

# RBS - Madrid Roadshow

MARCH 31, 2011



# 2010





## Historically high operating income, at €1,695 million

- ▶ Growth led by our global presence and the rebound in mature markets
- ▶ A responsive pricing policy in the face of rising raw materials costs
- ▶ Sustained productivity gains and cost discipline
- ▶ Strong growth in net income, to €1,049 million
- ▶ Solid free cash flow, at a time of
  - Sharply rebounding demand
  - Rising raw materials prices
  - Revitalized capex commitment
  - Prepaid contribution to various pension funds
- ▶ Robust ROCE, at 10.5%

→ Michelin is driving faster growth





## 2010 financial highlights

<i>In € millions</i>	2010
Net Sales	17,891
Operating Income (before non-recurring items)	1,695
Operating Margin (before non-recurring items)	9.5%
Net Income	1,049
Investments	1,100
Net Debt-to-Equity Ratio	20%
Free Cash Flow*	426

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



# Outline

- **Markets:**  
Stronger-than-expected rebound
- **Performance:**  
Historically high
- **Financial structure:**  
An advantage for growth
- **Horizon 2010:**  
Enhanced operating efficiency
- **Outlook:**  
Sustained growth dynamic



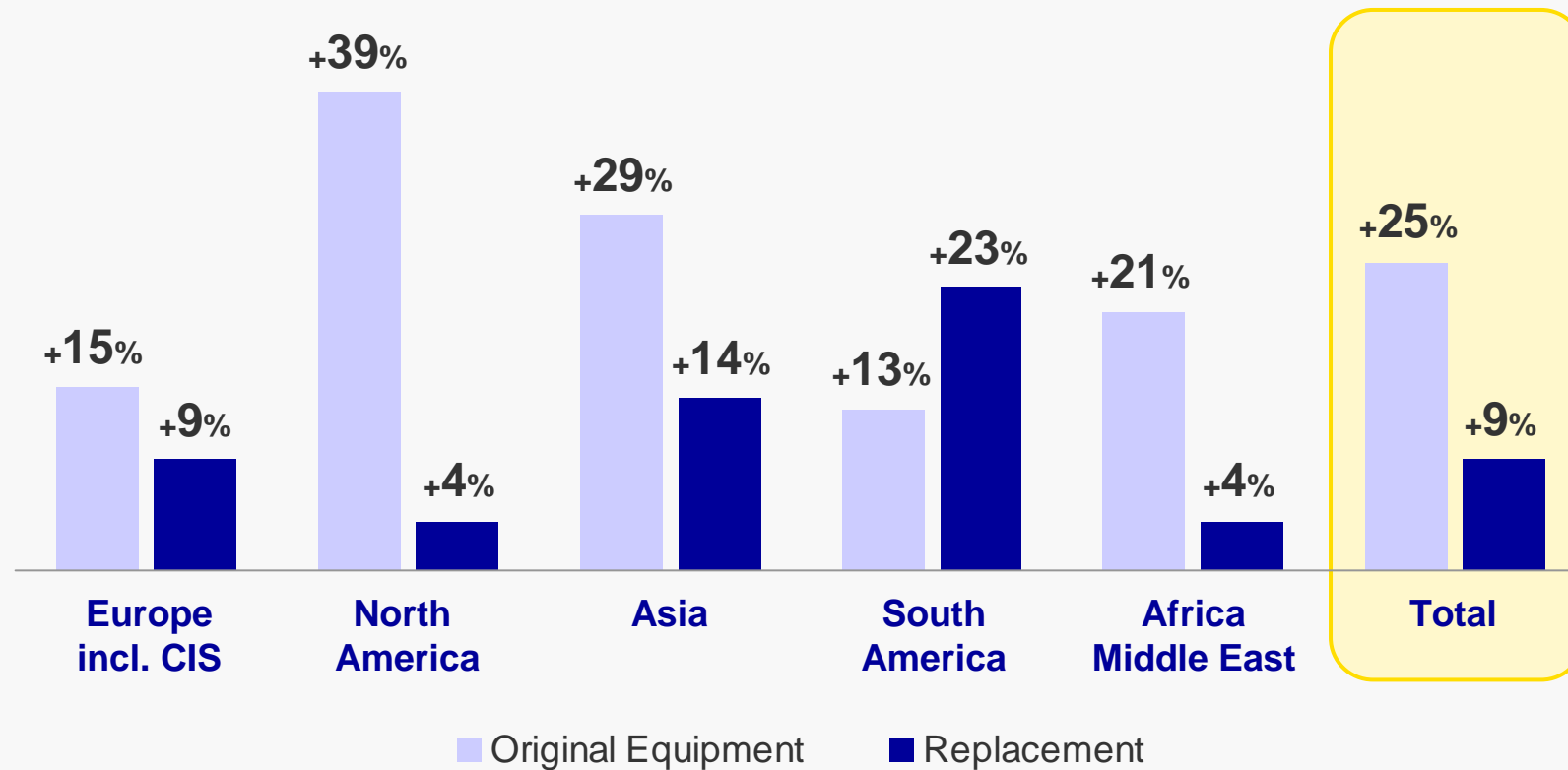
**Markets:**  
Stronger-than-expected rebound





# Car and Light Truck markets: faster-than-expected rebound

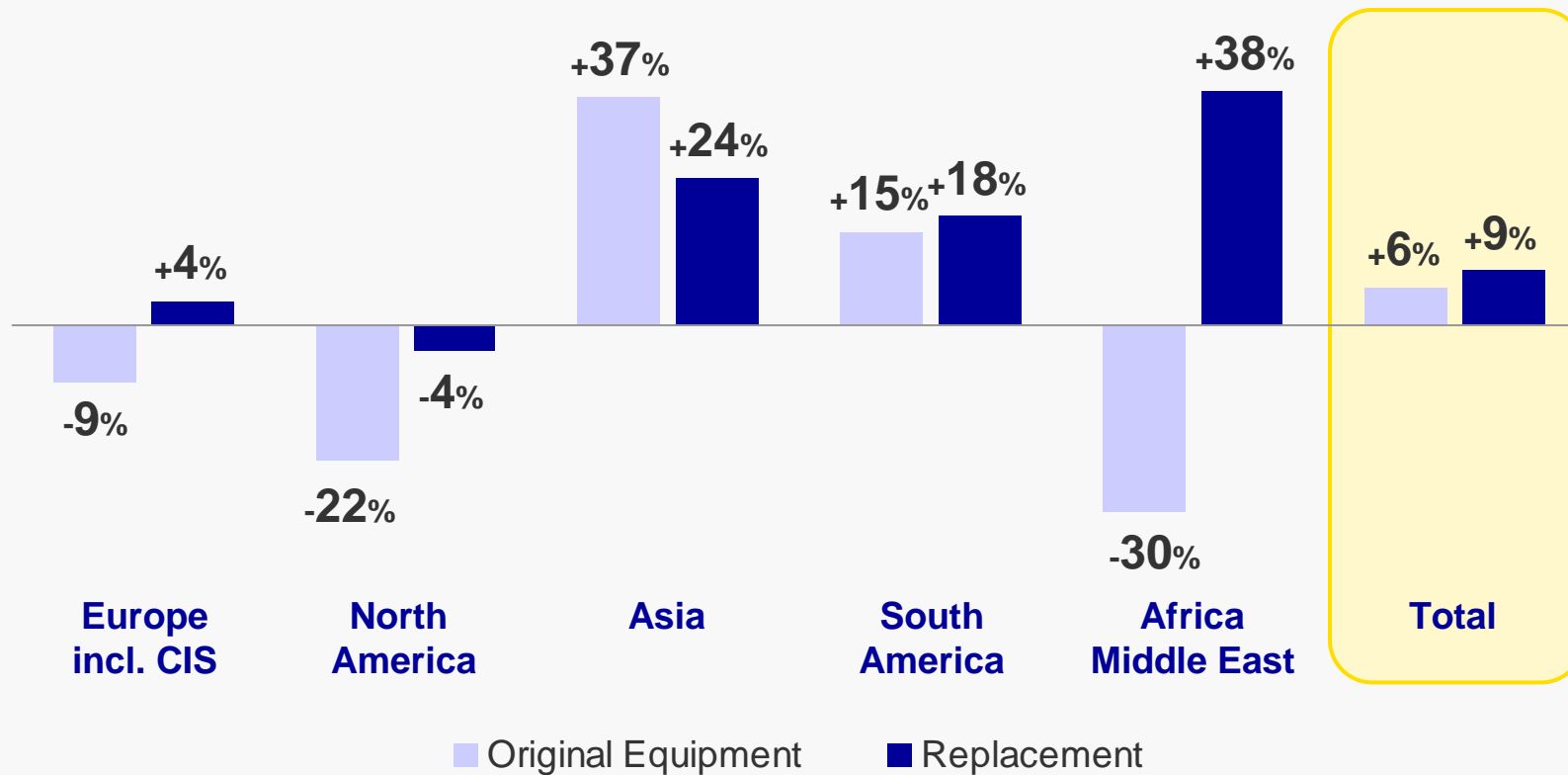
*Markets at Dec. 31, 2010 – % Change YoY*





# Replacement Car and Light Truck: mature markets close to 2007 levels

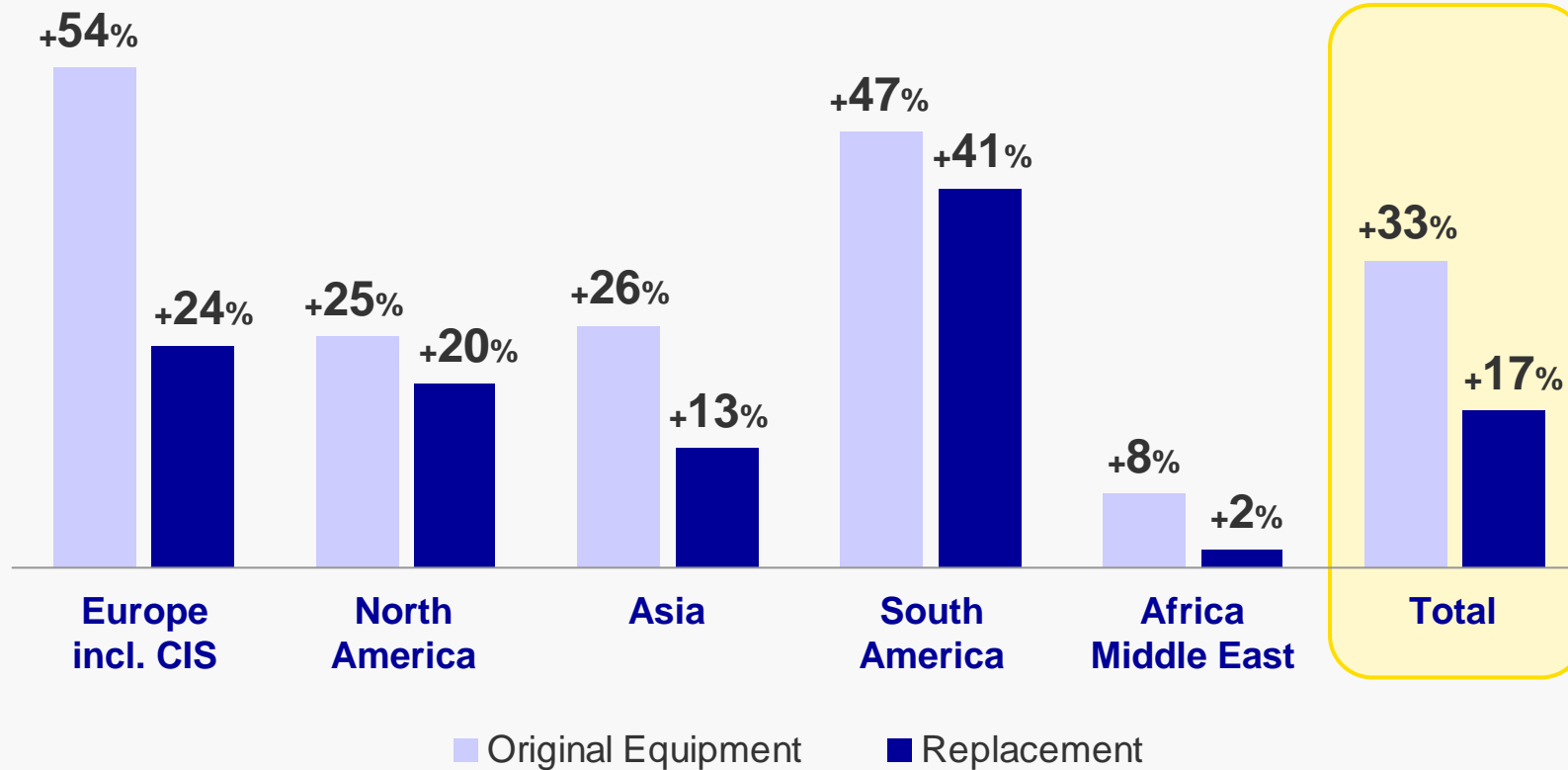
Markets at Dec. 31, 2010 – % Change 2010/2007





# Truck markets: sharp rebound off of low prior-year comparatives

Markets at Dec. 31, 2010 – % Change YoY

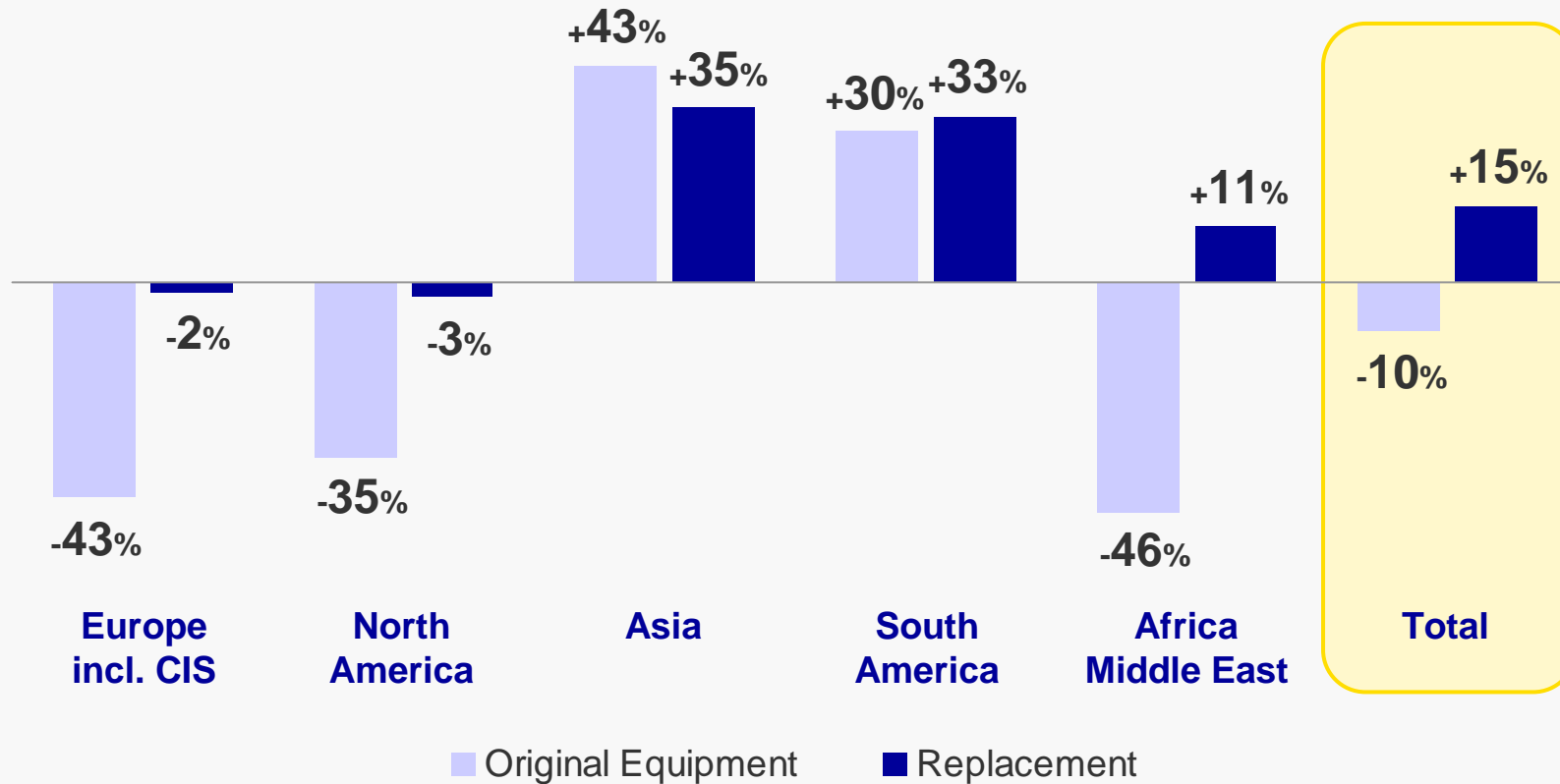






# Replacement Truck markets: mature markets close to 2007 levels

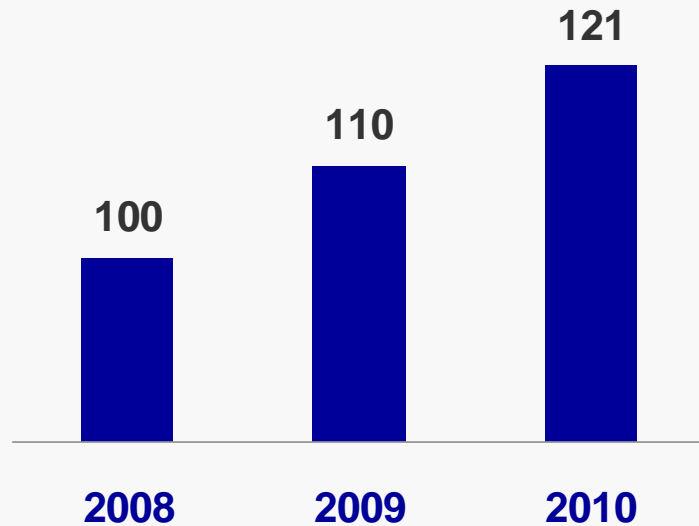
Markets at Dec. 31, 2010 – % Change 2010/2007





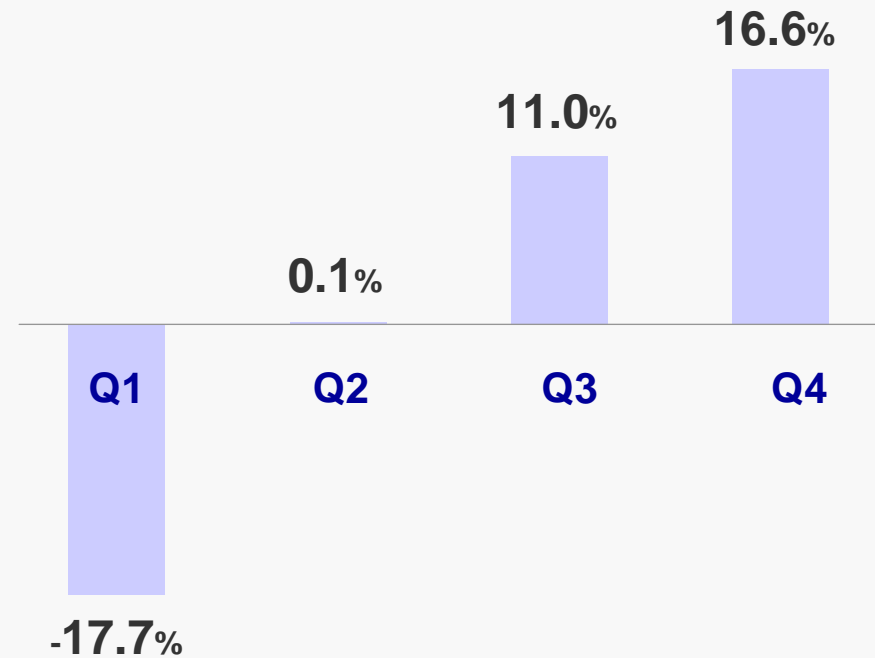
# Earthmover: still trending upwards Agricultural: recovery in demand

*Mining tire market  
(base 100 = 2008)*



Source : Michelin

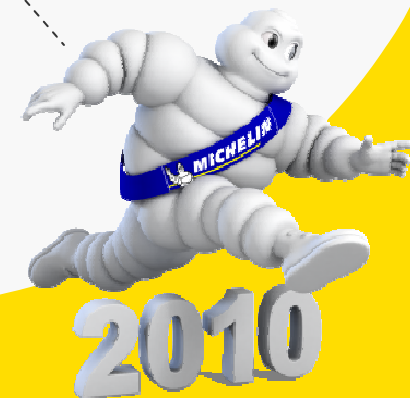
*Agricultural tire market,  
% change YoY*



Source : Michelin



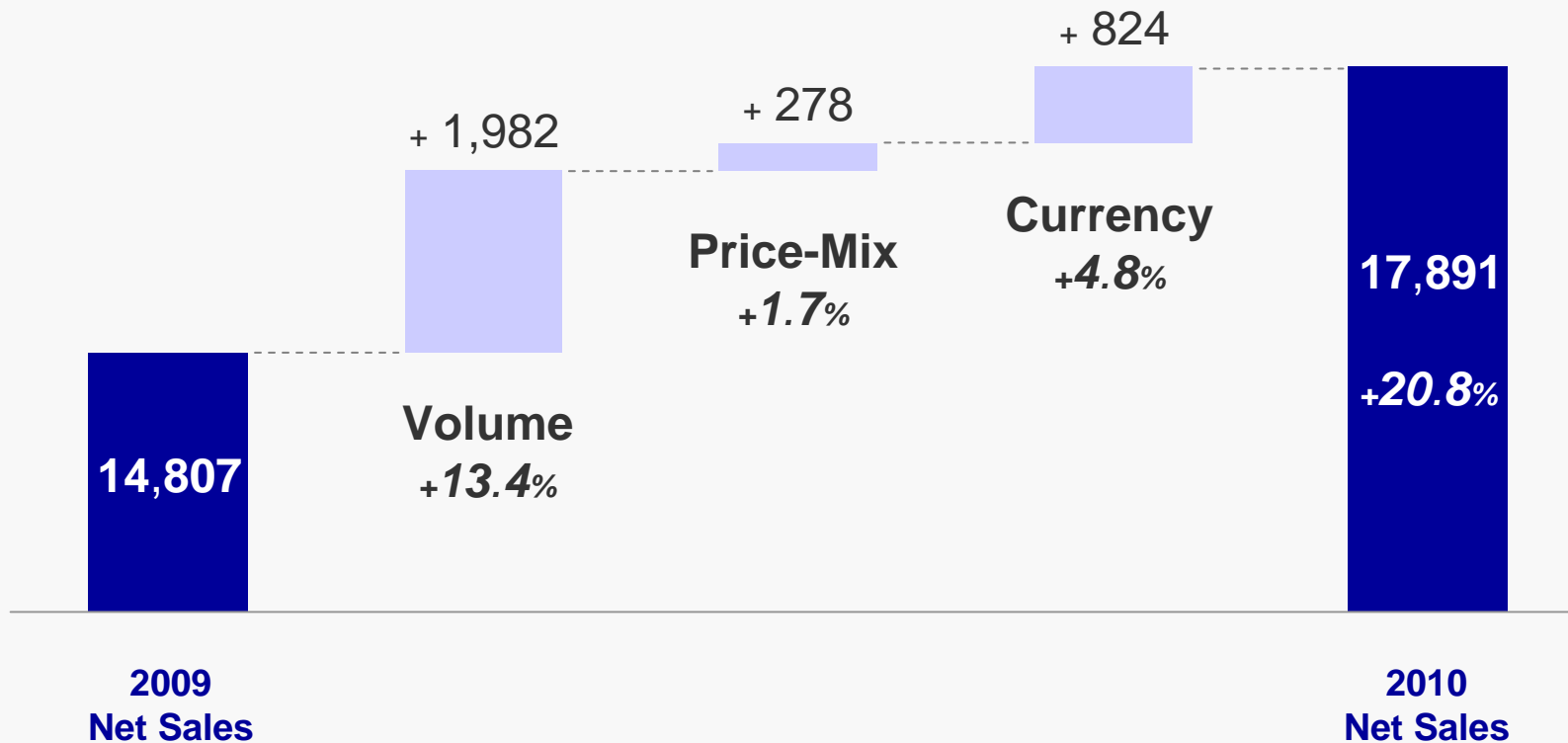
*Performance:*  
Historically high





# Growth in net sales led by volumes and faster improvement in the price mix

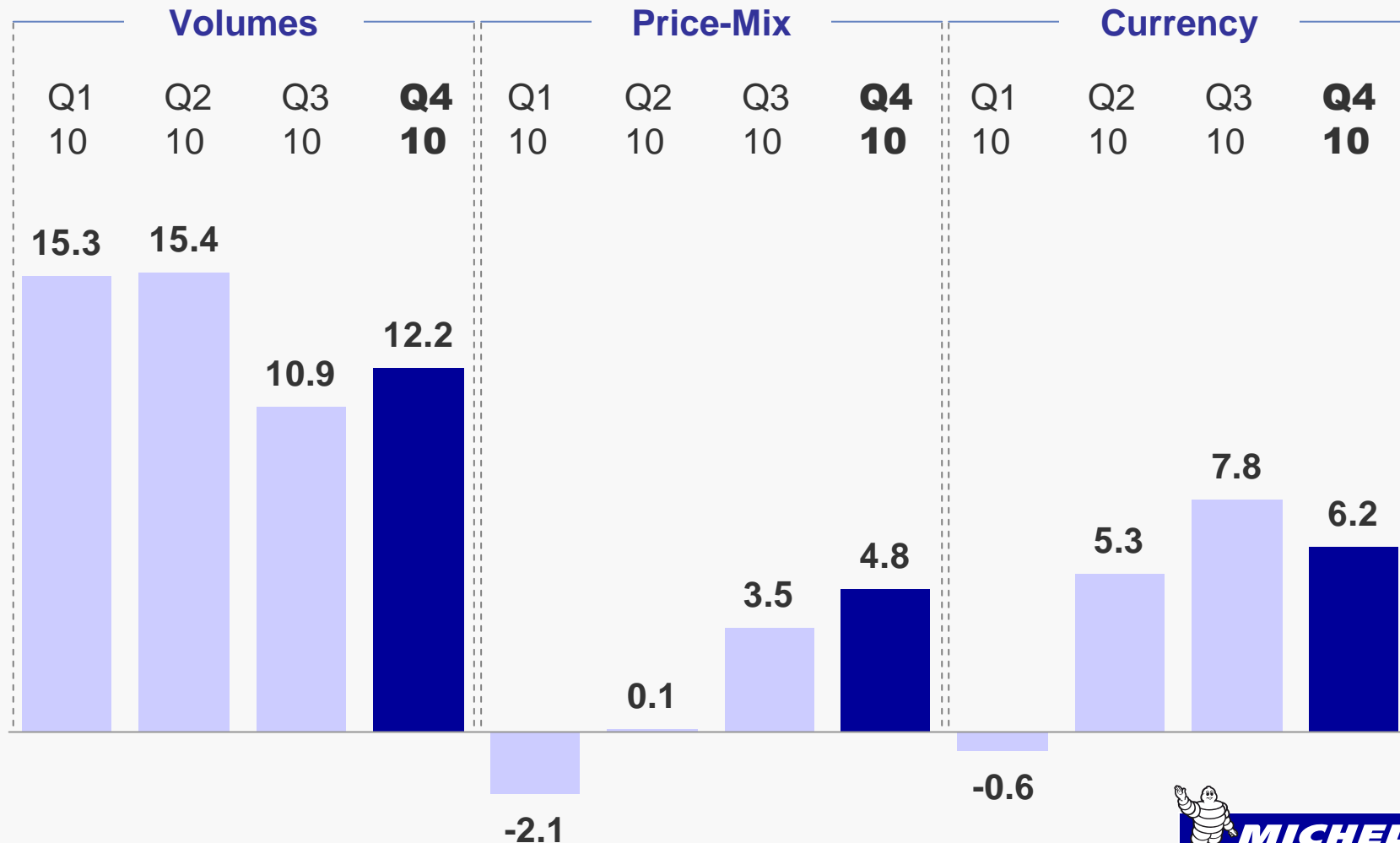
YoY change in € millions and as a % of net sales





# Faster improvement in the price mix Sustained strong volume gains

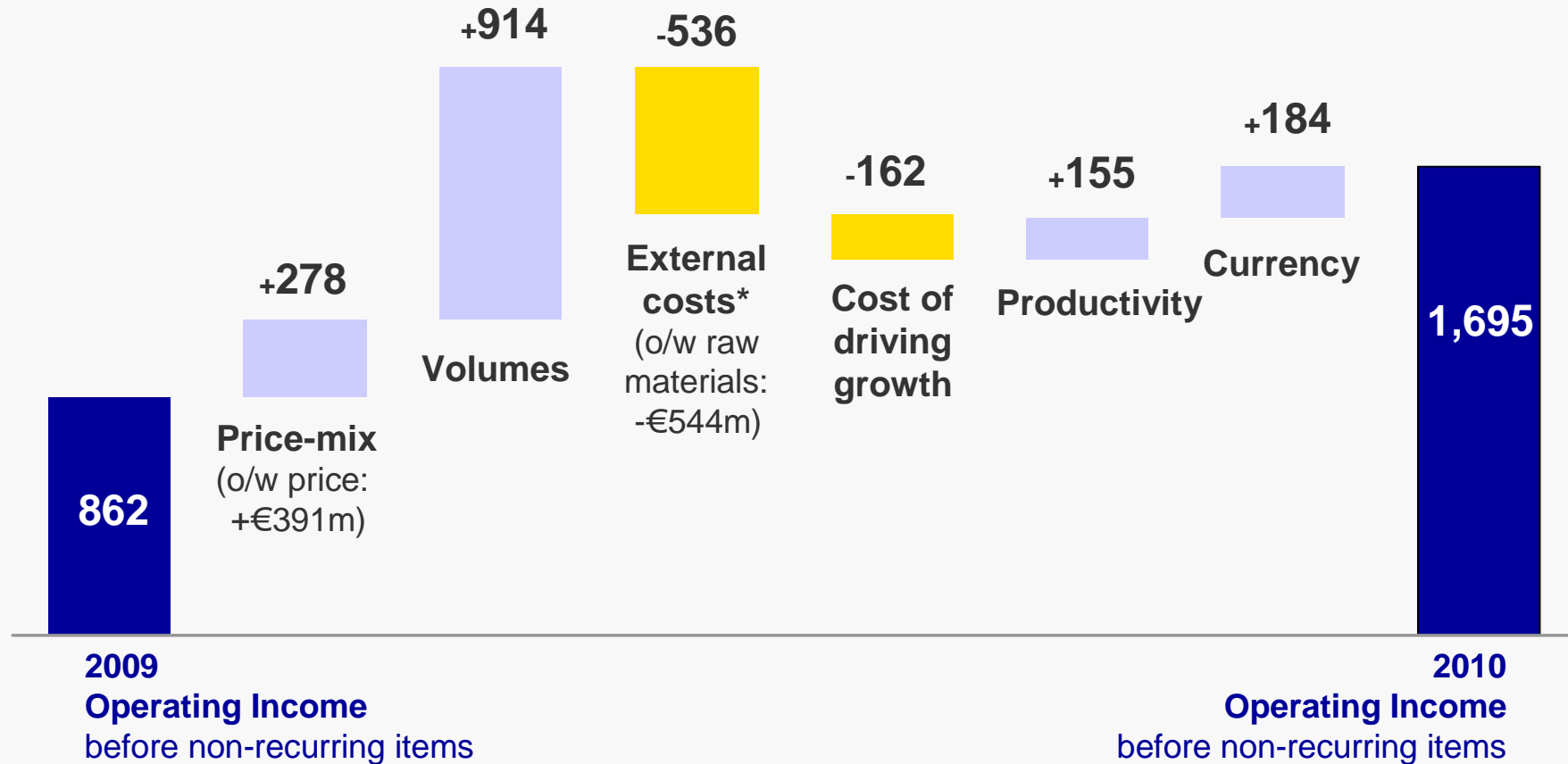
*% Change YoY*





# Historically high operating income

## YoY Change in € Millions



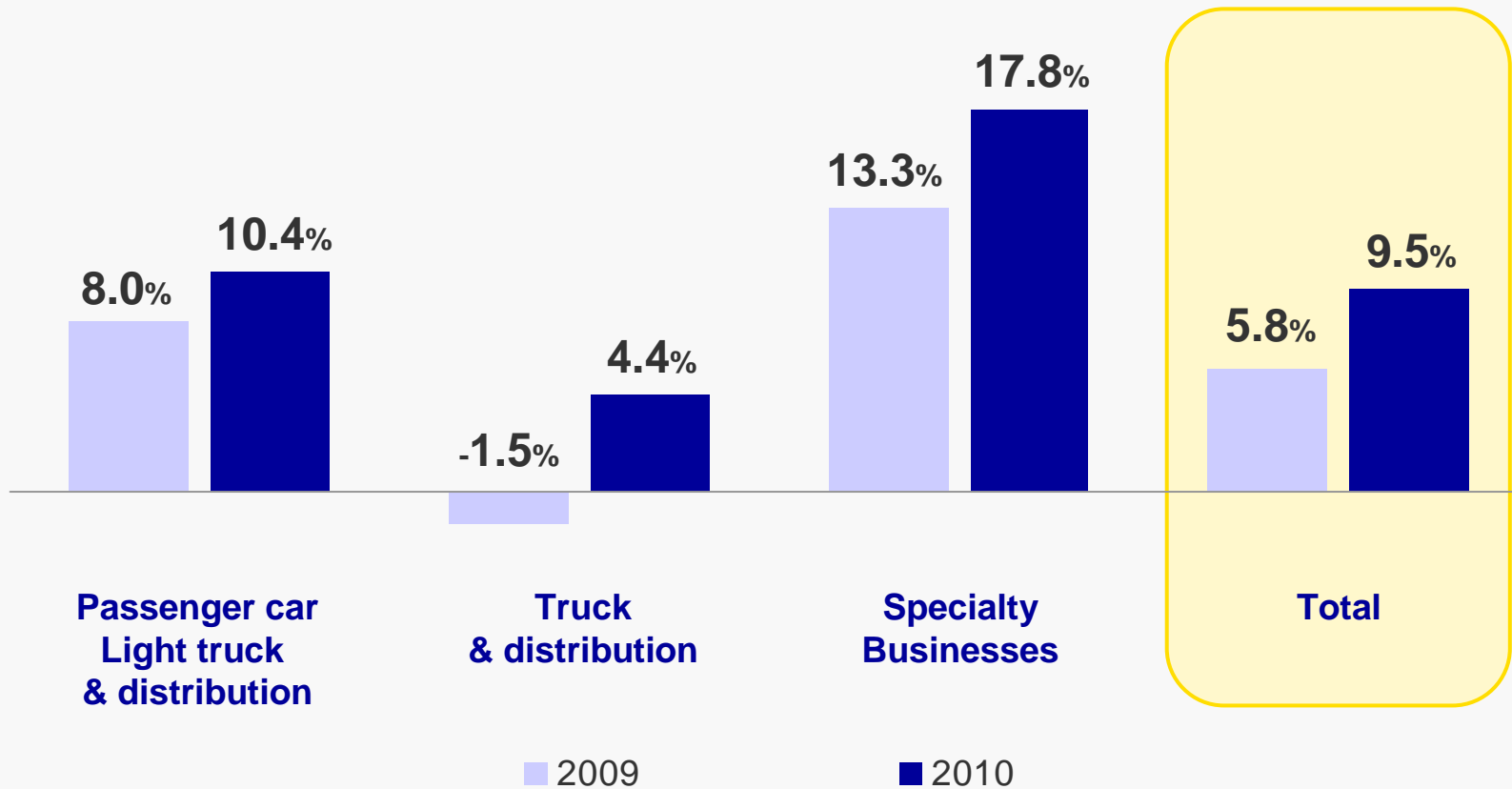
\*External costs: raw materials and logistics at constant exchange rates





# Positive contribution from every segment

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





# Historically high financial performance

## Passenger car & Light truck

<i>In € millions</i>	2010	2009
Net Sales	9,790	8,280
Operating Income (before non-recurring items)	1,014	661
Operating Margin (before non-recurring items)	10.4%	8.0%



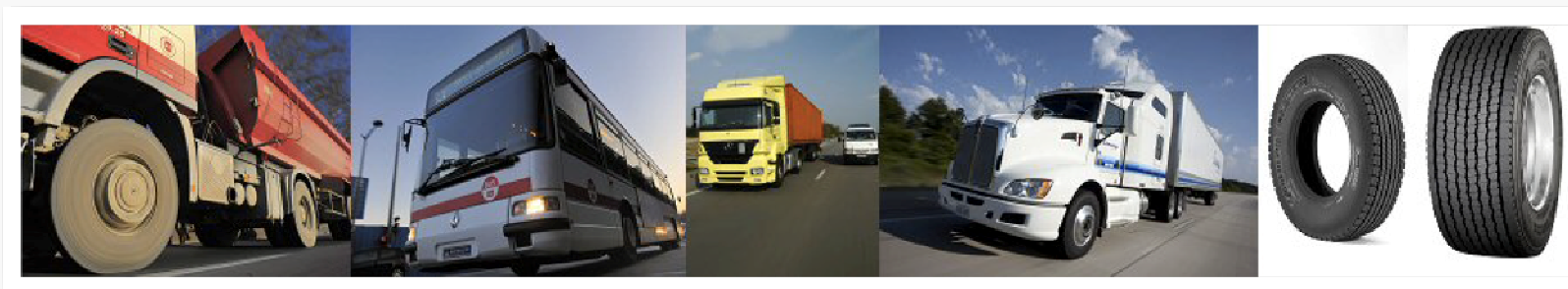




# Rebounding performance, led by volumes, despite higher raw materials costs

## Truck

<i>In € millions</i>	2010	2009
Net Sales	5,680	4,496
Operating Income (before non-recurring items)	249	(69)
Operating Margin (before non-recurring items)	4.4%	(1.5%)





# Structurally high operating income

## Specialty Businesses

<i>In € millions</i>	2010	2009
Net Sales	2,421	2,031
Operating Income (before non-recurring items)	432	270
Operating Margin (before non-recurring items)	17.8%	13.3%



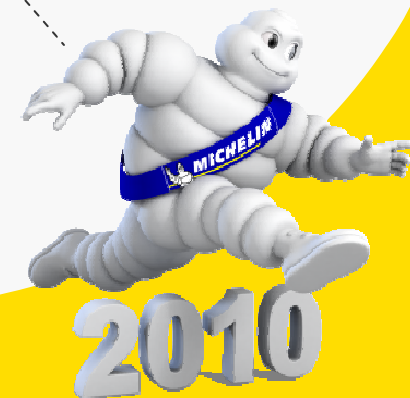


## Strong improvement in net income

<i>In € millions</i>	2010	2009
Net Sales	17,891	14,807
Operating Income (before non-recurring items) <i>% of Net Sales</i>	1,695 9.5%	862 5.8%
Non-Recurring Items	-	(412)
Operating Income	1,695	450
Cost of Net Debt Other Financial Income and Expenses	(226)	(252)
Tax	(449)	(103)
Share of Profit from Associates	29	9
Net Income	1,049	104



***Financial structure:***  
An advantage for growth





## Positive free cash flow after €270 million prepaid into pension funds

<i>In € millions</i>	2010	2009
<b>EBITDA (before non-recurring items)</b>	<b>2,660</b>	<b>1,802</b>
<i>Change in Inventory</i>	<i>(584)</i>	<i>759</i>
<i>Change in Trade Receivables</i>	<i>(246)</i>	<i>176</i>
<i>Change in Trade Payables</i>	<i>369</i>	<i>(190)</i>
<i>Taxes and Interests Paid</i>	<i>(474)</i>	<i>(226)</i>
<i>Change in Operating Provisions</i>	<i>(423)</i>	<i>(372)</i>
<i>Other WCR</i>	<i>20</i>	<i>174</i>
<b>Cash Flow from Operations</b>	<b>1,322</b>	<b>2,123</b>
<i>Gross Investments</i>	<i>(1,100)</i>	<i>(672)</i>
<i>Other</i>	<i>204</i>	<i>(64)</i>
<b>Free Cash Flow*</b>	<b>426</b>	<b>1,387</b>

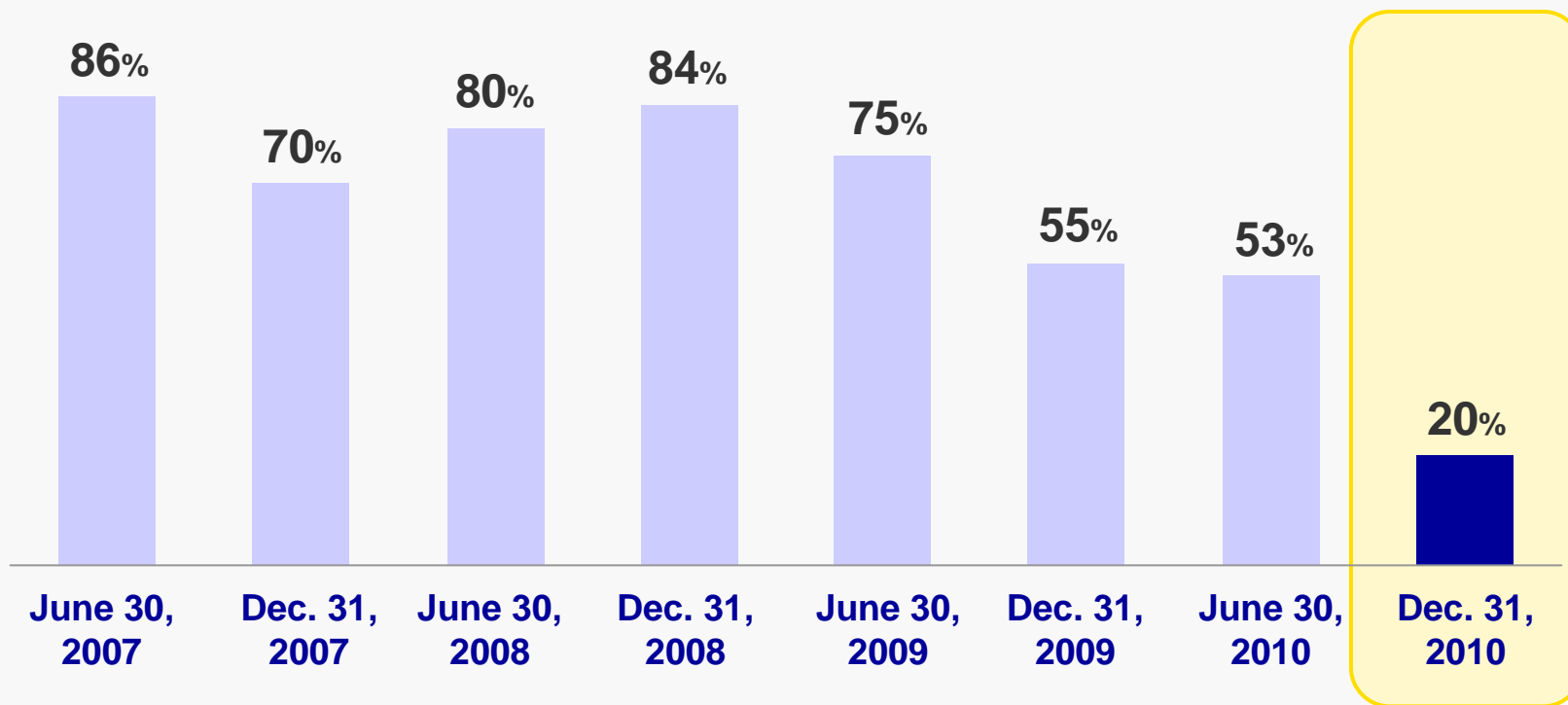
\*Free cash flow: Cash flow from operations less gross capex and other



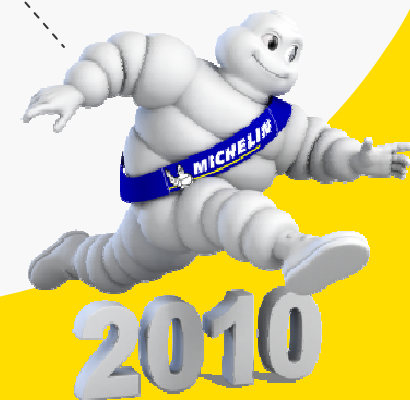


# Robust financial structure: flexibility and room to manoeuvre

*Gearing – Net Debt / Equity Ratio*



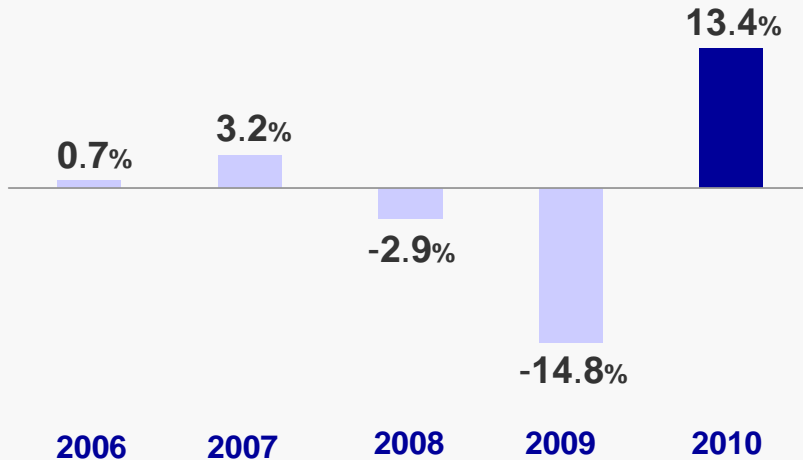
***Horizon 2010:***  
Enhanced operating efficiency



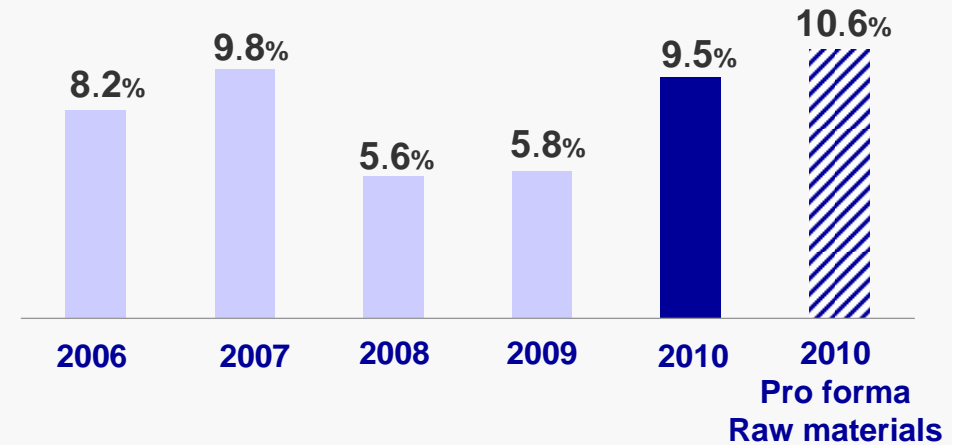


# 2010 financial performance in line with Horizon 2010, despite the crisis

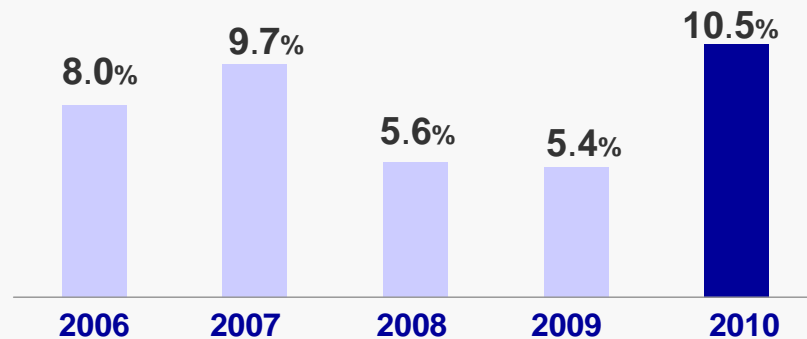
**Annual growth in sales volumes**  
Target: 3.5%



**Operating margin**  
2010 target: > 10%



**ROCE**  
2010 target: 10%

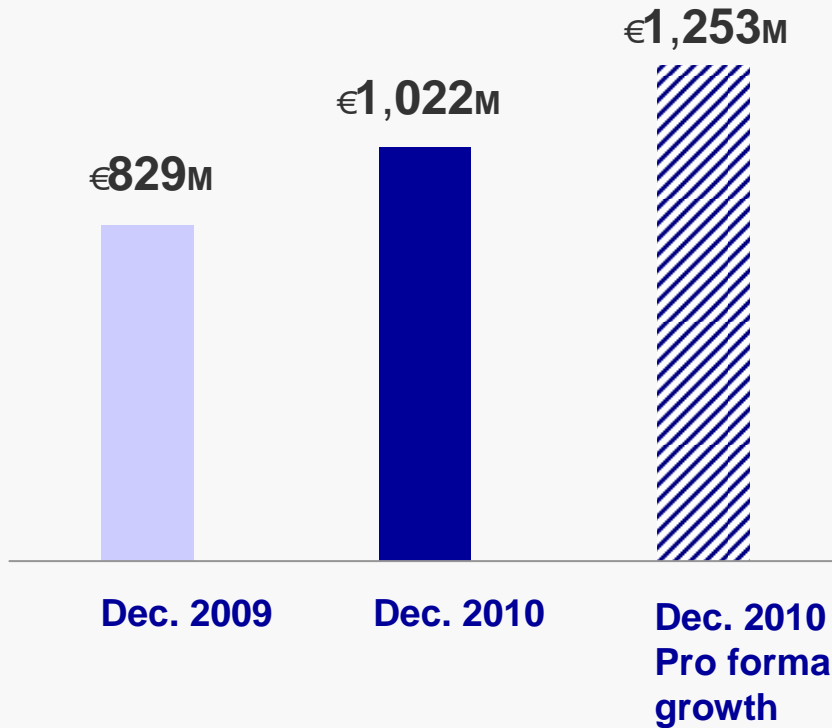




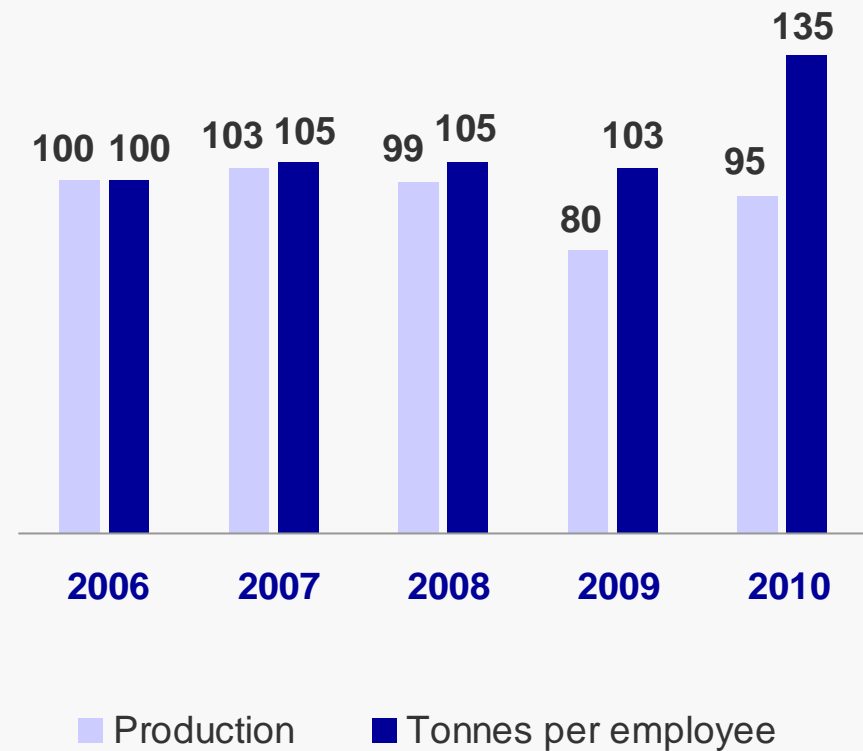


# Sustained productivity gains and cost discipline

Total gains since 2006



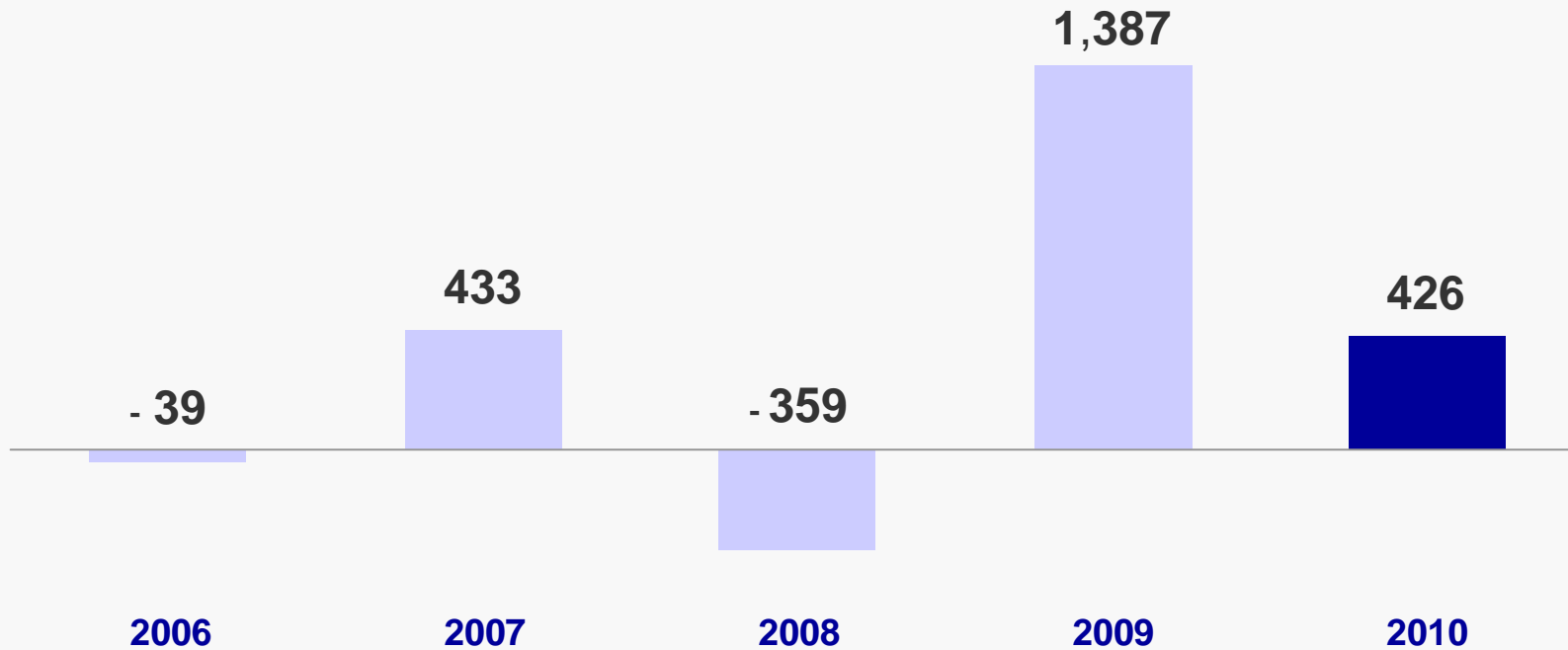
Productivity gains since 2006  
Base 100 in 2006



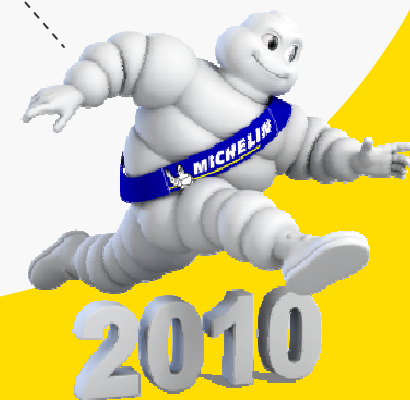


# €1.8 billion in total free cash flow

*Free cash flow (target: positive)*



***Outlook:***  
Sustained growth dynamic





# Outlook for 2011

*Barring any major change in the economic environment*

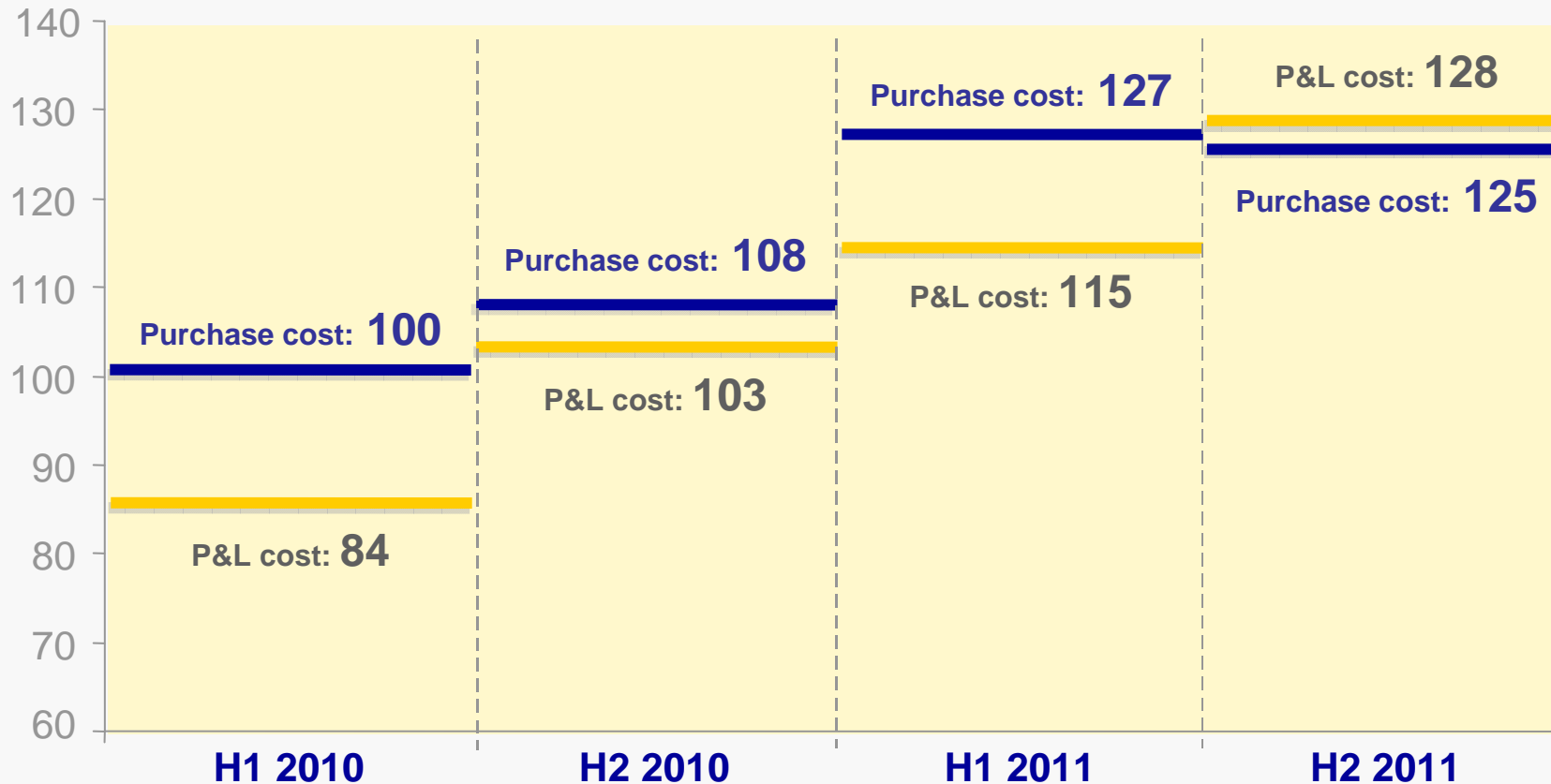
- ▶ **Volumes: growth of at least 6.5%**
- ▶ **Firm, responsive pricing policy**
  - Sustained commitment to passing on additional raw materials costs
- ▶ **Higher operating income**
  - Despite the €150-million cost of driving faster growth in new markets
- ▶ **Faster growth in capex, to €1,600 million**
- ▶ **Negative free cash flow, impacted by:**
  - The increase in raw materials costs





# Pricing policy managed in response to raw materials price trends

*2011 Simulation based on natural rubber at \$4.8/kg*



→ Estimated €1,500 million impact on operating income





## Assuming natural rubber @\$4.8/kg 75% of the additional cost is already offset

- ▶ **Higher prices impact already locked in** **€850 million**
  - Full-year impact of 2010 price increases
  - 2011 implementation of raw-materials indexation clauses

- ▶ **New price increases already announced in 2011 designed to cover** **€300 million**

**Additional cost already offset** **€1,150 million**

- ▶ **€350 million remains to be covered through additional price increases:**
  - Replacement Car and Light Truck: less than an average 2 % over the year
  - Replacement Truck: less than an average 4% over the year





## Assuming natural rubber @January 2011 prices Additional 2011 cost: €200 million

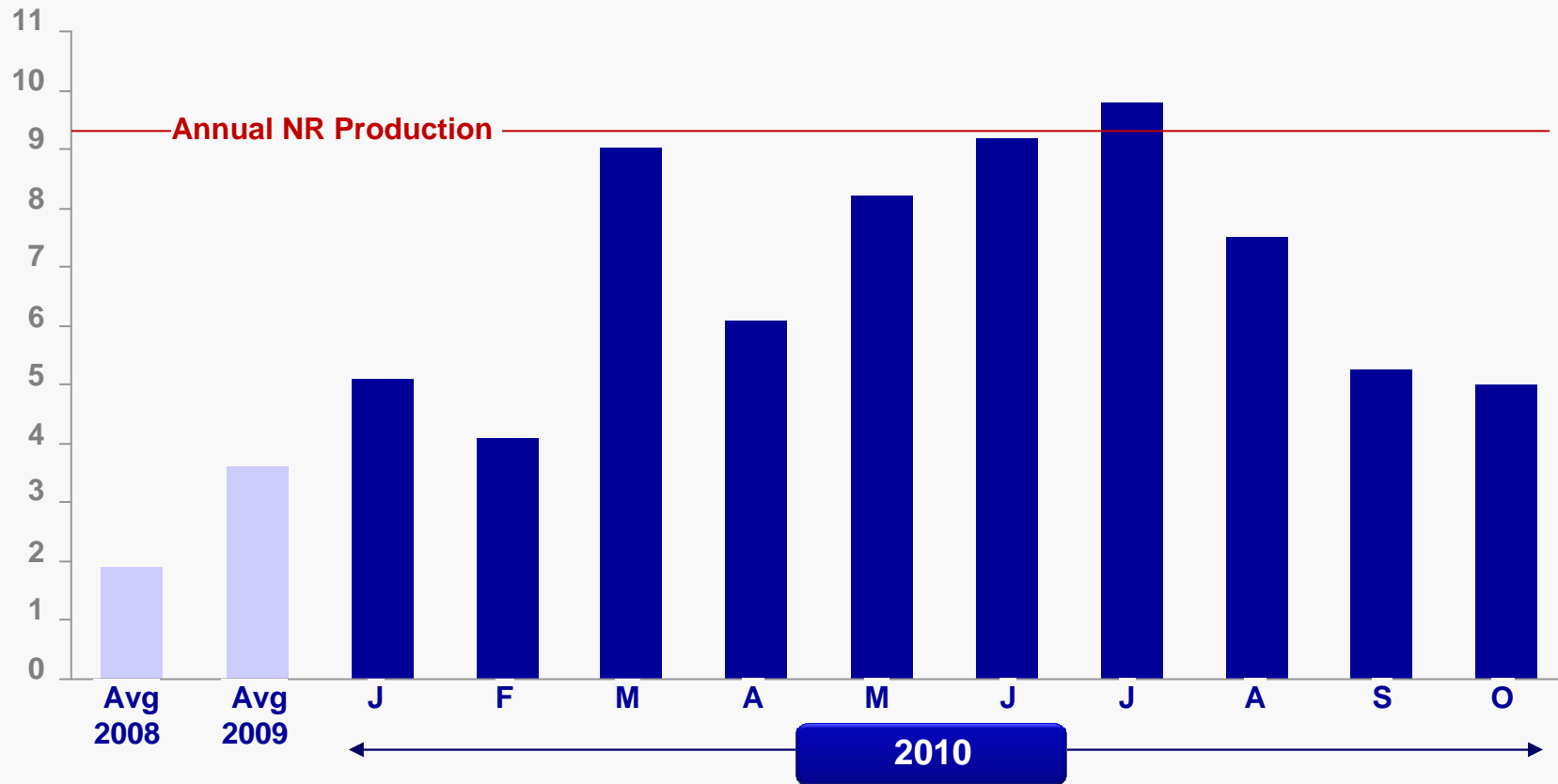
- ▶ Simulation with average January SICOM spot price (\$5.38/kg) extrapolated over the full year
- ▶ Additional impact on 2011 P&L: €200 million
- ▶ New price increases will be needed:
  - Replacement Car and Light Truck: an average 1% over the year
  - Replacement Truck: an average 2% over the year





# Soaring trading volumes driven by financial markets

*Shanghai natural rubber market  
Daily trading volumes in millions of tonnes*



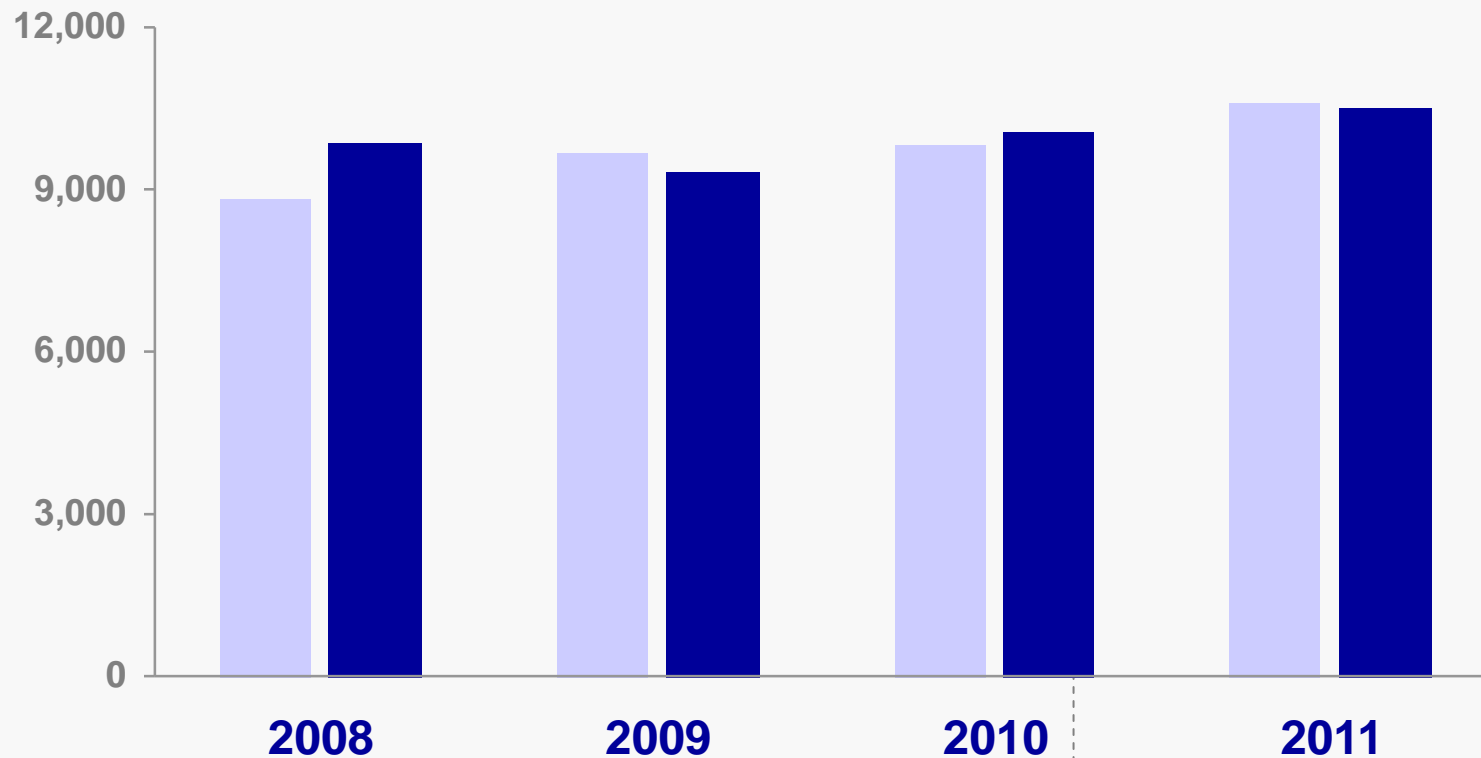




# Natural rubber: supply and demand are not out of sync

■ Natural rubber production (tonnes '000s)

■ Natural rubber demand (tonnes '000s)



Including inventory building

Source: Michelin

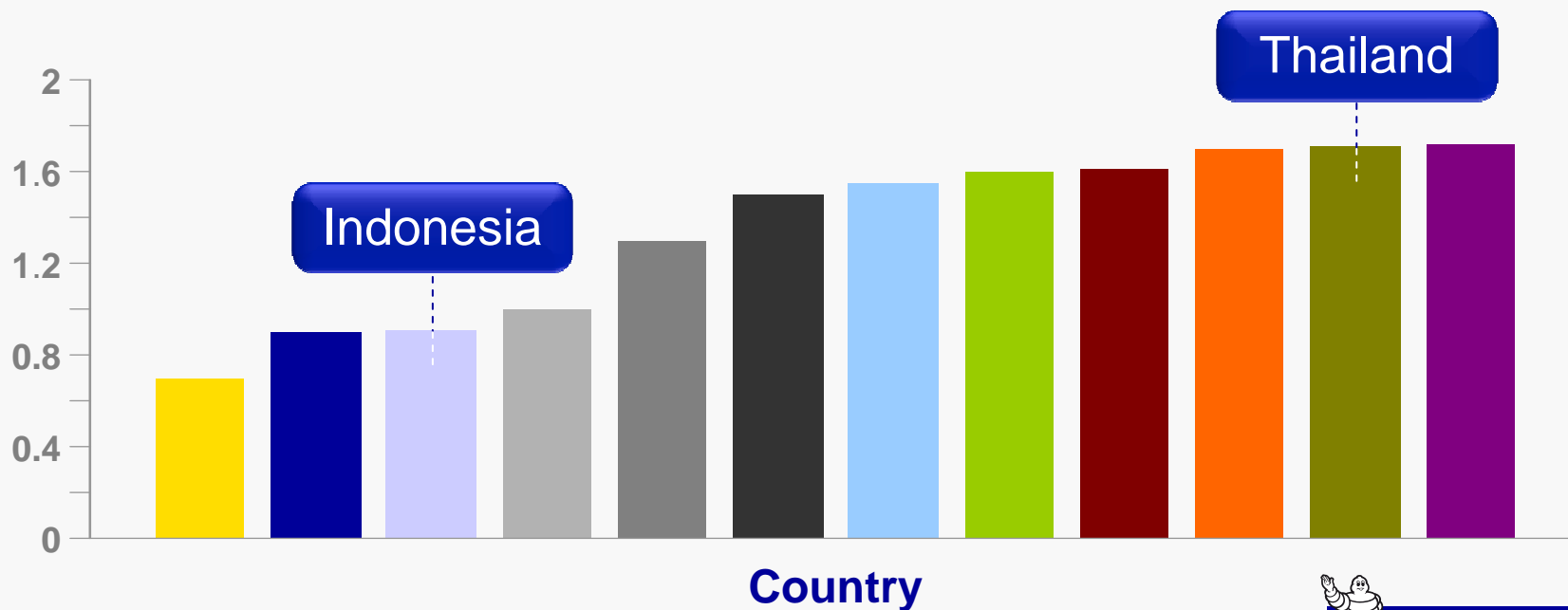




# Natural rubber: production expected to increase by around 40% by 2020

- ▶ **Driver 1:** New plantations, 2010-2020: +1 million ha
- ▶ **Driver 2:** Improved yields

*Natural rubber*  
*Average plantation yield, 2010 by country - T/ha*



Source: Michelin





# Long-term growth objectives confirmed

## *Growth in volumes*

	2015	2020
Group	25%	50%
Mature markets	15%	25%
New markets	50%	100%





## **Production facilities are positioned to meet our growth objectives**

- ▶ **Greenfield projects are progressing on schedule**
  
- ▶ **Sustained improvement in productivity**
  - 30% increase expected between 2011 and 2015, led by:
    - Continuous improvements
    - Productivity investments
  
- ▶ **Marginal capacity added at existing plants**
  - In every geography
  - In every product line





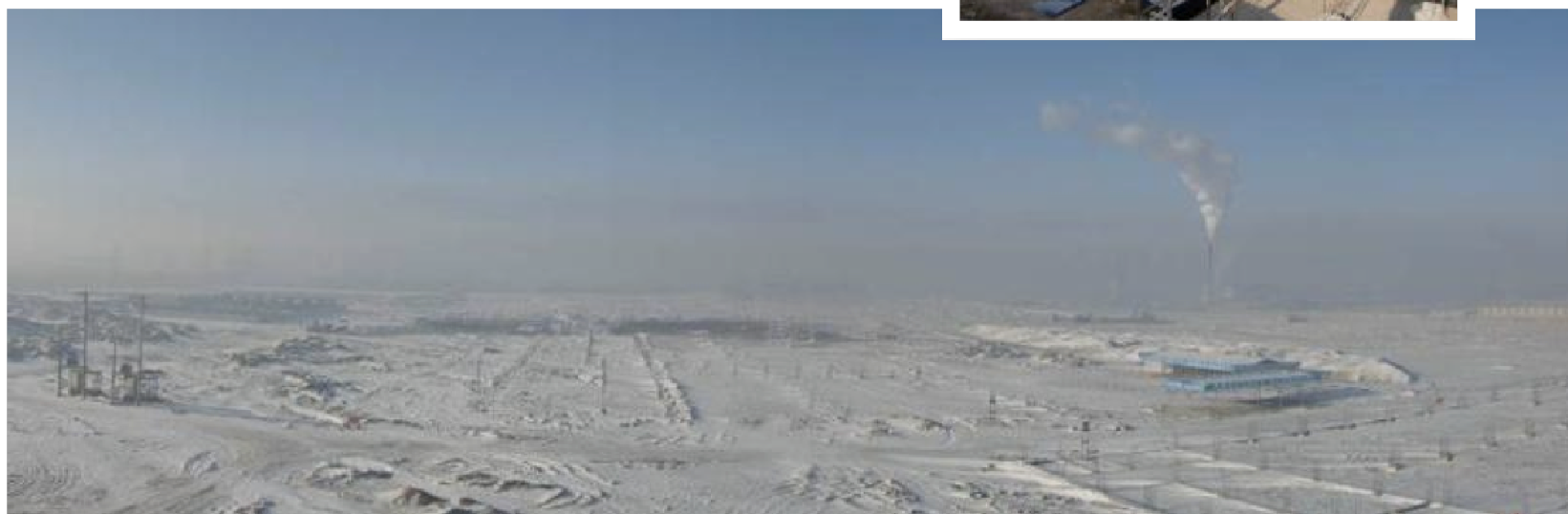
# Competitive capex costs China – Shenyang 2 plant

- ▶ Capacity increase and transfer of Shenyang 1 operations
- ▶ Capex until 2015: \$1,350 million
- ▶ Truck tires
  - 1.8 million tires and 295,000 retreads per year
  - First tire due in mid-2012
- ▶ Car and Light Truck tires
  - 10 million tires per year
  - First tire in 2013





## China: Shenyang 2 project on schedule 1<sup>st</sup> Truck tire in mid-2012





# Brazil: Itataia project on schedule 1<sup>st</sup> Car/Light Truck tire in 1<sup>st</sup> half 2012





# India: Chennai project on schedule 1<sup>st</sup> Truck tire in late 2012

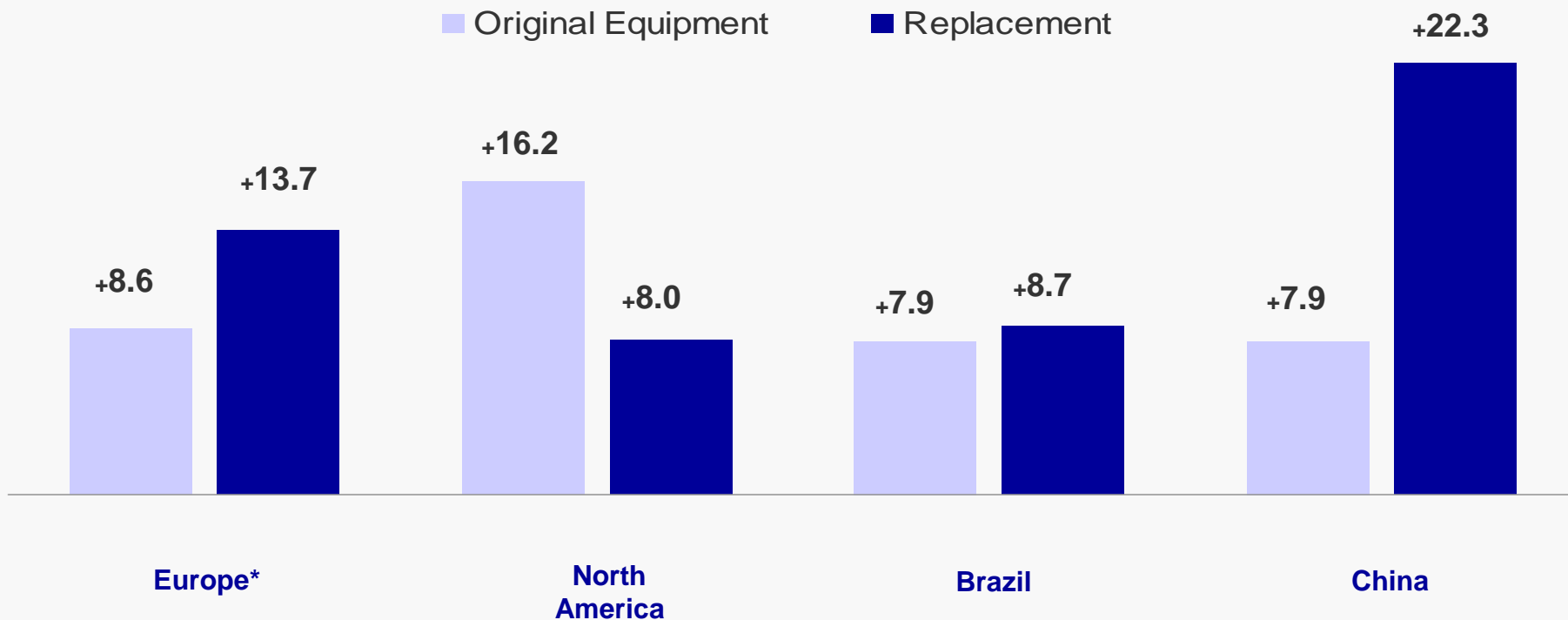






# Car and Light Truck markets: Ongoing sharp rebound

Markets at Feb. 28, 2011 – % Change YoY



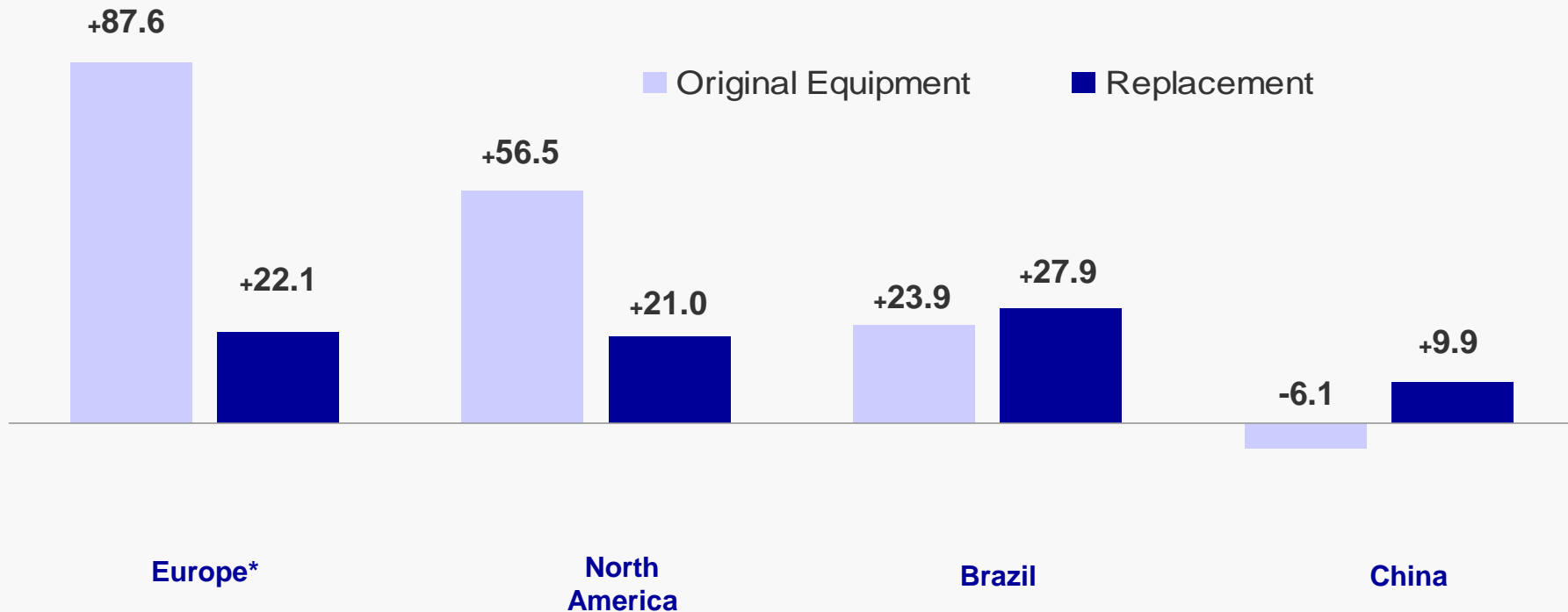
\* Russia and Turkey included





# Truck markets: sharp rebound in Europe and North America

Markets at Feb. 28, 2011 – % Change YoY



\* Russia and Turkey included





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