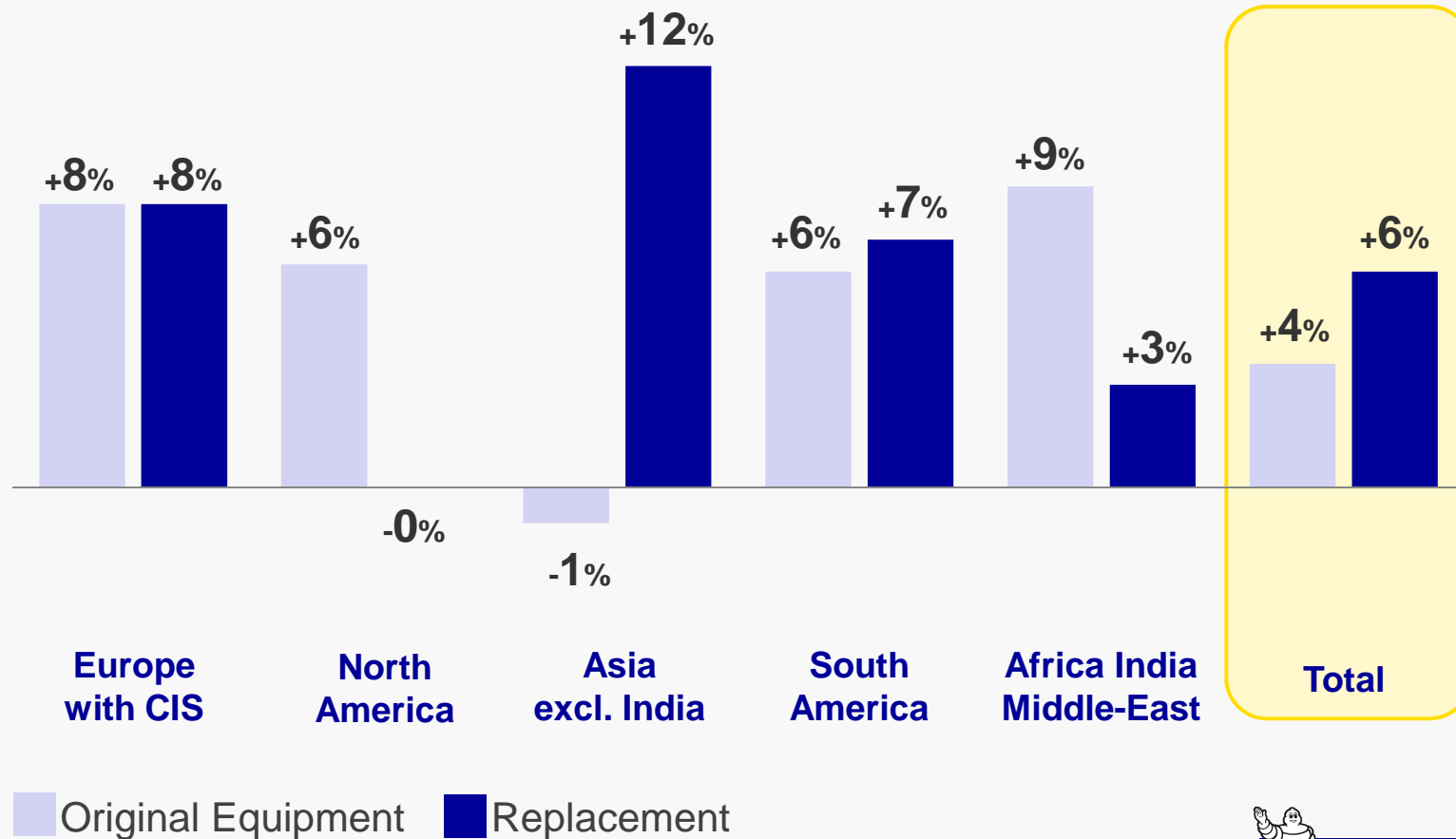
# *Markets: Slowing momentum*





# Car and Light Truck Tires: Sustained Growth, Strong OE except Japan

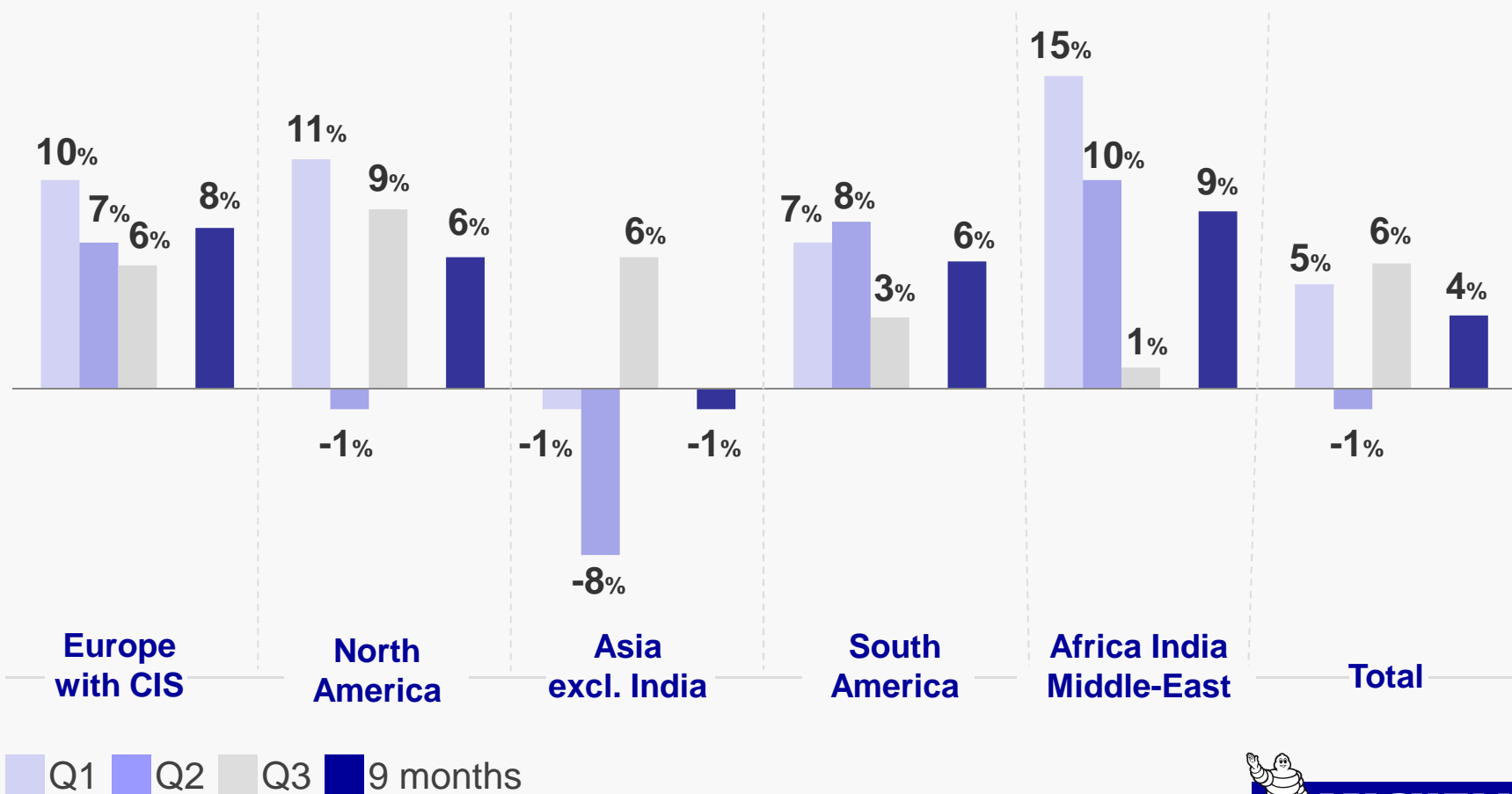
Markets at Sept. 30, 2011 (change in number of tires)





# OE Car and Light Truck Markets: Cloudy Economic Outlook had Little Impact in Q3

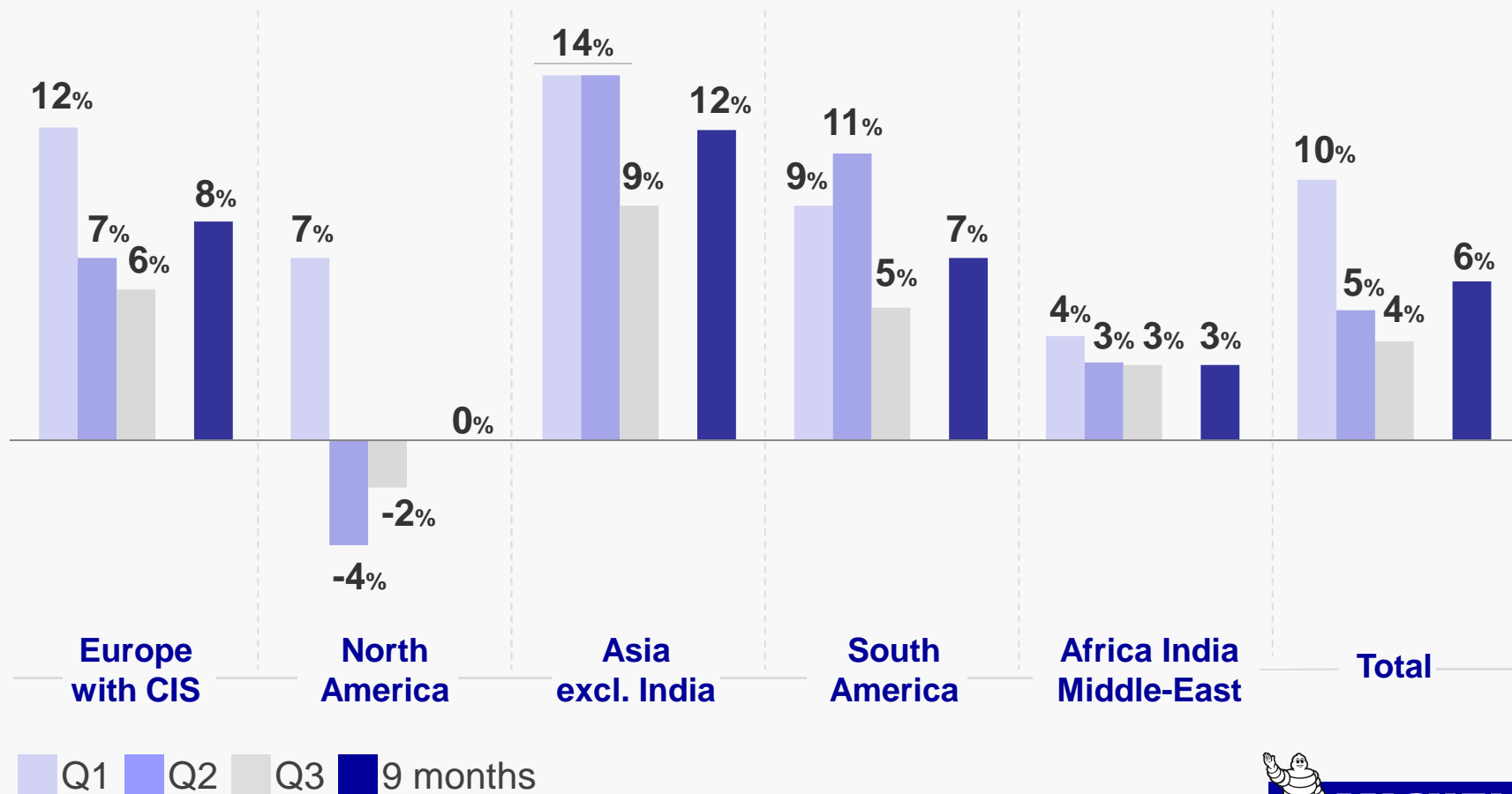
OE Car & Light Truck Markets 2011 / 2010  
(change in number of tires)





# Replacement Car and Light Truck Markets: a Return to Long-term Trends

Replacement Car & Light Truck Markets 2011 / 2010  
(change in number of tires)





# October PCLT Tire Markets: North American Reflecting Miles Driven

*Markets at Oct. 31, 2011 (change in number of tires)*

Market	Europe*	North America	Brazil
Original Equipment	▲ +2,5%	▲ +11,2%	▼ -5,6%
Replacement	▲ +3,8%	▼ -3,5%	▲ +13,4%

**YTD (From January to October 2011)**

Market	Europe*	North America	Brazil
Original Equipment	▲ +7,6%	▲ +6,8%	▲ +4,9%
Replacement	▲ +7,9%	▼ -0,6%	▲ +5,1%

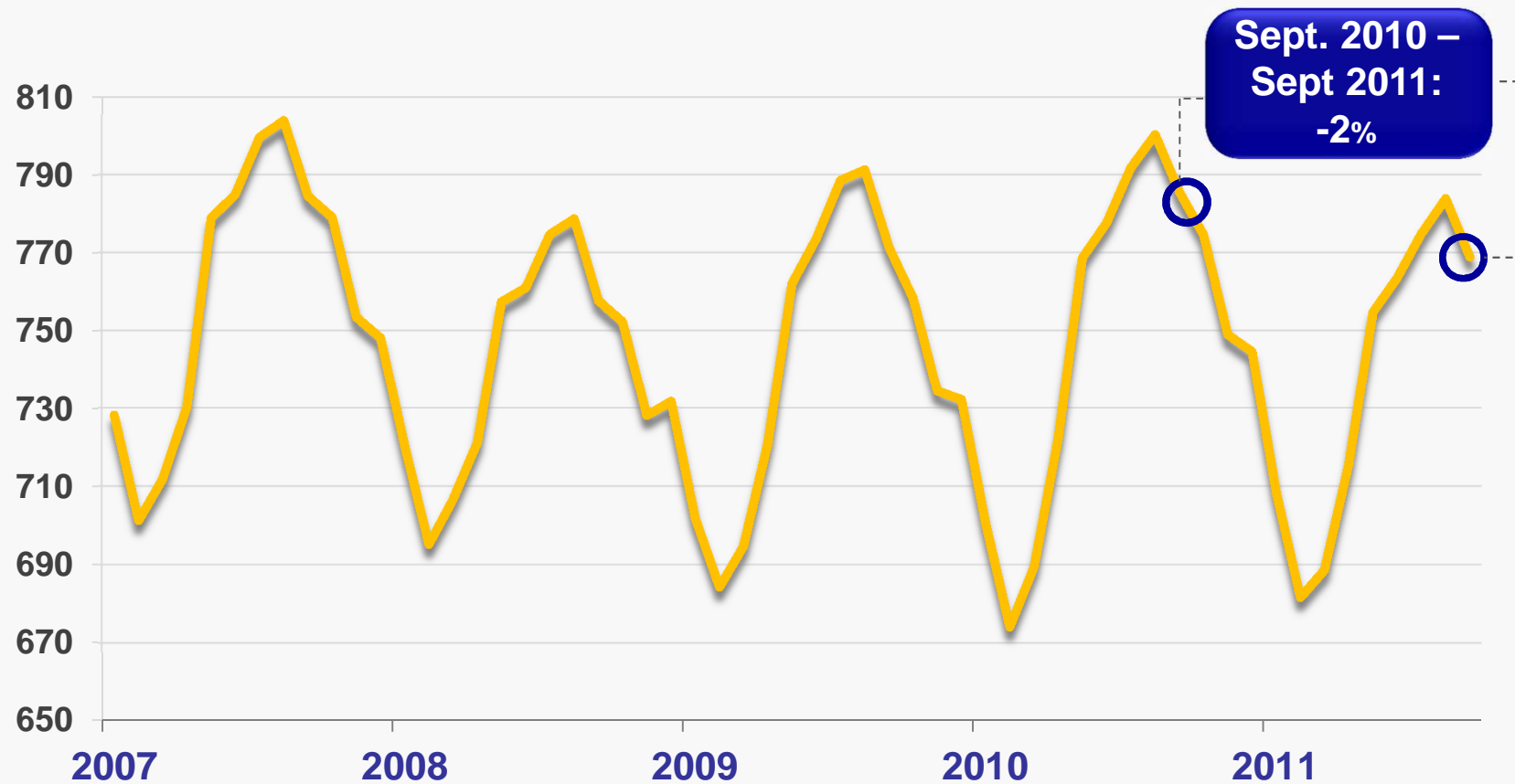
*\* Including Russia et Turkey*





# US Vehicle Miles Driven Eroding

US Miles Driven (rolling 3 months)



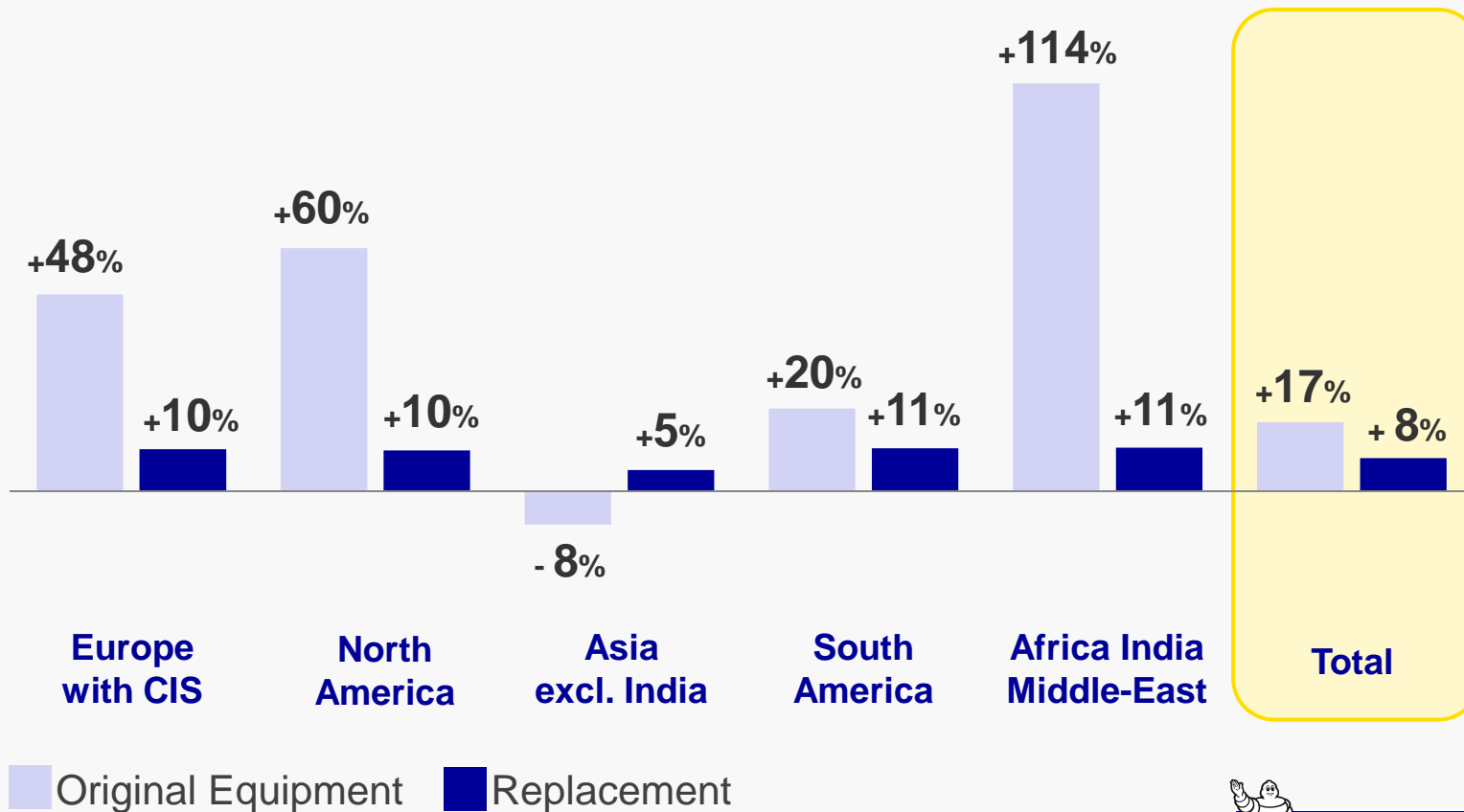
Source: US department of transportation / Federal Highway Administration





# Truck Tires: Sharp Rebound in OE Sales

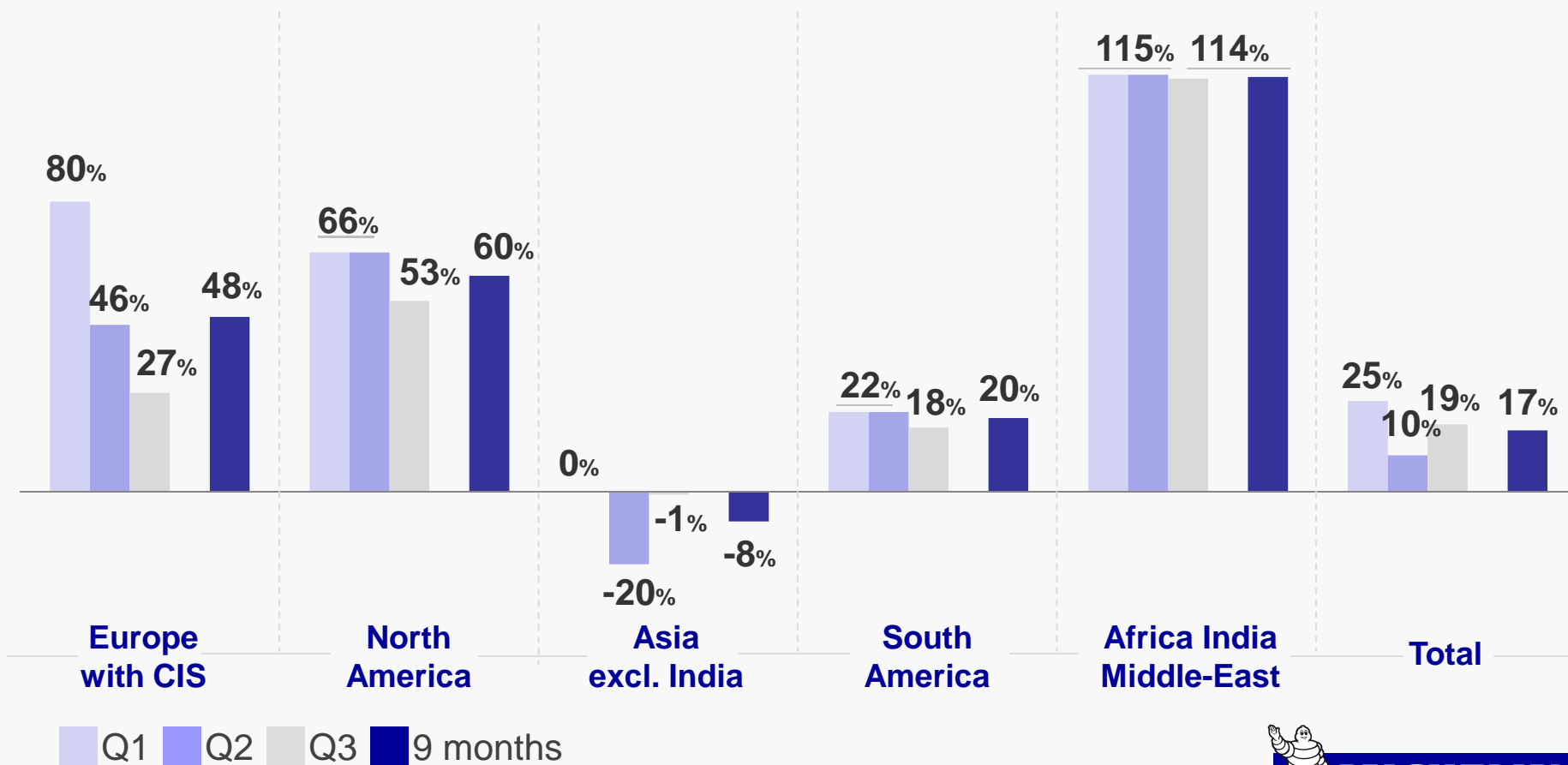
*Radial Truck Market as at September 30, 2011 / 2010  
(change in number of tires)*





# OE Truck Markets: Still Strong Rebound in Mature Markets

OE Radial Truck Market 2011 / 2010  
(change in number of tires)

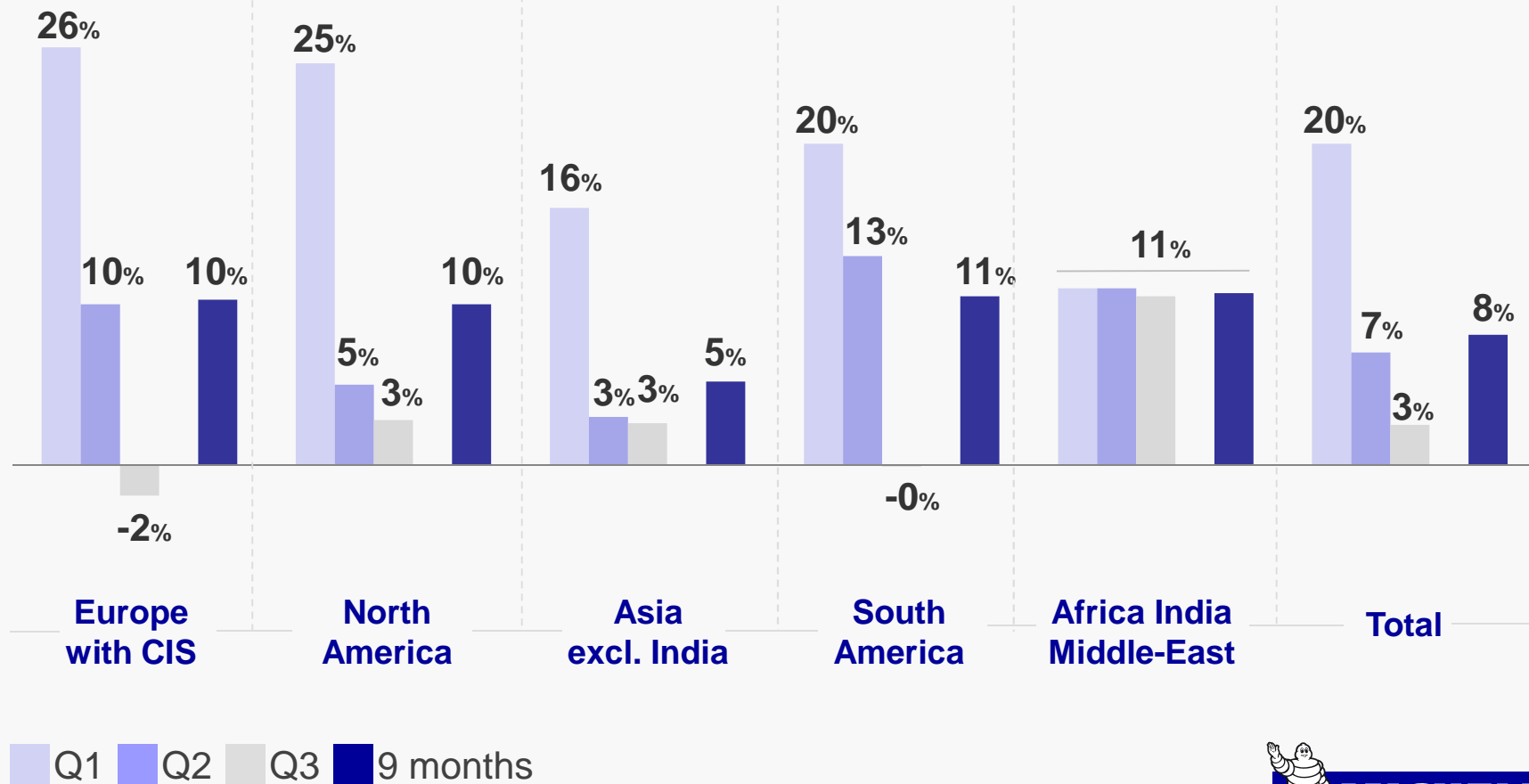






# Replacement Truck Markets: Inventory Drawdowns in Q3, especially in Europe

Replacement Radial Truck Market 2011 / 2010  
(change in number of tires)





# October Truck Markets: Slowdown in Replacement

*Markets at Oct. 31, 2011 (change in number of tires)*

Market (radial)	Europe*	North America	Brazil
Original Equipment	▲ +9,8%	▲ +63,8%	▲ +10,0%
Replacement	▼ -6,8%	▼ -7,4%	▼ -8,1%

**YTD (From January to October 2011)**

Market (radial)	Europe*	North America	Brazil
Original Equipment	▲ +43,0%	▲ +59,7%	▲ +19,5%
Replacement	▲ +8,8%	▲ +8,0%	▲ +7,5%

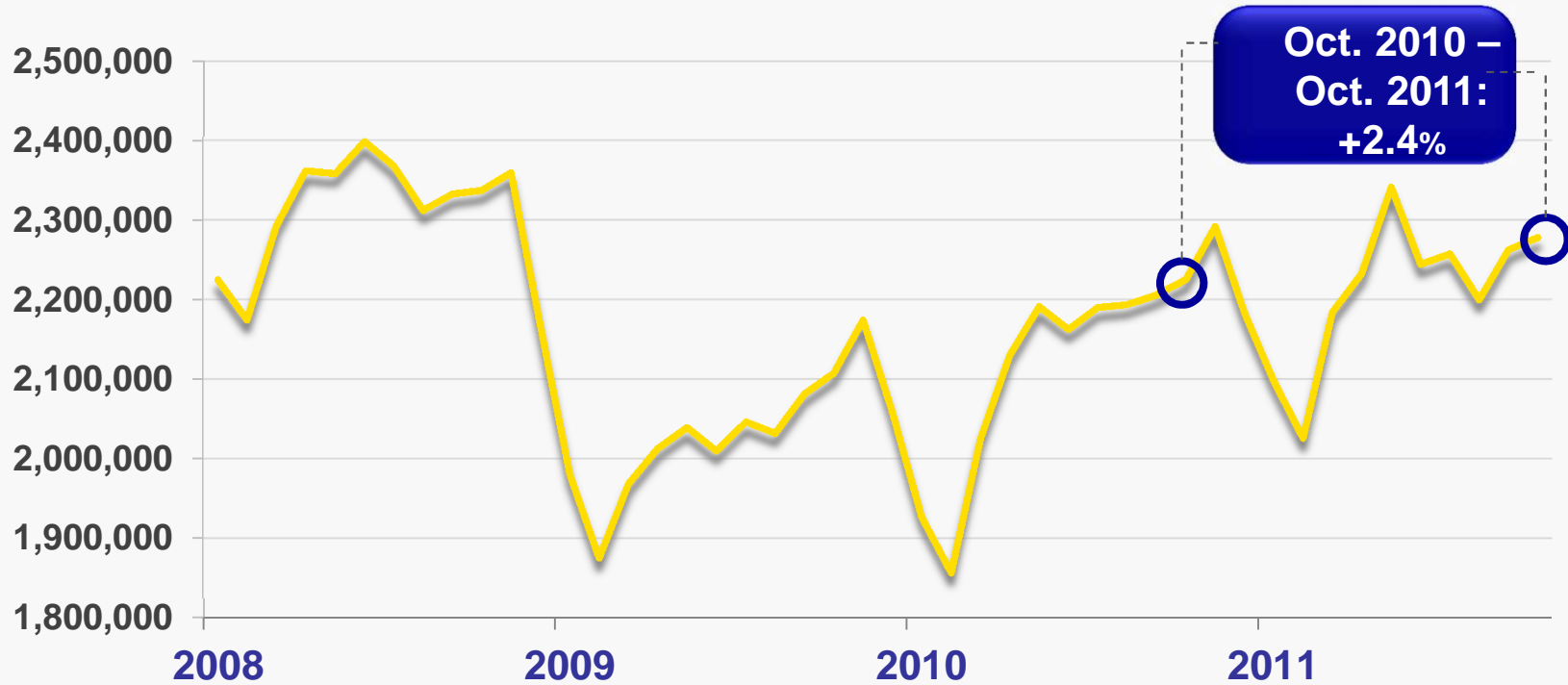
*\* Including Russia et Turkey*





# Freight Kilometers Driven in Germany at 2010 Levels

German Freight (rolling 3 months)



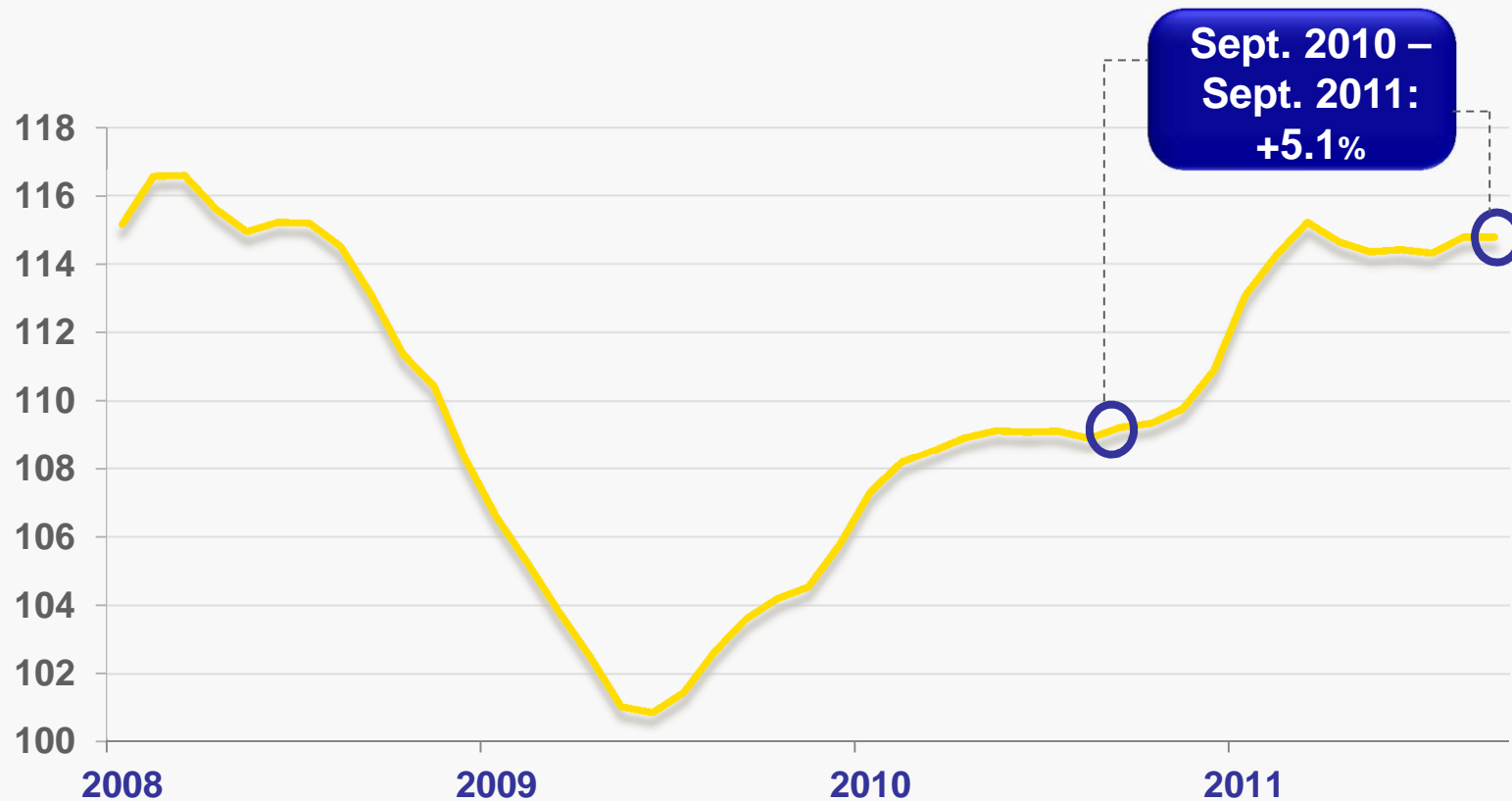
Source: Bundesamt für Güterverkehr





# US Freight Tonnage: Still Moving Back up to Pre-recession Levels

US Freight (rolling 3 months)



Source: ATA – American Trucking Associations



## *Reporting segments: Varying growth*





# Passenger Car and Light Truck Tires: Robust Growth

*% change in net sales (in € millions)*

9 months 2010	9 months 2011	% Change
7,136	7,916	+10.9%

**Tonnages up 5.6%**

- Winter tire sell-in at record highs
- Successful launch of the MICHELIN Energy XM2, especially designed for the new markets
- Successful launch of the MICHELIN Pilot Super Sport

▶ **Powerful price dynamic**

▶ **Full use of production capacity**





# Truck Tires: Growth Dampened by the Uncertain Economic Outlook

*% change in net sales (in € millions)*

9 months 2010	9 months 2011	% Change
4,096	4,995	+22.0%

- ▶ **Tonnages up 10.5%**
  - New MICHELIN X® Works™ product-services solution
  - Sustained success of the MICHELIN X One
- ▶ **Price increases**



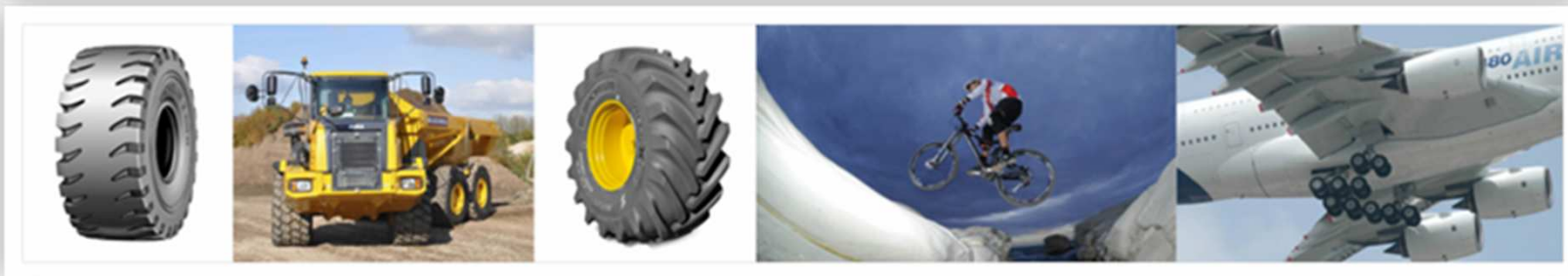


# Specialty Tires: Strong Growth

*% change in net sales (in € millions)*

9 months 2010	9 months 2011	% Change
1,765	2,335	+32.3%

- ▶ Tonnages up 24.1%
- ▶ Fast rebound in demand
- ▶ High capacity utilization
- ▶ Favorable impact from price indexing clauses





**Guidance:**  
*Vigilance and measured optimism*





# 2011 Guidance

- ▶ **Markets in Q4 2011**
  - **Passenger Car and Light Truck Tires:**
    - Europe replacement demand will depend on winter tire sell-out
    - New markets demand still trending upwards
  - **Truck Tires: uncertain outlook, particularly in Europe**
  - **Specialty Tires: very buoyant**
- ▶ **Growth in sales volumes trending towards 8% by year end**
  - **Barring any significant worsening of the current economic environment**
- ▶ **Price increases to fully offset raw materials headwind**
- ▶ **Free cash flow temporarily negative in 2011**
- ▶ **Increase in operating income**



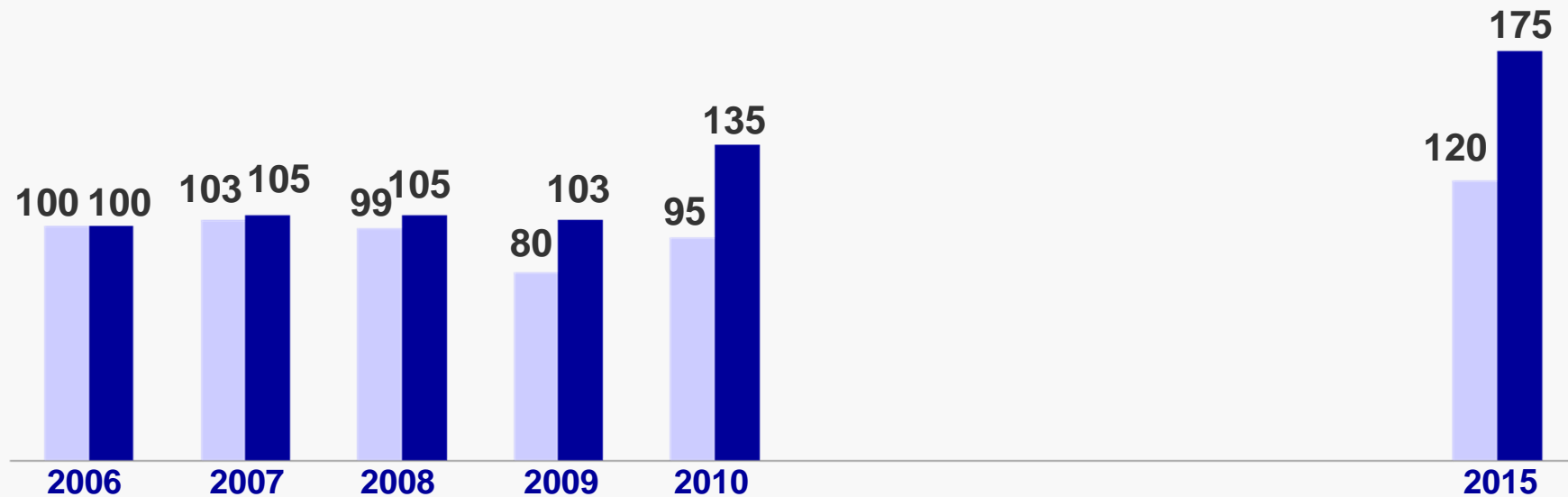
# *2015 Manufacturing: A strategic advantage for the Company*





# Optimizing Production Costs

*Focus maintained on productivity  
Productivity gains since 2006 (Base 100 in 2006)*



2005 / 2010: continuous progress + industrial footprint  
2011 / 2015: continuous progress + growth

■ Production ■ Tons per employee



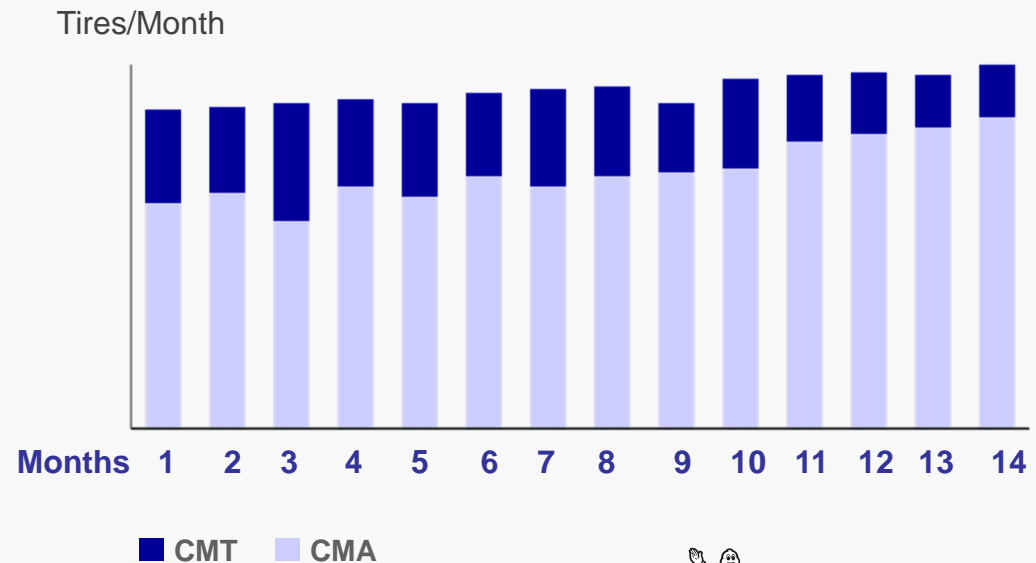


# New Improvement Levers: Maximized Use of Existing Assets

- ▶ **Maximum theoretical capacity (CMT):** No shutdowns, no scrapping, no breakdowns during the year.
- ▶ **Maximum available capacity (CMA):** Actual annual capacity.
- ▶ **Objective for 2015:** increase by 10% CMA/CMT ratio for existing assets. This means more than 300 KT of new production capacity with existing assets.

- ▶ **Levers:**

- Open days
- Scrapping
- Breakdowns
- Bottleneck management
- Debottlenecking

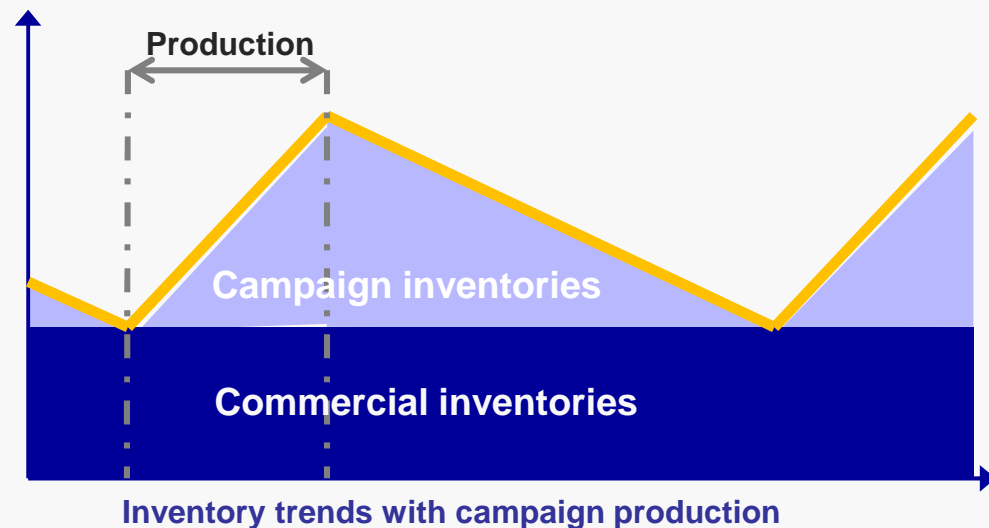




# New Improvement Levers: Flexibility

- ▶ Ability to produce exactly what's needed.
- ▶ Some tires are produced continuously.
- ▶ Others are produced in “campaigns” (e.g.: twice a year), due to a lack of manufacturing flexibility. This results in a need for “campaign inventories”.

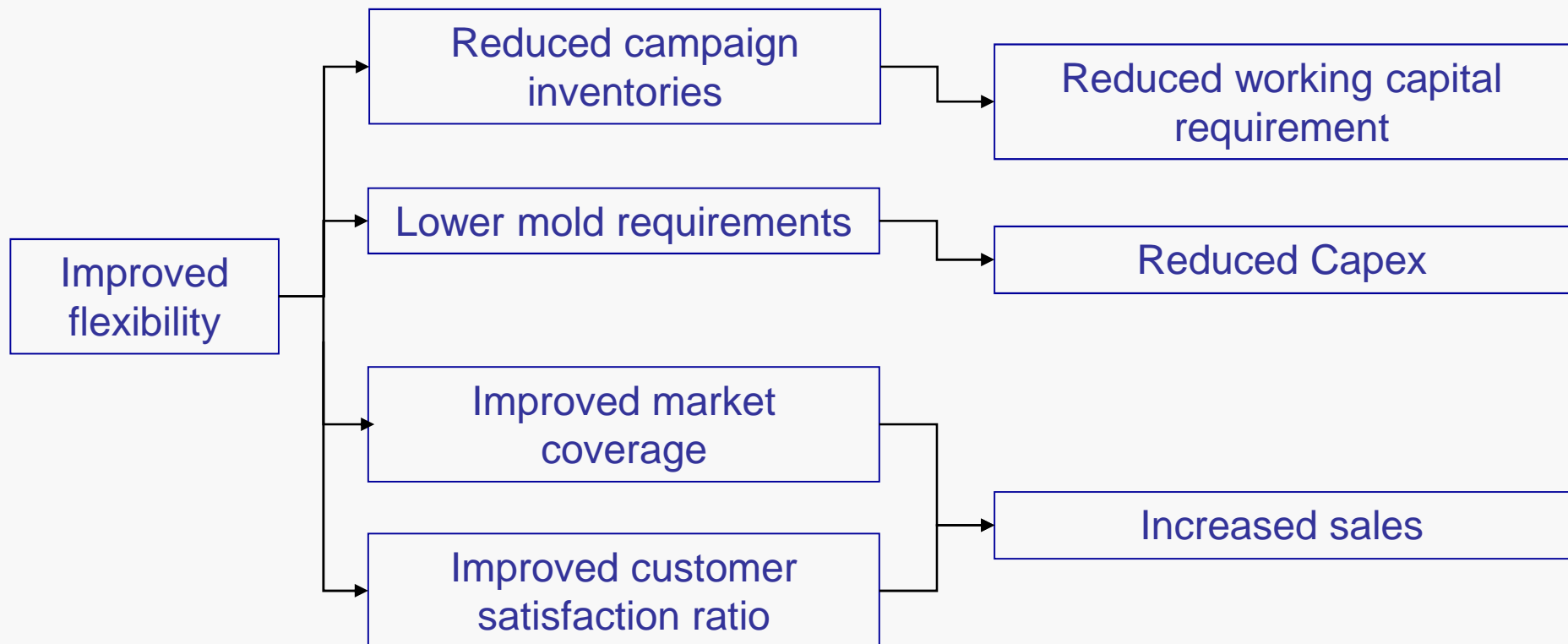
**Objective for 2015:**  
Reduce the need for  
“campaign inventories”  
by 50%  
(i.e ~€300M working  
capital at iso portfolio)





# New Improvement Levers: Flexibility

*The overall stakes of manufacturing flexibility*



*Investment strategy:  
Geared towards growth opportunities*

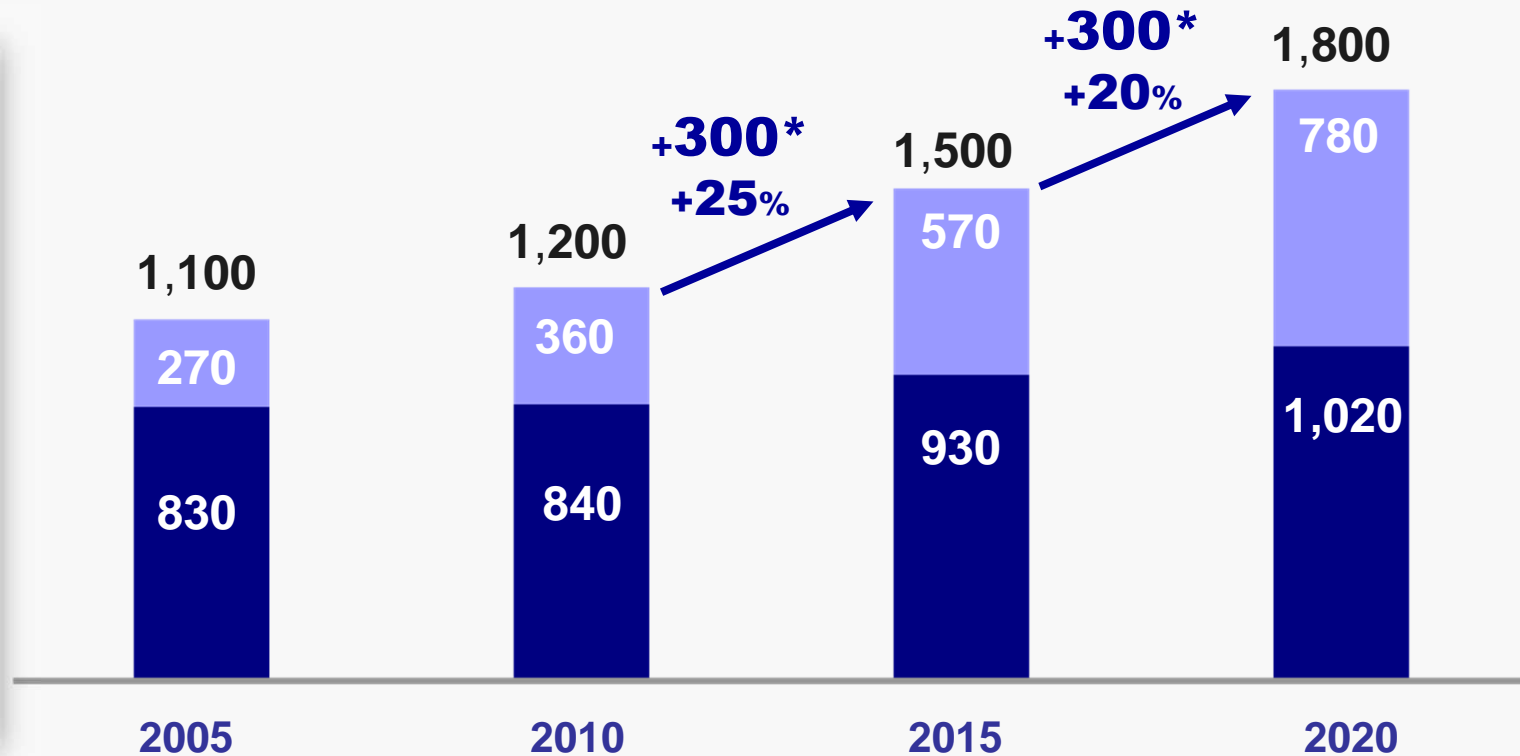






# Confirmed Growth Outlook for Tires

*Passenger Car and Light Truck Tire Markets (in millions of tires)*



*\* Of which 70% in new markets*

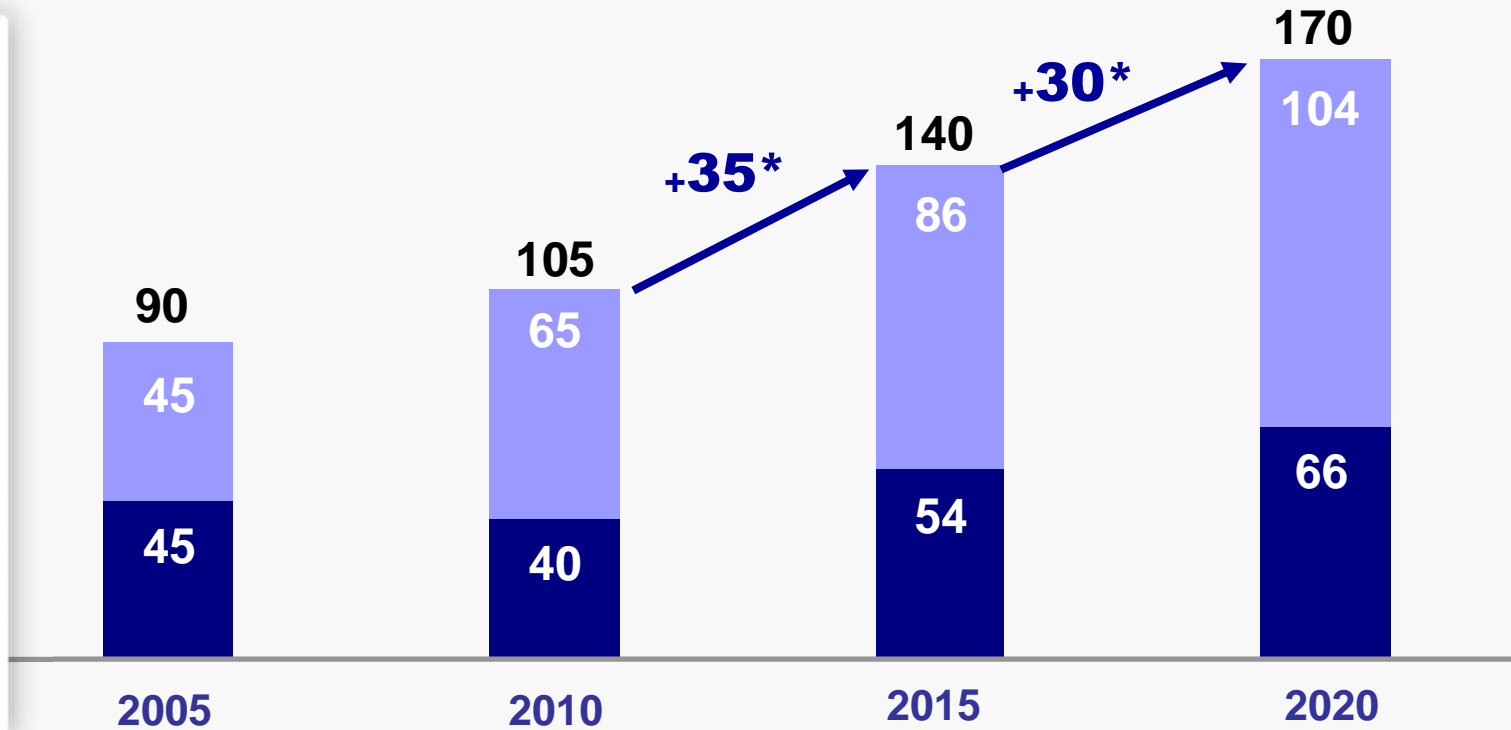
■ Mature markets   ■ New markets   *Michelin estimates*





# Confirmed Growth Outlook for Tires

Radial Truck Tire Markets (in millions of tires)



\* Of which 60% in new markets

■ Mature markets ■ New markets

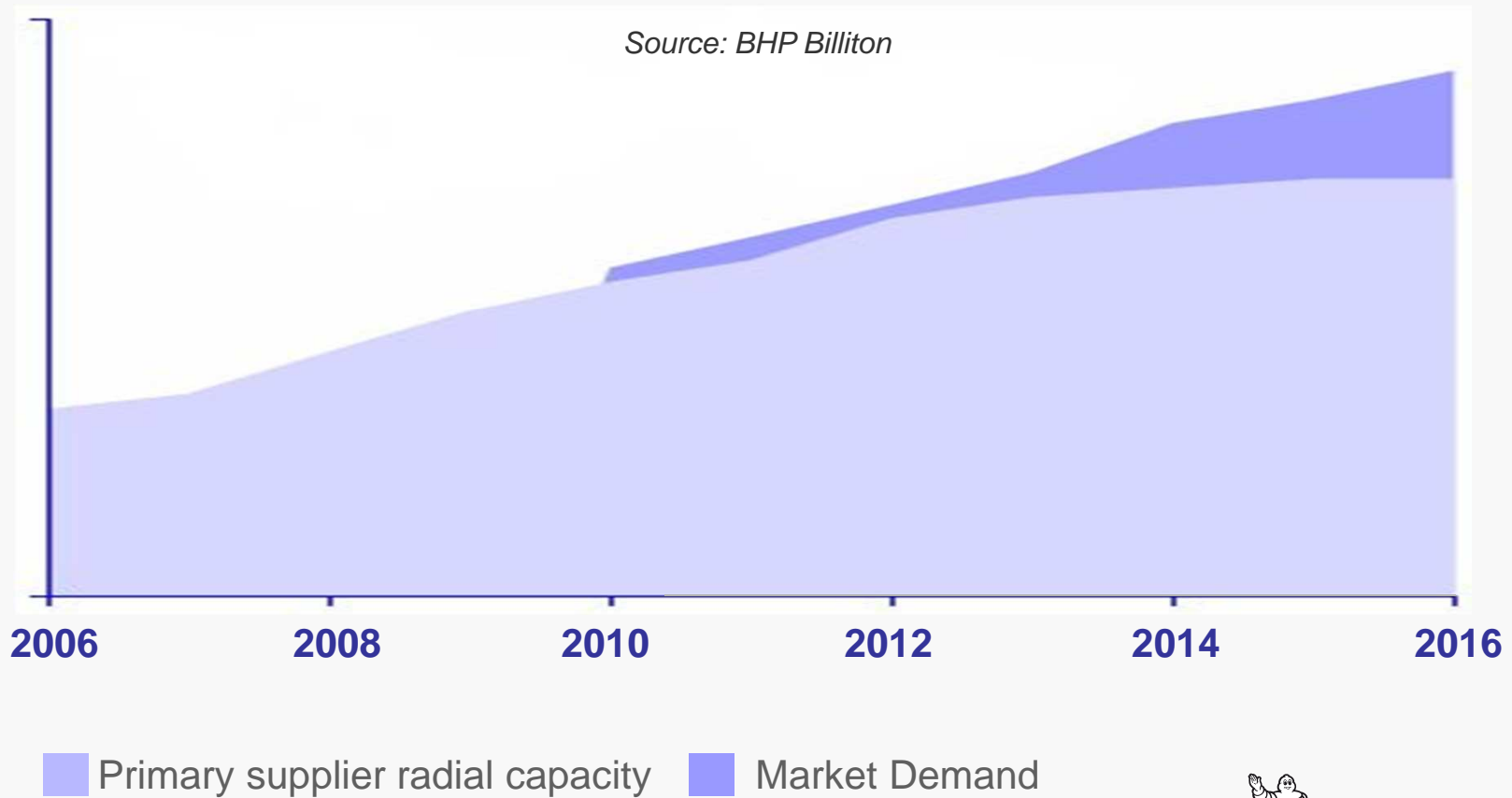
Michelin estimates





# Mining Tires: Structural Upward Trend in Demand

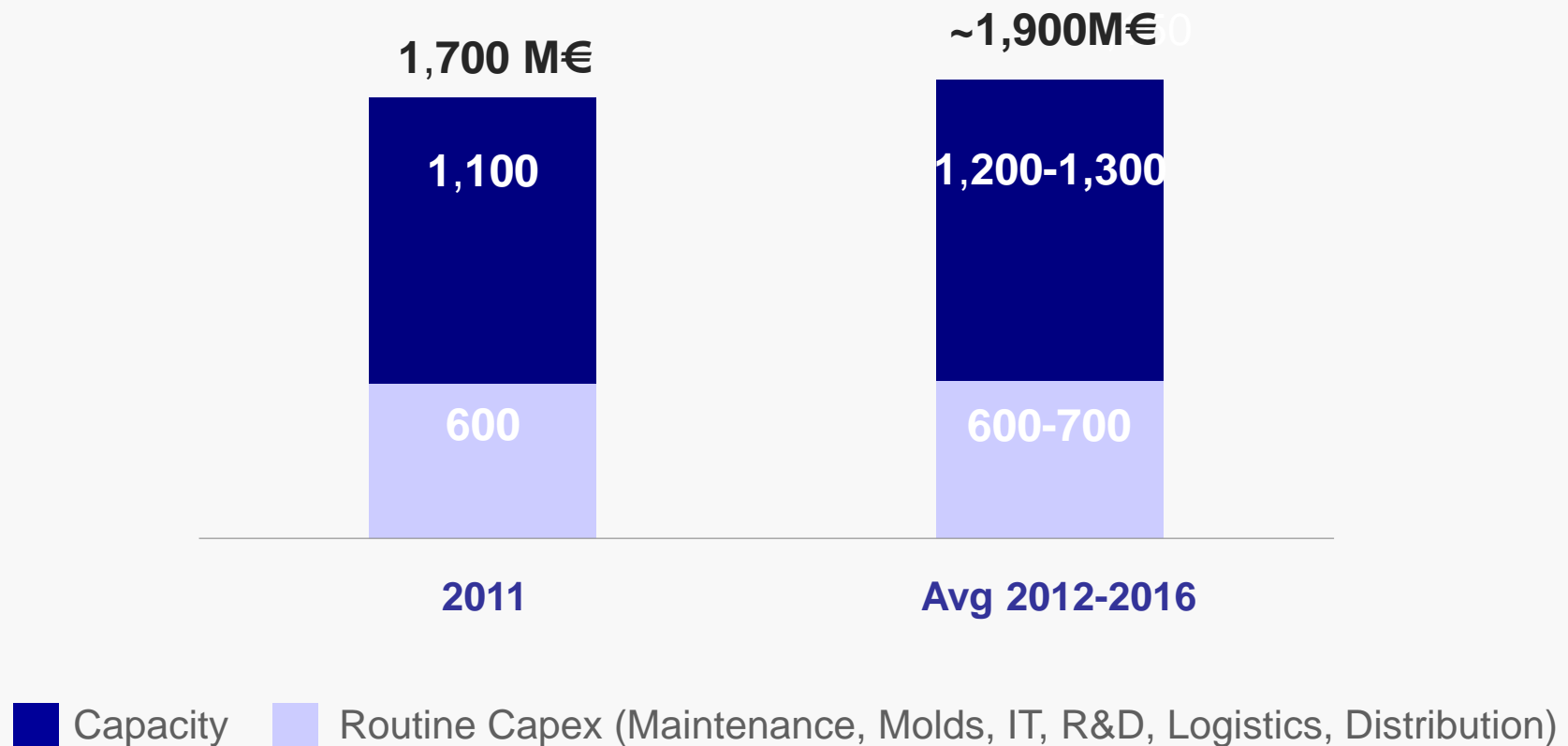
*Large mining tires (market supply and demand)*





# Almost €6bn Capital Expense in Capacity Expansion by 2016

*Annual Investments, in € million*

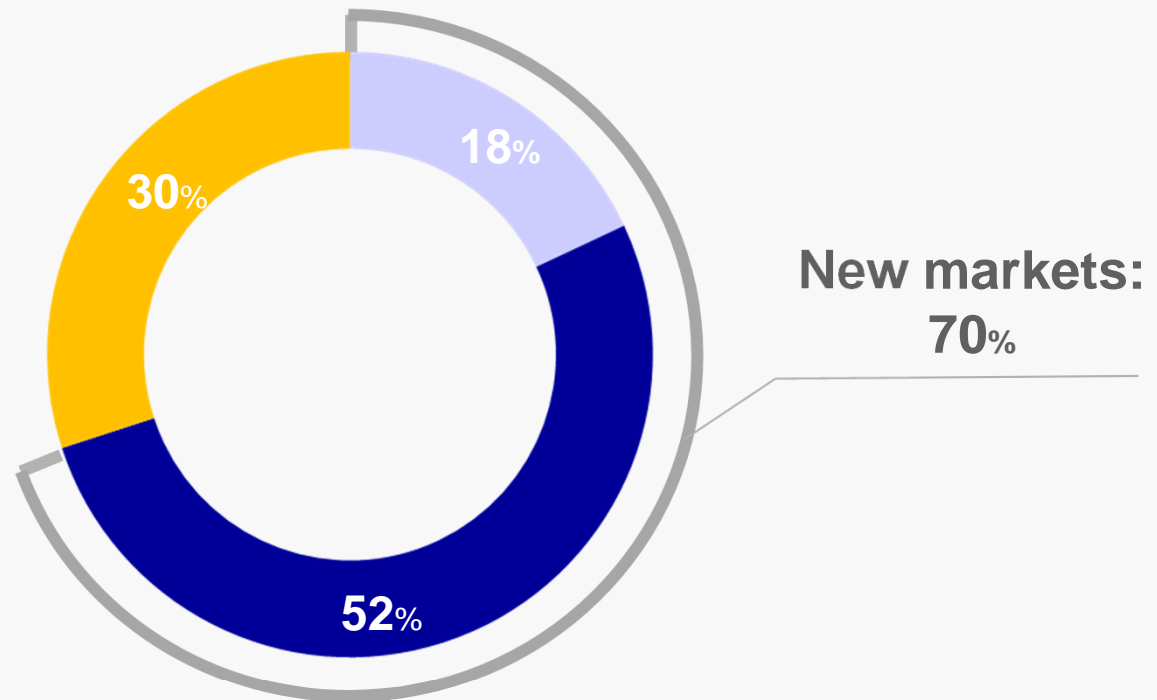




# Capacity Expansion Aligned with Potential Market Growth

## 2011-2015 Capacity Investment by Type and Region

- ▶ Additional capacity: 150KT per year
- ▶ Michelin brand: organic growth



■ Mature Market Brownfields   ■ New Market Greenfields   ■ New Market Brownfields





# Capacity Expansion: Michelin is Consistent with its Business Model

## Example: Capacity Expansion in China

	Cost of investment	RT price positioning	Assumptions
<b>Michelin brand</b>	100	100	Cost: \$1,350m 10m car tires, 1.8m truck tires, 295,000 retread → \$6.36/kg
<b>Competitor 1</b>	99	90	Cost: \$253m 4m car tires → \$6.33/kg
<b>Competitor 2</b>	91	70	Cost: \$954m 10.5m car tires, 1m truck tires → \$5.78/kg

Sources: Company information, Michelin estimates

Tire weight assumption - Car = 10kg/ tire, Truck = 60kg/tire, Retread = 15kg/tire





# Successful Private Placement of Michelin Stake in Hankook

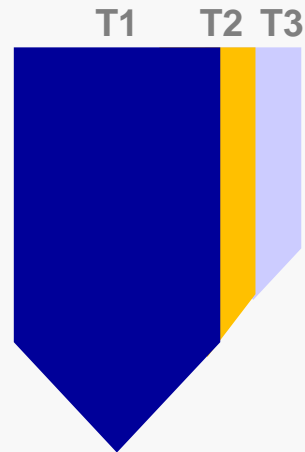
- ▶ **Portfolio optimization in line with the Group Strategy**
- ▶ **Benefit from the operation:**
  - Improved liquidity
  - Accelerate industrial strategy in high-growth markets, in particular by optimizing and strengthening plants dedicated to the production of Tier 2 and Tier 3 products in the PCLT and Truck tire markets
- ▶ **Gross proceeds: est. €405M**
- ▶ **Capital Gain: est. €250M**





# Tier 3 Presence: a Necessary Move for Global Leadership

## T1 + strategy



- Key: “flagship brand”
- Business pulled by T1 brand equity
- Bundled offering
- Strong sales force involvement @ retailer place
- High price realization

Partner Retailers - Dealers

## T3 stand-alone strategy

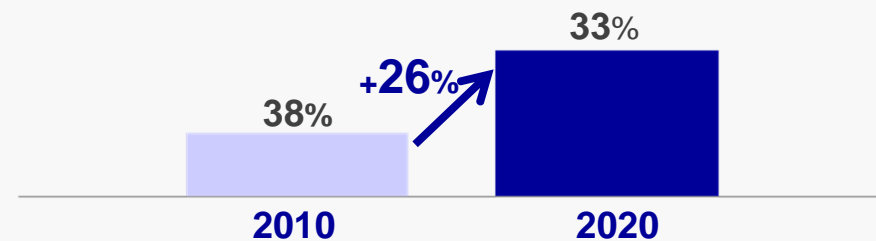


- Specific offering
- Distribution logistics done by wholesalers
- No support at the point of sale
- Lower price realization

Wholesalers

Retailers – Dealers

## Tier 3 worldwide segment - share and growth







# Contacts

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