

# 2009 REGISTRATION DOCUMENT



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AFR This pictogram indicates chapters and sections that are also included in the Annual Financial Report.

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The original French version of this Registration Document was filed with the *Autorité des marchés financiers* (AMF) on March 1, 2010, in accordance with the provisions of Article 212-13 of the General Regulation of the AMF.

It may be used in connection with a financial transaction in conjunction with an Information Memorandum approved by the *Autorité des marchés financiers*.

It was prepared by the issuer and is the responsibility of the person whose signature appears therein.

## INTERVIEW WITH MICHEL ROLLIER

# “ A ROBUST PERFORMANCE DESPITE THE CRISIS ”

### How have you responded to the economic crisis?

For Michelin, the crisis began in mid-2008, and we immediately took steps to preserve our main financial metrics. Each day of unsold production significantly increases our financing needs. That's why we introduced a tighter production management system to control inventory levels. This hands-on approach has proven effective, helping us to reduce debt and generate positive cash flow.

To limit the impact of the production cutbacks for employees whenever possible, we considerably increased the number of training days, with programs focused on safety, operational excellence and continuous improvement. We've improved the supply chain through more accurate forecasting, shortened time to market to respond more quickly to customer demand, broadened our skills base, and enhanced our flexibility. Our improvements have steadily met the crisis head on. They've had just as big an impact and they will be lasting.

### Have you changed your strategy?

The crisis has not called into question either our strategic goals or the paths we're pursuing to achieve them. On the contrary, it has inspired us to step up our efforts. Our strategy can be summed up in three key objectives: strengthening our competitiveness through cost reductions; building our presence in emerging growth markets; and extending our technological leadership to outperform the competition in value creation and respond to the sustainable mobility challenges facing the road transport sector. To implement these three strategic priorities, we're putting our values into action and exercising all our responsibilities. This has been clearly demonstrated, for example, by our MICHELIN Energy™ Saver tires, which help reduce fuel consumption and CO<sub>2</sub> emissions, as well as by our road safety campaigns, workplace safety performance, reduced environmental footprint and support for employees concerned by restructuring programs. All of the measures are aligned with our Michelin Performance and Responsibility approach.

### How are you progressing with your programs to make Michelin more competitive?

We're diligently pursuing our competitiveness programs with the goal of building strong bases in mature markets capable of defending our market share against competition from tires imported from low-cost countries. A third of our retiring employees will not be replaced. We're reducing purchasing and production costs, as well as overheads. The best standards and best practices are being deployed on all our sites and new technologies are being introduced in every aspect of our business.

We're upgrading and expanding our plants and refocusing their operations on specific products, as demonstrated by the adjustment programs underway in North America, France and Japan. Despite the crisis, we will almost meet our cost-cutting targets for the 2006-2010 period, and these gains will still be with us once the crisis is past.

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**Will you scale back spending programs in fast-growing countries?**

We don't intend to. We're counting on these countries to drive our long-term development since they're the only regions currently experiencing growth. Today, these markets account for a little more than 30% of our sales, and our goal is to raise that share to at least 40% over the medium term. We plan to double our output in China, where the automobile market expanded by 45% in 2009, and invest in a truck tire plant in India, a market that enjoys considerable growth potential. We're going to build a new car tire plant in Brazil that will triple our local production capacity. And to bring these projects to fruition, we need the full commitment of every team member around the world.

**Given the popularity of small cars and today's more competitive market, aren't your tires too expensive?**

Consumers around the world expect a lot from our tires, whether for big cars or small. They know that MICHELIN tires are more expensive but they also know that our tires are the right choice because they last longer, improve safety and reduce fuel consumption.

In both mature and emerging markets, the road transport sector is faced with increasingly demanding requirements that call for more stringent tire performance standards. Our portfolio is evolving in line with this trend, with products that also meet the needs of small car owners. The challenge is to maintain our technological leadership by integrating our customers' price and performance expectations as early as possible in the design stage. Several projects are now underway to make this happen.

**Do the green economy and lower CO<sub>2</sub> emissions targets represent an opportunity or a handicap for Michelin?**

We think that road mobility will be revitalized by the decisive reduction in its energy consumption and its environmental impact in terms of pollutants, noise, CO<sub>2</sub> emissions and traffic congestion. The green economy is more than an opportunity; it's a necessity, given current population growth, especially in urban areas, and the mobility expectations of people in developing countries. Plus it will be the driving force behind the entire economy. Michelin is well positioned and well prepared to play our role as technology leader.

**What's the outlook for Michelin?**

In the short term, visibility is still limited. Demand is growing in China and a number of other Asian markets, while in Europe and North America, the massive inventory drawdowns are behind us and the situation is improving. In the passenger car and light truck tire segment, dealers have started to rebuild inventory. Our OEM sales are also picking up since carmakers have ended their destocking and production is once again in sync with demand. Among business customers, we are seeing a slight early-year improvement in replacement market sales but the original equipment truck tire segment is still deeply depressed. In specialty tires – aircraft, two wheels, farm equipment and earthmovers – the situation varies greatly from one segment to another. Managing in this time of crisis doesn't demand any more agility, speed and endurance than what we demonstrate in the many races we run – and win.

**“ WE WANT TO ENSURE THAT ROAD MOBILITY HELPS TO DRIVE ECONOMIC AND SOCIAL DEVELOPMENT BY ALIGNING ITS FUTURE WITH THE MAJOR CHALLENGES FACING OUR SOCIETY ”**

Looking out to the longer term, we are confident. Our company's storied past reflects the ability to adapt to situations. Michelin could not have become a world leader without a number of key strengths, beginning with our people, who have always responded to new challenges.

MICHEL ROLLIER

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# 1

## MICHELIN AT A GLANCE



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## 1.1. COMPANY PROFILE

Michelin holds forefront positions in every tire market<sup>(1)</sup> as well as in travel-related services.

**Leveraging its technological lead, capacity for innovation, high-quality products and services, and powerful brands:** Michelin is pursuing a global expansion strategy and improving efficiency in every aspect of its business.

**Michelin's mission is to enhance mobility** by putting into practice its core values of respect for customers, respect for people, respect for shareholders, respect for the environment and respect for facts.

- 109,193 employees (102,692 full-time equivalent).
- Net sales: €14.8 billion.
- 72 production facilities in 19 countries.
- Marketing operations in more than 170 countries.

(1) With a 16.3% share of the global market by value. Source: *Tire Business*, September 2009.

### 1.1.1. A COMPREHENSIVE BRAND PORTFOLIO

- A global brand: MICHELIN.
- A brand dedicated mainly to sports cars and SUVs: BFGoodrich®.
- Strongly entrenched regional brands: UNIROYAL in North America, KLEBER in Europe and WARRIOR in China.
- Leading national brands, dealer brands and retread solutions.

MICHELIN

|              |        |            |                |          |
|--------------|--------|------------|----------------|----------|
| BFGoodrich®  | KLEBER | UNIROYAL   | WARRIOR        | TIGAR    |
| Kormoran     | Riken  | Taurus     | Michelin Remix | Recamic  |
| Pneu Laurent | Encore | Euromaster | TCI            | TyrePlus |

### 1.1.2. PRODUCTS AND SERVICES THAT SET THE STANDARD FOR QUALITY AND CONFIDENCE

**Tires** for cars, vans, trucks, farm tractors, handling and construction equipment, motorcycles, scooters, bicycles, aircraft, subway trains, tramways and space shuttles, with innovative solutions tailored to widely varying conditions of use and expectations.

**Distribution and services** with Euromaster in Europe and TCI in the United States. Both are benchmarks in their respective markets, providing expert advice and top-quality service.

**Emergency services** with Michelin OnWay and Michelin Euro Assist.

**Fleet tire advice and management services** with Michelin Fleet Solutions in Europe and Michelin Business Solutions in North America.

MICHELIN **maps and guides** and **mobility assistance services** with ViaMichelin.

**Michelin Lifestyle products** developed in partnership with licensees: car and bike accessories, works, sports and leisure equipment, and collectors items.

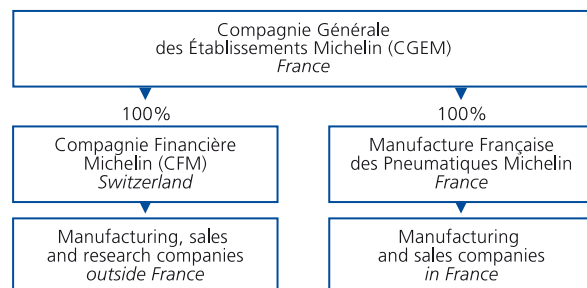
### 1.1.3. ORGANIZATION

- **8 Product Lines**, each with its own marketing, development, production and sales resources.
- **1 Technology Center** in charge of research, development and process engineering.
- **2 integrated tire Distribution and Service networks:** Euromaster and TCI.
- **2 Specific Units:** ViaMichelin and Michelin Lifestyle.
- **8 Regions<sup>(2)</sup>:** North America, South America, Europe, Eastern Europe, ASEAN Australia, China, Japan-Korea, Africa India Middle East.
- **9 Corporate Services** in charge of support services.
- **4 Performance Divisions:** Research-Development-Process Engineering, Manufacturing, Sales and Marketing and Corporate Development.
- **1 New Projects and Sustainable Development Department.**

(2) As of September 1, 2009.



## 1.2. SUMMARY ORGANIZATION CHART



## 1.3. HISTORY AND DEVELOPMENT OF THE COMPANY

Compagnie Générale des Etablissements Michelin traces its origins to Barbier, Daubrée et Cie, a partnership limited by shares (SCA) set up on July 15, 1863 in Clermont-Ferrand, in the Puy-de-Dôme region of France. The company changed its name to Michelin et Cie in 1889, the year when the first patent for a “pneumatic tire” was filed.

Until 1951, the company, which became Manufacture de Caoutchouc Michelin in 1940, managed its French business directly and its international manufacturing and sales operations indirectly, through a variety of subsidiaries.

On October 15, 1951, all of the company’s manufacturing assets in France were transferred to the newly created Manufacture Française des Pneumatiques Michelin, and Manufacture de Caoutchouc Michelin changed its name to Compagnie Générale des Etablissements Michelin.

In 1960, the foreign assets were consolidated into a holding company, Compagnie Financière Michelin, based in Granges-Paccot, Canton of Fribourg, Switzerland. Compagnie Financière Michelin is an intermediate holding company that also manages the Group’s financing, sourced from banks and the financial markets.

Since then, Compagnie Générale des Etablissements Michelin, which has been the Group’s parent company since 1951, has not been involved in any manufacturing operations.

### 1.3.1. ORGANIZATION OF THE GROUP

The Group’s parent company is Compagnie Générale des Etablissements Michelin (CGEM), which directly or indirectly owns all of its subsidiaries and associates. Its two main subsidiaries are:

- Manufacture Française des Pneumatiques Michelin (MFPM), a wholly-owned subsidiary (40%-owned until 2008) that coordinates all of the Group’s manufacturing, sales and research operations in France. It invoices the corresponding services and research costs to the other Group companies based on a proportionate cost allocation key;
- Compagnie Financière Michelin (CFM), a wholly-owned subsidiary that owns most of the Group’s manufacturing, sales and research companies outside of France and coordinates their operations.

Services provided by CGEM and CFM to the operating companies are governed by contractual agreements.

They are delivered by Manufacture Française des Pneumatiques Michelin (MFPM), which bills the operating companies on a cost-plus basis.



Intra-group transactions involve sizeable volumes in such areas as intangible assets, a wide array of services, equipment and facilities, raw materials and semi-finished and finished products. The corresponding fees or prices are set using methods that vary by type of transaction. However, all of the methods are based on the arm's length principle as defined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations.

### 1.3.2. DEVELOPMENT OF THE MICHELIN GROUP

Michelin began to extend its manufacturing base outside France very early, building plants in Italy in 1906, the UK in 1927, Germany in 1931 and Spain in 1934.

Beginning in the 1960's, expansion gained new momentum with the construction of a large number of plants, first in France, then in other countries, and particularly in the Americas in the 1970's. The Group has set up joint ventures since 1985 to establish a manufacturing base in Asia, and has been broadening its footprint in Eastern Europe since 1995.

In all, this global expansion lifted Michelin in the most widely accepted ranking of the world's tiremakers from number 10 in 1960 to number six in 1970 and number two in 1980, behind Goodyear. After Bridgestone acquired US-based Firestone and Michelin took over UNIROYAL Goodrich in the late 1980s, the revenue gap among the world's leading tiremakers narrowed, and today annual rankings depend primarily on exchange rates and the calculation method, with three tire manufacturers – Bridgestone, Goodyear and Michelin – currently accounting for 45% of global tire sales.

## 1.4. PRODUCTION FACILITIES

Property, plant and equipment are described in note 14 to the Consolidated Financial Statements.

### 1.4.1. 72 PRODUCTION FACILITIES IN 19 COUNTRIES

#### 1.4.1.a) 61 TIRE PRODUCTION FACILITIES IN 19 COUNTRIES

##### Western Europe

| Country        | Location                          | Products  |
|----------------|-----------------------------------|---|
| France         | Avallon                           | Truck tires <sup>(2)</sup>  |
|                | Bourges                           | Aviation tires  |
|                | Cataroux <sup>(1)</sup>           | Passenger car/Light truck tires   |
|                | Cholet                            | Passenger car/Light truck tires   |
|                | Combaude <sup>(1)</sup>           | Truck tires <sup>(2)</sup>  |
|                | Gravanches <sup>(1)</sup>         | Passenger car/Light truck tires   |
|                | La Roche-sur-Yon                  | Truck tires   |
|                | Le Puy-en-Velay                   | Earthmover tires  |
|                | Lille <sup>(3)</sup>              | Passenger car/Light truck tires   |
|                | Montceau-lès-Mines <sup>(4)</sup> | Passenger car/Light truck tires – Earthmover tires                                |
|                | Roanne                            | Passenger car/Light truck tires   |
| Tours          | Truck tires                       |   |
| Troyes         | Agricultural tires                |   |
| Germany        | Bad-Kreuznach                     | Passenger car/Light truck tires   |
|                | Bamberg                           | Passenger car/Light truck tires   |
|                | Homburg                           | Truck tires   |
|                | Karlsruhe                         | Truck tires   |
|                | Oranienburg                       | Truck tires <sup>(2)</sup>  |
| Spain          | Aranda                            | Truck tires   |
|                | Lasarte                           | Two-wheel tires   |
|                | Valladolid                        | Passenger car/Light truck tires – Truck tires <sup>(2)</sup> – Agricultural tires |
|                | Vitoria                           | Passenger car/Light truck tires – Earthmover tires                                |
| Italy          | Alessandria                       | Truck tires   |
|                | Cuneo                             | Passenger car/Light truck tires   |
| United Kingdom | Ballymena                         | Truck tires   |
|                | Dundee                            | Passenger car/Light truck tires   |
|                | Stoke on Trent                    | Truck tires <sup>(2)</sup>  |

(1) Plant located in Clermont-Ferrand.

(2) Retread operations only.

(3) Closure announced for end-2010.

(4) Discontinuation of Passenger car and Light truck tire production announced.

## Eastern Europe

| Country | Location                | Products  |
|---------|-------------------------|---|
| Hungary | Budapest<br>Nyiregyhaza | Truck tires<br>Passenger car/Light truck tires                        |
| Poland  | Olsztyn                 | Passenger car/Light truck tires – Truck tires –<br>Agricultural tires |
| Romania | Victoria<br>Zalau       | Passenger car/Light truck tires<br>Truck tires – Earthmover tires     |
| Serbia  | Piro                    | Passenger car/Light truck tires – Two-wheel tires                     |
| Russia  | Davydovo                | Passenger car/Light truck tires                                       |

## North America

| Country       | Location  | Products  |
|---------------|---|---|
| United States | Ardmore<br>Asheboro<br>Columbia-Lexington<br>Covington<br>Dothan<br>Fort-Wayne<br>Greenville<br>Greenville<br>Kansas City<br>Norwood<br>Spartanburg<br>Tuscaloosa | Passenger car/Light truck tires<br>Truck tires <sup>(1)</sup><br>Passenger car/Light truck tires – Earthmover tires<br>Truck tires <sup>(1)</sup><br>Passenger car/Light truck tires<br>Passenger car/Light truck tires<br>Passenger car/Light truck tires<br>Passenger car/Light truck tires<br>Aviation tires<br>Aviation tires<br>Truck tires<br>Passenger car/Light truck tires |
| Canada        | Bridgewater<br>Pictou<br>Waterville   | Passenger car/Light truck tires<br>Passenger car/Light truck tires<br>Truck tires   |
| Mexico        | Queretaro   | Passenger car/Light truck tires   |

(1) Retread operations only.

## South America

| Country  | Location                | Products   |
|----------|-------------------------|--|
| Brazil   | Campo Grande<br>Resende | Truck tires – Earthmover tires<br>Passenger car/Light truck tires – Truck tires <sup>(1)</sup> |
| Colombia | Bogota<br>Cali          | Truck tires<br>Passenger car/Light truck tires   |

(1) Retread operations only.

## Asia

| Country  | Location                               | Products  |
|----------|--|---|
| China    | Shenyang<br>Shanghai                   | Passenger car/Light truck tires – Truck tires<br>Passenger car/Light truck tires  |
| Japan    | Ota <sup>(1)</sup>                     | Passenger car/Light truck tires   |
| Thailand | Laem Chabang<br>Nongkae<br>Phrapadaeng | Passenger car/Light truck tires<br>Truck tires – Aviation tires<br>Passenger car/Light truck tires – Truck tires –<br>Two-wheel tires |

(1) Discontinuation of tire production announced for July 2010.

## Africa-Middle East

| Country | Location    | Products    |
|---------|-------------|-------------|
| Algeria | Hussein-Dey | Truck tires |

Most of the above plants also manufacture components and/or semi-finished products.

### ● 1.4.1.b) 11 SEMI-FINISHED PRODUCT AND COMPONENT PLANTS IN 7 COUNTRIES

| Country       | Location                    | Products   |
|---------------|-----------------------------|--|
| France        | Bassens<br>Golbey<br>Vannes | Synthetic rubber<br>Metal cables<br>Metal cables |
| Germany       | Treves                      | Metal cables                                     |
| Italy         | Fossano<br>Torino           | Metal cables<br>Compounds                        |
| Romania       | Zalau                       | Metal cables                                     |
| United States | Anderson<br>Louisville      | Metal cables<br>Synthetic rubber                 |
| China         | Shanghai                    | Metal cables                                     |
| Thailand      | Rayong                      | Metal cables                                     |

#### The above list does not include:

- the natural rubber plants located on the Group's plantations;
- the Recamic and Michelin Retread Technologies (MRT) retreading plants.

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## 2.1. CHALLENGES AND STRATEGY

### 2.1.1. OUR RESPONSIBLE DEVELOPMENT STRATEGY

In a world undergoing profound change, Michelin is moving forward by listening to its customers, exploring new markets, developing a long-term vision of sustainable road mobility, and demonstrating a constant commitment to meeting challenges through innovation.

In today's extremely volatile environment, we are leveraging our teams' extensive skills and expertise, ability to anticipate over-the-horizon developments and agile responsiveness to increase flexibility, reduce costs and attenuate the impact of reorganization programs on employees.

At the same time, we are pursuing our strategic vision, with the reaffirmed objective of widening our technological lead, becoming more competitive, expanding in growth regions, encouraging employee commitment and reducing the environmental impact of our operations.

In all tire markets around the world, our teams are fully focused on strengthening our leadership over the long term by providing lasting solutions to the challenges of mobility.

By delivering superior performance at the lowest possible cost, managing our environmental footprint, enhancing safety, and pursuing a path of balanced growth that benefits all our stakeholders, Michelin is combining performance and responsibility to emerge from the crisis stronger than ever.

### 2.1.2. THE CHALLENGES OF SUSTAINABLE MOBILITY

Today, there are nearly 800 million vehicles on the road worldwide, a figure that could double by 2030. This is raising a wide range of increasingly pressing demands and issues – in such areas as health and safety, energy and raw material conservation, environmental protection and quality of life – that are crying out for solutions. In a more open world, people want to be able to get around not only more and more but also better and better. At the same time, rising populations are driving a steady increase in freight transport.

#### ● 2.1.2.a) IMPROVING ROAD SAFETY

Every year, 1.2 million people are killed and 50 million are injured in traffic accidents, which are one of the leading causes of mortality among young people. In addition, 85% of fatal accidents occur in fast-growing countries. According to the World Health Organization, the cost of road accidents is equivalent to between 2.5% and 3% of GDP in Europe. The growing number of vehicles on the world's roads has created increasingly serious safety problems, especially in developing countries. Governments, international organizations and businesses need to step up their efforts to improve safety for all road users.

#### ● 2.1.2.b) REDUCING GREENHOUSE GAS AND OTHER HARMFUL EMISSIONS

Road transport accounts for 18% of all fossil-based CO<sub>2</sub> emissions caused by human activity, with tires representing 4% from the fuel used to overcome their rolling resistance. This is the equivalent of up to one tank of fuel out of five for a car and one out of three for a truck. To limit the average increase in global temperatures to 2°C by 2100 (compared with the pre-industrial period), CO<sub>2</sub> emissions caused by road transport will have to be reduced by half by 2050 (compared with 2008, when CO<sub>2</sub> emissions totaled 5 billion tonnes), despite the expected rise in the number of vehicles. Emissions of other harmful substances, such as nitrous and sulfur oxides, must also be greatly curbed.

#### ● 2.1.2.c) DEVELOPING SUSTAINABLE ENERGY SOURCES

Overland transport depends mainly on oil, whose growing scarcity and rising cost represents a major geo-strategic challenge. It is estimated that motor vehicles currently consume more than 60% of the world's oil output, raising doubts about the availability and price of oil-based fuels when the global vehicle fleet will have doubled. The challenges are, in the short-term, to improve fuel efficiency to reduce our dependence on oil alone and, in the medium term, to find alternate propulsion energy sources.

#### ● 2.1.2.d) PRESERVING RAW MATERIALS

Like oil, which is also used to make synthetic rubber, non-renewable raw materials are becoming increasingly scarce and will remain expensive in the years ahead, notably due to strong demand from China and India, which are home to 40% of the world's population. In 2009, raw materials costs represented 23% of Michelin's net sales and close to 40% of the total purchasing budget. Optimizing raw material use is essential if these resources are to be conserved over the long term and if tires are to remain affordably priced. And all of this has to be accomplished without sacrificing tire performance.

#### ● 2.1.2.e) SECURING NATURAL RUBBER PRODUCTION

On the road or off, mobility requires tires, and no alternative is in sight within the next few decades. In turn, high-performance tires require natural rubber, whose properties make it irreplaceable, especially for truck, farm equipment and earthmover tires. As a result, the tire industry uses nearly 70% of the world's natural rubber production. The challenge is to husband this resource by maintaining its cost advantage – in particular for the small farmers who produce more than 80% of the world's natural rubber on plots ranging from 0.5 to 3 hectares – and by combating the diseases that attack rubber trees. The objective is to increase production in the years ahead to meet global demand, while encouraging sustainable rubber tree farming.

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### 2.1.3. EVOLVING AND ADAPTING TO ENHANCE BUSINESS PERFORMANCE

The shift in demand toward fast-growing countries and the increase in competition in mature markets are impacting manufacturing strategies, while today's unstable economic environment requires faster, more effective response than ever before. The growing globalization of purchasing and production calls for heightened vigilance with regard to working conditions and respect for people. That's why instilling a real culture of diversity provides a significant competitive advantage.

#### ● 2.1.3.a) BECOMING MORE COMPETITIVE

While the world's vehicle population could double by 2030, the number of cars on the road in mature countries will change only slightly. To establish a firm foothold in the developing countries that will drive most of the market's future growth and to successfully compete against emerging local manufacturers exporting to Europe and North America requires highly competitive plants located in both mature and developing markets and capable of lowering costs and increasing productivity.

#### ● 2.1.3.b) BECOMING MORE RESPONSIVE

In every respect – demand, raw material prices, financial markets, customer expectations – the economic environment is becoming structurally more volatile. Companies have to stay alert to anticipate and respond very quickly to the often sudden shifts. Maintaining the responsive flexibility of production facilities – and more generally the entire supply chain, from research to dealerships – to scale back or ramp up operations in response to demand is a constant challenge.

#### ● 2.1.3.c) SUPPORTING REORGANIZATION PROGRAMS

In a more aggressively competitive global marketplace, Michelin needs to adjust its manufacturing base. To become more competitive in mature markets, for example, certain plants have to be reorganized or consolidated and their production sometimes shifted to other facilities, making job cuts inevitable. To carry out these reorganizations as seamlessly as possible, Michelin takes advantage of the growing number of employees reaching retirement age, helps to create hundreds of new jobs in its host regions, develops people's employability and supports them in pursuing their careers either within the Group or in another position.

#### ● 2.1.3.d) A PEOPLE-FOCUSED CHANGE PROCESS

Whether operations are set up, expanded, specialized or reorganized, people are always at the heart of the change process. That's why Michelin makes sure that employees are kept fully informed, appropriately trained and actively involved in every initiative. To help them embrace change, the Company tries to give every employee the desire and the means to overcome obstacles and the opportunity to grow and gain fulfillment by contributing to the Company's success. For Michelin, the challenge is to enable people, in all their diversity, to nurture their talent, so as to drive growth and improve competitiveness.

#### ● 2.1.3.e) INVOLVING SUPPLIERS IN MEETING THE CHALLENGES OF PERFORMANCE AND RESPONSIBILITY

Purchases, which accounted for 60% of our 2009 net sales, represent a major economic, social and environmental challenge. To be effective, purchasing must not only lower costs to make the company more competitive but also guarantee quality, secure supply and promote responsible development. That's why Michelin teams ensure that the social and environmental practices of suppliers comply with Group standards, especially in low-labor cost countries.

### 2.1.4. OUR STRENGTHS IN MEETING THE CHALLENGES OF SUSTAINABLE MOBILITY

In pursuing its commitment to understanding and anticipating carmaker and driver needs, to satisfying customers and to meeting new stakeholder expectations, Michelin can leverage a host of solid strengths to transform the challenges of sustainable mobility into profitable growth opportunities and emerge from the recession stronger than ever.

#### ● 2.1.4.a) THE STRENGTH AND VITALITY OF THE MICHELIN BRAND

Our first strength is the MICHELIN brand, which ranks among the world's top brands in terms of consumer equity and is the leading tire brand in most major markets.

With nearly 100% recognition in Europe and North America and more than 85% in key countries like China, Russia and Japan, the MICHELIN brand is known, respected and appreciated around the world. For the public, the name is associated with safety, reliability, technology and expertise, in a universe of quality and innovation. This confidence in our name reassures customers and nurtures their loyalty, as seen in the brand's ability to hold firm in every region, even in the depths of the recession.

Michelin's long-term mission is to enhance mobility, supported by a commitment to anticipating customer needs and meeting them with solutions that benefit society at large: by improving safety, durability, fuel efficiency and carbon emissions – in other words by delivering quality at the right price.

In addition to the brand's high recognition, these values are expressed in the Group's global corporate signature, "A better way forward". By both delivering performance and exercising its corporate responsibility, Michelin is making itself more attractive, not only as a supplier of innovative products but also as an employer, thereby making it easier to hire and retain the finest talent.

#### ● 2.1.4.b) A POSITION AS ONE OF THE INDUSTRY'S FEW GLOBAL PLAYERS

Very early on, Michelin developed an exceptionally broad geographical presence, to the extent that today, it manufactures tires in nearly 20 countries and sells them in more than 170. It also holds forefront positions in every tire segment, including cars, vans, trucks, farm and industrial handling equipment, earthmovers, motorcycles and bicycles, and aircraft. Because Michelin partners original equipment manufacturers, pays close attention to both consumer and corporate tire users, and operates in a wide array of distribution channels, it is particularly well positioned to understand customer expectations.

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As one of the few global players in the tire industry, Michelin enjoys critical mass and synergies that help to improve productivity, enhance competitiveness and maintain fair, balanced relations with tire dealers. Already well developed in the research and development process, these synergies represent major sources of improvement in such areas as rationalizing the product portfolio, standardizing the manufacturing base, purchasing and advertising, as demonstrated by the roll-out of the brand's first global campaign in October 2009.

#### ● 2.1.4.c) TECHNOLOGICAL LEADERSHIP

Technical innovation has fueled Michelin's development throughout its history. With such technological breakthroughs as the radial tire and the fuel-efficient tire, Michelin has been a key driver of progress in its industry and markets and enjoys a recognized lead in the most demanding technical segments.

In a business environment that is being continually reshaped by stricter regulatory standards, heightened consumer expectations and critical technological developments, a capacity for innovation represents a major strategic strength that provides real competitive advantage. As technological leader, Michelin is constantly raising the performance bar in ways that impact both consumer standards and tire regulations. The technical advance of MICHELIN tires represents a never-ending source of new solutions.

#### ● 2.1.4.d) SUPERIOR TIRES, RECOGNIZED AND PRICED ACCORDINGLY

Carmakers and consumers can easily see that not all tires are created equal and that some outperform others. While generally priced higher, MICHELIN tires are safer, longer lasting and more fuel efficient, which reduces both their total cost of ownership and their environmental impact.

Indeed, the savings in use mean that in the end, a MICHELIN tire is the least expensive in the market. At Michelin, we intend to continue producing tires with the lowest total cost of ownership, thereby creating greater value for the company, the environment and society as a whole.

#### ● 2.1.4.e) A CULTURE OF QUALITY AND BALANCED PERFORMANCE

In the interests of its customers and their safety, product quality has always been a top priority for Michelin. The fundamental practices that guarantee quality performance are deployed across the Group through the Michelin Quality Assurance Process, which is applied in every aspect of tire production, from design to manufacture and customer service. Each new product range must deliver improvements in the balance of performance between longevity, safety and fuel efficiency. One example is the MICHELIN Energy Saver car tire, which reduces fuel consumption by 0.2 liters per 100 km while maintaining exceptional tread life and grip.

### 2.1.5. EXTENDING OUR TECHNOLOGICAL LEADERSHIP

By delivering ground-breaking innovations that meet the changing needs of both customers and society as a whole, Michelin has maintained its technological advance and led the global tire

industry for more than a century. Respect for customers enables us to grasp the intricate array of expectations, while respect for people and facts frees our thinking and stimulates our creativity and pioneering spirit. The story of Michelin is above all a story about people and technology.

#### ● 2.1.5.a) THE TIRE INDUSTRY'S LEADING INNOVATOR...

The only point of contact between the vehicle and the ground, tires are complex, demanding products. Michelin has invested more heavily in innovation than any other tiremaker, driving the development of most of the technological advances that have shaped the tire industry.

With Technology Centers in North America, Europe and Asia, Michelin can adjust the product portfolio to local weather and driving conditions, respond proactively to emerging needs, and ensure that MICHELIN tires deliver the same high-quality performance, everywhere around the world. This approach can be seen clearly in Asia, where our R&D facilities are located in China, Thailand and Japan. At once global and local, the Research, Development and Process Engineering (RDI) Division can leverage the competitive advantages of economies of scale, synergies and cross-fertilization. It employs nearly 6,000 people worldwide and is funded at more than €500 million a year, even in a time of recession like 2009.

#### ● 2.1.5.b) ... IS SHIFTING INTO HIGHER GEAR...

A company committed to sustainable road mobility must address a wide range of issues, such as conserving energy and raw materials, reducing greenhouse gas emissions and improving road safety. All of these challenges represent opportunities for Michelin to build on its technological leadership and showcase the solutions it has delivered year after year since the first MICHELIN Energy tire was introduced in 1992.

Benefiting from the early start, Michelin is now stepping up the momentum to widen its lead by transforming the Research, Development and Process Engineering chain to bring more innovative products to market more quickly. New work organizations and methods are now in place to drive faster, more efficient innovation, generate feedback from customers and markets as early as possible, promote cross-department cooperation and encourage co-design projects with carmakers to develop the best product at the lowest cost.

#### ● 2.1.5.c) ... TO DELIVER GREATER VALUE TO MORE PEOPLE

Research programs are being focused on two main objectives. The first is to achieve the best performance balance for each type of use. Tires need to deliver performance in many different, and often contradictory, areas. They must enhance safety, last longer, improve fuel efficiency and reduce carbon emissions while also providing a quieter, more comfortable ride. Many tires perform well in one area but come up short in others. Balanced, across-the-board performance is what makes Michelin tires different.

The Michelin balanced performance commitment is not only technical; it's also economic, providing customers with the lowest total cost of ownership. When purchase price, safety, fuel efficiency and tread life are all taken into consideration, customers come out on top. Therein lies the superiority of innovations like the MICHELIN Energy Saver, which simultaneously improves tire performance in three key areas, or MICHELIN truck tires, whose remarkable casing ensures that tires have four

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lives – new, regrooved, retread and regrooved a second time. In addition, the Group is actively pursuing other promising research paths that could further reduce total cost of ownership and make the market's best tires affordable to users everywhere.

Moreover, Michelin's commitment also includes participating in major initiatives aimed at improving mobility conditions. For example, the Group has addressed the need to reduce CO<sub>2</sub> emissions by developing tires with very low rolling resistance and by designing the revolutionary Michelin Active Wheel electric propulsion system.

Michelin also provides a comprehensive range of services that make travel easier and safer, improve operations and lower costs for trucking companies, airlines, mining companies and other corporate customers. The Group serves as their reliable performance partner, with high value-added solutions ranging from on-site maintenance to invoicing tires based on distance driven, ton transported or number of landings.

## 2.1.6. ENHANCING OUR COMPETITIVENESS

Michelin is leading a transformation program to improve competitiveness and sharply reduce costs. In line with the program's objectives, the Group will have saved €1 billion between 2006 and 2010 and is positioned to leverage all of the gains once business recovers.

### 2.1.6.a) PURCHASING BETTER, USING LESS

The objective of purchasing more effectively and using less is being supported by a number of concepts and programs. Value-to-Design and Design-to-cost bring together the marketing, development and process engineering teams to define the right performance for a given product and optimize its components and production process, so as to lower its production cost while delivering the same performance to the customer. The Triangle method involves internal customers, specifiers and buyers in analyzing a project or program in order to lower total cost. Standardizing processes and components and sourcing globally are reducing capital expenditure, while diversifying procurement sources is helping to improve competitiveness. In addition, outside partners are increasingly used for non-strategic inputs when they can deliver good value for money.

### 2.1.6.b) STRENGTHENING THE PRODUCTION BASE

A plant's competitiveness is determined by a range of factors, including its size, optimization, degree of specialization and proximity to markets. Additional production capacity to serve local demand is being built in fast-growing markets like China, India and Brazil.

To ensure that the production base in Europe and North America remains sustainably robust and profitable, resources are being focused on plants that are bigger or more specialized as well as more flexible and more efficient. Industrial transformation programs may inevitably involve closing plants or discontinuing certain operations, while implementing expansion projects on other sites. They are meticulously planned and deployed to carefully manage the impact on individuals, organizations and local employment. These adjustments are being facilitated by natural attrition of some 30,000 employees from 2008 to 2012.

New initiatives were undertaken in 2009. In North America, production of BFGoodrich and UNIROYAL tires in Opelika, Alabama and Truck tire tread operations in Querétaro, Mexico were transferred to other plants in the United States. In France, the manufacture of Super Sport tires was consolidated in Clermont-Ferrand with the transfer of production from the Noyelles-lès-Seclin plant, which is scheduled to close. The van tire business in Cholet has been strengthened. The Montceau-lès-Mines plant has become one of the largest facilities for blending rubber and metal fabrics in Europe and a center of expertise for earthmover tires. The Joué-lès-Tours plant will become the European benchmark for Truck tires and in particular for Michelin Durable Technologies. The Bourges plant is continuing to specialize in aircraft tires. Following the closing of the Toul plant, efforts are continuing to place employees and revitalize the local economy despite the recession.

Competitiveness plans have also been implemented in Spain and Italy. The Lasarte, Spain plant is now specialized as a world center for premium motorcycle tires. Car tire production has been stepped up at the Cuneo, Italy plant in response to the termination of car tire operations at the Turin Stura facility.

### 2.1.6.c) HEADING FOR OPERATIONAL EXCELLENCE

Michelin is committed to achieving operational excellence in every aspect of its business. Designed to enable the Group to do things better, faster and at lower cost, the transformation process involves streamlining and standardizing processes, identifying and extending the use of best practices, pooling resources, training employees, strengthening cooperation agreements and aligning all of the teams with its priority objectives.

Standardization reduces capital expenditure and shortens ramp-up times, thereby freeing teams for other projects. Through deployment of the Michelin Manufacturing Way, all of the plants are now aligned with internal best practices. The main performance indicators are accident frequency and severity, workstation ergonomics, customer satisfaction, materials waste, product quality, Michelin's own cost and productivity metrics and the Michelin site Environmental Footprint (MEF), a composite indicator that measures environmental impact.

From design, innovation and process engineering to project management, administration, logistics and customer relations, all of the major business processes are being reviewed with a focus on speed, simplicity, efficiency and employee empowerment, in a commitment to making a perceptible impact on performance.

## 2.1.7. INVESTING IN GROWTH MARKETS

To capture growth opportunities and increase the percentage of sales in fast-growing countries, in line with recent developments in the global marketplace, Michelin is stepping up the pace of expansion in China, India, Brazil and other major markets of the future. One of the key success factors in this process is to produce locally to offer customers the best possible price.

### 2.1.7.a) ROBUST EXPANSION

In the past five years, the percentage of sales generated in high-growth countries has increased to 32% from 26%. To keep pace with these surging markets, Michelin is increasing production

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capacity, expanding its partner dealership networks, introducing assistance services, and setting up retread plants to encourage the trucking industry to switch to radial tires, – all with the ultimate goal of raising the proportion of sales in these regions to 40%.

From 2008 to 2016, production capacity in fast-growing countries is expected to rise by 80% for Passenger tire and Light truck tires and to double for Truck tires. The pipeline includes capacity increases in China and Brazil and our first plant for truck tires in India, Asia's second largest market, which like China enjoys strong growth potential for radial tires.

### ● 2.1.7.b) A NEW ORGANIZATION TO ACCELERATE THE PROCESS

In 2009, our geographic organization was revamped to align it more effectively with market conditions in each region. Closer to customers, the new structures also better reflect their region's economic realities, physical data (like driving conditions), and similarities and parallels among the member countries. Japan and South Korea have been grouped together, for example, because they are home to global carmakers and to our main competitors. Similarly, Africa, India and the Middle East form an aligned whole. Linking Eastern Europe to Russia was another logical move.

This new organization empowers regional management and supports the development of local talent, which is a crucial factor in attracting and retaining the best people and securing Michelin's long-term market presence.

### ● 2.1.7.c) A STRATEGIC FOCUS ON THE MICHELIN BRAND

Growth will be led by the MICHELIN brand, which symbolizes the Group's commitment to quality and innovation. In this way, the brand hopes to consolidate its robust positions in the premium automobile segment while continuing to develop in higher volume markets.

Developing and selling small vehicles that deliver solid performance at an affordable price requires tires offering the lowest total cost of ownership – and therefore advanced technologies.

As the technology leader, Michelin is raising consumer standards, which will benefit the entire tire market over the long term. This is the case in China, for example, where Michelin has helped to change truck fleet management practices with a service offering based on a tire's four lives (new, regrooved, retreaded and then regrooved again).

## 2.1.8. EFFICIENTLY MANAGING RISK

Efficiently managing risks and commitments demands an increasingly disciplined approach. That's why Michelin has deployed a new organization to coordinate its capabilities more effectively and implement improvement plans.

### ● 2.1.8.a) OPERATING RISKS: THREE INTERRELATED LEVELS OF RESPONSIBILITY

Analyzing risks related to our business operations is a key process in preparing improvement plans, which include a review of both strategic and operating risks. Organized in 11 classes, operating risks are managed at three different levels:

- Operating managers identify and manage risks in their units preparing prevention, protection, and business continuity plans in compliance with Group standards;
- Corporate Services analyze risks in their fields of expertise, define prevention and protection standards and then manage and monitor their implementation;
- Internal auditors review the effectiveness of the entire risk management process.

The process is defined, led and coordinated by the Corporate Risk Manager, who ensures that the units concerned have effectively controlled their exposure to major risks. The Corporate Risk Committee, which is comprised of Product Line and Corporate Services directors, meets to review the most significant risks, the prevention and protection systems in place to manage them and the related business continuity plans.

### ● 2.1.8.b) MAPPING, VIGILANCE AND TRAINING

The primary risk management tool is the risk map, which is regularly updated by the different units and consolidated once a year by the Risk Manager. It facilitates delineation of the major risks and the regular tracking of those deemed most critical.

In 2009, Michelin continued to build its business continuity plans, set up, train and drill the crisis management units and deploy an Environmental and Risk Prevention Management System on the production sites. The deployment process should be completed in 2011.

### ● 2.1.8.c) HIGH STANDARDS TO MANAGE FIRE AND OTHER MAJOR RISKS

The Group's primary industrial risk is fire. To support its efficient management, Michelin developed the proprietary High Protected Risk Michelin (HPRM) standard, which covers prevention, protection, early detection and rapid response. A corporate team of risk management experts is leading a network of on-site correspondents who are overseeing the process of upgrading existing facilities to HPRM standards. In addition, all new projects are audited by an Environmental and Prevention expert for HPRM-compliance using a proprietary application. Throughout this process, feedback and best practices are systematically shared across the organization.

Thanks to these processes and systems, for more than five years, no fire or any other industrial accident has caused serious injury to employees, damage to company or third-party assets or had an adverse environmental impact on neighboring communities.

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## 2.1.9. ENCOURAGING INDIVIDUAL COMMITMENT

The Michelin corporate community is made up of nearly 110,000 people, representing 120 nationalities, whose diversity, professionalism and commitment are a valuable asset and a source of creativity. They are also the driving force behind our performance and development, supported by an employee relations process rooted in dialogue and mutual respect.

### ● 2.1.9.a) EFFECTIVELY BALANCING CORPORATE NEEDS AND PERSONAL EXPECTATIONS

Michelin is committed to enabling all employees to find fulfillment in their job responsibilities. Performance and potential are assessed with a view to the long-term, training policies allow each employee to continue to grow and develop throughout his or her career, and career management focuses on promoting from within and offering mobility opportunities. Diversity is actively encouraged, to build teams that look like the Group's host societies, and a structured equal opportunity process is in place to combat all forms of discrimination.

Workplace safety is a priority concern, as reflected in the practices and performance that have given Michelin one of the best track records of any manufacturing company. Major programs have also been implemented to protect and improve employee health and quality of worklife. Every employee benefits from performance-based compensation, with profit-sharing and bonus systems, adapted to each country and job function. Michelin has also set up a stock option plan open to a broad range of managers and regularly offers worldwide employee stock ownership plans.

### ● 2.1.9.b) RESPECT FOR PEOPLE, THE FOUNDATION OF SOCIAL COHESION AND EMPLOYEE MOTIVATION

Respect for people is one of Michelin's core values. In the case of employees, respect means helping them to build a career path corresponding to their aspirations and enabling them to develop skills and capabilities aligned with the company's needs. It also means paying close attention to working conditions and safety issues. In the current environment, a broad range of solutions – such as scheduling prevention maintenance, taking early vacation time and offering training courses – are being deployed to minimize the use of short-time work when production has to be scaled back. Their implementation is being facilitated by initiatives to develop a sense of mutual responsibility and co-destiny, in a commitment to improving corporate performance and protecting jobs. Whenever restructuring measures are necessary, Michelin offers concerned employees inplacement opportunities and individual support if external solutions are preferred or inevitable.

### ● 2.1.9.c) GETTING EVERYONE INVOLVED WITH THE MICHELIN PERFORMANCE AND RESPONSIBILITY PROCESS

Inspired by its founders, Michelin is dedicated to enhancing mobility through innovation and quality, by basing its development on the core values of Respect for Customers, Respect for People, Respect for Shareholders, Respect for the Environment and Respect for Facts.

The *Michelin Performance and Responsibility* process structures this corporate culture and coordinates our commitment to the principles of sustainable, balanced, responsible development. Integrated into every project and demonstrated in every aspect of our business by trained, highly involved teams, the process expresses our commitment to building growth on the long term and helping to address societal challenges by putting our values into practice.

The process is supported by the Michelin Performance and Responsibility Charter, a set of guidelines that is widely circulated within the organization. Following an internal diagnostic audit, ten major challenges were selected for priority action, with improvement targets set and leaders designated for each one. Action plans were launched, backed by indicators to measure progress and performance. To maintain the improvement dynamic, the key areas for improvement and their indicators are constantly being adjusted and upgraded, depending on the results obtained.

This structured, global approach has made it possible to deploy the Michelin Performance and Responsibility process in internal improvement initiatives and in our relations with partners and society as a whole. The commitment of our employees and their ability to work together to drive fast improvement has been recognized by several corporate sustainable development rating agencies, whose issued opinions have encouraged employees to take the process even further.

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## 2.2. TIRE MARKETS IN 2009

### ● A GLOBAL MARKET WORTH SOME \$140 BILLION <sup>(1)</sup>

The global tire market was estimated at \$140 billion<sup>(1)</sup> in 2008, of which light-vehicle tires accounted for 60% and truck tires nearly 30%<sup>(2)</sup>.

This represents 1.1 billion tires for cars and vans and 125 million for trucks and buses<sup>(2)</sup>.

Three-quarters of these tires are sold in the replacement market, which is traditionally less cyclical over the long term than the original equipment market.

In 2009, the sharp contraction in lending, capital expenditure and building and infrastructure starts, the decline in global trade and overland transport, and the drawdown of dealer inventory had an unprecedented impact on demand in every market.

### ● A SHIFT IN DEMAND TO HIGH-GROWTH COUNTRIES

Car sales declined by nearly 15% in Europe, North America and Japan, but rose by 9% in Brazil, 20% in India and nearly 50% in China<sup>(3)</sup>. Thanks to demand in fast-growing countries, the number of vehicles in the world is expected to increase by more than 20% by 2015 and to double by 2030.

According to the PwC Automotive Institute, more than half of the world's motor vehicle production will have shifted to high-growth countries by 2014, with a corresponding knock-on effect on replacement markets. According to Deloitte Touche Tohmatsu<sup>(4)</sup>, China and India will join Western Europe, Japan, South Korea and the United States as the six leading design and production centers for automobile manufacturers and their suppliers.

### ● THE EMERGENCE OF NEW EXPECTATIONS

In mature markets, the recession and higher fuel costs have made consumers considerably more price-sensitive and spurred lasting changes in their behavior. In fast-growing markets, demand has increased sharply for both affordable cars and luxury vehicles. While complex and differentiated, consumer aspirations nevertheless converge on the importance of safety, low total cost of ownership (i.e. including the impact of fuel efficiency and durability) and a small environmental footprint.

Carbon emissions standards are tightening for new vehicles in Europe, the United States, Japan and, soon, in China. In Europe, minimum performance levels for tires as well as standardized labeling will be mandatory beginning in 2012, while similar systems will be introduced in the US and Japan.

(1) Source: *Tire Business*, September 2009.

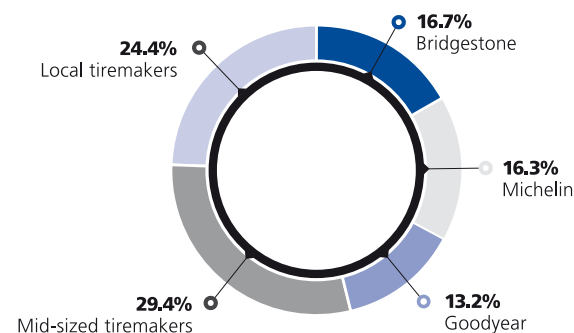
(2) Source: *Michelin*.

(3) Source: *IHS Global Insight World Car Industry Forecast Report*, December 2009.

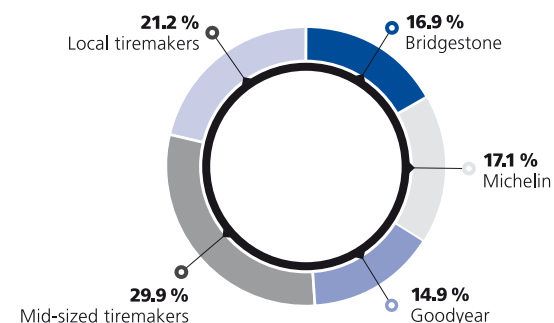
(4) Report by *Deloitte Touche Tohmatsu's Global Manufacturing Industry Group*, looking ahead to 2020.

An increasing number of hybrid vehicles are being brought to market, soon to be joined by fully electric vehicles. These cars could account for one-third of sales in mature markets by 2020 and up to 20% of sales in urban areas in high-growth markets<sup>(4)</sup>. To boost the range of both EV and hybrids, energy consumption will have to be lowered as much as possible, notably through the choice of tires. This creates another technical challenge that cannot be met by every tire manufacturer.

### THE GLOBAL TIRE MARKET BY MANUFACTURER



Source: 2008 sales in US dollars, published in *Tire Business*, August 31, 2009



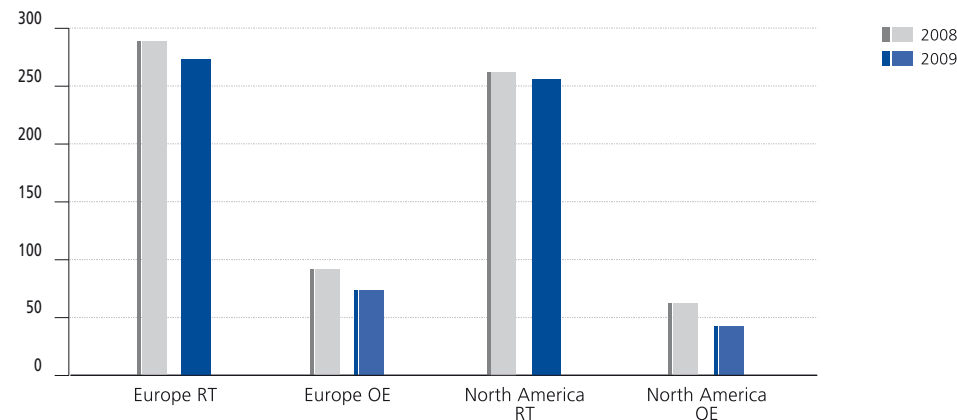
Source: 2007 sales in US dollars, published in *Tire Business*, September 5, 2008



Tire demand was highly uneven in 2009. In the first half, as the economic slowdown gradually spread around the world, demand plummeted in every country market except China, where it continued to rise sharply throughout the year. In the second half, however, the situation varied by business and region:

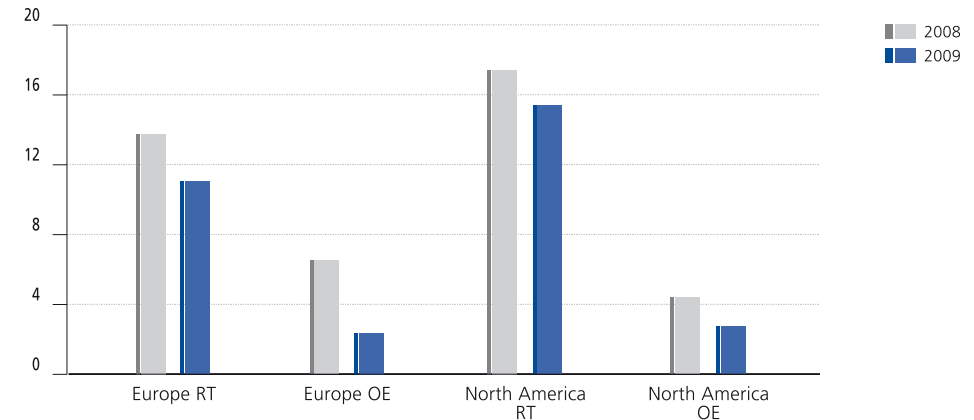
- original equipment **Passenger car and Light truck** tire markets reflected first the massive production shutdowns by carmakers early in the year, and then the upswing in car sales as auto industry support programs began to take effect. The traditionally less cyclical replacement markets tracked both the steep first-half decline and the emerging second-half uptick in kilometers traveled, average highway speeds and dealer inventory;
- in the **Truck** markets, the fall-off in tire demand that began in Europe and North America in autumn 2008 spread across the world in the first half before stabilizing at a very low level in the autumn, as freight markets remained uncertain.

### PASSENGER CAR AND LIGHT TRUCK TIRE MARKET (million units)



Source: Michelin estimates

### TRUCK TIRE MARKET (million units)



Source: Michelin estimates – Radial tires

RT: Replacement – OE: Original equipment

### REPLACEMENT MARKETS

**Passenger car and Light truck** tire markets were down 3.2% sharply on 2008 levels. In the first half, demand was dampened, particularly in mature markets, by the decline in vehicle kilometers traveled, the reduction in average highway speeds and the impact of dealer destocking programs, while in developing countries, markets were gradually affected by the economic slowdown, and tire demand fell everywhere except China. After the summer, all of the markets felt a technical rebound as dealers stopped drawing down inventory and seasonal demand for winter tires picked up.

With the international freight market still hesitant after falling sharply in the first half in the wake of the global economic recession, **Truck** tire markets ended 2009 down 9.6%. Since the autumn, however, they have started to bottom out with the end of dealer and fleet destocking, as demonstrated by the slight upturn in retreading demand.

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## ● PASSENGER CAR AND LIGHT TRUCK TIRES

| Passenger car and Light truck markets Replacement<br>(In millions of tires) | 2009         | 2008         | 2009/2008    | 1st-Half 2009/2008 | 2nd-Half 2009/2008 |
|---|--------------|--------------|--------------|--------------------|--------------------|
| Europe  | 273.3        | 288.3        | -5.2%        | -12.1%             | +2.1%              |
| North America <sup>(1)</sup>  | 256.2        | 262.1        | -2.3%        | -10.7%             | +6.2%              |
| Asia  | 174.5        | 176.0        | -0.8%        | -4.6%              | +2.6%              |
| South America   | 46.5         | 48.6         | -4.4%        | -7.4%              | -1.3%              |
| Africa Middle-East  | 62.2         | 64.8         | -4.1%        | -5.2%              | -2.9%              |
| <b>TOTAL</b>  | <b>812.6</b> | <b>839.8</b> | <b>-3.2%</b> | <b>-9.4%</b>       | <b>+2.9%</b>       |

(1) United States, Canada and Mexico.

Michelin estimates

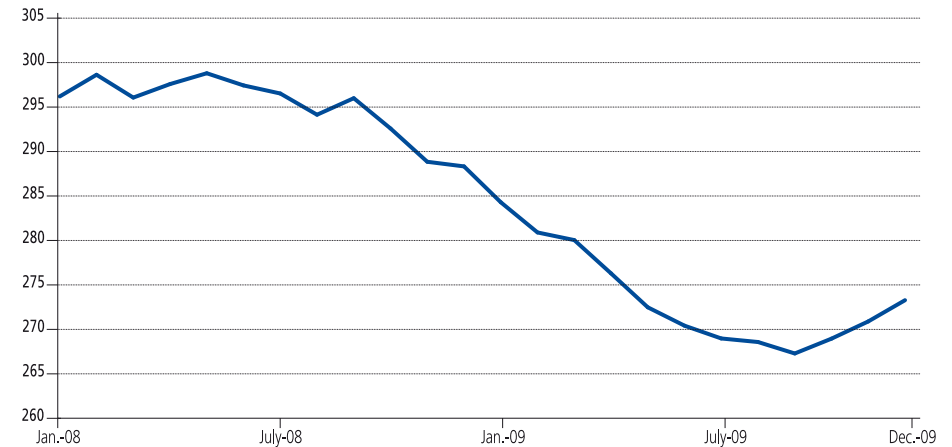
In Europe, the Passenger car and Light truck tire market declined by 5.2% in 2009. Demand fell 12.1% in the first half but gained 2.1% in the second on a technical rebound driven by the end of dealer destocking and strong sales of winter tires. The 14.0% increase in the latter segment was led, in a harsh winter, i) by the rebuilding of dealer inventory, which has fallen to record lows after the very strong 2008-2009 season, and ii) purchases ahead of winter 2009-2010 by owners of the many new vehicles bought during the year to take advantage of scrapping incentives, especially in Germany.

In all, demand rebounded strongly in Germany (up 8.1%), declined in the UK (down 6.4%), France (down 1.9%), Spain (down 0.9%) and the Nordic countries (down 9.5%), was stable in Poland (up 0.1%) and rose in Italy (up 6.0%). Excluding the CIS, which is still impacted by the collapse in Russian demand, the European market shrank 1.1% over the year.

The market mix is continuing to track the structural move of vehicle fleets up the value chain, with sales of high-performance tires (W, Y and Z speed ratings) gaining 4.1%.

## THE EUROPEAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET

In millions of tires - Moving 12-month



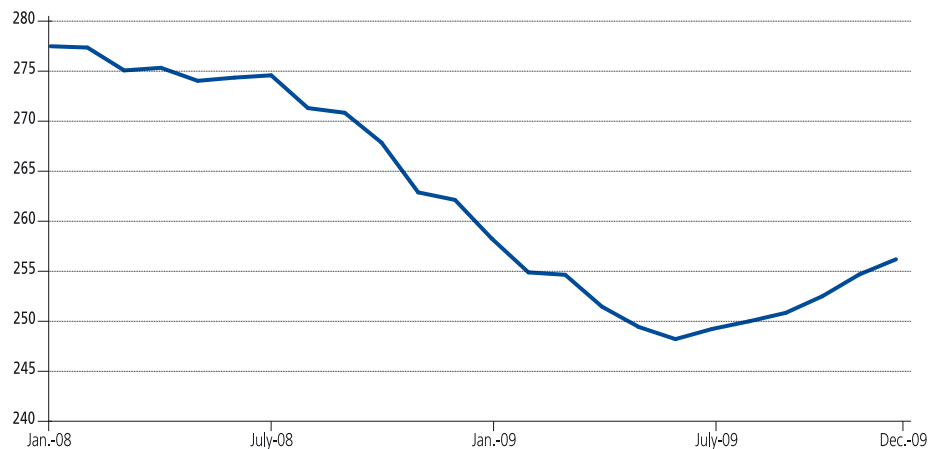
Michelin estimates

The North American market ended the year down 2.3% after contracting 10.7% in the first half and then rebounding a strong 6.2% in the second as dealers stopped drawing down inventory and people traveled more miles. More generally, it seems that consumers can no longer put off replacing their old tires. Tire demand declined by 2.4% in the United States, while the market rose 3.3% in Canada thanks to sustained demand for snow tires and fell 7.2% in Mexico due to the slowdown in the local economy. By segment, demand for entry-level tires (ST speed ratings) contracted 6.6%, but winter tires (up 5.2%) and recreational tires showed firmer resistance.



**THE NORTH AMERICAN REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET**

In millions of tires - Moving 12-month



Michelin estimates

In early 2009, markets across **South America** plunged headlong into the crisis that had previously spared them, with tire demand dropping 10.6% in the first quarter before gradually recovering over the rest of the year (down 4.0% in the second quarter, 2.3% in the third and just 0.4% in the fourth). The Spanish speaking markets fell 10.6% in Argentina and 8.6% in Columbia, while tire demand in Brazil was up 3.1%. Argentina, Ecuador and Venezuela introduced import procedures that set quotas on foreign-made tires.

In **Asia**, demand varied by region, rising 16.9% in China but declining in Japan, South Korea, Taiwan, Australia and India.

**TRUCK TIRES**

**Truck markets\* Replacement**  
(In millions of tires)

|                              | 2009        | 2008        | 2009/2008    | 1st-Half 2009/2008 | 2nd-Half 2009/2008 |
|------------------------------|-------------|-------------|--------------|--------------------|--------------------|
| Europe                       | 11.0        | 13.8        | -19.8%       | -31.4%             | -8.5%              |
| North America <sup>(1)</sup> | 15.4        | 17.4        | -11.6%       | -18.2%             | -5.3%              |
| Asia                         | 28.5        | 29.3        | -2.9%        | -12.0%             | +5.5%              |
| South America                | 6.2         | 7.6         | -18.6%       | -22.3%             | -14.7%             |
| Africa Middle-East           | 9.6         | 10.0        | -4.5%        | -7.1%              | -1.8%              |
| <b>TOTAL</b>                 | <b>70.7</b> | <b>78.2</b> | <b>-9.6%</b> | <b>-17.2%</b>      | <b>-2.1%</b>       |

\* Radial only.

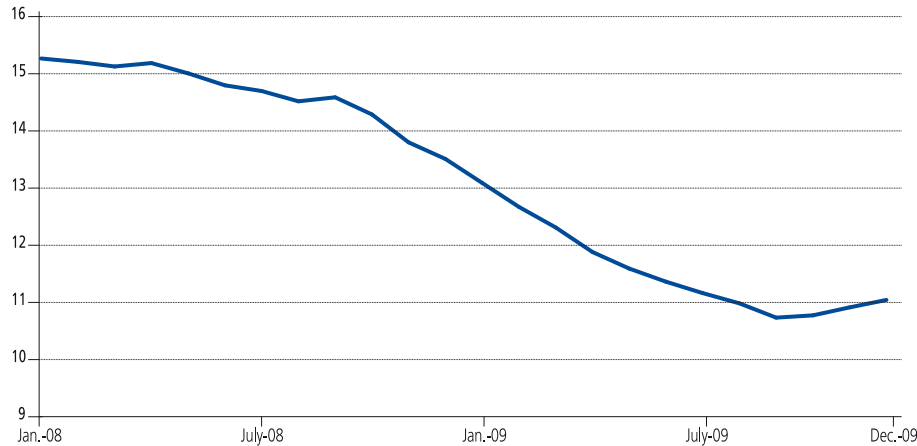
(1) United States, Canada and Mexico.

Michelin estimates

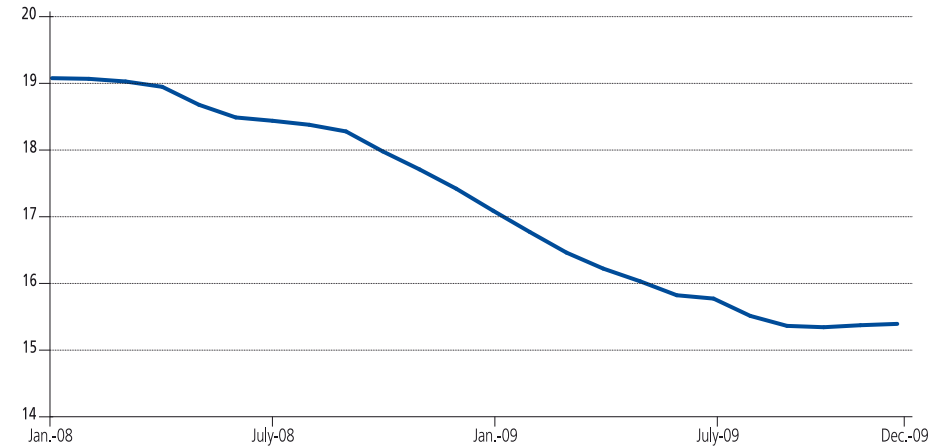
In **Europe**, truck tire demand failed to show any growth until September and ended the year down 19.8%. However, after bottoming out in the first quarter, it began to show signs of stabilizing, declining by just 8.5% in the second half after plummeting 31.4% in the first. In addition, the retreading business returned to growth in the second half.

Dragged down by the combined impact of dealer and fleet destocking and the recycling of tires from idled trucks, the truck tire market fell faster than demand for transportation in general in the first half but moved back in line in the second half, declining 8.5%. According to *Bundesamt für Güterverkehr*, the German freight market declined by an average of 11.8% year on year. The markets will truly recover only when there is renewed demand for freight and international trucking services. Market growth in the fourth quarter primarily reflected the low basis of comparison (demand fell 26.9% in fourth quarter 2008) and the first signs of inventory rebuilding in November and December.



**THE EUROPEAN REPLACEMENT TRUCK TIRE MARKET***In millions of radial tires – Moving 12-month**Michelin estimates*

The timid fourth-quarter upturn in the **North American** market reflected a low basis of comparison. The freight market has stopped declining but remains very weak, with the moving three-month ATA Truck Tonnage Index down an average 8.3% year on year. In recent months, the replacement market has not shown any real signs of improvement, which will come only when the economy and the freight market recover.

**THE NORTH AMERICAN REPLACEMENT TRUCK TIRE MARKET***In millions of radial tires – Moving 12-month**Michelin estimates*

The **South American** market declined by 18.6% year on year, with a slight improvement in the second half (down 14.7%) compared with the first (down 22.3%).

In **Brazil**, economic indicators show that the business environment is brightening at the end of the year, which helped the replacement Truck tire market to feel a slight upturn in mid-November after having stabilized at a very low level. Import taxes are holding back sales of foreign-made tires, particularly from **Asia**.

Spanish-speaking markets have generally been harder hit by the crisis than **Brazil**, while their foreign tire sales have suffered from new import procedures introduced in **Argentina** and **Venezuela**.

In **Asia**, markets were down 2.9% for the year, with an improvement in the second half (up 5.5%) compared with the first (down 12.0%).

Geographically, markets in **China**, **India** and the **ASEAN** countries expanded over the year, but demand in the rest of the region was depressed.

Overall, the market shift to radials continued apace during the year.

The **Africa Middle East** market declined by 4.5% in 2009, but showed signs of recovery in the fourth quarter.

The economic slowdown hindered improvements in the product mix. With the **Saudi Arabian** and **Algerian** economies less adversely affected by the recession, the decline in demand primarily concerned **Iran** and the **Gulf states**.

## ORIGINAL EQUIPMENT MARKETS

Except in China, **original equipment** markets around the world fell sharply in 2009 as carmakers slashed production and drastically drew down inventories over the year. In the second half, demand for Passenger car and Light truck tires was lifted, particularly in mature markets, by the impact of auto industry support programs.

### ● PASSENGER CAR AND LIGHT TRUCK TIRES

| Passenger car and Light truck markets Original Equipment<br><i>(In millions of tires)</i> | 2009         | 2008         | 2009/2008     | 1st-Half 2009/2008 | 2nd-Half 2009/2008 |
|---|--------------|--------------|---------------|--------------------|--------------------|
| Europe  | 73.1         | 91.4         | -19.9%        | -33.1%             | -2.0%              |
| North America <sup>(1)</sup>  | 42.1         | 62.2         | -32.3%        | -51.0%             | -9.2%              |
| Asia  | 137.3        | 133.1        | +3.1%         | -17.3%             | +26.2%             |
| South America   | 17.7         | 19.2         | -7.9%         | -20.7%             | +6.2%              |
| Africa Middle-East  | 13.8         | 16.6         | -16.9%        | -25.0%             | -8.7%              |
| <b>TOTAL</b>  | <b>284.1</b> | <b>322.5</b> | <b>-11.9%</b> | <b>-29.1%</b>      | <b>+8.8%</b>       |

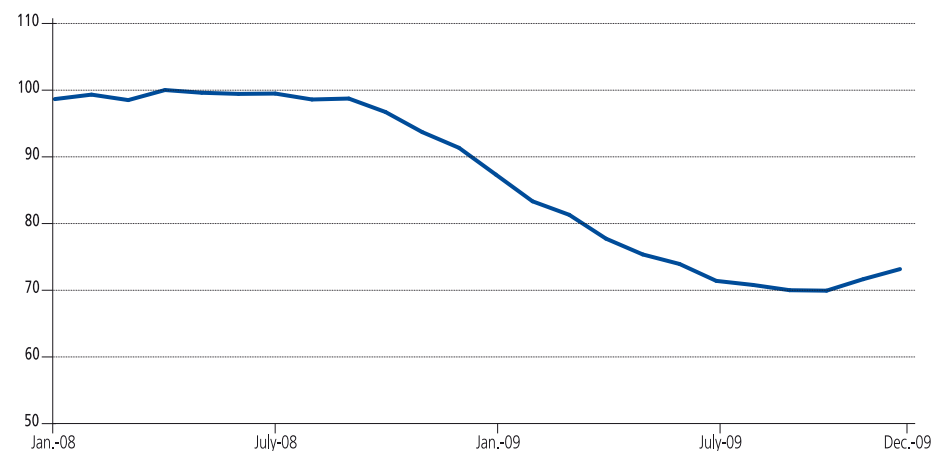
(1) United States, Canada and Mexico.

Michelin estimates

Tire demand in **Europe** dropped a steep 33.1% in the first half as carmakers reduced output, but the auto industry support programs introduced in most countries held the second-half decline to 2%, even though the incentives mainly spurred demand for compact tires. As expected in this environment, demand was particularly strong in Germany but continued to contract in Eastern Europe and Russia.

### THE EUROPEAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET

*In millions of tires - Moving 12-month*



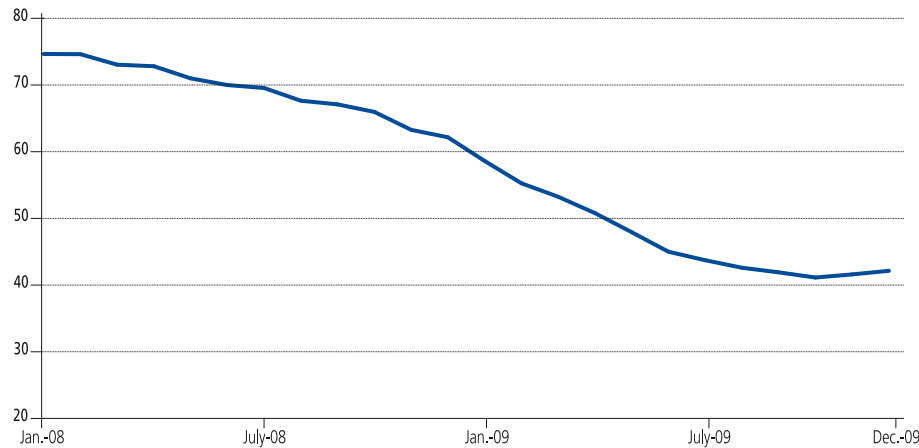
Michelin estimates



The **North American** market fell 32.3% in 2009, with carmakers moving closer in line with inventory targets at year-end after massively scaling back output.

### THE NORTH AMERICAN ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET

In millions of tires - Moving 12-month



Michelin estimates

**Asian markets** rose 3.1% overall in 2009, but conditions varied by country. Demand declined in Japan, South Korea and Thailand but surged 65.1% in China, making the country, for the first time, the world's largest market ahead of the United States.

In **South America**, the market declined by 7.9% over the year. After bottoming out in the first quarter, it turned up sharply in the final quarter, particularly in Brazil where favorable tax incentives kept domestic demand strong.

Markets in **Africa and the Middle East** continued to trend downwards, losing an aggregate 16.9% over the year, but showed some signs of stabilizing at year-end.

### TRUCK TIRES

#### Truck markets\* Original Equipment (In million of tires)

|                              | 2009        | 2008        | 2009/2008     | 1st-Half<br>2009/2008 | 2nd-Half<br>2009/2008 |
|------------------------------|-------------|-------------|---------------|-----------------------|-----------------------|
| Europe                       | 2.4         | 6.5         | -63.7%        | -67.4%                | -58.4%                |
| North America <sup>(1)</sup> | 2.7         | 4.4         | -37.9%        | -47.8%                | -25.7%                |
| Asia                         | 5.2         | 6.2         | -15.4%        | -21.9%                | -9.0%                 |
| South America                | 1.6         | 2.1         | -22.4%        | -30.7%                | -13.7%                |
| Africa Middle East           | 0.5         | 1.2         | -62.5%        | -62.5%                | -62.5%                |
| <b>TOTAL</b>                 | <b>12.4</b> | <b>20.4</b> | <b>-39.2%</b> | <b>-46.6%</b>         | <b>-30.6%</b>         |

\* Radial only.

(1) United States, Canada and Mexico.

Michelin estimates

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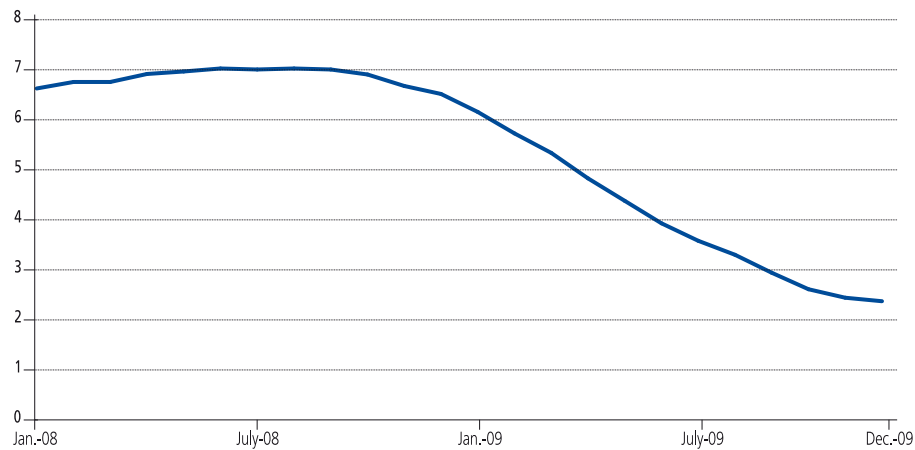
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In Europe, the original equipment Truck tire market collapsed in 2009, with demand plunging 63.7% overall, 63% in the truck segment and 65% in the trailer segment. By period, the market fell 67.4% in the first half and a still very steep 58.4% in the second, despite comparison with an already weak second-half 2008 (down 17%).

The more cyclical heavy duty (over 16 tonnes) truck segment considerably underperformed the less than 16 tonne segment.

### THE EUROPEAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

In millions of radial tires – Moving 12 month



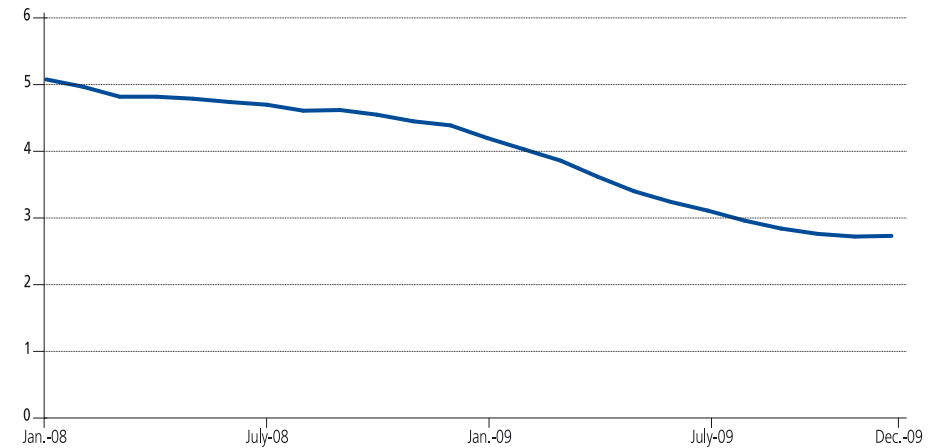
Michelin estimates

The **North American** market trended downwards all year, losing 37.9% overall, but the decline eased somewhat in the second half (down 25.7%) compared with the first (down 47.8%).

The average age of the North American truck fleet has risen to a record 6.3 years, a level not seen since the early 1990s.

### THE NORTH AMERICAN ORIGINAL EQUIPMENT TRUCK TIRE MARKET

In millions of radial tires – Moving 12 month



Michelin estimates

In **South America**, demand fell 22.4% over the year, with declines of 30.7% in the first half and 13.7% in the second. Stimulated by an improving economy and Brazilian government incentives to purchase new trucks, the market returned to growth at year-end, gaining 14.4% in the final quarter.

As a whole, the **Asian** market did not suffer as much as the Group's other regional markets, losing just 15.4% over the year. Performance varied widely between the mature countries, which saw double-digit drops, and countries like China, with a 4% decline. Demand fell fastest in Japan, at 49% for the year.

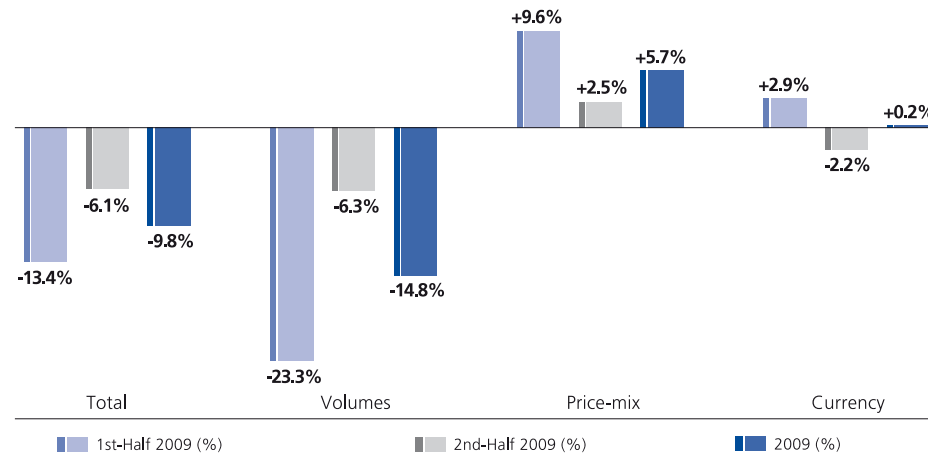
The original equipment market in **Africa Middle East** plummeted 62.5%, reflecting the fact that the region entered the downward cycle later than the others.

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## 2.3. NET SALES

| (in EUR million)     | 2009   | 2008   | % change | 1st-Half 2009 | 1st-Half 2008 | % change | 2nd-Half 2009 | 2nd-Half 2008 | % change |
|----------------------|--------|--------|----------|---------------|---------------|----------|---------------|---------------|----------|
| Net sales            | 14,807 | 16,408 | -9.8%    | 7,134         | 8,239         | -13.4%   | 7,673         | 8,169         | -6.1%    |
| Excluding currencies |        |        | -9.9%    |               |               | -15.6%   |               |               | -3.8%    |

## ANALYSIS OF NET SALES



**Net sales** amounted to €14,807 million in 2009, down a limited 9.8% at current exchange rates compared with 2008.

The decline primarily reflected the 14.8% fall-off in volumes caused by the record collapse in tire markets around the world. Thanks to the Group's firm pricing policy, the resistance of the MICHELIN brand and a favorable replacement/OE market mix, the price-mix remained positive, adding 5.7% to growth for the year and attenuating much of the impact of weaker demand. The price-mix rose to 9.6% in the first half, but settled back to 2.5% in the second half.

The currency effect was a positive 0.2% for the year, as gains in the US dollar and, to a lesser extent, the Chinese yuan against the euro offset the declines in the British pound, the Mexican peso and the Polish zloty.

| (in EUR million and %) | 2009/2008     |              | 1st-Quarter 2009/<br>1st-Quarter 2008 |               | 2nd-Quarter 2009/<br>2nd-Quarter 2008 |               | 1st-Half 2009/<br>1st-Half 2008 |               | 3rd-Quarter 2009/<br>3rd-Quarter 2008 |               | 4th-Quarter 2009/<br>4th-Quarter 2008 |              | 2nd-Half 2009/<br>2nd-Half 2008 |              |
|------------------------|---------------|--------------|---------------------------------------|---------------|---------------------------------------|---------------|---------------------------------|---------------|---------------------------------------|---------------|---------------------------------------|--------------|---------------------------------|--------------|
| <b>TOTAL CHANGE</b>    | <b>-1,601</b> | <b>-9.8%</b> | <b>-579</b>                           | <b>-14.2%</b> | <b>-526</b>                           | <b>-12.7%</b> | <b>-1,105</b>                   | <b>-13.4%</b> | <b>-458</b>                           | <b>-10.9%</b> | <b>-38</b>                            | <b>-1.0%</b> | <b>-496</b>                     | <b>-6.1%</b> |
| Volumes                | -2,433        | -14.8%       | -998                                  | -24.4%        | -919                                  | -22.2%        | -1,917                          | -23.3%        | -590                                  | -14.0%        | 74                                    | +1.9%        | -516                            | -6.3%        |
| Price-mix              | 797           | +5.7%        | 342                                   | +11.0%        | 266                                   | +8.2%         | 608                             | +9.6%         | 144                                   | +4.0%         | 45                                    | +1.1%        | 189                             | +2.5%        |
| Currency               | 35            | +0.2%        | 77                                    | +2.2%         | 127                                   | +3.6%         | 204                             | +2.9%         | -12                                   | -0.3%         | -157                                  | -3.9%        | -169                            | -2.2%        |
| Scope                  | -             | -            | -                                     | -             | -                                     | -             | -                               | -             | -                                     | -             | -                                     | -            | -                               | -            |

## NET SALES BY REPORTING SEGMENT

| (in EUR million)                                   | 2009          | 2009/2008    | 1st-Half 2009 | 1st-Half 2009/<br>1st-Half 2008 | 2nd-Half 2009 | 2nd-Half 2009/<br>2nd-Half 2008 |
|--|---------------|--------------|---------------|---------------------------------|---------------|---------------------------------|
| <b>GROUP</b>                                       | <b>14,807</b> | <b>-9.8%</b> | <b>7,134</b>  | <b>-13.4%</b>                   | <b>7,673</b>  | <b>-6.1%</b>                    |
| Passenger car/Light truck and related distribution | 8,280         | -4.5%        | 3,949         | -9.4%                           | 4,331         | +0.5%                           |
| Truck and related distribution                     | 4,496         | -17.2%       | 2,071         | -23.2%                          | 2,425         | -11.4%                          |
| Specialty businesses*                              | 2,031         | -12.0%       | 1,114         | -6.1%                           | 917           | -18.2%                          |

\* Specialty businesses include Specialty tires (Agricultural, Aircraft, Two-Wheel and Earthmover); Maps and Guides; ViaMichelin and Michelin Lifestyle.

### ● PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION – ANALYSIS OF NET SALES

In the **European** replacement market, where demand gradually improved after falling precipitously early in the year, net sales demonstrated firm resistance, supported by the MICHELIN brand, the success of the newly introduced MICHELIN Energy™ Saver, X Ice and Alpin lines and the robust demand for winter tires. The product mix continued to improve. Compact cars benefited the most from recent scrappage incentives, but their growing percentage in the sales mix did not dampen the favorable impact of the recent-year increase in sales of more premium vehicles.

Original equipment sales were down for the year, but the declines eased with every quarter as carmakers ramped back up production, taking advantage of scrapping incentives. Sales were also supported by market share gains, as Group brands capitalized on sustained demand for high-performance tires.

In the **North American** replacement market, which has never been as weak or as competitive, the MICHELIN brand sales benefited from demand for high-value Tier 1 brands and the OEM customers portfolio quality.

The fall-off in original equipment sales reflected the sharp decline in carmaker output during the year, although volumes turned sharply upwards at year-end.

In the highly competitive **Asian** market, unit sales have held up well, in line with market momentum in countries like China, Thailand, Malaysia and, from a weaker base, India, and declining in mature markets such as Japan, Oceania, South Korea and Taiwan. The Group continued to expand in China, in particular by opening new TyrePlus outlets.

In **South America**, sales performance was held back by extensive dealer inventory drawdowns and the introduction of new import procedures in certain countries, but also boosted by the still positive price effect and the up-market shift in the brand and segment mixes.

Sales in **Africa Middle East** suffered from the fall-off in local demand but benefited from firm pricing, particularly in the premium ranges (V and Z speed ratings and recreational tires).

**In all**, net sales in the Passenger car and Light truck tires and related distribution segment stood at €8,280 million for the year, down 4.5% on 2008. The volume effect was negative throughout

the year, although it steadily eased with every quarter. The price effect was positive for the year, but the impact lessened in the final quarter due to comparison with the year-earlier period, which benefited from all of the 2008 price increases. Together with the upturn in original equipment sales in the second half, the mix remained favorable, with the MICHELIN brand demonstrating sustained resistance and the segment/speed rating mix continuing to improve.

### ● TRUCK TIRES AND RELATED DISTRIBUTION – ANALYSIS OF NET SALES

In **Europe**, original equipment sales fell sharply, but slightly outperformed the market thanks to the effectiveness of the MICHELIN brand. Western Europe accounted for a higher percentage of sales than Central Europe and Russia. The retread business benefited from the upturn in demand.

Replacement sales in **North America** were hurt by the market decline, while Michelin Durable Technologies products continued to expand. Original equipment sales declined less than the market, led by resilient defense sales.

In **South America**, replacement sales were in line with the market and original equipment sales did not fall as fast as the market. The introduction of new import procedures in certain Spanish-speaking countries, such as Venezuela, weighed on sales performance for the year.

In **Asia**, replacement sales rose over the year, with market share gains led by a positive country mix thanks to rising demand in China, India and certain ASEAN countries like Thailand.

Original equipment sales declined much less than the market, thanks to a more favorable trend in the fourth quarter.

In **Africa Middle East**, positions were strengthened in Algeria and Saudi Arabia, but performance in Turkey was in line with the market.

**In all**, net sales in the Truck tires and related distribution segment stood at €4,496 million for the year, down 17.2% on 2008. The impact of the steep decline in sales volumes, which reflected the collapse in demand and its subsequent stabilization, was only partly offset by the sustained focus on extremely firm pricing policies.

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## ● SPECIALTY BUSINESSES – ANALYSIS OF NET SALES

- **Earthmover tires:** demand in the global Mining and Quarries segment held firm at record highs in 2009, when customers took advantage of the increased supply of high-performance tires to refit their equipment. The market was also supported by strong demand for ore and energy in fast growing countries. The original equipment market stayed very depressed, particularly in mature regions, but showed some timid signs of a technical rebound in the fourth quarter. Demand in the Infrastructure segment remained very weak in every region.

Sales held up well in the mining segment, but declined in Infrastructure and original equipment. Net sales declined sharply over the year, primarily due to contracts whose prices were indexed to raw materials costs.

- **Agricultural tires:** in 2009, both the replacement and the original equipment markets suffered from the decline in farm purchasing power and the resulting hesitation to invest. Demand fell off sharply in Europe and North America across every segment, including high-powered farm machinery.

As a result, net sales generally declined over the year, despite the sustained shift upmarket in the product mix, increased cooperation with leading equipment manufacturers and the performance of the Group's premium brands (MICHELIN and KLEBER).

- **Two-wheel tires:** the Two-wheel tire market fared relatively better than the other specialty markets, with a decline in the replacement motorcycle segments in Europe and North America and firm growth in demand in emerging markets.

Net sales tracked markets down, although the strong brand image still enjoyed in Europe by the recently introduced lines helped to maintain market share in the premium segments.

- **Aircraft tires:** demand was weakened in 2009 by the economic slowdown, which particularly hurt the General Aviation segment and, to a lesser degree, the Commercial and Regional segments, with North America harder hit than Europe. Demand for military aircraft tires was stable over the year.

Overall sales rose during the period, lifted both by a favorable price environment and the market's continued shift to radials. The USAF delivery contracts are proceeding as scheduled.

- The **Maps and Guides** business pursued its three businesses. In Maps, the decline in demand is slowing and Michelin is focusing on the close fit between paper and electronic maps. The Tourist Guide business saw an increase in unit sales during the year. Lastly, the Red Guide's 100th Anniversary Edition was an outstanding success, with strong bookstore sales and Apple iPhone application downloads.

- In a difficult economy, **ViaMichelin** successfully redeployed its business operations in 2009. The consumer website reported a record number of monthly visitors, attracted by the many improvements added to the site after its revamp and the significantly broader array of features. In the mobile phone service segment, ViaMichelin signed a major agreement with Nokia, which since the summer has provided hotel, restaurant and tourist content to phones equipped with Nokia Maps in Europe and North America. The ViaMichelin iPhone applications – one paid for restaurants in the MICHELIN Guide and the other a free, ad-funded app for traffic information – proved to be highly popular, with more than half a million downloads.

In all, net sales from the **Specialty businesses** segment declined to €2,031 million from €2,307 million in 2008, reflecting the fall-off in volumes in the Infrastructure, original equipment Earthmover and Agricultural tire segments and the reduction in certain prices following application in the second half of clauses indexing prices to raw materials costs.

## ■ CURRENCY RATES AND THE CURRENCY EFFECT

At current exchange rates, consolidated net sales declined by 9.8% in 2009. Changes in exchange rates added €35 million, or 0.2%, to net sales for the year, as the positive €204 million impact in the first half was partly offset by the €169 million negative effect, primarily from the weaker dollar, in the second half. Over the full year, the positive impact was mainly due to the appreciation of the US dollar, the Chinese yuan, the Japanese yen and the Thai baht against the euro, while the negative impact came from the decline in the British pound, the Mexican peso, the Polish zloty, the Swedish kroner, the Venezuelan bolivar, the Turkish lire and the Brazilian real against the euro.

| Average exchange rate | 2009    | 2008    | Change |
|-----------------------|---------|---------|--------|
| Euro/USD              | 1.394   | 1.471   | -5.3%  |
| Euro/CAD              | 1.586   | 1.561   | +1.7%  |
| Euro/MXN              | 18.805  | 16.312  | +15.3% |
| Euro/BRL              | 2.773   | 2.677   | +3.6%  |
| Euro/GBP              | 0.892   | 0.797   | +11.9% |
| Euro/PLN              | 4.327   | 3.515   | +23.1% |
| Euro/JPY              | 130.251 | 152.377 | -14.5% |
| Euro/CNY              | 9.524   | 10.231  | -6.9%  |
| Euro/THB              | 47.812  | 48.965  | -2.4%  |

## NET SALES BY REGION

| (in EUR million)             | 2009          | 2009/2008    | 1st-Half 2009 | 2nd-Half 2009 |
|------------------------------|---------------|--------------|---------------|---------------|
| <b>GROUP</b>                 | <b>14,807</b> | <b>-9.8%</b> | <b>7,134</b>  | <b>7,673</b>  |
| Europe                       | 6,752         | -17.2%       | 3,265         | 3,487         |
| North America (incl. Mexico) | 4,994         | -3.2%        | 2,369         | 2,625         |
| Other                        | 3,061         | -1.0%        | 1,500         | 1,561         |

| (in EUR million)             | 2009          | % of total | 2008          | % of total |
|------------------------------|---------------|------------|---------------|------------|
| <b>GROUP</b>                 | <b>14,807</b> |            | <b>16,408</b> |            |
| Europe                       | 6,752         | 45.6%      | 8,158         | 49.7%      |
| North America (incl. Mexico) | 4,994         | 33.7%      | 5,157         | 31.4%      |
| Other                        | 3,061         | 20.7%      | 3,093         | 18.9%      |

Business was hurt in **Europe** and **North America** by the decline in tire demand, which was particularly severe in mature markets. It was less affected in **other regions**, especially Asia and South America, which accounted for 21% of sales during the year, versus 19% in 2008.

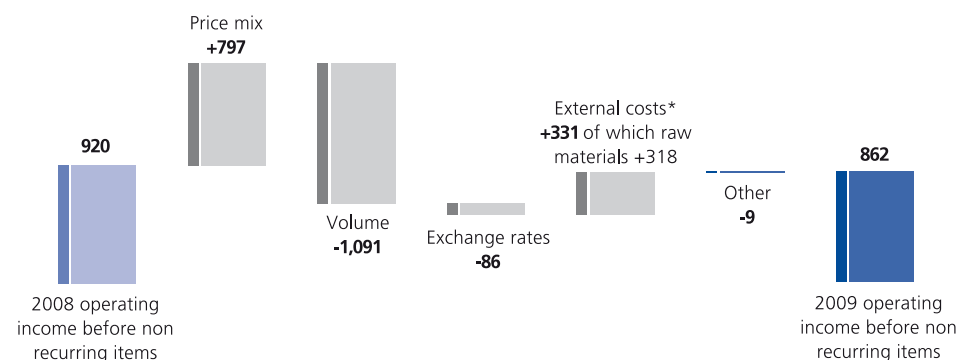
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## 2.4. CONSOLIDATED INCOME STATEMENT REVIEW

| (In EUR million, except per share data)                          | 2009          | 2008          | 2009/2008     | 2009<br>(% of net sales) | 2008<br>(% of net sales) |
|--|---------------|---------------|---------------|--------------------------|--------------------------|
| <b>Net sales</b>   | <b>14,807</b> | <b>16,408</b> | <b>-9.8%</b>  |                          |                          |
| Cost of sales  | (10,527)      | (12,024)      | -12.5%        | 71.1%                    | 73.3%                    |
| <b>Gross income</b>  | <b>4,280</b>  | <b>4,384</b>  | <b>-2.4%</b>  | <b>28.9%</b>             | <b>26.7%</b>             |
| Sales and marketing expenses                                     | (1,650)       | (1,730)       | -4.6%         | 11.1%                    | 10.5%                    |
| Research and development expenses                                | (506)         | (499)         | +1.4%         | 3.4%                     | 3.0%                     |
| General and administrative expenses                              | (1,113)       | (1,161)       | -4.1%         | 7.5%                     | 7.1%                     |
| Other operating income and expenses                              | (149)         | (74)          | +101.4%       | 1.0%                     | 0.5%                     |
| <b>Operating income before non-recurring income and expenses</b> | <b>862</b>    | <b>920</b>    | <b>-6.3%</b>  | <b>5.8%</b>              | <b>5.6%</b>              |
| Non-recurring expenses   | (412)         | (77)          | +435.1%       | 2.8%                     | 0.5%                     |
| <b>Operating income</b>  | <b>450</b>    | <b>843</b>    | <b>-46.6%</b> | <b>3.0%</b>              | <b>5.1%</b>              |
| Cost of net debt   | (292)         | (330)         | -11.5%        | 2.0%                     | 2.0%                     |
| Other financial income and expenses                              | 40            | (3)           | NM            | 0.3%                     | 0.0%                     |
| Share of profit/(loss) from associates                           | 9             | 10            | -10.0%        | 0.1%                     | 0.1%                     |
| <b>Income before taxes</b>                                       | <b>207</b>    | <b>520</b>    | <b>-60.2%</b> | <b>1.4%</b>              | <b>3.2%</b>              |
| Income tax   | (103)         | (163)         | -36.8%        | 0.7%                     | 1.0%                     |
| <b>NET INCOME</b>  | <b>104</b>    | <b>357</b>    | <b>-70.9%</b> | <b>0.7%</b>              | <b>2.2%</b>              |
| • Attributable to Shareholders of the Company                    | 106           | 360           | -70.6%        | 0.7%                     | 2.2%                     |
| • Attributable to non-controlling interests                      | (2)           | (3)           |               |                          |                          |
| <b>Earnings per share (in EUR)</b>                               |               |               |               |                          |                          |
| • Basic  | 0.71          | 2.46          | -71.1%        |                          |                          |
| • Diluted  | 0.71          | 2.46          | -71.1%        |                          |                          |

## ANALYSIS OF OPERATING INCOME BEFORE NON-RECURRING ITEMS

In EUR million



\* Raw materials, energy and logistics costs.

Operating income before non-recurring items amounted to €862 million, compared with €920 million in 2008. Operating margin improved by 0.2 points to 5.8%, led by the Group's firm pricing policy, the structural improvement in competitiveness and the positive impact from lower raw materials costs.

The €58-million decline in operating income before non-recurring items reflected the net impact of:

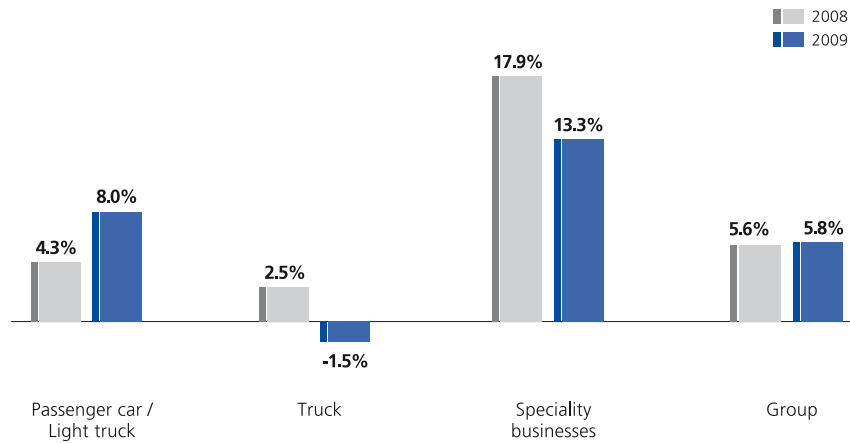
- a €797-million increase from the still highly positive price-mix. Pricing policy was held firm during the year, even as prices contractually indexed to raw materials costs were adjusted downwards in the second half. The product mix continued to move up-market, thanks to a more favorable replacement/original equipment weighting and the MICHELIN brand's strong resistance, despite a slightly unfavorable country mix;
- a €1,091-million decrease caused by the steep 14.8% fall-off in volumes sold;
- a €331-million increase from lower raw materials costs (€318 million, at constant exchange rates) and a reduction in energy and logistics costs (€13 million);
- an €86-million currency loss, primarily reflecting the adverse currency impact on raw materials costs;
- a €9-million decrease from other factors, particularly a €12-million increase in depreciation and amortization charges. This weak amount reflects Michelin's ability to compensate for the much higher under-absorption costs in 2009.

## OPERATING INCOME BEFORE NON-RECURRING ITEMS BY REPORTING SEGMENT

(in EUR million)

|   | 2009          | 1st-Half 2009 | 2nd-Half 2009 |
|---|---------------|---------------|---------------|
| <b>PASSENGER CAR / LIGHT TRUCK AND RELATED DISTRIBUTION</b> |               |               |               |
| Net sales   | 8,280         | 3,949         | 4,331         |
| Operating income before non-recurring items                 | 661           | 247           | 414           |
| <b>Operating margin before non-recurring items</b>          | <b>8.0%</b>   | <b>6.3%</b>   | <b>9.6%</b>   |
| <b>TRUCK AND RELATED DISTRIBUTION</b>                       |               |               |               |
| Net sales   | 4,496         | 2,071         | 2,425         |
| Operating income before non-recurring items                 | (69)          | (163)         | 94            |
| <b>Operating margin before non-recurring items</b>          | <b>(1.5%)</b> | <b>(7.9%)</b> | <b>3.9%</b>   |
| <b>SPECIALTY BUSINESSES</b>                                 |               |               |               |
| Net sales   | 2,031         | 1,114         | 917           |
| Operating income before non-recurring items                 | 270           | 198           | 72            |
| <b>Operating margin before non-recurring items</b>          | <b>13.3%</b>  | <b>17.8%</b>  | <b>7.9%</b>   |
| <b>GROUP</b>  |               |               |               |
| Net sales   | 14,807        | 7,134         | 7,673         |
| Operating income before non-recurring items                 | 862           | 282           | 580           |
| <b>Operating margin before non-recurring items</b>          | <b>5.8%</b>   | <b>4.0%</b>   | <b>7.6%</b>   |

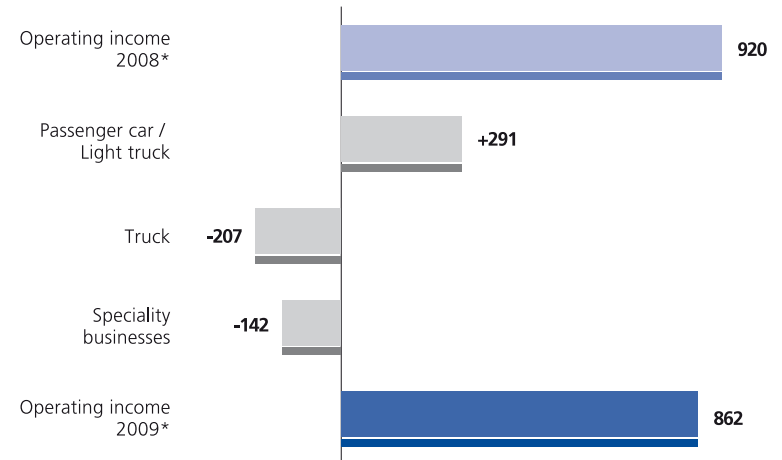


**OPERATING MARGIN\* BY REPORTING SEGMENT**


- Passenger car and Light truck tires and related distribution
- Truck tires and related distribution
- Specialty businesses: specialty tires (Agricultural, Aircraft, Two-wheel and Earthmover); Maps and Guides; ViaMichelin and Michelin Lifestyle.

\* Before non-recurring items.

In EUR million



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● PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION – ANALYSIS OF OPERATING INCOME BEFORE NON-RECURRING ITEMS

| Passenger car / Light truck and related distribution<br>(in EUR million) | 2009  | 2008  | 2009/2008 | 2009<br>(% of<br>Group total) | 2008<br>(% of<br>Group total) |
|--|-------|-------|-----------|-------------------------------|-------------------------------|
| Net sales  | 8,280 | 8,668 | -4.5%     | 56%                           | 53%                           |
| Operating income before non-recurring items                              | 661   | 370   | +78.6%    | 77%                           | 40%                           |
| Operating margin before non-recurring items                              | 8.0%  | 4.3%  | +3.7pts   |                               |                               |

Operating income before non-recurring items amounted to €661 million, versus €370 million in 2008.

Operating margin widened to 8.0% from 4.3% in 2008, led by the year-end upturn in volumes, particularly in winter tires, as well as by the MICHELIN brand's strong resistance, the still positive price-mix, the decline in raw materials costs and the improvements in production flexibility.

● TRUCK TIRES AND RELATED DISTRIBUTION – ANALYSIS OF OPERATING INCOME BEFORE NON-RECURRING ITEMS

| Truck and related distribution<br>(in EUR million) | 2009   | 2008  | 2009/2008 | 2009<br>(% of<br>Group total) | 2008<br>(% of<br>Group total) |
|--|--------|-------|-----------|-------------------------------|-------------------------------|
| Net sales  | 4,496  | 5,433 | -17.2%    | 30%                           | 33%                           |
| Operating income before non-recurring items        | (69)   | 138   | NM        | (8%)                          | 15%                           |
| Operating margin before non-recurring items        | (1.5%) | 2.5%  | -4.0pts   |                               |                               |

The operating loss before non-recurring items came to €69 million, corresponding to a negative 1.5% operating margin.

The first-half operating loss of €163 million, for a negative 7.9% margin, reflected the sharp contraction in sales volumes in deeply depressed markets, low capacity utilization and the still negative impact of raw materials costs.

Operating income swung to a €94 million profit in the second half, for a 3.9% margin, thanks to firm prices, the positive impact of raw materials costs and higher capacity utilization rates.

● SPECIALTY BUSINESSES – ANALYSIS OF OPERATING INCOME BEFORE NON-RECURRING ITEMS

| Specialty businesses<br>(in EUR million)    | 2009  | 2008  | 2009/2008 | 2009<br>(% of<br>Group total) | 2008<br>(% of<br>Group total) |
|---|-------|-------|-----------|-------------------------------|-------------------------------|
| Net sales                                   | 2,031 | 2,307 | -12.0%    | 14%                           | 14%                           |
| Operating income before non-recurring items | 270   | 412   | -34.5%    | 31%                           | 45%                           |
| Operating margin before non-recurring items | 13.3% | 17.9% | -4.6pts   |                               |                               |

Despite the severely depressed market environment (except in the Mining and Quarries segment), operating margin remained high, at 13.3% compared with 17.9% in 2008. The decline in sales volumes was only partially offset by the price-mix, which remained favorable despite the downward adjustment in prices indexed to raw material costs.

OTHER INCOME STATEMENT ITEMS

● RAW MATERIALS

Over the full year, **raw materials costs** fell by €318 million at constant exchange rates compared to 2008. Due to the steep decline in volumes sold, the time difference between the purchase of raw materials and their removal from inventory was longer than the usual four months for synthetic rubber and six months for natural rubber. Because inventory is measured using the weighted average cost method, which tends to spread raw material price fluctuations over time, the cost gains flowed through to the income statement only in the second half. Raw materials prices turned upwards again in the second half.

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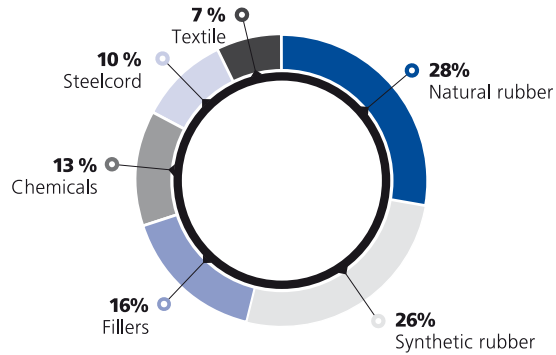
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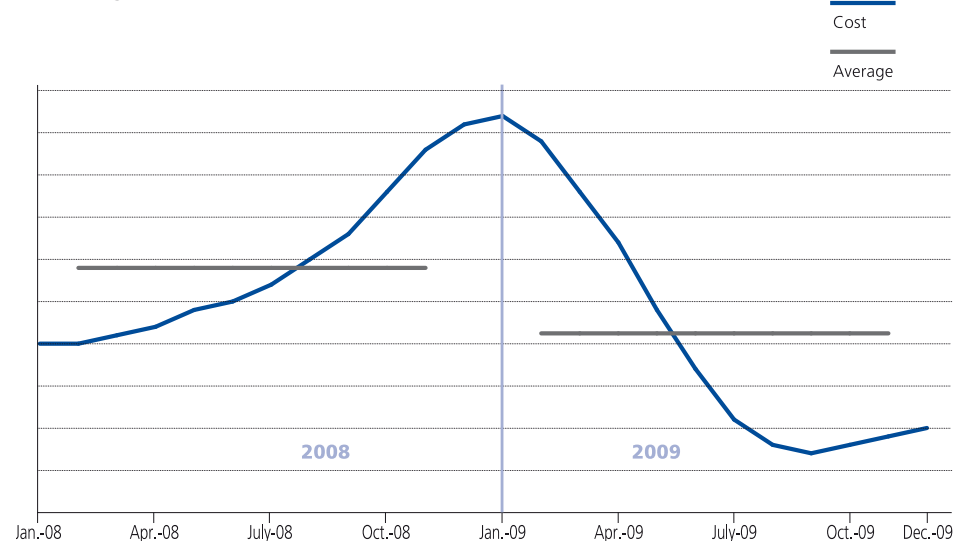
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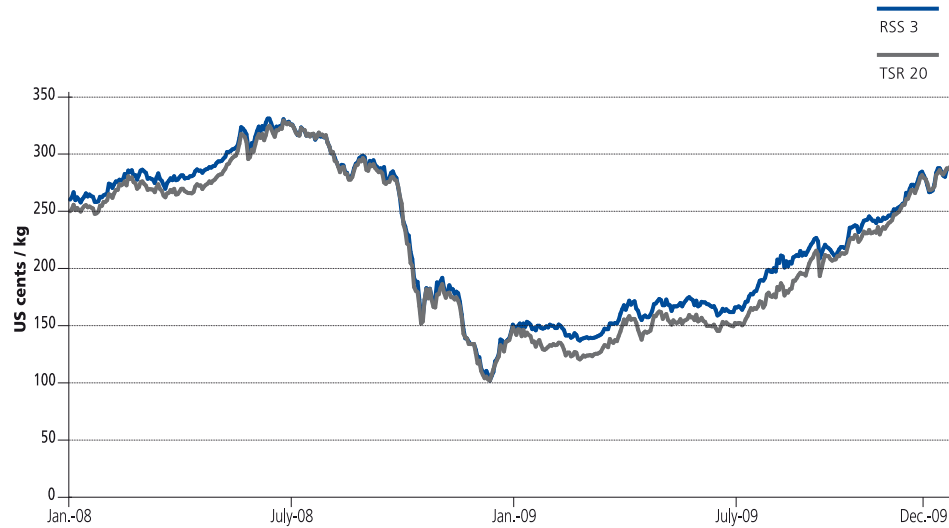
2009 RAW MATERIALS PURCHASES BY COST (€) - BREAKDOWN



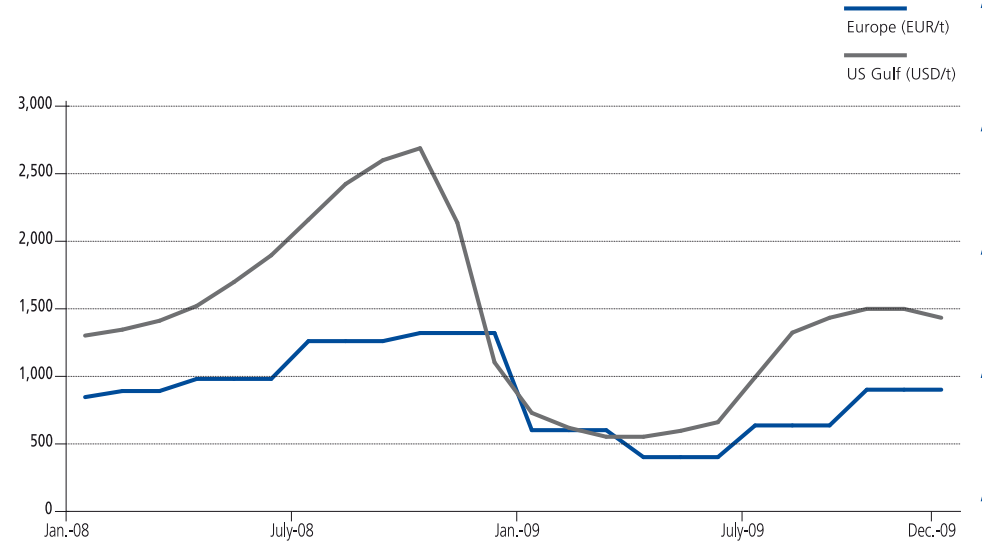
RAW MATERIALS COSTS  
In euros/kg



NATURAL RUBBER PRICES (SICOM)



BUTADIENE PRICES



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## ● EMPLOYEE BENEFIT COSTS AND NUMBER OF EMPLOYEES

| (in EUR million)  | 2009    | 2008    | % change |
|---|---------|---------|----------|
| Employee benefit costs                                  | 4,515   | 4,606   | -2.0%    |
| As a % of net sales                                     | 30.5%   | 28.1%   | +2.4pts  |
| Average number of employees                             | 112,527 | 120,067 | -6.3%    |
| Total number of employees at December 31                | 109,193 | 117,565 | -7.1%    |
| Number of full time equivalent employees at December 31 | 102,692 | 110,252 | -6.9%    |

**Employee benefit costs** declined by €91 million or 2% to €4,515 million from €4,606 million in 2008.

They represented 30.5% of net sales in 2009 versus 28.1% in 2008, mainly due to the contraction in net sales over the year.

The decline in payroll reflected the 6.3% decrease in the average number of employees, which was partly offset by wage inflation and the annual contribution to employee benefits.

Over the year, the number of employees on payroll declined by 7.1% or 8,372 people. Excluding distribution, the number of employees declined by 6,951 people, mainly as a result of the following factors:

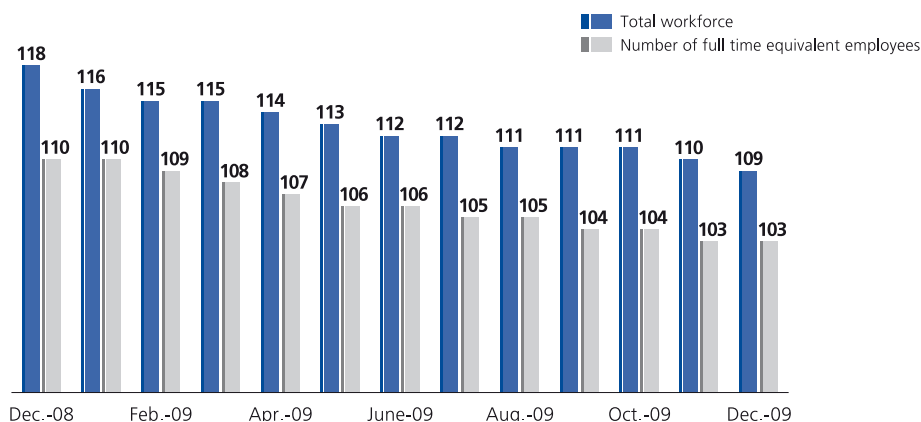
- natural attrition: 5,425 people;
- negotiated redundancies: 5,514 people;
- early retirement: 1,446 people.

These departures were partly offset by 5,705 new hires.

For information, 1,875 people subscribed to the voluntary separation plan in France. These people will actually leave the Group from 2010 to 2012.

## NUMBER OF EMPLOYEES

In thousands

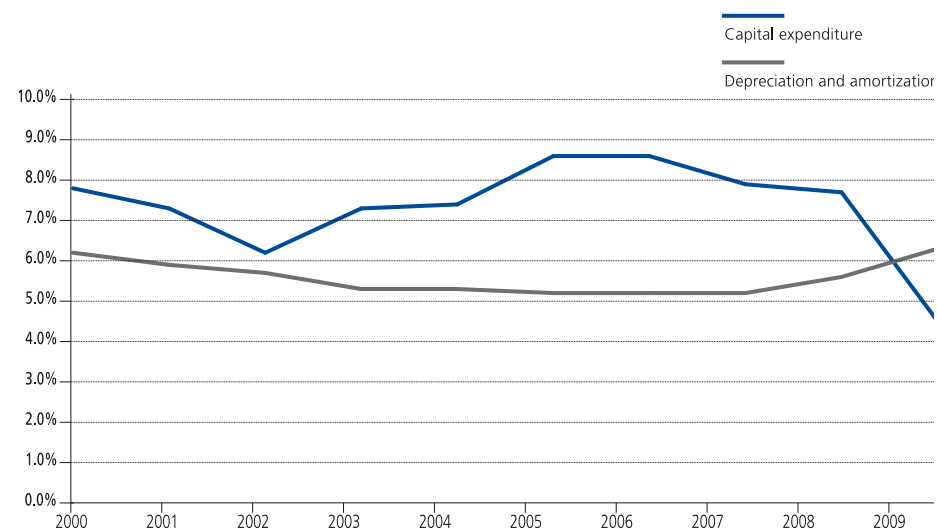


## ● DEPRECIATION AND AMORTIZATION

| (in EUR million)              | 2009   | 2008  | % change |
|-------------------------------|--------|-------|----------|
| Depreciation and amortization | 939    | 927   | +1.3%    |
| As a % of capital expenditure | 139.7% | 72.9% |          |

**Depreciation and amortization charges** rose by €12 million to €939 million. They represented 140% of 2009 capital expenditure, which was assertively reduced to €672 million for the year.

As a % of net sales



## ● TRANSPORTATION COSTS

| (in EUR million)        | 2009 | 2008 | 2009/2008 |
|-------------------------|------|------|-----------|
| Transportation of goods | 773  | 979  | -21.0%    |
| As a % of sales         | 5.2% | 6.0% |           |

**Transportation costs** fell by 21% compared with 2008. The impact of the steep 14.8% fall-off in volumes and the decline in unit transportation costs was partly offset by the intercontinental tire shipments made in response to capacity constraints in fast growing regions.

Transportation costs represented 5.2% of sales compared with 6.0% in 2008.

### ● SALES AND MARKETING EXPENSES

Sales and marketing expenses declined during the year despite the launch of the Group's first global advertising campaign, which reflected the MICHELIN brand's new global communication strategy.

### ● RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses rose slightly to €506 million (3.4% of net sales) from €499 million (3.0%) in 2008, attesting to the Group's commitment to preserving its technological leadership despite the current business environment. These outlays primarily correspond to the cost of benefits for the nearly 6,000 employees of the Research-Development-Process Engineering division and the cost of producing prototypes, molds and tests.

### ● GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were reduced by €48 million thanks to the persistent efforts by all of the Michelin's teams.

### ● NON-RECURRING EXPENSES

**Non-recurring expenses** amounted to €412 million, corresponding primarily to:

- the plant specialization plan in France for €172 million;
- the manufacturing and sales restructuring plan in North America for €127 million;
- the voluntary separation plan in France for €41 million;
- the discontinuation of tire production at the Ota plant in Japan for €72 million.

The above amounts cover the costs of financing the employee-related component of the above plans, writing down assets and revitalizing the local employment catchment areas.

### ● COST OF NET DEBT

| (in EUR million) | 2009  | 2008  | Change<br>(in value) |
|------------------|-------|-------|----------------------|
| Cost of net debt | (292) | (330) | -38                  |

The **cost of net debt** declined by €38 million over the year, primarily reflecting the following factors:

- the €21 million decrease in net interest expense, of which:
  - a €25 million decrease attributable to the reduction in average net debt to €3.8 billion in 2009 from €4.2 billion in 2008,
  - a €20 million decrease from the reduction in the average rate on gross debt, to 5.34% in 2009 from 5.8% in 2008,
  - a €24 million increase from the negative carry, reflecting the decline in the return on average invested cash and cash equivalents to 1.2% (on €800 million) in 2009 from 3.1% (on €300 million) in 2008;
- the reduction in the net currency loss to €13 million from €15 million in 2008. The 2009 figure particularly reflected the lack of currency hedges in Venezuela, Serbia and Algeria, whose currencies all declined against the euro;
- a €15 million gain on the mark-to-market adjustment of the interest rate derivatives used for hedging purpose.

### ● OTHER FINANCIAL INCOME AND EXPENSES

| (in EUR million)                    | 2009 | 2008 | Change<br>(in value) |
|-------------------------------------|------|------|----------------------|
| Other financial income and expenses | 40   | (3)  | +43                  |

**Other financial income and expenses**, totaling €40 million for the year, mainly comprised dividends (€10 million), interest income from financial assets (€5 million), gains on the disposal of available-for-sale financial assets (€5 million) and the net proceeds from the partial redemption of the Company's lowest ranking subordinated notes (TSDR) (€18 million).

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## ● INCOME TAX

| (in EUR million)              | 2009       | 2008       | % Change      |
|-------------------------------|------------|------------|---------------|
| Income before tax             | 207        | 520        | -60.2%        |
| <b>Income tax</b>             | <b>103</b> | <b>163</b> | <b>-36.8%</b> |
| Current tax expense           | 104        | 146        | -28.8%        |
| Withholding tax               | 21         | 26         | -19.2%        |
| Deferred tax income/(expense) | (22)       | (9)        | +144.4%       |

In line with the decrease in income before tax of the Group, **income tax expense** declined by 36.8% to €103 million from €163 million in 2008.

The effective tax rate rose to 49.8% from 31.3% in 2008, mainly due to the recognition in 2009 of:

- substantial restructuring costs, not all of which were deductible;
- the immediate impact of the French government's decision to replace the business tax with the CET (*Contribution Économique Territoriale*) combined local and regional economic stimulus tax.

## ● CONSOLIDATED NET INCOME AND EARNINGS PER SHARE

| (in EUR million)                              | 2009 | 2008 | % change |
|---|------|------|----------|
| Net income                                    | 104  | 357  | -70.9%   |
| As a % of net sales                           | 0.7% | 2.2% | -1.5pt   |
| • Attributable to Shareholders of the Company | 106  | 360  | -70.6%   |
| • Attributable to non-controlling interests   | (2)  | (3)  | -33.3%   |
| Earnings per share (in EUR)                   |      |      |          |
| • Basic                                       | 0.71 | 2.46 | -71.1%   |
| • Diluted                                     | 0.71 | 2.46 | -71.1%   |

**Net income** came to €104 million in 2009, compared with €357 million in 2008.

The €253 million decline primarily reflected the following factors:

- the recognition of €412 million in non-recurring expenses;
- the €58 million decrease in operating income before non-recurring items over the year, compared to 2008;

these factors were partly offset by:

- the €38 million decline in the cost of net debt;
- the €60 million reduction in income tax expense.

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## 2.5. CONSOLIDATED BALANCE SHEET REVIEW

### ASSETS

| <i>(in EUR million)</i>                       | December 31, 2009 | December 31, 2008 | Total change | Currency effect | Movement    |
|---|-------------------|-------------------|--------------|-----------------|-------------|
| Goodwill                                      | 403               | 401               | 2            | 1               | 1           |
| Other intangible assets                       | 321               | 310               | +11          | -1              | +12         |
| Property, plant and equipment (PP&E)          | 6,782             | 7,046             | -264         | +197            | -461        |
| Non-current financial assets and other assets | 712               | 382               | +330         | -4              | +334        |
| Investments in associates and joint ventures  | 71                | 65                | +6           | 0               | +6          |
| Deferred tax assets                           | 942               | 896               | +46          | +15             | +31         |
| <b>Non-current assets</b>                     | <b>9,231</b>      | <b>9,100</b>      | <b>+131</b>  | <b>+208</b>     | <b>-77</b>  |
| Inventories                                   | 2,994             | 3,677             | -683         | +65             | -748        |
| Trade receivables                             | 2,314             | 2,456             | -142         | +33             | -175        |
| Current financial assets                      | 165               | 173               | -8           | 0               | -8          |
| Other current assets                          | 583               | 732               | -149         | +12             | -161        |
| Cash and cash equivalents                     | 1,231             | 456               | +775         | +3              | +772        |
| <b>Current assets</b>                         | <b>7,287</b>      | <b>7,494</b>      | <b>-207</b>  | <b>+113</b>     | <b>-320</b> |
| <b>TOTAL ASSETS</b>                           | <b>16,518</b>     | <b>16,594</b>     | <b>-76</b>   | <b>+321</b>     | <b>-397</b> |

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## LIABILITIES AND EQUITY

| (in EUR million)                             | December 31, 2009 | December 31, 2008 | Total change | Currency effect | Movement    |
|--|-------------------|-------------------|--------------|-----------------|-------------|
| Share capital                                | 295               | 290               | +5           | -               | +5          |
| Share premiums                               | 1,987             | 1,944             | +43          | -               | +43         |
| Reserves                                     | 3,210             | 2,874             | +336         | +215            | +121        |
| Non-controlling interests                    | 3                 | 5                 | -2           | 0               | -2          |
| <b>Total equity</b>                          | <b>5,495</b>      | <b>5,113</b>      | <b>+382</b>  | <b>+215</b>     | <b>+167</b> |
| Non-current financial liabilities            | 3,568             | 3,446             | +122         | +25             | +97         |
| Employee benefit obligations                 | 2,374             | 2,448             | -74          | +19             | -93         |
| Provisions and other non-current liabilities | 1,105             | 760               | +345         | +7              | +338        |
| Deferred tax liabilities                     | 40                | 39                | +1           | 0               | +1          |
| <b>Non-current liabilities</b>               | <b>7,087</b>      | <b>6,693</b>      | <b>+394</b>  | <b>+51</b>      | <b>+343</b> |
| Current financial liabilities                | 760               | 1,440             | -680         | +30             | -710        |
| Trade payables                               | 1,249             | 1,504             | -255         | +11             | -266        |
| Other current liabilities                    | 1,927             | 1,844             | +83          | +14             | +69         |
| <b>Current liabilities</b>                   | <b>3,936</b>      | <b>4,788</b>      | <b>-852</b>  | <b>+55</b>      | <b>-907</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>          | <b>16,518</b>     | <b>16,594</b>     | <b>-76</b>   | <b>+321</b>     | <b>-397</b> |

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## GOODWILL

**Goodwill** includes both the excess of the cost of an acquisition over the fair value of the acquired assets and liabilities at the date the acquisition is committed and the excess of the cost of purchased minority shares over the carrying value of the purchased non-controlling interests.

Goodwill is not amortized. It is carried at cost less any accumulated impairment losses.

Adjustments to contingent consideration are recognized against goodwill.

Despite the acquisition of an interest in Snider Tire and the buyout of the minority interests in Tigar, there was no material change in goodwill at December 31, 2009 compared with December 31, 2008, other than the impact of translation adjustments.

## PROPERTY, PLANT AND EQUIPMENT

**Property, plant and equipment** decreased by €264 million, reflecting the net impact of additions during the year, depreciation, asset disposals and impairment losses.

## NON-CURRENT FINANCIAL ASSETS

**Non-current financial assets** rose by €330 million, mainly due to:

- pension plan surpluses arising on the advance contribution of \$400 million to North American funds;
- fair value adjustments to available-for-sale financial assets.

## DEFERRED TAX ASSETS AND LIABILITIES

The **deferred tax asset** increased by €46 million over the year, as significant non-recurring restructuring costs incurred during the year generated deferred tax assets for the Group companies concerned, mainly in France.

## WORKING CAPITAL REQUIREMENT

| (in EUR million)                   | 2009         | 2008         | Total change | 2009<br>(as a % of sales) | 2008<br>(as a % of sales) |
|------------------------------------|--------------|--------------|--------------|---------------------------|---------------------------|
| Inventories                        | 2,994        | 3,677        | -683         | 20.2%                     | 22.4%                     |
| Trade receivables                  | 2,314        | 2,456        | -142         | 15.6%                     | 15.0%                     |
| Trade payables                     | (1,249)      | (1,504)      | -255         | 8.4%                      | 9.2%                      |
| <b>WORKING CAPITAL REQUIREMENT</b> | <b>4,059</b> | <b>4,629</b> | <b>-570</b>  | <b>27.4%</b>              | <b>28.2%</b>              |

**Working capital requirement** declined by 12% or €570 million compared with 2008 and represented 27.4% of sales at December 31, 2009 versus 28.2% a year earlier.

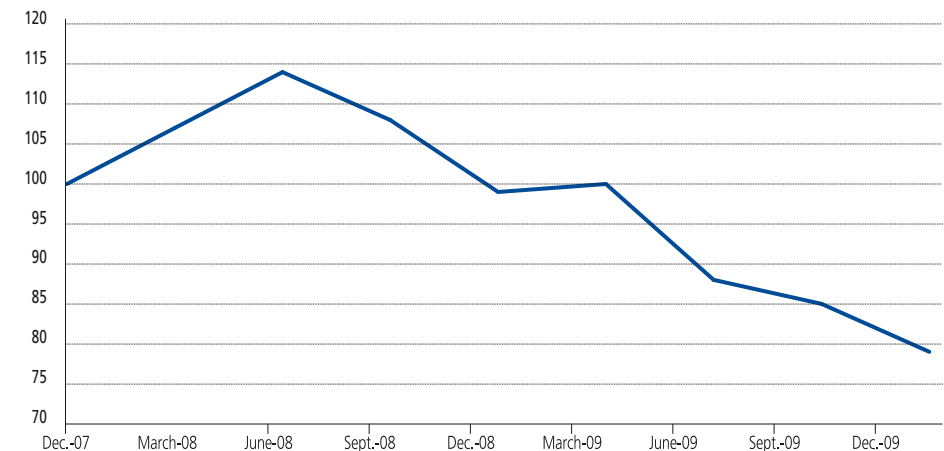
The improvement was led by the efficient management of the Group's production programs and facilities, which significantly reduced raw material and finished product inventory.

Production scale-backs and the decline in raw materials costs helped to reduce **inventory** by €683 million over the year, to represent 20.2% of sales at December 31, 2009 versus 22.4% a year earlier.

The amount of finished product inventory declined by 20% over the year, while the amount of semi-finished product and raw materials inventory decreased by 10%.

### FINISHED PRODUCT INVENTORY

Quarterly change in volumes



**Trade receivables** declined by €142 million to €2,314 million, representing 15.6% of sales at December 31, 2009, versus 15.0% the year before. This slight increase, primarily related to the fourth-quarter recovery in sales, masked the structural impact of shorter payment periods. The 2010 target of limiting trade receivables to 16% of net sales has been met.

**Trade payables** were reduced by €255 million due to the slowdown in business and the sharp cutbacks in capital expenditure.

## CASH AND CASH EQUIVALENTS

**Cash and cash equivalents** rose by €775 million to €1,231 million following the generation of a high €1,387 million in free cash flow during the year.

## EQUITY

Consolidated **equity** increased by €382 million to €5,495 million at December 31, 2009, reflecting the following main factors:

- net income for the year, in an amount of €104 million;
- unrealized capital gains of €131 million on available-for-sale financial assets;
- the issue of €80 million in new shares under the dividend reinvestment plan;
- the issue of €2 million in new shares on the exercise of stock options;
- €216 million in translation adjustments, mainly resulting from the appreciation of the Brazilian real against the euro;
- less the €150 million paid in dividends and other distributions.

## DEBT

**Net debt** stood at €3,051 million at December 31, 2009 versus €4,273 million at December 31, 2008. The substantial decline of €1,222 million was attributable to the €1,387 million in free cash flow generated during the year, less:

- the €65 million payment of the cash portion of the dividend;
- the negative €52 million translation adjustment;
- the €31 million interest expense on the zero-coupon convertible bonds;
- the negative €17 million impact of other factors.

## ANALYSIS OF NET DEBT IN 2009

| (in EUR million)                     | 2009           | 2008         |
|--------------------------------------|----------------|--------------|
| <b>Debt at January 1</b>             | <b>4,273</b>   | <b>3,714</b> |
| Translation adjustment               | +52            | -73          |
| Free cash flow*                      | -1,387         | +359         |
| Dividends                            | +71            | +240         |
| Other change in equity               | +13            | +47          |
| Commitments to purchase shares       | -17            | -63          |
| New obligations under finance leases | +7             | +10          |
| Change in scope and other            | +39            | +39          |
| <b>DEBT AT DECEMBER 31</b>           | <b>3,051</b>   | <b>4,273</b> |
| <b>CHANGE</b>                        | <b>(1,222)</b> | <b>+559</b>  |

\* Free cash flow equals cash flows from operating activities less cash flows used in investing activities.

### GEARING

**Gearing** was reduced by 29 points to end the year at a record low of 55%, compared with 84% at December 31, 2008. This translated in a much stronger Group financial structure.

### RATINGS

At December 31, 2009, the solicited corporate credit ratings of Compagnie Générale des Etablissements Michelin (CGEM) and Compagnie Financière Michelin (CFM) were as follows:

|            |                   | CGEM     | CFM      |
|------------|-------------------|----------|----------|
| Short term | Standard & Poor's | A-3      | A-3      |
|            | Moody's           | P-2      | P-2      |
| Long term  | Standard & Poor's | BBB      | BBB      |
|            | Moody's           | Baa2     | Baa2     |
| Outlook    | Standard & Poor's | Negative | Negative |
|            | Moody's           | Stable   | Stable   |

- On July 24, 2008, to eliminate the rating gap between CFM and its parent company CGEM, Moody's revised CGEM's rating from Baa3/Prime-3/Stable to Baa2/Prime-2/Stable;
- On October 31, 2008, Standard & Poor's lowered its outlook for Michelin from stable to negative and downgraded the short-term rating from A-2 to A-3, while maintaining the long-term rating of BBB;
- On December 23, 2009, Standard & Poor's placed CGEM's long-term rating on CreditWatch with negative implications. The rating was taken off CreditWatch on January 19, 2010, when Standard & Poor's reaffirmed the BBB rating for long-term credit and the A3 rating for short-term credit, as well as the negative outlook.



## PROVISIONS

Provisions increased by €242 million in 2009, mainly as a result of restructuring programs carried out in North America, France and Japan, as well as the voluntary separation plan implemented in France.

## EMPLOYEE BENEFITS

### CHANGE IN FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in EUR million)

|   | Pension plans | Other plans  | 2009         | 2008         |
|---|---------------|--------------|--------------|--------------|
| <b>Net amount at January, 1</b>   | <b>802</b>    | <b>1,641</b> | <b>2,443</b> | <b>2,563</b> |
| Translation adjustments   | 20            | 6            | 26           | (49)         |
| Expenses recognized in the income statement (recurring items)                   | 137           | 116          | 253          | 170          |
| Contributions paid to the funds   | (362)         | -            | (362)        | (86)         |
| Benefits paid directly to the beneficiaries                                     | (24)          | (122)        | (146)        | (155)        |
| Portion of benefit expenses recognized within non-recurring restructuring costs | 24            | (99)         | (75)         | -            |
| Changes in scope of consolidation   | 2             | (2)          | -            | -            |
| <b>NET AMOUNT AT DECEMBER, 31</b>   | <b>599</b>    | <b>1,540</b> | <b>2,139</b> | <b>2,443</b> |

The expense recognized in operating income in 2009 in respect of employee defined benefit plans amounted to €178 million, which may be analyzed as follows:

- a €253 million expense recognized in recurring operating income and expenses. The €83 million increase from the €170 million recognized in 2008 was mainly due to the impact on plan costs of the collapse in global financial markets in second-half 2008;
- a €75 million gain recognized in non-recurring operating income and expenses resulting from the impact on plan costs of the restructuring programs implemented in France and North America during the year.

Total Group contributions to these plans during the year rose by €267 million to €508 million, as follows:

- €362 million in contributions paid to fund management institutions;
- €146 million in benefits paid directly to employees.

The €267 million increase during the year reflects the decision to pay in 2009 contributions normally due in 2010 to North American fund management institutions, in an amount of \$400 million, in order to secure their financial situation.

## 2.6. CONSOLIDATED CASH FLOW STATEMENT REVIEW

### CASH FLOW FROM OPERATING ACTIVITIES

| (in EUR million)  | 2009         | 2008         | Value change  |
|---|--------------|--------------|---------------|
| <b>Average exchange rates</b>                                 |              |              |               |
| <b>EBITDA before non-recurring income and expenses</b>        | <b>1,802</b> | <b>1,848</b> | <b>-46</b>    |
| Other non-cash income and expenses                            | (28)         | 10           | -38           |
| Change in provisions, including employee benefit obligations  | (372)        | (268)        | -104          |
| Cost of net debt and other financial income and expenses paid | (207)        | (266)        | +59           |
| Income tax paid   | (19)         | (275)        | +256          |
| Change in value of working capital, net of impairments        | 947          | (134)        | +1,081        |
| <i>Change in inventory</i>                                    | 759          | (419)        | +1,178        |
| <i>Change in trade receivables</i>                            | 176          | 537          | -361          |
| <i>Change in other receivables and payables</i>               | 12           | (252)        | +264          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   | <b>2,123</b> | <b>915</b>   | <b>+1,208</b> |

EBITDA before non-recurring income and expenses for the year remained virtually unchanged at €1,802 million, versus €1,848 million in 2008, primarily as a result of the Group's firm pricing policy, tight production program management and productivity gains.

Provisions and employee benefit obligations rose by €372 million, corresponding mainly to the €362 million in contributions paid during the year to North American and British pension funds. Led by the sharp reduction in inventory, working capital requirement declined by €947 million, after increasing by €134 million in 2008.

### CAPITAL EXPENDITURE

| (in EUR million)  | 2009       | 2008         | 2009/2008 in value | 2009 (as a % of sales) | 2008 (as a % of sales) |
|---|------------|--------------|--------------------|------------------------|------------------------|
| <b>Gross purchases of intangible assets and PP&amp;E</b>                    | <b>672</b> | <b>1,271</b> | <b>-599</b>        | <b>4.5%</b>            | <b>7.7%</b>            |
| Investment grants received and change in capital expenditures payables      | 35         | 18           | +17                | 0.2%                   | 0.1%                   |
| Proceeds from sale of intangible assets and PP&E                            | (47)       | (52)         | +5                 | (0.3%)                 | 0.3%                   |
| <b>NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT</b> | <b>660</b> | <b>1,237</b> | <b>-577</b>        | <b>4.5%</b>            | <b>7.5%</b>            |

Gross purchases of intangible assets and property, plant and equipment amounted to €672 million at December 31, 2009, or 4.5% of net sales, versus €1,271 million, or 7.7% of sales, a year earlier. The decline was in line with the objective of preserving cash flow, as announced early in the year. It primarily reflected the postponement of projects to add marginal capacity in mature markets, with capital projects maintained in the growth countries of China, India and Brazil.

The main capital projects were as follows:

#### Passenger car and Light truck tires:

- projects to improve productivity and refresh product lines;
- projects to increase production capacity:
  - in Shanghai, China,
  - in Brazil, by starting up engineering and groundwork projects on a new plant,
  - in Spain, by developing the new MICHELIN Energy™ Saver fuel-efficient tire ranges at the Vitoria plant.

#### Truck tires:

- in China, to increase capacity at the Shenyang plant;
- in India, to acquire land for the new Truck tire facility;
- projects to improve productivity;
- projects to develop new molds to refresh the product lines.

#### Earthmover tires:

- in the United States, to increase mining tire capacity at the Lexington, SC plant.

## FREE CASH FLOW

Free cash flow is stated before dividend payments but after the acquisition of investments.

| (in EUR million)   | 2009         | 2008           | Value change  |
|--|--------------|----------------|---------------|
| <b>Average exchange rates</b>  |              |                |               |
| <b>Cash flows from operating activities</b>                          | <b>2,123</b> | <b>915</b>     | <b>+1,208</b> |
| Net additions to intangible assets and property, plant and equipment | (660)        | (1,237)        | +577          |
| Investments in shareholdings and other financial assets              | (76)         | (37)           | -39           |
| <b>Cash flows from investing activities</b>                          | <b>(736)</b> | <b>(1,274)</b> | <b>+538</b>   |
| <b>FREE CASH FLOW</b>  | <b>1,387</b> | <b>(359)</b>   | <b>+1,746</b> |

Despite the high €362 million contribution to pension funds during the year (most of which concerned the advance payment of amounts due in 2010), **free cash flow** totaled €1,387 million in 2009, compared to a negative €359 million in 2008.

The €1,746 million improvement reflected the net impact of the following factors:

- the slight €46 million decline in EBITDA;
- the €1,081 million improvement in change in working capital requirement, as a result of the following main factors:
  - a €759 million decrease in inventory, compared with a €419 million increase in 2008,
  - the €361 million decline in trade receivables, to €176 million from €537 million in 2008, as the slowdown in the business offset a further decrease in days sales outstanding,
  - the €264 million favorable change in other receivables and payables, notably due to changes in the amount of output VAT;
- the €538 million reduction in cash used in investing activities, as follows:
  - a €577 million reduction in net purchases of intangible assets and property, plant and equipment, which totaled €660 million during the year,
  - €39 million in higher investments.

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## 2.7. RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving a return on capital employed (ROCE) of more than 10% is one of Michelin's strategic objectives.

The other key performance indicators are annual unit sales growth, operating margin before non-recurring items, inventory levels and free cash flow.

Return on capital employed is measured as:

- net operating profit after tax (NOPAT) based on a normalized average tax rate of 31% applied to Group companies;
- divided by the average economic assets employed during the year, i.e. all of the Group's property, plant and equipment, intangible assets, loans and deposits, and net working capital requirement.

Non-euro currencies are translated at year-end rates for balance sheet items and average rates for income statement items.

If ROCE is greater than weighted average cost of capital (WACC) for the year, then the Group has created value during the period.

| <i>(in EUR million)</i>  | 2009          | 2008          |
|--|---------------|---------------|
| Operating income before non-recurring income and expenses                | 862           | 920           |
| Average standard income tax rate used for ROCE calculation               | 31%           | 31%           |
| <b>Net Operating Profit before non-recurring items After Tax (NOPAT)</b> | <b>595</b>    | <b>635</b>    |
| Intangible assets and property, plant and equipment                      | 7,506         | 7,757         |
| Loans and deposits   | 351           | 140           |
| Investments in associates and joint ventures                             | 71            | 65            |
| Non-current financial assets   | 7,928         | 7,962         |
| Working capital requirement  | 2,604         | 3,517         |
| Economic assets (end of period)  | 10,532        | 11,479        |
| <b>Average economic assets</b>   | <b>11,006</b> | <b>11,386</b> |
| <b>RETURN ON CAPITAL EMPLOYED</b>  | <b>5.4%</b>   | <b>5.6%</b>   |

## 2.8. TREND INFORMATION

### 2.8.1. OUTLOOK FOR 2010

As 2010 begins, market visibility is still limited and prices of natural rubber and other raw materials are returning to the record highs observed in the summer of 2008. Michelin is therefore continuing to monitor these developments very closely in a persistently uncertain economic environment.

The sustained commitment to tight management and firm pricing policies, the improvements in competitiveness and the rising demand in fast growing countries have all led the Group to set the target of once again reporting positive free cash flow in 2010, despite a pick-up in capital expenditure.

Michelin is sharply focused on preserving its competitive strengths and increasing its leadership and will therefore continue, as in 2009, to pursue its innovation initiatives, maintain cost discipline and enhance its future growth potential by investing in growth countries. With the constant support of its teams, Michelin is starting 2010 with confidence.

### 2.8.2. PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates were issued for 2010.

In light of the trend information provided in section 2.8.1, any previously published targets for 2010 do not take into account the current economic environment and are not achievable this year.

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## 2.9. 2009 HIGHLIGHTS

### STRATEGY – PARTNERSHIPS – MERGERS & ACQUISITIONS

#### Manufacturing Operations Reorganized in North America

In the first half, Michelin North America began implementing a reorganization plan in response to the sharp drop in market demand. The plant in Opelika, Alabama, which produced BFGoodrich® and UNIROYAL brand car tires, ceased operations on October 31, when production was consolidated at BFGoodrich tire manufacturing facilities in Tuscaloosa, Alabama and Fort Wayne, Indiana. At the same time, a Michelin Development Program was set up to help create new jobs in the community and make the transition as smooth as possible for employees affected by the closing.

In addition, the truck tread pressing plant in Querétaro, Mexico is being closed due to excess capacity in the North American retread operations. Production from the Michelin Retread Technologies (MRT) plant, which employed 80 people, is being transferred to the other retread plants in the United States.

#### Michelin France Strengthens R&D Operations and Continues to Specialize Production Facilities

In June, Michelin France announced a program to:

- upgrade its global research and development center in Clermont-Ferrand by investing more than €100 million to shorten time-to-market cycles for tires and services and enable the development of more innovative manufacturing processes;
- continue specializing its production sites. The Montceau plant will be developed into a high-performance facility for Earthmover tires and one of the largest rubber compound and metallic fabric centers in Europe. The Tours plant will set the benchmark for Truck tires in Europe, particularly in the use of Michelin Durable Technologies. Production of Super Sport Passenger car tires using the C3M process will be consolidated in Clermont-Ferrand by transferring production from the Sodemeca plant in Noyelles-lès-Seclin, which will be closed. Lastly, Light truck and SUV tire manufacturing operations at the Cholet plant will be strengthened by integrating Light truck tire production from the Bad Kreuznach site in Germany.

Although 1,093 jobs will be eliminated, the reorganization program is not expected to lead to any layoffs, thanks to a voluntary separation plan open to all employees and mainly involving pre-retirement arrangements. Employees impacted by the reorganization will be eligible for special early-retirement measures and facilitated inplacement opportunities.

The project reflects the Group's commitment to strengthening France's role as Michelin's strategic innovation center and to enhancing the productivity of its manufacturing operations in an increasingly competitive global marketplace.

#### Michelin Confirms Industrial Development Projects in Emerging Countries

In **China**, very strong local demand has prompted the Group to increase its Passenger car and Light truck and Truck tire capacity by 2012.

In **India**, where it already has a well-established marketing presence, Michelin has announced plans to build a Truck and Earthmover tire plant in Chennai (Tamil Nadu). The new facility will begin supplying the local market with the start-up of production in late 2012.

In **Brazil**, Michelin plans to triple production capacity for Passenger car and Light truck tires intended for South American markets. A new plant will be built in Resende and is scheduled to come on stream, in late 2011.

#### Ota Tire Plant in Japan to Close

Michelin announced plans to end Passenger car and Light truck tire production in July 2010 at the Ota plant, which is still not competitive enough despite all the steps taken to improve productivity.

The Group is nevertheless committed to pursuing its growth and expanding its presence in Japan and the Asia Pacific region, notably through its research and development activities in Ota, its nationwide sales operations and its Nihon Michelin Tire Co Ltd. headquarters in Tokyo.

Measures will be rapidly deployed to enable the 380 employees affected by the closing to find jobs either within the Group, in particular at the Ota site, or in outplacement.

#### Michelin to Buy Out Minority Interests in Shanghai Michelin Warrior Tire Co. Ltd (SMWT)

SMWT's minority shareholders, Double Coin Holdings Ltd. (28.5%) and Shanghai Minhang United Development Co. Ltd (1.5%), have announced their intention to sell their stakes in the company.

Michelin, which owns the remaining 70% of outstanding shares, has expressed an interest in acquiring the stakes in a commitment to securing SMWT's sustainable growth. Double Coin and Michelin also intend to continue working together.

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## Michelin's First Global Advertising Campaign

For the first time, Michelin is launching a worldwide consumer advertising campaign, reflecting the MICHELIN brand's new global communication strategy. The campaign was rolled out in North America in October 2009 and is scheduled for gradual deployment in 55 countries by 2011. Designed to demonstrate all of the benefits delivered by MICHELIN brand tires compared to competitors, the campaign will show that by choosing the right tire, motorists can reduce their fuel bill, increase driving safety and extend tread life. The simple message – “The right tire changes everything” – is illustrated by a bold visual, in which the Michelin Man helps motorists by replacing their faulty tires with MICHELIN tires that he pulls from his body with lightning speed. This dramatic gesture will serve as the visual hallmark of MICHELIN brand advertising around the world and across every product line.

## PRODUCTS – SERVICES – INNOVATION

### ● PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

#### Michelin Confirms Lead in Fuel-Efficient Tire Technologies

##### • MICHELIN Energy™ Saver and Primacy HP Tires Highly Rated by ADAC

MICHELIN Energy™ Saver and Primacy HP tires have been awarded the highest rating in tests conducted by the German Automobile Association (ADAC), Europe's largest auto club. Both tires received a “highly recommendable” rating. The comparative test involved eighteen different 185/60 R 14 H tires and nineteen 205/55 R 16 W tires. Performance was measured according to five major criteria: dry grip, wet grip, fuel consumption, longevity and comfort (including noise).

##### • One Millionth MICHELIN Energy™ Saver Tire Delivered to PSA Peugeot Citroën

On March 9, 2009, Michelin delivered the one millionth Very Low Rolling Resistance MICHELIN Energy™ Saver tire to PSA Peugeot Citroën, reaffirming the strategic partnership between the two companies. With the MICHELIN Energy™ Saver tire, which premiered exclusively on the Peugeot 308 in 2007, Michelin has produced a tire that not only increases fuel efficiency – thereby reducing CO<sub>2</sub> emissions by 15,000 tonnes a year – but also delivers superior grip and safety performance as well as the best mileage in the market.

##### • A New MICHELIN Energy™ Saver All-Season Tire for North America

Unveiled at the 2009 North American International Auto Show in Detroit the MICHELIN Energy™ Saver All-Season, the latest Green X\* tire for the North American market, is designed for environmentally sensitive motorists who drive less than 16,000 km a year. The tire's technology improves fuel efficiency without sacrificing any critical safety features, such as wet braking. It has been marketed in North America since last summer.

#### Two Next-Generation Vehicle Innovations Unveiled

At the 63rd IAA Frankfurt Motor Show, Michelin presented not only the MICHELIN Energy™ Saver tire, which has already been certified for 100 models by the world's leading carmakers, but also two innovative products for tomorrow's automobiles:

- the first electric vehicle prototype tire, which offers several advantages. It can increase range in EV mode or else allow the use of smaller batteries to increase interior space. At the same time, the tire delivers a safe, comfortable ride as well as excellent tread-life and low driving noise;
- the motorized MICHELIN Active Wheel, which integrates not only the tire and brakes, but also the propulsion and electric suspension systems. This solution simplifies the automobile design process and enables research teams to develop lighter and therefore more energy-efficient vehicles. In this way, the MICHELIN Active Wheel provides an effective response to road-transport concerns in such areas as energy efficiency, greenhouse gas emissions, and congestion and pollution in urban areas. In January 2009, the MICHELIN Active Wheel received the FuturAuto award in the Most Innovative Product category, which was presented by the Automotive Trade Press Journalists Union (UJPA).

#### New Light Truck Tires Introduced

- with the MICHELIN Agilis Alpin and MICHELIN Agilis X-Ice North, van drivers can take to the road even when winter conditions reduce grip and traction, thanks to the new winter tires' optimal safety performance. Michelin has developed special technologies for the MICHELIN Agilis Alpin studless tire and the MICHELIN Agilis X-Ice North studded tire, which is used in extreme driving conditions on snow-covered, icy and wet roads. The solutions enable the tires to deliver superior performance in three key areas – enhanced safety (shorter braking distances and improved snow traction), substantial cost savings (20% more total mileage) and greater robustness;
- the MICHELIN LTX M/S<sup>2</sup> tire has been launched in North America, with 38 sizes from 15” to 20” (by 2010) enabling it to fit a wide range of vans and SUVs. The new tire offers a balanced performance of safety, tread-life and fuel efficiency, while integrating such innovation and technologies as active sipes for highly rigid tread blocks, a new type of silica in the rubber compound, enhanced lateral water evacuation, and an additional steel layer that improves resistance and enables the tire to carry loads of up to 6,120 kg.

\* Since 1992, the Michelin Green X label has attested to a tire's ability to improve fuel efficiency, while delivering Michelin's traditionally superior safety and tread-life performance.



### Expanding Product and Service Distribution Networks

- in Europe, Euromaster announced the opening of 20 new franchised sales outlets in Poland, increasing the total number to more than 1,700;
- the TyrePlus network continued to expand in 2009, to total nearly 1,000 centers in ten countries by year-end. Asia is leading the way, with 660 centers in China, 78 in Thailand and 66 in Australia, but the chain is also present in Russia and the CIS countries with 135 centers, as well as in Mexico and, since 2008, the Near East. The latest development has been in Malaysia, where the first TyrePlus center was opened during the year.

### Three New J.D. Power Awards for Michelin in the United States and One in Japan

In 2009, Michelin once again topped the rankings in three segments of the J.D. Power and Associates Original Equipment Tire Customer Satisfaction<sup>SM</sup> study: Luxury Vehicles, Passenger Cars and Truck/Utility Vehicles. In each segment, four factors were examined to measure tire owner satisfaction: wearability, appearance, traction/handling and ride.

And for the sixth consecutive year, Michelin ranked highest in the J.D. Power Asia Pacific 2009 Japan Winter Tire customer satisfaction Index Study.

### ● TRUCK TIRES AND RELATED DISTRIBUTION

#### Developing the MICHELIN Durable Technologies Range

Fourth-quarter 2008 saw the launch of the MICHELIN X Energy™ SaverGreen tire, whose heat-stable Energy™ Flex casing delivers sustainable fuel efficiency gains. Following on from this innovation, the following new products were unveiled in 2009:

- the new multi-purpose MICHELIN X Multiway XD drive axle tire allows large-capacity trucks in Europe to travel safely on all types of roads and driving conditions. Introduced in August, it is the market's first 295/60R22.5 tire for large-capacity and car-carrier trucks. The size enables truck manufacturers to design taller vehicles with greater load-carrying capacity, corresponding to a fast-growing segment of the road transport industry;
- the MICHELIN X One XDN2 extends the MICHELIN X One lineup in the United States, offering such benefits as greater productivity (reducing weight by around 371 pounds per tractor\*), lower costs (saving around \$2,000 in fuel per tractor per year\*\*), enhanced safety (tread designed for better mobility on soft and snow-covered surfaces), excellent traction (three-dimensional self-locking sipes) and improved tread life and load capacity thanks to the use of Infinicoil™ technology.

\* Compared with a tractor equipped with dual-mount MICHELIN XDN2 275/80R22.5 tires fitted on 8.25 aluminum wheels.

\*\* Based on 120,000 miles traveled per year and fuel priced at \$4.50 per gallon.

### Distribution and Retreading Operations Expanded in the United States

In May, Michelin North America signed an agreement with Snider Tire, Inc., the fifth largest independent Truck tire distributor in the United States, whereby Snider Tire joined the Michelin Retread Technologies (MRT) network and acquired ten Tire Centers, LLC tire and service outlets in Georgia and the Carolinas. In September, to meet growing demand from trucking companies for the wider range of high quality MRT products and services, Michelin Retread Technologies and Snider Tire opened a new retreading line in Houston, which is ensuring timely retread delivery to Snider's four sales outlets in Texas.

### Expanding the Michelin Truck Service Center Network in Asia

The 100th Michelin Service Center for truck and bus tires opened its doors in China in September, as part of a commitment to tripling the number of outlets over the next five years. The first Michelin Truck Service Center was also opened in India, in the expectation that local trucking companies will increasingly turn to radials. Already introduced in many countries – especially in the Asia-Pacific region – the Centers are designed to meet growing demand for radial truck tires.

### ● SPECIALTY BUSINESSES

#### Earthmover Tires

##### The New MICHELIN XHA2 Tire for Loaders

The new MICHELIN XHA2 tire was unveiled in a world premiere at the 2009 Intermat Show. Developed for small and mid-sized quarry and worksite loaders, the MICHELIN XHA2 tire is the newest generation of the MICHELIN XHA tire, the market benchmark since its launch in the late 1980s. The tire was designed to be particularly robust, with additional rubber incorporated in the tread, reinforced shoulders and sidewalls, and new crack rotation rubber compounds in the sidewalls. Thanks to these features, the MICHELIN XHA2 tire lasts 10% longer than its predecessor (for greater productivity), delivers optimized traction, improves fuel efficiency and enhances safety. Lastly, the tire's patented tread design drastically reduces vibration and noise, for greater operator comfort.

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## Komatsu Partnership Strengthened

In late May, Michelin and Japanese mining and construction equipment manufacturer Komatsu signed an agreement in Tokyo with a view both to developing sales of MICHELIN Earthmover tires in China, India, Russia, Africa, the Middle East and other fast-growing markets, and to enhancing cooperation between Michelin and Komatsu in Europe and North America.

## New Awards from Construction and Mining Equipment Manufacturers

As in years past, Michelin received several awards from construction and mining equipment manufacturers in 2009. The Michelin Earthmover Tire Product Line again earned Quality Excellence Certification from Caterpillar, while Komatsu awarded Michelin its Preferred Partner and Strategic Supplier Prize.

## Agricultural Tires

### MICHELIN OmniBib: A Full Range to Enhance Farm Profitability

With the launch of eight additional sizes in early 2009, Michelin's lineup for 70 to 180 HP tractors now covers all the needs of multi-crop and livestock farming. With its ability to meet a variety of performance requirements – including time savings, improved fuel efficiency and longevity – the MICHELIN OmniBib tire helps farmers improve productivity and sets a new benchmark for 70 series tires.

### New KLEBER Gripker Range Unveiled at Agritechnica Trade Show

Kleber continued to renew its Tractor tire lineup during the year. In November, at the Agritechnica trade show in Hanover, Germany, it organized the European premiere of a new range of tires for 80 to 200 HP tractors used for multi-crop and livestock farming. With their contemporary design, the tires deliver outstanding grip while also protecting farmland.

### Partnership With AGCO Corporation Strengthened

A long-term agreement signed with AGCO Corporation, a farm equipment manufacturer and marketer, has strengthened Michelin's cooperation with the US-based company in R&D, marketing and sourcing. MICHELIN tires will equip a number of new AGCO tractors to meet heightened demand from farmers for cost-effective solutions that increase productivity while protecting the environment and ensuring operator safety.

## Two-Wheel Tires

### New MICHELIN Power One Motorcycle Tire

The latest offering in the hypersport range, the MICHELIN Power One tire, was unveiled in March on the Portimão racetrack in Portugal. With its new profile developed through Michelin's racing expertise, the MICHELIN Power One tire offers outstanding handling on street and track alike. The range is available in a sculpted line (for street use) and a slick/rain line (for track use only, particularly racing), for a total of 27 tires and 16 different rubber compounds. A new site, [www.michelinpowerone.com](http://www.michelinpowerone.com), helps users find the right tire for their particular motorcycle model and use.

### Start-up of Deliveries of Original Equipment Motorcycle Tires for Harley-Davidson

Developed specifically for Harley-Davidson, the MICHELIN Scorcher 31 tire fits four 2010 Dyna models. The tires carry both the MICHELIN and the Harley-Davidson trademarks on their sidewalls.

### New Bicycle Tires Presented at Eurobike 2009

Three new Bicycle tires for 2010 were presented at the 2009 Eurobike trade show. The MICHELIN Wild mountain bike line integrates two breakthrough technologies – MICHELIN Advanced and MICHELIN Descent – designed for different kinds of terrain and conditions of use. The MICHELIN Lithion2 street tire features an optimum balance between grip and easy rolling performance. Lastly, the MICHELIN Pro Optimum tire extends the MICHELIN High Performance range with enhanced grip (and therefore safety) for the front tire and greater robustness and longer tread life for the rear tire.

## Aircraft Tires

### Michelin's Logistics Performance Recognized by the US Military

The US Military's Defense Supply Center, Columbus (DSCC) awarded Michelin North America two Best Value Awards for exemplary logistics performance. Michelin Aircraft Tire Co. won a silver award for its supply of aircraft tires and Michelin Americas Truck Tires won a bronze award for supplying ground tires.

### New Business Agreements for Michelin

Michelin Aircraft Tire Co. has signed an exclusive ten-year contact with Flydubai, founded in 2008, which currently operates six Boeing 737-800 NGs, but plans to increase the fleet to 54 such aircraft. Moreover, the latest addition to Cessna's Citation range of business jets, the Cessna Columbus 850, will be fitted with MICHELIN NZG tires. Its maiden flight is scheduled for 2011. And lastly, Michelin will equip US Airways' entire fleet of 317 aircraft until 2014.

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## Maps and Guides

### New Editions of Michelin Maps and Guides to Make Travel Easier

The catalogue of MICHELIN travel guides was extended in 2009 with a number of new publications that reflect the increasingly international coverage of the various collections:

- in North America, expanded new versions of the MICHELIN Guide New York City (fifth edition) and San Francisco (fourth edition);
- in Japan, the first MICHELIN Guide Kyoto & Osaka, the second edition of the MICHELIN Guide Hong Kong Macao and the third edition of the MICHELIN Guide Tokyo.

For tourist guides:

- the first Green Guide to Rio de Janeiro, which is currently available in Portuguese and English. A French version is scheduled for release in 2010;
- the successful launch of 12 destinations in the French Green Guide Week-End series, designed to help travelers to truly experience a city, tourist site or popular destination. Strong sales of the new titles have increased the collection's share of the French tourist guide market by two points.

## ViaMichelin

### 2009: a Record-Breaking Year

In 2009, ViaMichelin.com reaffirmed its European leadership and set a new monthly audience record, with more than 25 million unique visitors in July. The site's ergonomics were thoroughly revamped during the year, while road safety information was added to traveler itineraries.

A new solution, ViaMichelin Local, was introduced to enable independent tourism and lodging professionals to pinpoint their establishment on a contextual map on the ViaMichelin website.

ViaMichelin also expanded its mobile presence during the year, forming a worldwide partnership with Nokia to provide information on restaurants, hotels and tourist sites featured in Michelin publications and developing iPhone applications – a paid app for restaurants in the MICHELIN Guide and a free, ad-funded app for traffic information – that have been downloaded half a million times.

ViaMichelin remained the leading provider of French traffic information to carmakers and GPS manufacturers. For the second year in a row, the company won France's QualiWeb Award for Best Online Customer Relations in the Tourism and Transport category.

## Michelin Lifestyle

### Developing MICHELIN Brand Awareness Through Licensing

One of the Group's strategic priorities over the next four or five years is to develop the Michelin Lifestyle business, which manages trademark licensing for products that help to heighten the Group's corporate image and build MICHELIN brand awareness among customers. In particular, Michelin Lifestyle intends to strengthen its business in footwear, where it operates in partnership with Babolat and Li Ning, and in licensed automotive products in countries like Brazil, China, Russia and India.

Michelin Lifestyle currently has 85 partners worldwide manufacturing or selling 1,500 different MICHELIN brand products in 30,000 sales outlets.

## MICHELIN PERFORMANCE AND RESPONSIBILITY

### New European Tire Performance Regulations

On March 10, the European Parliament adopted new regulations regarding "type approval requirements for the general safety of motor vehicles" that set maximum performance thresholds for rolling resistance (Passenger car, Light truck, Truck and bus tires), wet grip (Passenger car tires) and external tire noise. Tires sold in the European Union will have to gradually comply with the new criteria starting in 2012. In addition, all private motor vehicles will have to be equipped with a tire pressure monitoring system.

To inform European motorists about tire performance, a labeling system will be introduced in 2012, requiring tire manufacturers, importers and distributors to display a classification, ranging from A to G, as well as other indicators of a tire's wet grip, energy efficiency and noise performance. This system is advantageous to Michelin, which since 1992 has been working to reduce rolling resistance and thereby improve fuel efficiency and lower emissions of both CO<sub>2</sub> and conventional pollutants, while continuing to deliver its trademark tire safety and tread life performance.

### Publication of the Fourth Sustainable Development Report

Published in 2009, the fourth edition of the Michelin Performance and Responsibility (PRM) Report, for 2007-2008, details the Group's perspective on the issues of road mobility and the tire industry. For each stage of a tire's life, the 80-page report explains the actions deployed and objectives achieved.

The report may be downloaded in French or in English from [www.michelin.com](http://www.michelin.com).

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## Michelin Recognized for its Sustainable Development Commitment

Michelin has joined the very exclusive circle of the “Global 100 Most Sustainable Corporations”, a list of companies from around the world whose strategy most effectively addresses sustainable development issues. Michelin is the only tire manufacturer on the list.

In addition, for the fifth year in a row, Michelin has been included in the Dow Jones Sustainability Index (DJSI World), which every year recognizes companies for their outstanding sustainable development performance. The selection is based on economic, social and environmental criteria. Michelin was also included in the DJSI STOXX Europe index for the sixth consecutive year.

Lastly, the Michelin 2007-2008 Performance and Responsibility report has received the new Top Com Sustainable Development award, which recognizes communication strategies and initiatives that most effectively demonstrate the timeliness of sustainable development practices.

## New Renewable Energy Facilities

In recent years, a number of Michelin plants have installed new sustainable energy production facilities, including the two wind generators that supply more than 20% of the power for the Dundee plant in Scotland, process and hospital-waste incinerators that provide 15% of the Bassens synthetic rubber factory's heat, and the 9 MW rooftop photovoltaic panels installed at four plants in Germany (Bad Kreuznach, Hamburg, Bamberg and Landau). Other projects in the pipeline include rooftop panels at plants in Germany, a windfarm in Ballymena, Northern Ireland, and a biomass-fueled production system in Bourges, France.

## FINANCE

### Michelin Strengthens its Financial Structure

On April 15, Michelin successfully placed a €750-million issue of five-year 8.625% notes. The very favorable investor response to the issue, which was heavily oversubscribed, attested to the market's confidence in the Group's creditworthiness. The issue helped to diversify its sources of financing and enhanced its financial flexibility by lengthening the average maturity of its debt.

\* In December 2003, Michelin issued €500-million worth of 6.375% subordinated notes redeemable in cash due 2033.

On June 15, as part of the Group's active debt management process, a procedure was launched to repurchase all outstanding lowest ranking TSR subordinated notes redeemable in cash due 2033\*, corresponding to an aggregate principal amount of €350 million. During the procedure, which closed at midnight June 23, Michelin repurchased 53.5% of the aggregate principal amount initially issued.

### 2009 Annual Shareholders Meeting

The Joint Annual Shareholders Meeting took place on May 15, 2009 in Clermont-Ferrand. Michel Rollier, Managing General Partner, explained that in response to an unprecedented global economic crisis, the Group is focusing on its major business metrics by carefully managing inventory and reducing capital investments and expenses. Mr Rollier concluded his presentation by noting that: “We are confident in Michelin's ability not only to weather this crisis but to emerge from it stronger and ready to maintain our global market leadership.”

Shareholders adopted all of the resolutions submitted for their approval, including:

- the payment of a dividend of €1.00 a share, with a dividend reinvestment option. The dividend was paid or the shares settled;
- the re-election of Eric Bourdais de Charbonnière and François Grappotte as members of the Supervisory Board.

### 2008 Dividend Reinvestment Plan

At their Joint Annual Meeting on May 15, Michelin shareholders approved the payment of a 2008 dividend of €1.00 a share, with a reinvestment option. The price of the new shares to be issued to shareholders electing to reinvest their dividend was set at €33.731.

At the close of the reinvestment period, more than half of all shareholders elected to reinvest their dividend in new shares, representing a cash savings of €80 million for the Group.

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## 2.10. INVESTMENTS

### 2.10.1. AN ALIGNED MANUFACTURING STRATEGY

In developed markets, Michelin is optimizing its production facilities to secure a solid, competitive manufacturing base. This strategy is based on:

- focusing resources on larger and more specialized plants with more flexible, streamlined and efficient production processes;
- deploying best practices and improving processes and organizations in every aspect of the business;
- replacing only part of the 30,000 employees that will be leaving between 2008 and 2012 due to natural attrition.

At the same time, the Group is stepping up its expansion in China, India and Brazil to serve demand in Asia and South America with locally produced tires and to increase the portion of sales generated in these growth markets, in step with the shifting global market landscape.

In developed markets, many facilities have reached a level of competitiveness that guarantees them a clear edge on imported products manufactured at offshored plants in low-cost countries.

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## 2.10.2. A MORE COMPETITIVE, BETTER BALANCED PRODUCTION BASE

In 2010, Michelin will manufacture more than half of its Passenger car, Light truck and Truck tires in plants with annual production capacity of at least 100,000 tonnes, more than twice as much as in 2005.

### Western Europe

**51,414 employees\***  
**33 plants**

#### Manufacturing adjustments

- Capacity shifted towards producing low rolling resistance tires.
- Major productivity programs deployed at the Bamberg and Bad Kreuznach plants (Germany) and the Cholet (France), Vitoria (Spain), Cuneo (Italy) and Ballymena (Ireland) plants.

#### Spain

- Lasarte plant refocused on premium motorcycle tires.
- Aranda plant refocused on Michelin Durable Technologies Truck tires.
- Car, Light truck and Earthmover tire production capacity increased at the Vitoria plant.
- Agricultural and retread tire production capacity increased at the Valladolid plant.

#### France

- Cholet plant operations refocused on Light truck tires and output increased.
- Super Sport tire production transferred to Clermont-Ferrand.
- Joué-lès-Tours plant refocused on Michelin Durable Technologies Truck tires.
- Montceau-lès-Mines plant refocused on rubber compounds and metal fabrics, and Earthmover tires.
- Noyelles-lès-Seclin plant scheduled to close at the end of 2010.

#### Germany

- Light truck tire production discontinued at Bad Kreuznach.

#### Italy

- Car/light truck tire production discontinued in Turin.

### Eastern Europe

**11,744 employees\***  
**8 plants**

#### Manufacturing adjustments

- Capacity shifted towards producing low rolling resistance tires.
- High-performance Passenger car tire production capacity increased in Hungary.
- Capacity increased at Tigar plant in Serbia for private-label Passenger car tires and Scooter tires.

### North America

**20,315 employees\***  
**18 plants**

#### Manufacturing adjustments

#### United States

- Major productivity programs deployed at the Greenville and Lexington facilities.
- Opelika Passenger car tire plant in Alabama closed during the year.

#### Mexico

- Tire truck tread manufacturing transferred from the Querétaro plant in Mexico to the Covington, GA plant in the United States.

### South America

**4,892 employees\***  
**4 plants**

#### Manufacturing adjustments

#### Brazil

- Production ramped up at Campo Grande Earthmover tire plant.
- Program underway to increase Passenger car/Light truck tire production capacity.

### Asia

**13,229 employees\***  
**8 plants**

#### Manufacturing adjustments

- Major productivity programs deployed at the Laem Chabang plant in Thailand and the Shanghai plant in China.
- Car/Light truck and Truck tire production capacity increased in China.
- Project underway to build a Truck and Earthmover tire factory in India.
- Tire production at the Ota plant in Japan to be discontinued in July 2010.

### Africa and the Middle East

**1,098 employees\***  
**1 plant**

\* Full-time equivalent employees at December 31, 2009.

## 2.11. RISK FACTORS

### 2.11.1. OPERATIONAL RISKS

Michelin is exposed to two types of operational risks – market risks and other operational risks.

#### ● 2.11.1.a) MARKET RISKS

Almost all of Michelin's business operations consist in selling Passenger car, Light truck, Truck and Specialty tires to vehicle manufacturers, dealer networks and end-users. The Group also offers electronic mobility support services, licensed products, and publishes travel guides, hotel and restaurant guides, road maps and atlases.

The replacement business, which accounts for around 70% of total tire sales, is shaped by a wide variety of factors, including consumer tire demand, the number of kilometers driven, average vehicle speeds, fuel prices and dealer inventory policies. The original equipment business, which represents nearly 30% of tire sales, depends on automobile demand in our host markets and on automaker production programs. Over the long term, the replacement tire business is relatively stable and less cyclical than the original equipment business, as illustrated by prevailing tire market conditions in 2009.

More generally, business performance is also influenced by such economic factors as the business environment, the availability of credit, consumer confidence, raw material prices and government programs to support the automobile industry.

Monitoring and managing these market risks is the responsibility of line management.

#### ● 2.11.1.b) OTHER OPERATIONAL RISKS

The Group's Risk Manager leads the process of analyzing and preventing other operational risks. The Corporate Risk Committee meets three times a year to review a certain number of risk management practices, in particular to support the Managing Partners in making informed decisions about potentially serious risks.

Michelin's robust risk management process is underpinned by a commitment to responsible, independent analysis at three levels:

- **line managers** identify and manage risks in their units, preparing prevention, protection, and business continuity plans in compliance with Group standards;

- the **Performance Divisions** (Research-Development-Process Engineering, Manufacturing, Marketing and Sales) and the **Corporate Services** (Finance, Legal Affairs, Procurement, etc.) analyze risks in their fields of expertise, define prevention and protection standards and then manage and monitor their implementation;

- **internal auditors** review the effectiveness of the entire risk management process.

The Group's internal control and risk management procedures are described in detail in the Report of the Chairman of the Supervisory Board, on chapter 4.6, below.

### 2.11.2. INDUSTRIAL AND ENVIRONMENTAL RISKS

Managing industrial risks ensures the sustainability and continuity of our operations, while protecting our employees, our assets and the environment.

The Group companies conduct their operations in compliance with the applicable local and international laws and regulations. Michelin has drafted its own code of ethics entitled "Michelin Performance and Responsibility".

Updated at least once a year, the industrial risk map delineates risk domains and assesses their criticality. In response, prioritized prevention-oriented action plans are prepared covering several years and implemented in the annual plans. In particular, they address the issues of workplace safety, industrial hygiene, and protection of corporate assets and the environment.

The Group's Environment and Prevention (EP) performance is managed on the basis of:

- five-year guidelines and objectives, which are updated every year to reflect the findings of performance reviews. These guidelines and objectives are also expressed in each unit's improvement programs and capital plans;
- experts based at each site provide technical and methodological support to local plant managers, who are ultimately accountable for their unit's EP performance.

This process is being kept robust with an Environmental and Risk Prevention Management System, which is extending the existing environmental management system to all the other EP fields (asset protection, workplace safety, industrial hygiene and ergonomics).

The system is gradually being rolled out at the production facilities and will be fully deployed by 2011. Michelin teams have been auditing the facilities since 2005 and 2006.

The financial impacts of industrial and environmental risks (dismantlement, rehabilitation and compliance risks) are either covered by provisions (see chapter 6.3.2-i) or disclosed as commitments and contingencies.

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As of December 31, 2009, the Group was not exposed to any material industrial or environmental risks.

● **2.11.2.a) LIMITED INDUSTRIAL RISKS**

**Main risk factors in the Group's business operations**

| Industrial process   | Main risk  | Michelin initiative  |
|--|--|--|
| <b>Production of synthetic rubber</b><br>Two plants, one in Bassens, France and the other in Louisville, Kentucky. | Inflammability of the hydrocarbons used in the process.                                      | Regular review of safety and plant protection practices; ongoing significant investment programs to improve risk management and attenuate the impact of an incident. |
| <b>Production of metal reinforcements</b><br>11 production facilities supplying 61 plants worldwide.               | Accidental spillage of effluent from electrolytic metal reinforcement processing facilities. | Regular inspection of the facilities and treatment of effluent in a wastewater plant.  |
| <b>Production of rubber compounds</b><br>36 production facilities supplying 61 plants worldwide.                   | Accidents could cause fires.   | Sustained implementation of a Group-wide program to equip facilities with automatic sprinkler systems and to segregate risks by compartmentalizing operations.       |
| <b>Production of textile reinforcements</b><br>Three production facilities.  | Vapor and gas emitted during adhesives production.   | Installation of scrubbers at each facility.  |

● **2.11.2.b) FIRE RISK**

The Group's primary industrial risk is fire, both in production processes and in storage areas for raw materials and finished products. However, very few significant fire incidents have been reported Group-wide. Indeed, for more than five years, no fire or any other industrial accident has caused serious injury to employees, damage to company or third-party assets or had an adverse environmental impact on neighboring communities.

Efficient fire hazard management is based on a point-by-point risk assessment process and the effective implementation of prevention, protection and response procedures.

- To improve and share technical expertise in deploying automatic sprinkler systems in tire warehouses and reducing the environmental impact of tire fires, Michelin initiated **an ambitious series of trials** conducted from 2001 to 2006 in the United States and in France under the aegis of the French Rubber Manufacturers Association (SNCP). Participants included leading tire manufacturers, supply chain specialists and a specialized parts manufacturer.

The innovative program involved 21 preliminary tests and 12 full-scale trials on a significant number of tires (2,000 to 4,000 per full-scale trial), arranged in a variety of actual tire storage configurations. Different types of sprinkler systems were compared during the trials, which also assessed the efficacy of wetting agents added to fire-fighting water.

The results enabled participants to improve fire protection systems in existing warehouses and gauge the effectiveness of new technologies for future facilities, while safely optimizing operations. Moreover, the related analyses of fire-fighting water, smoke components and atmospheric dispersion provided further insight into the environmental impact of tire fires.

- **A robust fire hazard management system:** to support efficient fire and disaster management, Michelin has developed its proprietary High Protected Risk Michelin (HPRM) standard, which is based on three processes:

- prevention, which covers a broad array of measures to prevent disasters from occurring;
- protection, which includes automatic protection and other passive systems designed to segregate risks in order to minimize the impact of a serious incident;
- response, which comprises early warning systems and rapid response teams and equipment.

A corporate team of risk management experts is leading a network of on-site correspondents who are overseeing the process of upgrading existing facilities to HPRM standards. On-site installations and risk management programs are regularly audited for HPRM-compliance and to identify areas for improvement. These areas are then prioritized in the multi-year improvement plans prepared by each production and logistics facility.

In addition, all new construction, retrofitting, extension, process changeover and other projects are approved only after they have been audited by an Environmental and Prevention expert for HPRM-compliance.

Since January 1, 2008, this comprehensive internal control process has been supported by the proprietary High Protected Risk Michelin Compliance Assessment (EC-HPRM) application, which enables experts to determine a site's compliance with internal standards.

- **Leveraging feedback and sharing best practices:** building on the success of our proprietary SECURISTAT application, which has been used since 2004 to collect and process industrial risk management event data, the corporate fire prevention unit has developed an innovative process for leveraging internal and external feedback. Each event is carefully analyzed and the lessons learned are shared across the Group in order to drive continuous improvement.





### 2.11.2.c) SEVESO FACILITIES

The European Seveso II Directive aims to prevent major accidents involving dangerous substances used or stored on industrial sites and to limit the consequences for people and the environment of any that do occur. The Directive's regulations apply at two thresholds, the lower tier and the top tier (depending on the quantity of dangerous substances stored on-site), with stricter disclosure rules and prevention standards for top-tier sites. Of Michelin's more than 40 European sites (including semi-finished product plants), two were classified top tier and 10 lower tier as of the end of 2009.

### 2.11.3. COMPETITION RISK

Michelin is exposed to extensive global competition, which is becoming increasingly aggressive, particularly from Asian manufacturers. Although we are strategically committed to pursuing continuous innovation, expanding more quickly in high-growth markets and improving our competitiveness, this situation could have an adverse impact on our revenue, financial condition and earnings.

### 2.11.4. RISKS RELATED TO IMPLEMENTATION OF THE HORIZON 2010 PLAN

Launched in late 2006, the Horizon 2010 strategic plan is designed to drive sustained innovation and product differentiation, broaden our footprint in high-growth markets and significantly improve our competitiveness. Our ability to successfully implement this strategy could be jeopardized by the negative impact of various exogenous factors such as (i) a sharp decline in tire demand and Group production volumes, which would hinder the achievement of productivity gains, (ii) increasingly aggressive global competition characterized by the arrival of new entrants with steadily improving technological expertise, (iii) the emergence of excess production capacity, which would exert downward pressure on prices and (iv) a significant upturn in external cost trends, notably for raw materials.

Even though Michelin has responded quickly and effectively to the current economic crisis by tightening management practices and adjusting output, it cannot guarantee that this strategy will be successfully implemented by 2010. Should the strategy encounter obstacles that prevent or hinder its implementation, this could have an adverse impact on the Group's revenue, financial condition and earnings and/or cause delays in deploying the plan.

### 2.11.5. RAW MATERIALS RISK

Michelin is exposed to fluctuations in raw material and energy prices.

Raw materials, which represented close to half of all Group purchases in 2009, include both commodities traded directly on organized markets, such as natural rubber, and manufactured products, like butadiene, styrene, metal cables and textiles, whose prices are negotiated with producers.

The materials that have the greatest impact on production costs are, by decreasing order of importance, natural rubber, butadiene, styrene and carbon black (three oil derivatives that are used to produce synthetic rubber), steel and textiles.

| Raw material costs       | 2007  | 2008  | 2009  |
|--------------------------|-------|-------|-------|
| • In € million           | 4,449 | 4,726 | 3,400 |
| • As a % of net sales    | 26.4% | 28.8% | 23.0% |
| Of which: Natural rubber | 32%   | 31%   | 28%   |
| Synthetic rubber         | 22%   | 25%   | 26%   |
| Reinforcing agents       | 15%   | 16%   | 16%   |
| Chemicals                | 14%   | 13%   | 13%   |
| Metal cables             | 9%    | 9%    | 10%   |
| Textiles                 | 8%    | 6%    | 7%    |

Michelin monitors and manages the impact of changes in raw material prices by analyzing:

- the additional cost (cash outflow) at the purchase date; and
- the impact on consolidated operating income and working capital requirement, taking into account the time required to transform the raw materials – from delivery and storage to manufacturing – and changes in exchange rates.

These two amounts are disclosed in the published information on the interim and annual results.

On the basis of 2010 production volume estimates, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

- a \$0.10 increase or decrease in natural rubber prices would feed through to a \$70-80 million increase or decrease in full-year purchasing costs;
- a \$1.00 increase or decrease in oil prices would feed through to a \$15-20 million increase or decrease in full-year purchasing costs.

It has been the Group's long-standing policy to pass along any increase in raw material costs in selling prices, with the impact of the higher prices also disclosed when the interim and annual results are published.

Given the ineffectiveness of today's hedging instruments, no financial instruments were being used as of December 31, 2009 to manage the Group's exposure to future increases in commodity and other raw material prices.

## 2.11.6. FINANCIAL MARKET RISKS

### Liquidity risk

Please refer to Section 7, Notes 4.1.2 and 4.2.1 to the Consolidated Financial Statements.

### Currency risk

Please refer to Section 7, Notes 4.1.3 and 4.2.2 to the Consolidated Financial Statements.

### Interest rate risk

Please refer to Section 7, Notes 4.1.4 and 4.2.3 to the Consolidated Financial Statements.

### Equity risk

Please refer to Section 7, Notes 4.1.5 and 4.2.4 to the Consolidated Financial Statements.

### Counterparty risk

Please refer to Section 7, Notes 4.1.6, 4.2.5 and 20 to the Consolidated Financial Statements.

### Credit risk

Please refer to Section 7, Notes 4.1.7, 4.2.6 and 20 to the Consolidated Financial Statements.

## 2.11.7. LEGAL RISK

In all its relations with partners, Michelin ensures full compliance with applicable laws and regulatory requirements. It is not subject to any laws or regulations, tax provisions, authorizations, permits or licenses that could have a material impact on its financial condition.

Michelin is exposed to liability claims in connection with its operations as tire designer, manufacturer and distributor. Ongoing research to continuously improve product safety and quality is enabling the Group to proactively prevent and manage these risks.

More generally, the Group may be exposed to litigation in the areas of product liability (notably in the United States), the sale and distribution of its products, employee-related obligations (particularly post-retirement benefits), intellectual property (infringement claims) and occupational disease.

In managing their day-to-day business, certain Group companies are parties to legal proceedings. For example, a number of suits have been filed by certain employees or former employees for alleged exposure to asbestos or for discrimination. Although the outcome of these proceedings is still pending, the Group currently considers that they will not have a material adverse effect on its financial condition.

Therefore, Michelin believes that as of the date this document was prepared there were no exceptional events or government, legal or arbitration proceedings – including any pending or threatened proceedings of which the Company was aware – that may have or have had in the past 12 months a material impact on the Group's financial position, results, operations or assets.

## 2.11.8. RISK COVERAGE – INSURANCE

In addition to a proactive commitment to risk protection and prevention, the Group's insurance strategy is based on three main principles, as follows:

### ● 2.11.8.a) ACCURATELY ASSESSING RISKS

Appropriate coverage is determined on the basis of a risk map prepared in each unit using the same method.

### ● 2.11.8.b) TRANSFERRING HIGH-FREQUENCY RISK

Higher frequency risks are covered by integrated global property & casualty, liability and other insurance programs, in line with opportunities offered by the international insurance and reinsurance markets.

#### Property & casualty insurance

Property damage is covered under a €500-million insurance program, which includes a €50 million Increased Cost of Work (ICW) extension to enable operations to continue on a sound financial footing in the event of a disaster.

#### Liability insurance

The liability insurance program includes three key aspects:

- product liability;
- general liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
- environmental liability coverage for all Group companies.

The program does not cover legal fees and product recall expenses.

Other programs have been set up to cover lower frequency risks.

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### ● 2.11.8.c) USING CAPTIVE INSURANCE COMPANIES

The Group has set up several captive insurance companies to manage medium-frequency risks, in order to reduce costs by pooling risks.

These companies provide coverage in the following areas, with limits commensurate with their resources:

- property & casualty risks, with a €30 million limit per loss event;
- product liability in the United States and Canada, with a \$5 million limit per claim;
- product recall expenses, with a €20 million limit per claim.

Aggregate premiums amounted to €54.8 million in 2009\*.

## 2.12. MATERIAL CONTRACTS

There are no material contracts other than those concluded in the ordinary course of business.

## 2.13. CHANGE OF CONTROL

Because the Company is organized as a *société en commandite par actions* (partnership limited by shares), any shareholder gaining control of the capital and corresponding voting rights could not exercise control over the Company without the unanimous approval of the General Partners, which would be required in particular for the following decisions:

- election of new Managing Partners;
- amendment of the bylaws;
- election of new General Partners.

\* Including premiums paid to the captive companies.

## 2.14. TRANSFER OF SHARES IN MANUFACTURE FRANÇAISE DES PNEUMATIQUES MICHELIN

Compagnie Générale des Établissements Michelin's interest in Manufacture Française des Pneumatiques Michelin (MFPM) was increased from 40% to 100% through the transfer of the MFPM shares previously held by Compagnie Financière Michelin at their net book value of €512 million.

The transaction was authorized in advance by the Supervisory Board of Compagnie Générale des Établissements Michelin at its meeting on December 4 and 5, 2008 in accordance with the procedure for related-party agreements.

## 2.15. INFORMATION CONCERNING SUPPLIER PAYMENTS

(Provided in compliance with Articles L.441-6-1 and D.441-4 of the French Commercial Code)

| Trade payables<br><i>(including tax, in € thousand)</i> | Past due | Due within 60 days | Due beyond 60 days | Total trade payables |
|---|----------|--------------------|--------------------|----------------------|
| Foreign suppliers:                                      |          |                    |                    |                      |
| - Group   | 0        | 9,192              | 30                 | 9,222                |
| - Non-Group   | 0        | 0                  | 0                  | 0                    |
| French suppliers:                                       |          |                    |                    |                      |
| - Group   | 0        | 71,269             | 27,441             | 98,710               |
| - Non-Group   | 0        | 0                  | 0                  | 0                    |
| <b>TOTAL</b>  | <b>0</b> | <b>80,461</b>      | <b>27,471</b>      | <b>107,932</b>       |

The €108 million total trade payables balance is reported under "Other liabilities" which, including other payables, amounts to €118 million.

## 2.16. MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION

There were no material changes in the Company's business or financial position between February 8, 2010 (the date of the Statutory Auditors' Report) and the date on which this Registration Document was filed with the Autorité des marchés financiers.

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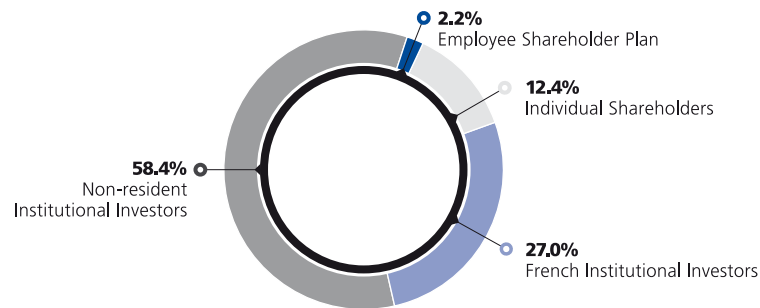
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## 2.17. OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2009: Michelin's share capital amounted to €294,872,714, represented by 147,436,357 ordinary shares with a total of 199,296,891 voting rights.

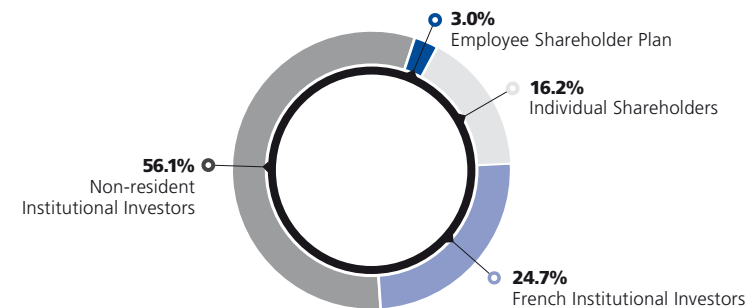
### SHARE OWNERSHIP

At December 31, 2009



### VOTING RIGHTS

At December 31, 2009



Shares registered in the same name for at least four years carry double voting rights.

At December 31, 2009, 147,436,357 shares were held by the public, corresponding to 100% of the voting rights.

At the date of filing and to the best of the Company's knowledge:

- AllianceBernstein L.P. held 5,945,502 shares and the same number of voting rights as of February 9, 2009;
- Capital Research and Management Company held 14,419,259 shares and the same number of voting rights as of June 29, 2009;

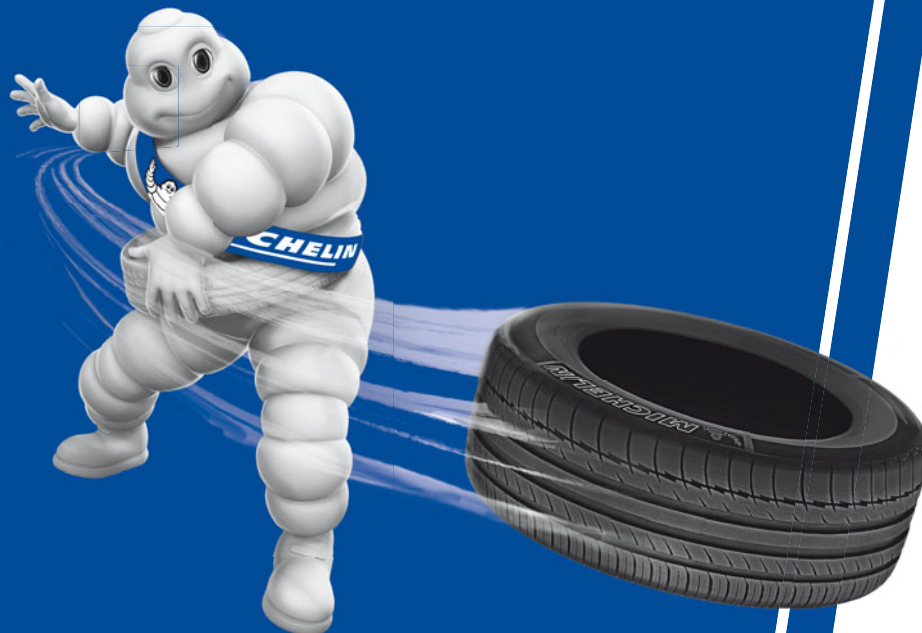
- Franklin Resources, Inc. held 14,486,544 shares and the same number of voting rights as of October 23, 2009;
- no other shareholder directly or indirectly holds more than 5% of capital and voting rights;
- there are no shareholders' agreements or pacts.

No Michelin shares are held in treasury.

There has been no material change in the Company's ownership structure over the last three years.

# 3

## FINANCIAL HIGHLIGHTS



|   |           |
|---|-----------|
| <b>3.1. SALES</b>   | <b>62</b> |
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| <b>3.3. REPORTING SEGMENTS</b>  | <b>66</b> |
| 3.3.1. Passenger car and Light truck tires and related distribution   | 66        |
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| <b>3.6. GROUP KEY FIGURES AND RATIOS</b>  | <b>79</b> |

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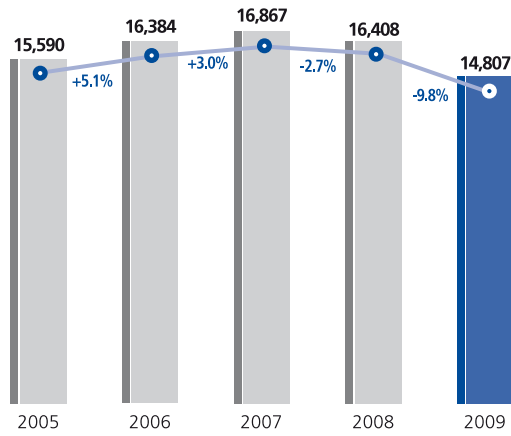
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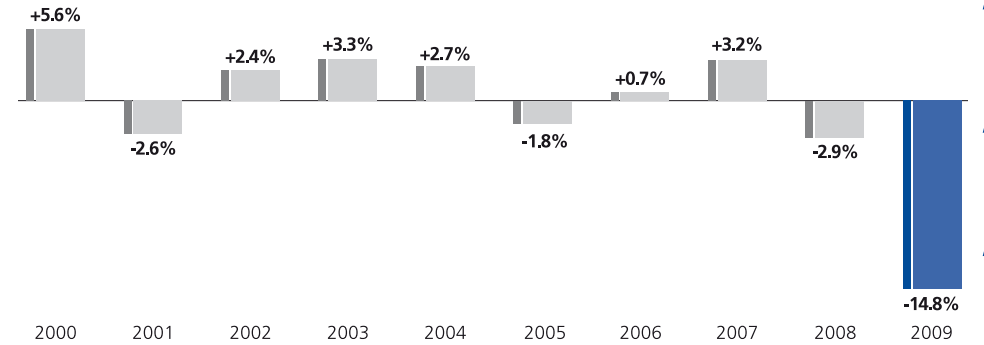
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### 3.1. SALES

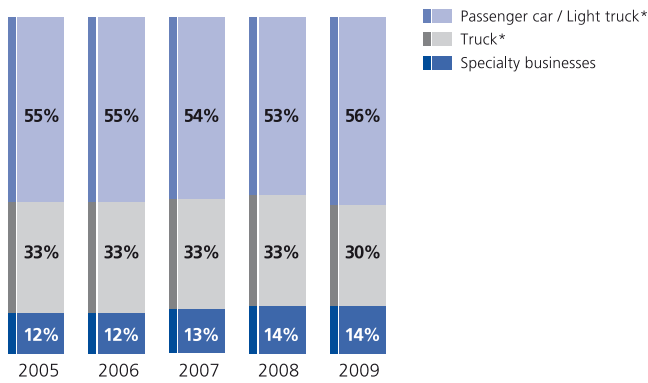
**NET SALES**  
(in € million)



**UNIT SALES**



**NET SALES BY REPORTING SEGMENT - BREAKDOWN**  
(in value)



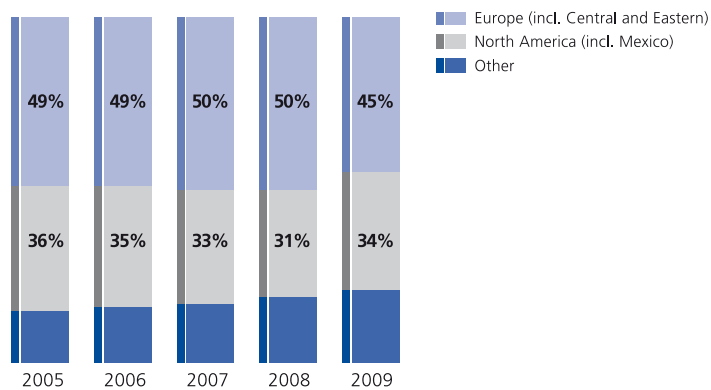
\* and related distribution.

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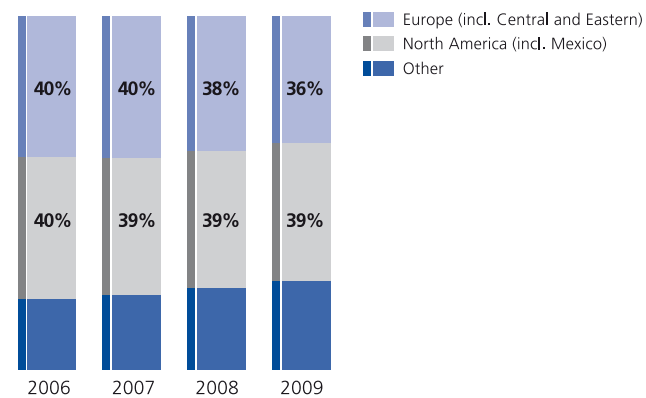
**NET SALES BY REGION - BREAKDOWN**

(in value)



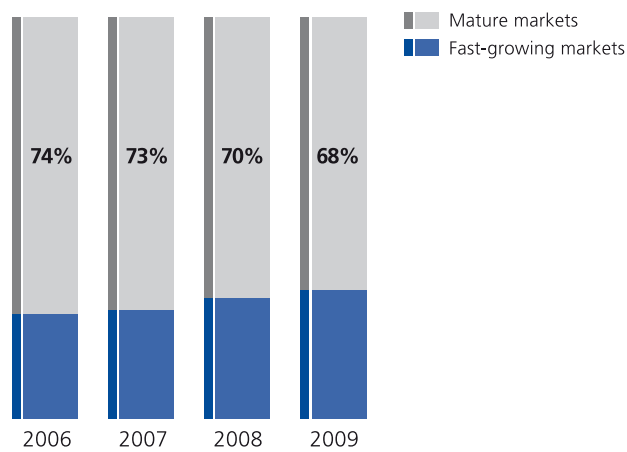
**SALES BY REGION - BREAKDOWN**

(in tons)



**BREAKDOWN OF SALES BETWEEN MATURE\* AND EMERGING MARKETS**

(in tons)

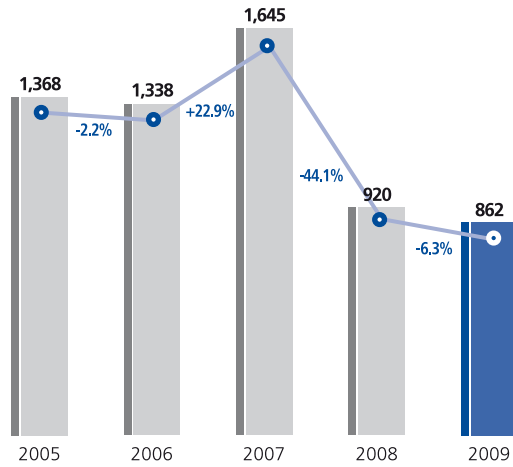


\* Mature markets: United States, Canada, Western Europe and Japan.

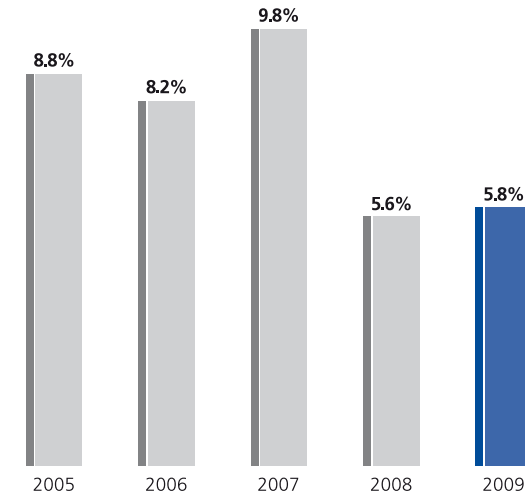
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## 3.2. EARNINGS

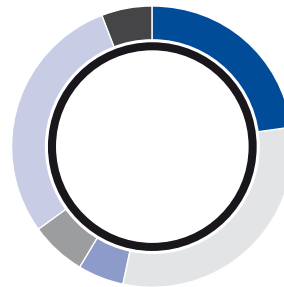
### OPERATING INCOME BEFORE NON-RECURRING ITEMS (in € million)



### OPERATING MARGIN BEFORE NON-RECURRING ITEMS (as a % of net sales)

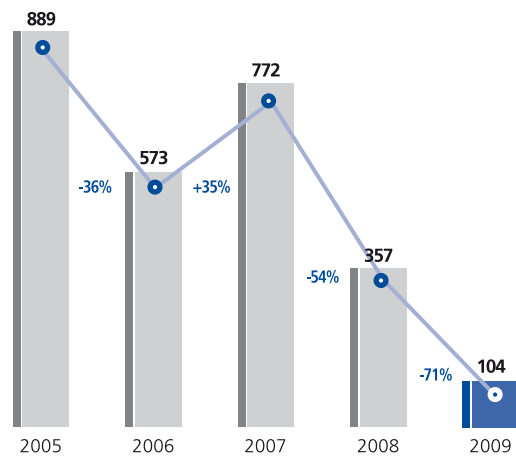


### ANALYSIS OF OPERATING EXPENSES (as a % of 2009 net sales)

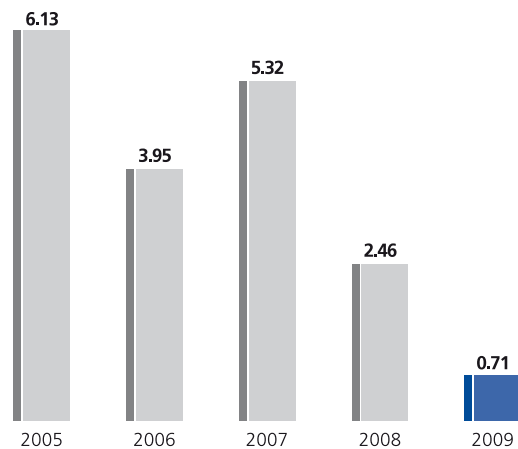


|  |       |
|--|-------|
| Raw materials                                    | 23.0% |
| Employee Benefits Costs                          | 30.5% |
| Transportation of Goods                          | 5.2%  |
| Depreciation, Amortization<br>Impairment charges | 6.3%  |
| Other Costs                                      | 29.2% |
| Operating Income before NR                       | 5.8%  |

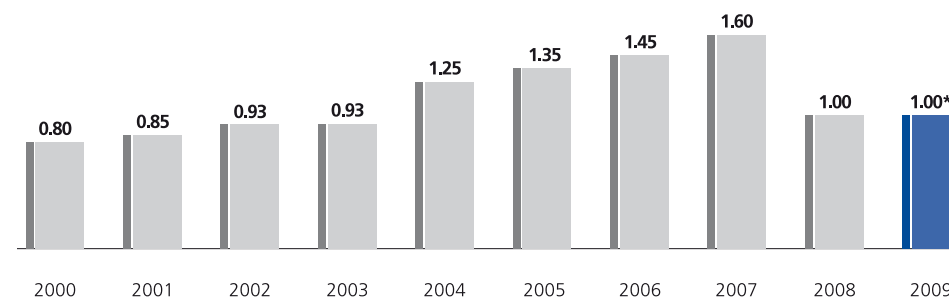
**NET INCOME**  
(in € million)



**BASIC EARNINGS PER SHARE**  
(in €)



**DIVIDEND PER SHARE**  
(in €)



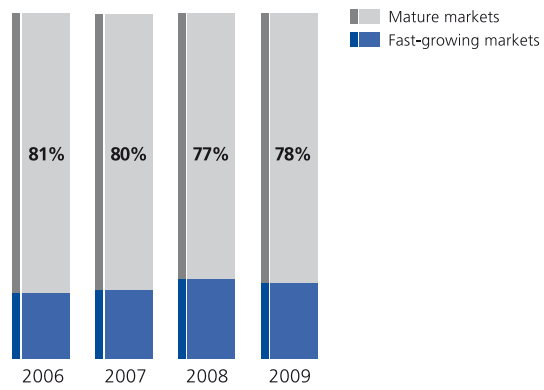
\* Subject to approval at the Annual Shareholders Meeting on May 7, 2010.

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## 3.3. REPORTING SEGMENTS

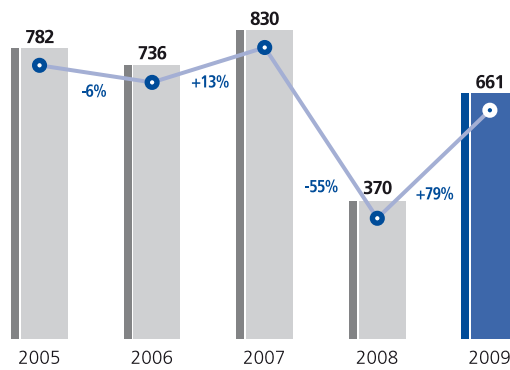
### 3.3.1. PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

#### BREAKDOWN OF SALES BETWEEN MATURE\* AND EMERGING MARKETS (in tons)

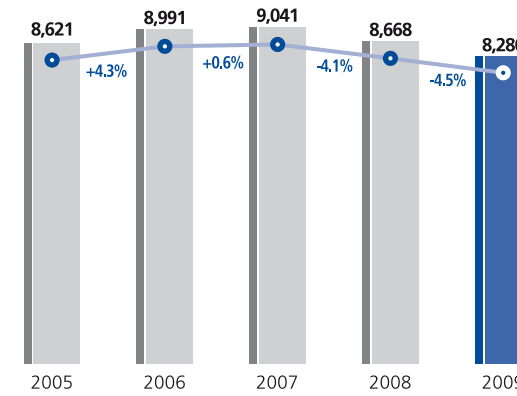


\* Mature markets: United States, Canada, Western Europe and Japan.

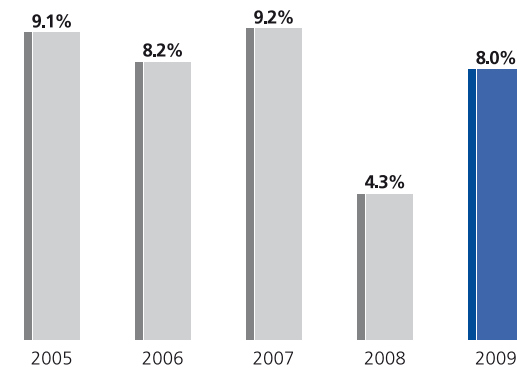
#### OPERATING INCOME BEFORE NON-RECURRING ITEMS (in € million)



#### NET SALES (in € million)

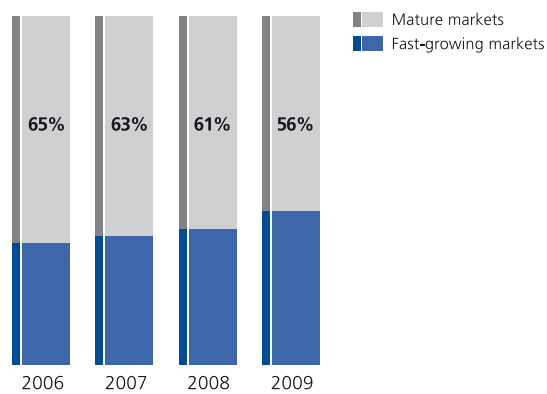


#### OPERATING MARGIN BEFORE NON-RECURRING ITEMS (as a % of net sales)



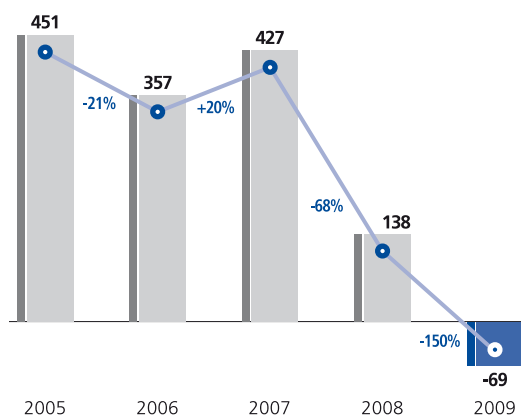
### 3.3.2. TRUCK TIRES AND RELATED DISTRIBUTION

#### BREAKDOWN OF SALES BETWEEN MATURE\* AND EMERGING MARKETS (in tons)

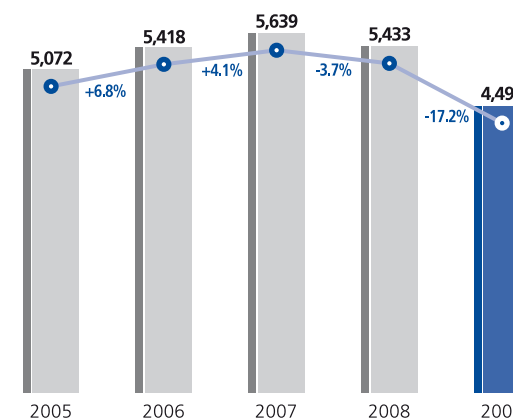


\* Mature markets: United States, Canada, Western Europe and Japan.

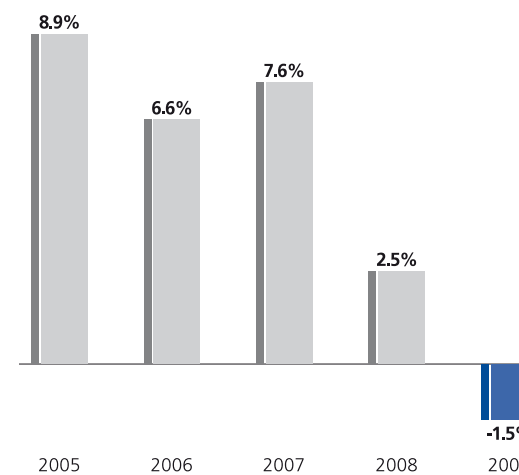
#### OPERATING INCOME BEFORE NON-RECURRING ITEMS (in € million)



#### NET SALES (in € million)



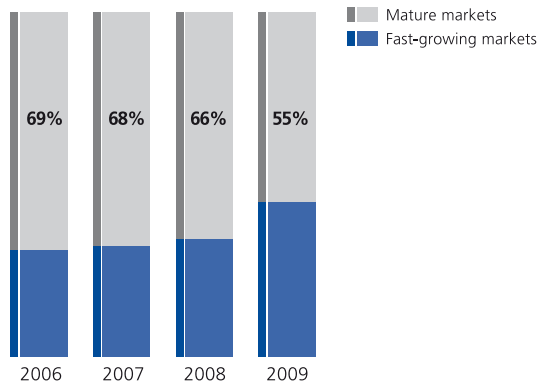
#### OPERATING MARGIN BEFORE NON-RECURRING ITEMS (as a % of net sales)



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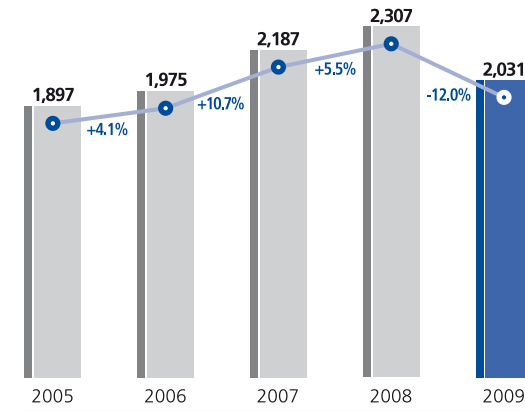
**3.3.3. SPECIALTY BUSINESSES: SPECIALTY TIRES (AGRICULTURAL, AIRCRAFT, TWO-WHEEL, EARTHMOVER); MAPS AND GUIDES; VIAMICHELIN AND MICHELIN LIFESTYLE**

**BREAKDOWN OF SALES BETWEEN MATURE\* AND EMERGING MARKETS**  
(in tons)

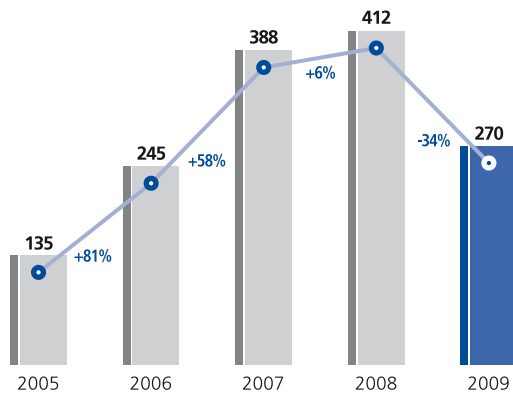


\* Mature markets: United States, Canada, Western Europe and Japan.

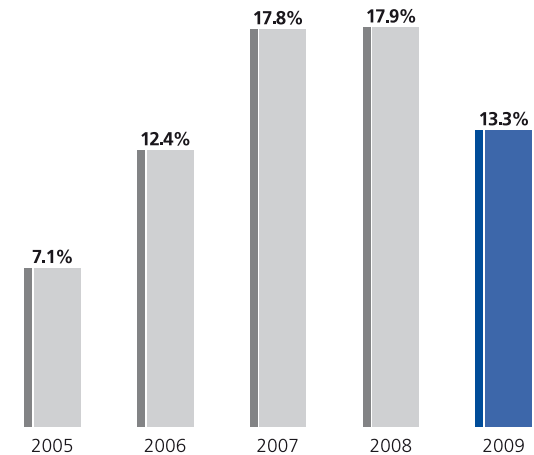
**NET SALES**  
(in € million)



**OPERATING INCOME BEFORE NON-RECURRING ITEMS**  
(in € million)



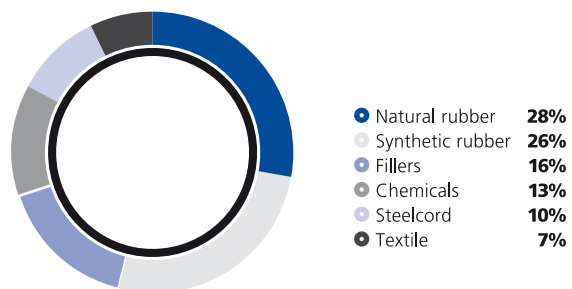
**OPERATING MARGIN BEFORE NON-RECURRING ITEMS**  
(as a % of net sales)



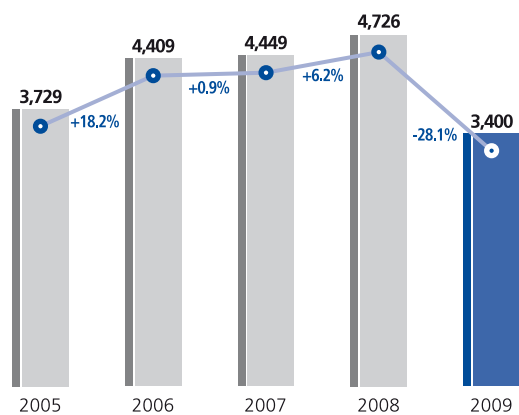
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## 3.4. COST STRUCTURE

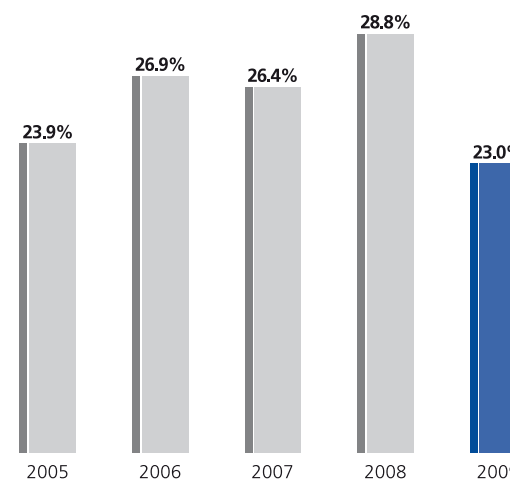
RAW MATERIAL COSTS (IN €)  
(2009)



RAW MATERIAL COSTS  
(in € million)



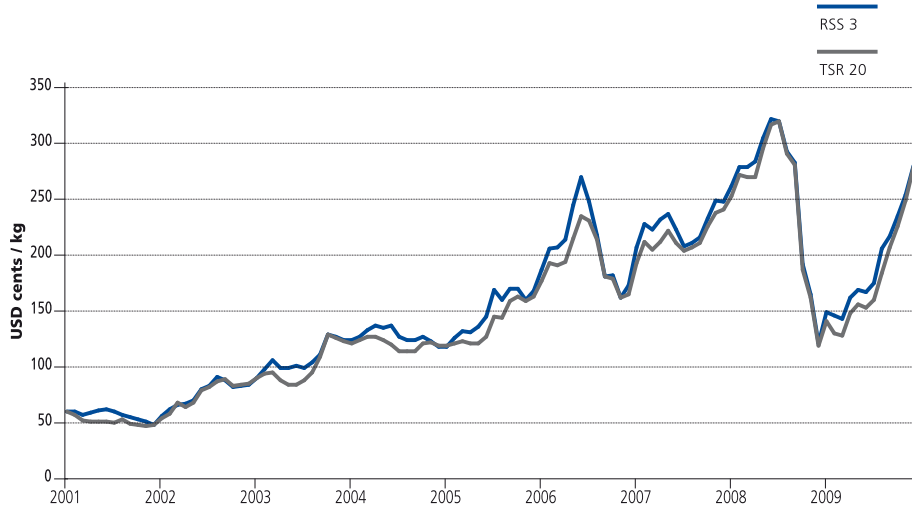
(as a % of net sales)



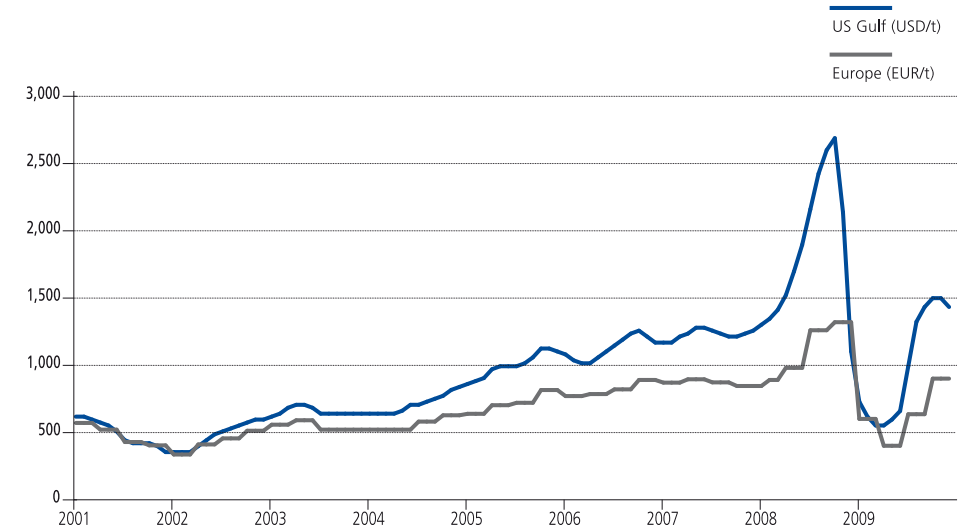
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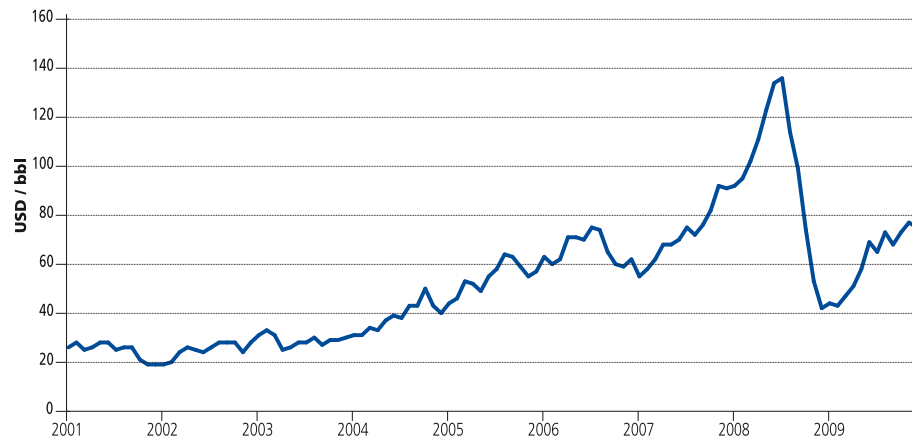
**NATURAL RUBBER PRICES\***  
(US cents/kg)



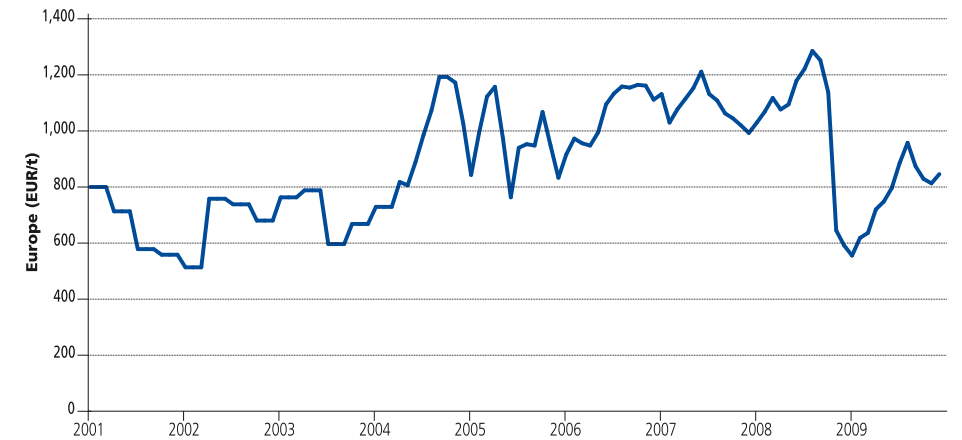
**BUTADIENE PRICES\***



**BRENT OIL PRICES\***  
(\$/bbl)



**STYRENE PRICES\***  
(€/ton)

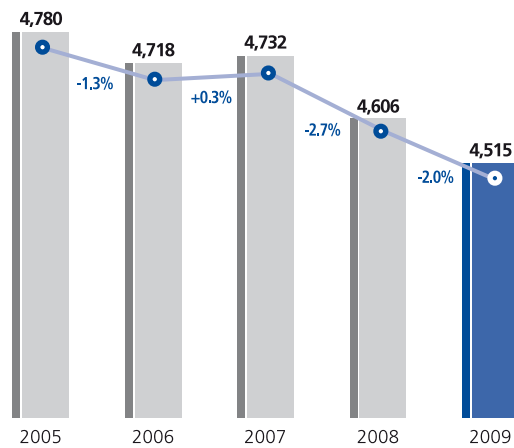


\* Monthly average.

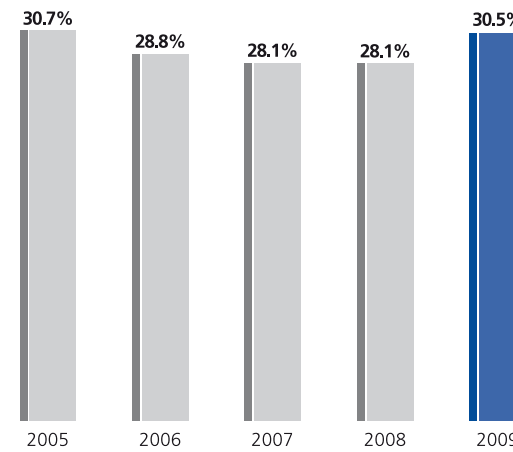
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**EMPLOYEE BENEFITS COSTS**

(in € million)

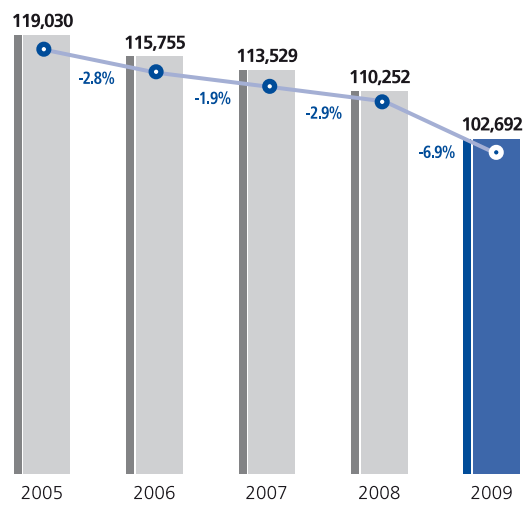


(as a % of net sales)



**NUMBER OF EMPLOYEES**

(full-time equivalent employees at December 31)



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**EMPLOYEES BY REGION***(full-time equivalent employees at December 31)*

|   | 2005           | 2006           | 2007           | 2008           | 2009           |
|---|----------------|----------------|----------------|----------------|----------------|
| Western Europe                                  | 62,601         | 58,907         | 57,204         | 55,106         | 51,414         |
| Eastern Europe                                  | 11,043         | 13,206         | 13,378         | 12,489         | 11,744         |
| North America                                   | 23,610         | 22,078         | 22,351         | 22,215         | 20,315         |
| South America                                   | 5,843          | 5,934          | 5,909          | 5,783          | 4,892          |
| Asia  | 12,444         | 13,155         | 13,440         | 13,457         | 13,229         |
| Africa Middle-East                              | 3,489          | 2,475          | 1,247          | 1,202          | 1,098          |
| <b>TOTAL</b>                                    | <b>119,030</b> | <b>115,755</b> | <b>113,529</b> | <b>110,252</b> | <b>102,692</b> |
| including mature countries <sup>(1)(2)</sup>    | 70%            | 67%            | 67%            | 66%            | 66%            |
| including fast-growing countries <sup>(1)</sup> | 30%            | 33%            | 33%            | 34%            | 34%            |

*(1) Excluding distribution.**(2) Mature countries : United States, Canada, Western Europe and Japan.***EMPLOYEES BY JOB CATEGORY***(total workforce at December 31, excluding distribution)*

|                                    | 2005  | 2006  | 2007  | 2008  | 2009  |
|------------------------------------|-------|-------|-------|-------|-------|
| Production workers                 | 68.7% | 67.6% | 66.7% | 66.7% | 64.8% |
| Administrative and technical staff | 26.0% | 26.8% | 27.6% | 27.4% | 29.3% |
| Managers                           | 5.2%  | 5.6%  | 5.7%  | 5.9%  | 5.9%  |

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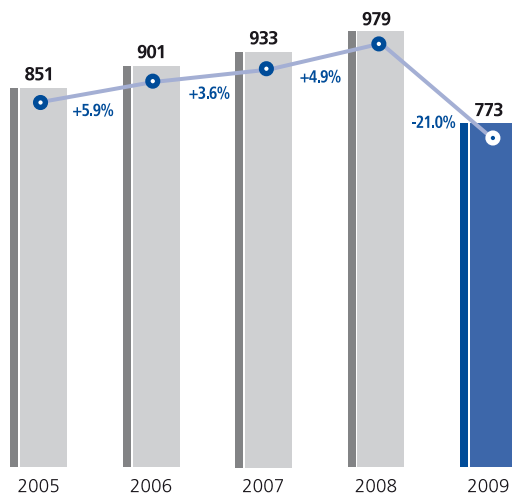
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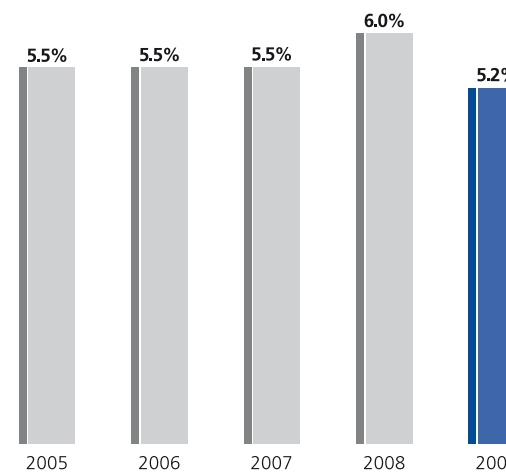
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**TRANSPORTATION COSTS**  
(in € million)



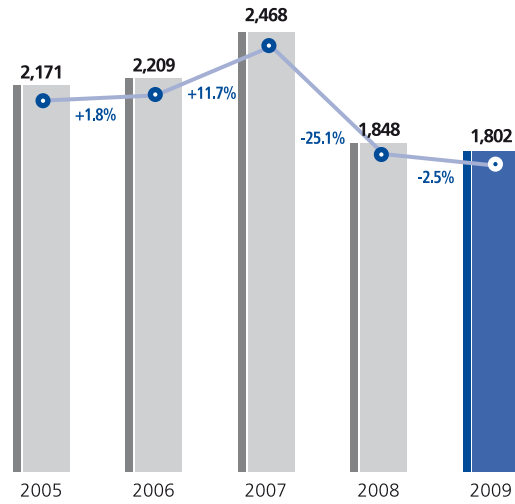
(as a % of net sales)



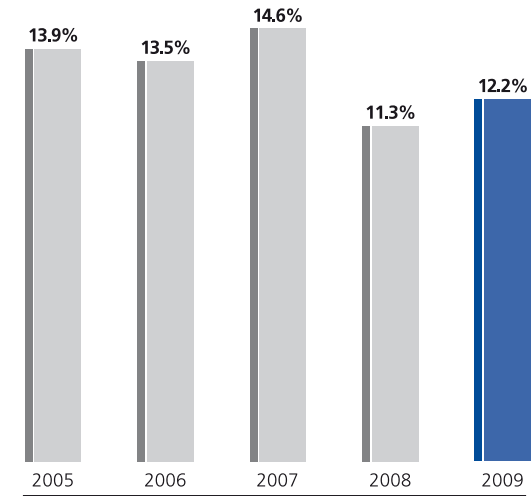
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## 3.5. CASH FLOW AND BALANCE SHEET

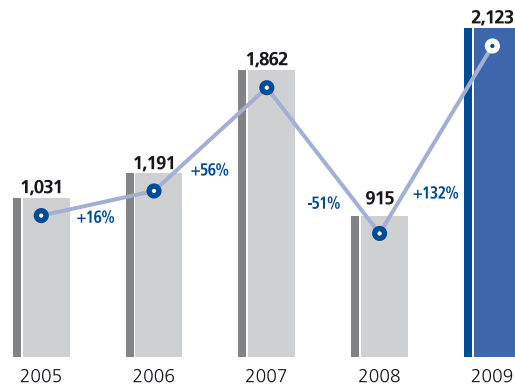
### EBITDA (in € million)



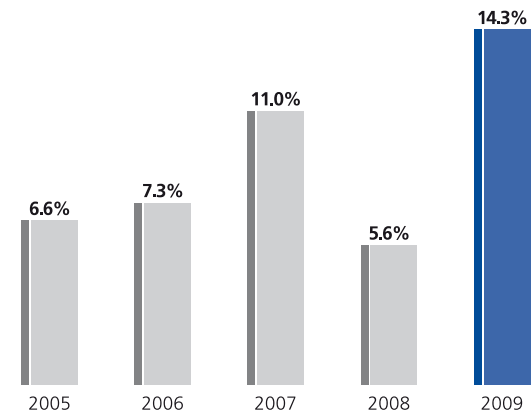
(as a % of net sales)



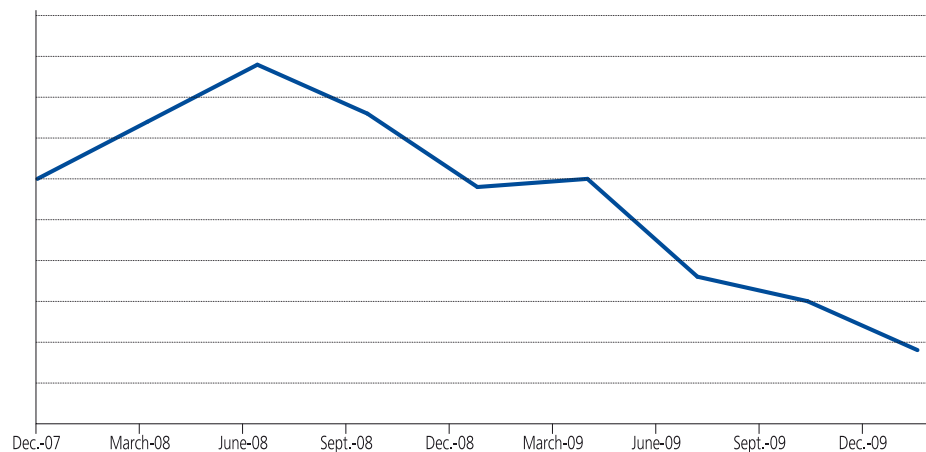
### CASH FLOWS FROM OPERATING ACTIVITIES (in € million)



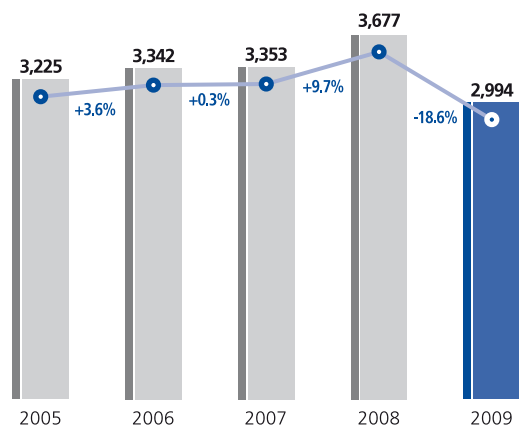
(as a % of net sales)



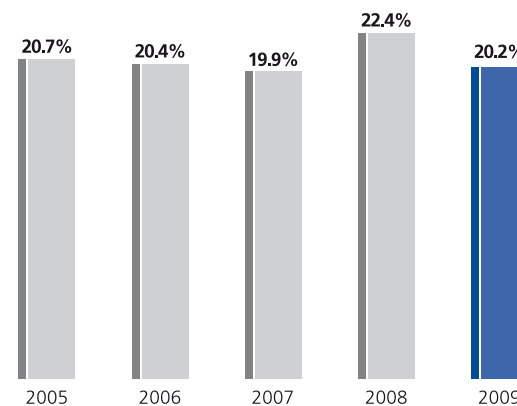
**INVENTORIES (QUARTERLY CHANGE IN TONS)**



**INVENTORIES**  
(in € million)



(as a % of net sales)

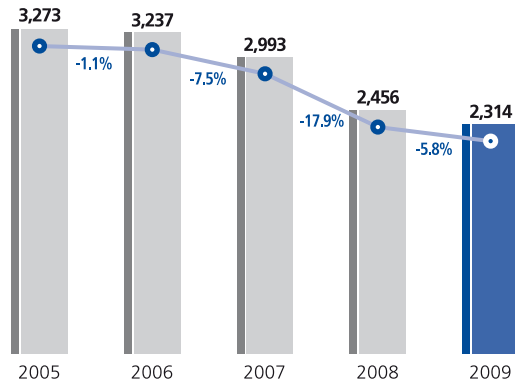


Group target: less than 16%.

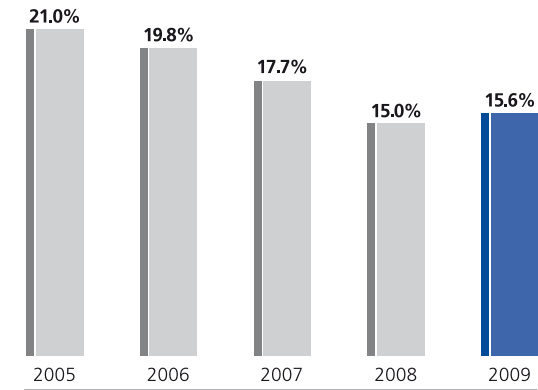
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**TRADE RECEIVABLES**

(in € million)



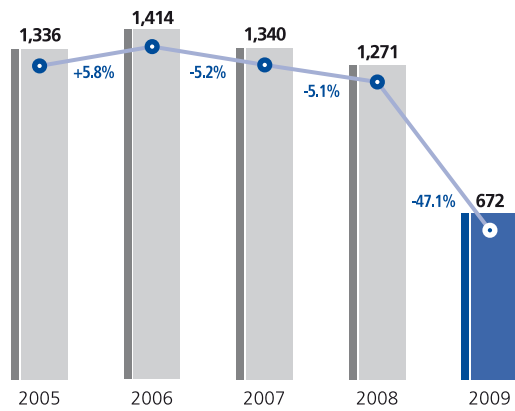
(as a % of net sales)



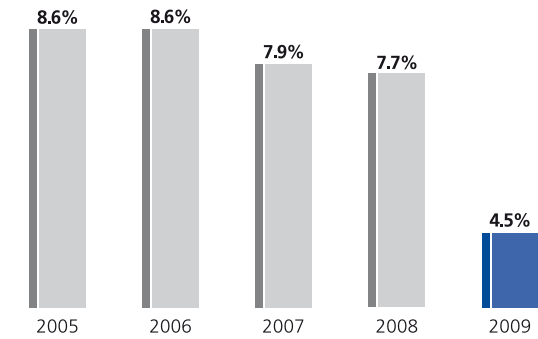
Group target: less than 16%.

**CAPITAL EXPENDITURE**

(in € million)



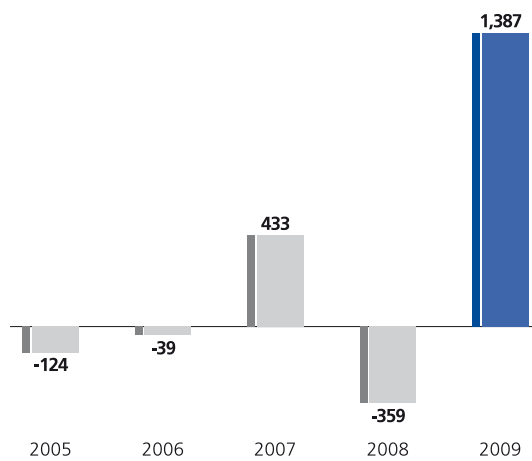
(as a % of net sales)





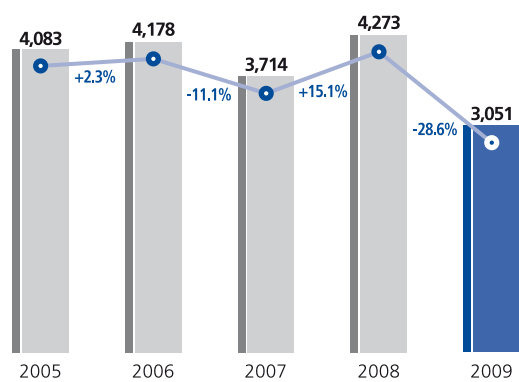
**FREE CASH FLOW (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)**

(in € million)

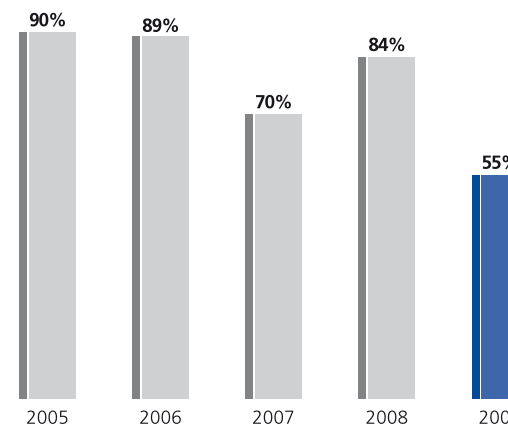


**NET DEBT**

(in € million)

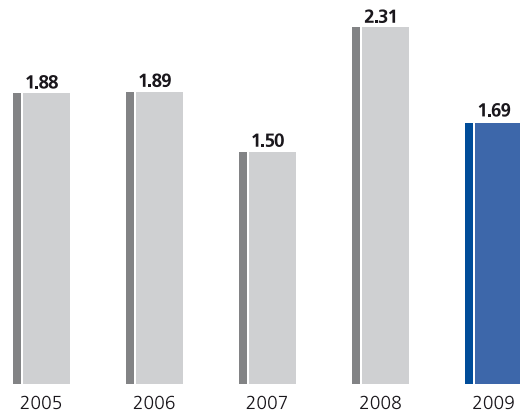
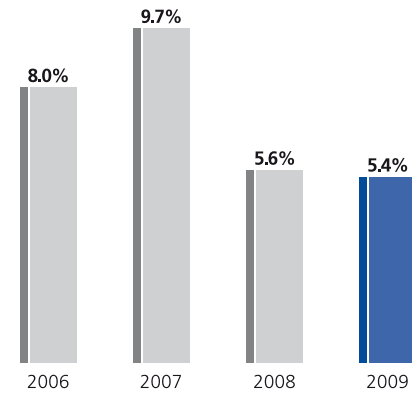


**NET DEBT-TO-EQUITY RATIO**



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## NET DEBT-TO-EBITDA RATIO

RETURN ON CAPITAL EMPLOYED  
(after tax)

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## 3.6. GROUP KEY FIGURES AND RATIOS

| IFRS<br>In € million   | 2009           | 2008           | 2007           | 2006           | 2005           | 2004           |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| Sales  | 14,807         | 16,408         | 16,867         | 16,384         | 15,590         | 15,048         |
| % change   | -9.8%          | -2.7%          | +3.0%          | +5.1%          | +3.6%          | N. App.        |
| Total employee benefits costs<br>as a % of sales                                 | 4,515<br>30.5% | 4,606<br>28.1% | 4,732<br>28.1% | 4,718<br>28.8% | 4,780<br>30.7% | 4,837<br>32.1% |
| Number of employees (full time equivalent)                                       | 102,692        | 110,252        | 113,529        | 115,755        | 119,030        | 120,456        |
| Research and development expenses <sup>(1)</sup><br>as a % of sales              | 506<br>3.4%    | 499<br>3.0%    | 571<br>3.4%    | 591<br>3.6%    | 565<br>3.6%    | 576<br>3.8%    |
| EBITDA <sup>(2)</sup>  | 1,802          | 1,848          | 2,468          | 2,209          | 2,171          | 2,030          |
| Operating income before non-recurring income and expenses                        | 862            | 920            | 1,645          | 1,338          | 1,368          | 1,303          |
| Operating margin before non-recurring income and expenses                        | 5.8%           | 5.6%           | 9.8%           | 8.2%           | 8.8%           | 8.7%           |
| Operating income   | 450            | 843            | 1,319          | 1,118          | 1,574          | 1,239          |
| Operating margin   | 3.0%           | 5.1%           | 7.8%           | 6.8%           | 10.1%          | 8.2%           |
| Cost of net debt   | (292)          | (330)          | (294)          | (315)          | (310)          | N. App.        |
| Other financial income and expenses  | 40             | (3)            | 29             | 135            | (280)          | (235)          |
| Income before taxes  | 207            | 520            | 1,071          | 942            | 1,300          | 985            |
| Income tax   | (103)          | (163)          | (299)          | (369)          | (411)          | (331)          |
| Effective tax rate   | 49.8%          | 31.3%          | 27.9%          | 39.2%          | 31.6%          | 33.6%          |
| Net income   | 104            | 357            | 772            | 573            | 889            | 654            |
| as a % of sales  | 0.7%           | 2.2%           | 4.6%           | 3.5%           | 5.7%           | 4.3%           |
| Dividends paid to Shareholders   | 145            | 230            | 208            | 193            | 179            | 133            |
| Cash flows from operating activities   | 2,123          | 915            | 1,862          | 1,191          | 1,031          | 1,322          |
| as a % of sales  | 14.3%          | 5.6%           | 11.0%          | 7.3%           | 6.6%           | 8.8%           |
| Gross purchases of intangible assets and PP&E                                    | 672            | 1,271          | 1,340          | 1,414          | 1,336          | 1,107          |
| as a % of sales  | 4.5%           | 7.7%           | 7.9%           | 8.6%           | 8.6%           | 7.4%           |
| Capital expenditure, net of disposals  | 660            | 1,237          | 1,378          | 1,277          | 1,208          | 951            |
| Cash flows from investing activities   | (736)          | (1,274)        | (1,429)        | (1,230)        | (1,155)        | (1,056)        |
| as a % of sales  | 5.0%           | 7.8%           | 8.5%           | 7.5%           | 7.4%           | 7.0%           |
| Net debt <sup>(3)</sup>  | 3,051          | 4,273          | 3,714          | 4,178          | 4,083          | 3,292          |
| Total equity <sup>(4)</sup>  | 5,495          | 5,113          | 5,290          | 4,688          | 4,527          | 3,647          |
| Gearing  | 55%            | 84%            | 70%            | 89%            | 90%            | 90%            |
| Net debt / EBITDA  | 1.69           | 2.31           | 1.50           | 1.89           | 1.88           | 1.62           |
| Cash flows from operating activities / Net debt                                  | 69.6%          | 21.4%          | 50.1%          | 28.5%          | 25.3%          | 40.2%          |
| Net interest charge average rate <sup>(5)</sup>                                  | 6.2%           | 6.0%           | 6.4%           | 6.3%           | 6.9%           | N. App.        |
| Operating income before non-recurring items / Net interest charge <sup>(5)</sup> | 3,5            | 3,5            | 6,1            | 4,2            | 4,4            | N. App.        |
| Free cash flow <sup>(6)</sup>  | 1,387          | (359)          | 433            | (39)           | (124)          | 266            |
| ROE <sup>(7)</sup>   | 1.9%           | 7.0%           | 14.7%          | 12.2%          | 19.7%          | 18.5%          |
| ROCE – Return on capital employed <sup>(8)</sup>                                 | 5.4%           | 5.6%           | 9.7%           | 8.0%           | N. App.        | N. App.        |

| IFRS                                | 2009   | 2008  | 2007  | 2006  | 2005  | 2004  |
|-------------------------------------|--------|-------|-------|-------|-------|-------|
| <b>Per share data (in €)</b>        |        |       |       |       |       |       |
| Net assets per share <sup>(9)</sup> | 37.2   | 35.2  | 36.7  | 32.6  | 31.5  | 24.2  |
| Basic earnings per share            | 0.71   | 2.46  | 5.32  | 3.95  | 6.13  | 4.46  |
| Diluted earnings per share          | 0.71   | 2.46  | 5.22  | 3.94  | 6.12  | 4.46  |
| P/E <sup>(10)</sup>                 | 75.5   | 15.3  | 14.8  | 18.4  | 7.7   | 10.6  |
| Dividend per share                  | 1.00*  | 1.00  | 1.60  | 1.45  | 1.35  | 1.25  |
| Distribution rate <sup>(11)</sup>   | 140.8% | 40.7% | 30.1% | 36.7% | 22.0% | 28.0% |
| Dividend yield <sup>(12)</sup>      | 1.9%   | 2.7%  | 2.0%  | 2.0%  | 2.8%  | 2.6%  |
| Share turnover rate <sup>(13)</sup> | 199%   | 308%  | 216%  | 212%  | 151%  | 134%  |

(1) Pursuant to switch to IFRS, part of the Group's research and development expenses are integrated into the cost of goods sold in the income statement by function.

(2) EBITDA: earnings before finance costs, income tax, depreciation and amortization.

(3) Net debt after implementation of IAS 32 and IAS 39, effective January 1, 2005: financial liabilities - cash and cash equivalents +/- derivative assets.

(4) Total equity after implementation of IAS 32 and IAS 39, effective January 1, 2005.

(5) Net interest charge: interest financing expenses - interest income from cash and equivalents + discount/premium amortization on forward foreign exchange contracts.

(6) Free cash flow: Cash flows from operating activities - Cash flows from investing activities.

(7) ROE: net income attributable to Shareholders / Shareholders' equity excluding non-controlling interests.

(8) ROCE: Net Operating Profit After Tax (NOPAT) / capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement).

(9) Net assets per share: net assets / number of shares outstanding at the end of the period.

(10) P/E: Share price at the end of the period / earnings per share.

(11) Distribution rate: dividend per share / basic earnings per share.

(12) Dividend yield: dividend per share / share price at December 31.

(13) Share turnover rate: number of shares traded during the year / average number of shares outstanding during the year.

N. App.: Non applicable.

\* 2009 dividend subject to approval by the Annual Shareholders Meeting of May 7, 2010.

# 4

## CORPORATE GOVERNANCE



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## 4.1. A PARTNERSHIP LIMITED BY SHARES

### 4.1.1. A TRANSPARENT LEGAL STRUCTURE THAT PROMOTES ACCOUNTABILITY

Tire manufacturing is a capital intensive industry with long investment payback periods, and deploying new technologies is a slow process that requires considerable time and effort. Defining and implementing long-term action plans is therefore crucial.

Throughout its history, Compagnie Générale des Etablissements Michelin (CGEM), the Group's parent company, has been organized as a partnership limited by shares (*société en commandite par actions* - SCA). This legal structure has the advantages of:

- facilitating the deployment of long-term strategies by a stable management team whose interests are aligned with those of the shareholders;
- establishing a clear separation between management and oversight powers;
- fostering direct ties with shareholders through the requirement for all shares to be registered.

### 4.1.2. TWO PARTNER CATEGORIES

- The **Limited Partners** or Shareholders provide capital, elect the Managing Partners and approve the financial statements presented by the Managing Partners. Their liability is limited to the amount of their investment. They receive a share of its income in the form of a dividend.
- The **General Partners** have unlimited personal liability for the Company's debts. They can be relieved of this liability only by decision of the shareholders in Extraordinary Meeting. The General Partners may be shareholders, but may not take part in a vote to elect Supervisory Board members. They receive a statutory share of any profits subject to shareholder approval at the Annual Shareholders Meeting.

Michelin has two General Partners: Michel Rollier, Managing Partner, and *Société Auxiliaire de Gestion* (SAGES). SAGES is owned by members of the founding family, current and former Michelin executives and qualified persons from outside the Group. Its corporate purpose is i) to act as General Partner of CGEM, and ii) in the absence of a Managing Partner, to act as CGEM's Managing Partner and call an Extraordinary Shareholders Meeting to elect a new Managing Partner.

### 4.1.3. THE MANAGING PARTNERS, RESPONSIBLE FOR THE DAY-TO-DAY MANAGEMENT OF THE BUSINESS

The Managing Partners are elected by shareholders upon unanimous recommendation of the General Partners made after consulting the Supervisory Board. They are responsible for administering and managing the Company.

(1) Five years prior to the Annual Shareholders Meeting of May 15, 2009 at which the term was reduced to four years for members elected or re-elected at future meetings.

- **Managing General Partners** remain in office until they reach the statutory age limit. Any decision to stand down early must be accepted by shareholders in Extraordinary Meeting. They do not receive any salary, benefits in kind, directors' fees or top-hat pension benefits and they are not entitled to any severance package. Their compensation depends entirely on the Company's results and corresponds to the statutory share of profit (if any) they receive in their capacity as General Partners. As is the case for dividends, this compensation is paid in the year following the one in which the profit is generated. This ensures that Managing General Partners' interests are fully aligned with those of the shareholders. Their unlimited personal liability for the Company's debts offers shareholders the best possible guarantee that Michelin will be managed in their mid- to long-term interests.

Michelin has one Managing General Partner, Michel Rollier.

- **The Non-General Managing Partners** are elected for a five-year renewable term. They have no personal liability for the Company's debts. Their compensation is set each year by the General Partners, after consulting the Supervisory Board. It comprises a variable portion linked to the Company's financial performance.

The Annual Shareholders Meeting of May 11, 2007 elected two Non-General Managing Partners, Didier Miraton and Jean-Dominique Senard.

### 4.1.4. THE SUPERVISORY BOARD, RESPONSIBLE FOR OVERSEEING THE MANAGEMENT OF THE BUSINESS

The Supervisory Board comprises three to ten members, each of whom is elected for a four-year term<sup>(1)</sup> by the Shareholders Meeting. Its internal rules stipulate that the majority of its members must be independent. All eight members of the current Supervisory Board are qualified as independent.

The independence criteria applied by Michelin correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies, except that the Code sets a 12-year limit on the aggregate period during which a member may serve on the Board. The Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, it helps the member to understand the Company in all its complexity and efficiently oversee its management on an ongoing basis in line with a medium to long-term strategic vision.

To effectively carry out its oversight role, the Supervisory Board has the same powers as the Statutory Auditors and can access the same information and documents.

During Shareholders Meetings, the Supervisory Board expresses an opinion on the Managing Partners' recommendations and reports to the shareholders on its oversight activities.

## 4.2. BOARD AND MANAGEMENT PRACTICES

The organizational principles of Compagnie Générale des Etablissements Michelin (CGEM), a *société en commandite par actions* (partnership limited by shares), are applied transparently and constructively by the Company and are fully aligned with both shareholder expectations and responsible corporate governance practices. These principles are designed to support the deployment of long-term strategies by a stable, responsible management team, with the oversight of an independent Supervisory Board whose functions are clearly separated from those of senior management.

In addition, Michelin is dedicated to fostering a close, personalized relationship with every shareholder, in particular by registering all of the Company's shares.

### 4.2.1. AN EXPERIENCED, STABLE AND RESPONSIBLE MANAGEMENT TEAM

#### ● 4.2.1.a) EXPERIENCE

In line with its bylaws, Michelin is managed by one or more Managing Partners who must be individuals and may or may not be General Partners.

The current Managing Partners are Michel Rollier (elected as Managing General Partner by the Annual Shareholders Meeting of May 20, 2005), Didier Miraton and Jean-Dominique Senard (both elected as Non-General Managing Partners by the Annual Shareholders Meeting of May 11, 2007).

Michel Rollier joined Michelin in 1996 as Vice President, Finance & Legal Affairs, after acquiring many years' management experience with a major international industrial group.

Didier Miraton, who joined Michelin in 1982, has spent most of his career working in Research and Innovation, in both France and North America.

Jean-Dominique Senard joined Michelin in 2005 as Chief Financial Officer, after holding a variety of management positions with major international groups.

#### ● 4.2.1.b) ROLE AND RESPONSIBILITIES

The Managing Partners are responsible, jointly and individually, for administering and managing the Company.

Their core responsibilities are to:

- define and implement the Group's strategy;
- lead the Group's business;

- establish internal control and risk management procedures and oversee their implementation;
- approve the separate and consolidated financial statements of the Group;
- define financial information policies;
- draw up the various reports to shareholders.

They fulfill these responsibilities under the oversight of the Supervisory Board.

The Managing Partners are assisted by a 7-member Executive Council currently comprising:

- Eric de Cromières, Senior Vice President, Marketing & Sales Performance; Director of Euromaster, TCI, Michelin Maps & Guides, ViaMichelin and Michelin Lifestyle, also responsible for overseeing Information Systems;
- Claire Dorland-Clauzel, Senior Vice President, Michelin Communication and Brands;
- Jean-Christophe Guérin, Senior Vice President, Manufacturing Performance, also responsible for overseeing Quality and Supply Chain Operations;
- Jean-Michel Guillon, Senior Vice President, Human Resources and Organization;
- Florent Menegaux, President, Car & Light truck tire Business. Also responsible for overseeing Motorsport activities;
- Pete Selleck, President, Truck tire Business;
- Bernard Vasdeboncoeur, President, Specialty tire business (Agricultural, Aircraft, Two-wheel, Earthmover, Components), also responsible for overseeing Procurement.

#### ● 4.2.1.c) STABILITY

The stability afforded by Michelin's corporate governance structure ensures that the Managing Partners can develop the long-term strategies best suited to an industry where investment payback periods are long and the pace of technological innovation is slow.

#### ● 4.2.1.d) RESPONSIBILITY

The Managing General Partner has unlimited personal liability for Michelin's debts. This offers shareholders a rarely found level of assurance that the Group is run in their medium- to long-term interests, particularly during times of volatile markets or economic crisis. It also means that the Managing Partners are especially vigilant in their management of corporate risks.

Underscoring the sustained nature of his commitment to the Company, the Managing General Partner can only be relieved of his liability as General Partner by decision of the shareholders in Extraordinary Meeting and therefore fully assumes the long-term consequences of the Managing Partners' decisions.

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The Managing General Partner is entitled to a statutory share of the Company's profits for the previous financial year, but does not receive any other form of compensation, such as a salary, benefits in kind, director's fees, stock options, pension benefits or other benefits or allowances. As a result, his compensation is entirely variable and depends wholly on the Company's performance.

The Non-General Managing Partners are elected by the Annual Shareholders Meeting for a five-year term. They may be re-elected by the Annual Shareholders Meeting on the recommendation of the General Partners supported by the Supervisory Board. Their compensation is set each year by unanimous decision of the Managing General Partner and the other General Partners, after consulting the Supervisory Board.

## 4.2.2. INDEPENDENT SUPERVISORY BODIES REPORTING DIRECTLY TO SHAREHOLDERS

### 4.2.2.a) SUPERVISORY BOARD

The report of the Chairman of the Supervisory Board on the membership of the Supervisory Board, on the Supervisory Board's practices and on the Group's internal control and risk management procedures is presented in section 4.6.

#### Members

In accordance with applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years. The General Partners may not take part in the vote. Supervisory Board members may be re-elected.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

The Supervisory Board currently has eight members: Eric Bourdais de Charbonnière (Chairman), Barbara Dalibard, Laurence Parisot, Pat Cox, Louis Gallois, François Grappotte, Pierre Michelin and Benoît Potier<sup>(1)</sup>.

The role and practices of the Supervisory Board and its committees are set out in their respective internal rules, the main provisions of which are set out below.

#### Role and responsibilities

The Supervisory Board oversees the Company's management on an ongoing basis on behalf of the shareholders and presents a report thereon at each Annual Shareholders Meeting. Its oversight procedures include:

- reviewing the separate and consolidated financial statements approved by the Managing Partners;

- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing and implementing strategic roadmaps;
- obtaining assurance that shareholders' rights are respected.

The Supervisory Board receives regular information about the Group's strategy and outlook.

#### Independence

A majority of the members of the Supervisory Board must be independent and without any vested interests (i.e. with no relationship of any kind whatsoever with the Company or its management which might risk coloring the member's judgment).

A Supervisory Board member is qualified as independent when he or she fulfills the following criteria:

- the member is not currently and has not been during the last five years an employee of the Company or of one of its consolidated subsidiaries;
- the member is not a corporate officer of an entity of which the Company (directly or indirectly) or a corporate officer of the Company is a director;
- the member is not a customer, a supplier or a banker of the Company that is material for the Company or that derives a significant portion of its business from the Company;
- the member does not have any close family ties with any of the Managing Partners;
- the member has not been an auditor of the Company in any of the past five years.

These criteria correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies, except that the Code sets a limit on the aggregate period during which a member may serve on the Board<sup>(2)</sup>.

During 2009 and up to the date of this report, all Supervisory Board members qualified as independent based on the above criteria. In addition, they bring to the Board their extensive experience in management, manufacturing and finance.

#### Board practices

Regular presentations are made to the Supervisory Board by the Managing Partners or by other executives or internal or external experts, to enable the Board to fulfill its oversight role. They include:

- analyses of the Group's results, presented by the Managing Partners and the Chief Financial Officer;
- review of strategic roadmaps and projects;
- risk analyses, covering all types of risks;
- presentations of any other issues that are critical to understanding the Group's strategy, business and outlook, as well as its markets and competitive environment.

(1) Biographical details of the Supervisory Board members are presented in section 4.3.3.b), and details of their compensation are provided in section 4.4.6.

(2) See the Supervisory Board's corporate governance statement in section 4.6.2.

Each year, the Supervisory Board reviews the Group's risk management systems, including the systems implemented by the different departments, the main risks they address and the resources available to prevent their occurrence and ensure business continuity. On a yearly basis, the Supervisory Board also assesses the Group's internal control systems and makes inquiries of the head of the Internal Audit Department. It is assisted in these tasks by the Audit Committee.

In order to afford the Supervisory Board optimum visibility on the Group's operations, its members receive quarterly reports presenting key performance indicators, as well as regular information such as copies of the Group's main press releases, research reports published by analysts who follow Michelin, and updates on the Group's business environment.

Supervisory Board meetings may be held by videoconference on the basis stipulated in the Board's internal rules.

#### Supervisory Board self-assessments

Once a year, the Supervisory Board reviews its practices and the status of each of its members in relation to the independence criteria.

The conclusions of this annual assessment are presented in the report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting on the membership of the Supervisory Board, on the Supervisory Board's practices and on the Group's internal control and risk management procedures<sup>(1)</sup>.

The Supervisory Board is assisted in its oversight role by two Committees, each with its own internal rules as summarized below.

### ● 4.2.2.b) AUDIT COMMITTEE

#### Members

The Audit Committee has at least three members appointed for their full term as Supervisory Board Members. At least two thirds of the members must be independent. The Committee currently has four members – François Grappotte (Chairman), Eric Bourdais de Charbonnière, Pierre Michelin and Benoît Potier – all of whom are independent.

#### Role and responsibilities

The Audit Committee assists the Supervisory Board in fulfilling its oversight role. It operates as a specialized committee tasked with addressing issues related to the preparation and control of accounting and financial information in accordance with the new articles L.823-19 and L.823-20-4 of the French Commercial Code introduced by order 2008-1278 of December 8, 2008.

The Audit Committee's role includes:

- reviewing the annual and interim financial statements, as approved by the Managing Partners and audited by the Statutory Auditors;
- obtaining assurance that the Group's accounting methods and policies are appropriate and are applied consistently, and overseeing the quality of information given to the shareholders;
- assessing the effectiveness of internal control and risk management systems;

(1) This report is presented in section 4.6. of the present Registration Document.

- reviewing financial, accounting and legal risks, assessing the effectiveness of measures taken to control these risks and examining their accounting treatment and the related disclosures in the Group's communications;
- reviewing the Statutory Auditors' annual audit programs;
- reviewing internal audit programs and recommending internal audits of specific financial risks;
- verifying the Statutory Auditors' independence and objectivity and expressing an opinion about their appointment or re-appointment.

#### Committee practices

The Committee's work program and meeting schedule are decided by the Supervisory Board.

The Audit Committee can ask the Chief Financial Officer or other Company executives to attend its meetings and it also meets with the Statutory Auditors once a year without any members of management being present.

The Committee chooses the location of its meetings and may decide to conduct meetings by videoconference.

The Committee's Chairman reports on the Committee's work to the Supervisory Board several times a year.

The report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting includes an account of the Audit Committee's activities<sup>(1)</sup>.

### ● 4.2.2.c) COMPENSATION COMMITTEE

The Compensation Committee comprises all Supervisory Board members, all of whom are independent, and is chaired by the Supervisory Board's Chairman.

#### Role and responsibilities

The Committee's role encompasses:

- senior management compensation policy, including the criteria used to determine:
  - fixed and variable compensation paid to Non-General Managing Partners,
  - fixed and variable compensation paid to members of the Executive Council,
  - variable compensation paid to other senior executives;
- stock option and performance share policies.

In addition, the Committee makes recommendations concerning senior executive and Managing Partner compensation policies, career development plans and succession plans.

#### Committee practices

The Compensation Committee may invite the Senior Vice President, Human Resources or any internal or external expert to attend its meetings, depending on the agenda items.

The report of the Chairman of the Supervisory Board to the Annual Shareholders Meeting includes an account of the Compensation Committee's activities<sup>(1)</sup>.

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#### ● 4.2.2.d) TERMS OF OFFICE OF SUPERVISORY BOARD MEMBERS

| Name                                      | First elected/re-elected | Current term expires | Independent* |
|---|--------------------------|----------------------|--------------|
| Eric Bourdais de Charbonnière<br>Chairman | June 11, 1999            | 2004                 | Yes          |
|   | May 14, 2004             | 2009                 |              |
|   | May 15, 2009             | 2013                 |              |
| Pat Cox                                   | May 20, 2005             | 2010                 | Yes          |
| Barbara Dalibard                          | May 16, 2008             | 2013                 | Yes          |
| Louis Gallois                             | May 16, 2008             | 2013                 | Yes          |
| François Grappotte                        | June 11, 1999            | 2004                 | Yes          |
|   | May 14, 2004             | 2009                 |              |
|   | May 15, 2009             | 2013                 |              |
| Pierre Michelin                           | June 12, 1998            | 2003                 | Yes          |
|   | May 16, 2008             | 2013                 |              |
| Laurence Parisot                          | May 20, 2005             | 2010                 | Yes          |
| Benoît Potier                             | May 16, 2003             | 2008                 | Yes          |
|   | May 16, 2008             | 2013                 |              |

\* Based on the criteria set in the Supervisory Board's internal rules, which correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies, except that the Code sets a limit on the aggregate period during which a member may serve on the Board (please refer to section 4.1.4.).

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## 4.3. ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND SENIOR MANAGEMENT

### 4.3.1. SENIOR MANAGEMENT

The Group is managed by Michel Rollier, Managing General Partner, and Didier Miraton and Jean-Dominique Senard, Non-General Managing Partners.

#### Michel Rollier

- Born in 1944.
- Graduate of *Institut d'Études Politiques* (IEP) Paris, MA in Law.
- Joined Aussedat-Rey (a member of the International Paper Group) in 1971 as Financial Controller, going on to become head of an operating unit, then Chief Financial Officer from 1987 to 1994 and Deputy Chief Executive Officer from 1994 to 1996.
- Joined Michelin in 1996 as Vice President, Finance & Legal Affairs.
- Appointed Chief Financial Officer and member of the Executive Council in October 1999.
- Managing Partner since May 20, 2005.

#### Didier Miraton

- Born in 1958.
- Graduate of *Ponts et Chaussées* engineering school.
- Joined Michelin in 1982, spending most of his career working in research and innovation in France and the United States, in Truck, Earthmover and Handling Equipment tire technologies.
- Appointed Managing Director of the Michelin Technology Center and member of the Executive Council in 2001.
- Managing Partner since May 11, 2007.

#### Jean-Dominique Senard

- Born in 1953.
- Graduate of HEC business school, MA in Law.
- From 1979 to 1996, held various management positions in finance and operations at Total then Saint-Gobain.
- Joined Pechiney in 1996 as Chief Financial Officer and member of the Executive Committee, then Director, Primary Aluminum Division, until 2004.
- Subsequently appointed as a member of Alcan Group's Executive Committee and Chairman of Péchiney SA.
- Joined Michelin in 2005 as Chief Financial Officer and member of the Executive Council.
- Managing Partner since May 11, 2007.

### 4.3.2. SUPERVISORY BODIES

#### ● 4.3.2.a) SUPERVISORY BOARD

The Supervisory Board oversees Michelin's management on an ongoing basis on behalf of the shareholders and reports to shareholders on its oversight activities at each Annual Meeting. It has eight members, each elected for a four-year term<sup>(1)</sup>. All of the members are qualified as independent. The Supervisory Board as a whole performs the duties generally assigned to a Compensation Committee. It has created an Audit Committee made up of four members: François Grappotte, the Committee Chairman, Eric Bourdais de Charbonnière, Pierre Michelin and Benoît Potier. The Supervisory Board met five times in 2009 with an attendance rate of 90%.

#### Éric Bourdais de Charbonnière

Born in 1939 – French national  
Independent Member  
Chairman of the Supervisory Board  
Member of the Audit Committee

After 25 years with JP Morgan, where he notably served as the bank's Chief Executive Officer for France, Éric Bourdais de Charbonnière became Michelin's Chief Financial Officer in 1990, a position he held until his retirement in 1999. He has chaired Michelin's Supervisory Board since 2000.

#### Pat Cox

Born in 1952 – Irish national  
Independent Member

Pat Cox is a former Member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004.

#### Barbara Dalibard

Born in 1958 – French national  
Independent Member

Barbara Dalibard became Chief Executive Officer of SNCF Voyages in January 2010. Before joining SNCF Voyages, she was a member of France Télécom's Group Management Committee in charge of enterprise communication solutions (Orange Business Services). Prior to that, she held various management positions within France Télécom and Alcatel.

(1) Five years prior to the Annual Shareholders Meeting of May 15, 2009 at which the term was reduced to four years for members elected or re-elected at future meetings.

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**Louis Gallois**

Born in 1944 – French national

Independent Member

Louis Gallois is Chief Executive Officer of EADS and Chairman of the Airbus Shareholders' Committee. Previously, he served as Chairman of SNCF and worked in various capacities in the aeronautics industry as well as in France's Economy and Finance Ministry, Research and Industry Ministry and Defense Ministry.

**François Grappotte**

Born in 1936 – French national

Independent Member

Chairman of the Audit Committee

After serving for 20 years as Chief Executive Officer of Legrand, François Grappotte was appointed non-executive Chairman in 2004 and Honorary Chairman on March 17, 2006.

**Pierre Michelin**

Born in 1949 – French national

Independent Member

Member of the Audit Committee

After holding various positions within Philips' IT department, Pierre Michelin moved to Groupe Bull, where he currently heads a division. Since 2003, he has also lectured on information systems technology at the Reims Management School (RMS), France.

**Laurence Parisot**

Born in 1959 – French national

Independent Member

Laurence Parisot was Chief Executive Officer of the Institut Louis Harris France polling organization from 1986 to 1990, and Chairman of Optimum from 1990 to March 2006. She has been Chairman and Chief Executive Officer of *Institut Français de l'Opinion Publique* (Ifop) since 1990 and President of France's Employers Association (MEDEF) since July 2005.

**Benoît Potier**

Born in 1957 – French national

Independent Member

Member of the Audit Committee

During a 25-year career with Air Liquide, Benoît Potier has successively held the positions of Chief Executive Officer (from 1997 to November 2001), Chairman of the Executive Board (from November 2001 to May 2006) and Chairman and Chief Executive Officer (since May 2006).

● **4.3.2.b) STATUTORY AUDITORS**

Please refer to section 9.2 on the Statutory Auditors.

(1) Non-General Managing Partners are banned by law from holding shares in the Company (articles L.222-6 and L.226-1 of the French Commercial Code).

### 4.3.3. DIRECTORSHIPS AND POSITIONS HELD IN OTHER COMPANIES DURING THE LAST FIVE YEARS BY THE MANAGING PARTNERS AND SUPERVISORY BOARD MEMBERS – NUMBER OF MICHELIN SHARES HELD

● **4.3.3.a) MANAGING PARTNERS****Michel Rollier**

19,338 Michelin shares

2005

Director of Moria SA

Member of the Supervisory Board of Altamo

2006

Partner of Compagnie Financière Michelin

Director of Moria SA

Member of the Supervisory Board of Altamo

2007

Partner of Compagnie Financière Michelin

Director of Moria SA

2008

Managing Partner of Compagnie Financière Michelin

Director of Lafarge (from May 7, 2008)

Director of Moria SA

2009

Managing Partner of Compagnie Financière Michelin

Director of Lafarge

Director of Moria SA

**Didier Miraton**

No Michelin shares<sup>(1)</sup>

2005-2006

Managing Director of the Michelin Technology Center

2007

Managing Director of the Michelin Technology Center (until his appointment as Managing Partner)

Director of Vilmorin (from December 12, 2007)

2008-2009

Director of Vilmorin

**Jean-Dominique Senard**

No Michelin shares<sup>(1)</sup>

2005-2006

Chief Financial Officer of Michelin

2007

Chief Financial Officer of Michelin (until his appointment as Managing Partner)

Director of Compagnie Financière Michelin

2008

Director of Compagnie Financière Michelin

2009

Director of Compagnie Financière Michelin

Director of Groupe SEB (from May 13, 2009)

● **4.3.3.b) SUPERVISORY BOARD MEMBERS**

**Eric Bourdais de Charbonnière**

1,084 Michelin shares

2005-2006

Member of the Supervisory Board of Oddo et Cie

Member of the Board of Directors and Chairman of the Audit Committee of Thomson SA

Member of the Supervisory Board of ING Group

2007-2008

Member of the Supervisory Board of Oddo et Cie

Member of the Board of Directors of Thomson SA

Member of the Supervisory Board of ING Group

2009

Member of the Supervisory Board of Oddo et Cie

Member of the Board of Directors of Thomson SA

Member of the Supervisory Board of ING Group (until April 27)

**Pat Cox**

255 Michelin shares

2005

Chairman and Chief Executive Officer of European Integration Solutions LLC

2006-2007

Chairman and Chief Executive Officer of European Integration Solutions LLC

President of European Movement International

Member of the Board of Trustees of the International Crisis Group

Member of the Board of Trustees of Friends of Europe

Commissioner General of Europalia

Director of UCD Michael Smurfit Graduate School of Business

2008-2009

President of European Movement International

Member of the Board of Trustees of the International Crisis Group

Member of the Board of Trustees of Friends of Europe

Director of UCD Michael Smurfit Graduate School of Business

Member of the President's Consultative Board, University College Cork

Patron of the Blue Box Creative Learning Centre

Member of the Microsoft European Advisory Council

Member of the Pfizer Europe Advisory Council

Director of Tiger Developments Europe

Member of the APCO Worldwide International Advisory Council

**Barbara Dalibard**

360 Michelin shares

2005

Director of Globecast Holding

Director of Transpac (until December 25, 2005)

Chairman of the Supervisory Board of ENV International NV (ex- Equant NV) (until September 20, 2005)

Chief Executive Officer and Managing Director of Equant BV (from August 22, 2005)

2006-2007

Director of Globecast Holding

Chief Executive Officer and Managing Director of Equant BV

(1) Non-General Managing Partners are banned by law from holding shares in the Company (articles L.222-6 and L.226-1 of the French Commercial Code).

2008

Member of the France Télécom Group Management Committee

Chairman and Chief Executive Officer of Equant

Director of Globecast Holding

2009

Member of the France Télécom Group Management Committee

Chairman and Chief Executive Officer of Equant

Director of Globecast Holding

Member of the Supervisory Board of Wolters Kluwer (from April 21, 2009)

#### Louis Gallois

250 Michelin shares

2005

Chairman of SNCF

Director of Thales (until May 8, 2005)

Director of EADS NV

2006

Chairman of SNCF (until July 2, 2006)

Executive co-Chairman of EADS NV (from July 2, 2006)

Chairman of Airbus (from October 3, 2006)

2007

Executive co-Chairman of EADS NV (until August 27, 2007)

Chairman of Airbus (until August 27, 2007)

Executive Chairman of EADS NV (from August 27, 2007)

2008-2009

Executive Chairman of EADS NV

Member of the EADS NV Executive Committee

Chairman of the Airbus Shareholders Committee

Director of *École Centrale des Arts et Manufactures*

Chairman of Fondation Villette-Entreprises

#### François Grappotte

1,029 Michelin shares

2005

Chairman of Legrand

Director of BNP Paribas

Director of Valeo

Member of the Supervisory Board of Galeries Lafayette

Member of the Bureau of FIEEC<sup>(1)</sup>

Member of the Bureau of Gimélec<sup>(2)</sup>

Member of the Board of Promotelec<sup>(3)</sup>

2006

Honorary Chairman of Legrand

Director of BNP Paribas

Director of Valeo

Member of the Bureau of FIEEC<sup>(1)</sup>

Member of the Bureau of Gimélec<sup>(2)</sup>

Member of the Board of Promotelec<sup>(3)</sup>

2007

Honorary Chairman of Legrand

Director of BNP Paribas

Director of Valeo

Member of the Board of Promotelec<sup>(3)</sup>

2008-2009

Honorary Chairman of Legrand

Director of BNP Paribas

#### Pierre Michelin

1,519 Michelin shares

2005-2006-2007-2008- 2009

No other directorships

(1) *Fédération des Industries Électriques, Électroniques et de Communication.*

(2) *Groupement des Industries de l'Équipement Électrique, du Contrôle-Commande et des Services Associés.*

(3) *Promotion de l'Installation Électrique Dans les Bâtiments Neufs et Anciens.*



**Laurence Parisot**

500 Michelin shares

2005

Chairman of Ifop

Director of BNP Paribas

Director of Havas

Member of the Supervisory Board of Euro Disney SCA

President of MEDEF

2006

Chairman of Ifop

Director of BNP Paribas

Director of Havas (until June 2006)

Member of the Supervisory Board of Euro Disney SCA (until January 2006)

President of MEDEF

2007

Chairman of Ifop

Director of BNP Paribas

Director of Coface SA (from February 1, 2007)

President of MEDEF

2008-2009

Vice Chairman of the Management Board of Ifop

Director of BNP Paribas

Director of Coface SA

President of MEDEF

**Benoît Potier**

2,583 Michelin shares

2005

Chairman of the Management Board of Air Liquide SA

Chairman and Chief Executive Officer of Air Liquide International

Chairman and Chief Executive Officer of American Air Liquide, Inc. (AAL)

Director of Société d'Oxygène et d'Acétylène d'Extrême-Orient (SOAEO)

Chairman and Chief Executive Officer of Air Liquide International Corporation (ALIC)

Director of Air Liquide Italia Srl, AL Air Liquide España, Air Liquide Asia Pte Ltd, Air Liquide Canada Inc.

Director of Air Liquide America Holdings, Inc. (AHL)

Chairman of the Audit Committee and Director of Groupe Danone

Director of *École Centrale des Arts & Manufactures*

2006

Chairman and Chief Executive Officer of Air Liquide, Air Liquide International, American Air Liquide, Inc., Air Liquide International Corporation

Chairman of American Air Liquide Holdings, Inc.

Director of Société d'Oxygène et d'Acétylène d'Extrême-Orient (SOAEO) (until March 2006)

Director of Air Liquide Italia Srl, AL Air Liquide España

Chairman of the Audit Committee and Director of Groupe Danone

Director of *École Centrale des Arts & Manufactures*

Member of the French Council of Insead

2007

Chairman and Chief Executive Officer of Air Liquide, Air Liquide International, American Air Liquide, Inc., Air Liquide International Corporation

Chairman of American Air Liquide Holdings Inc.

Director of Air Liquide Italia Srl (until April 2007), AL Air Liquide España (until May 2007)

Chairman of the Audit Committee and Director of Groupe Danone

Director of *École Centrale des Arts & Manufactures*

Member of the French Council of Insead

2008-2009

Chairman and Chief Executive Officer of Air Liquide, Air Liquide International, American Air Liquide, Inc., Air Liquide International Corporation

Chairman of American Air Liquide Holdings, Inc.

Chairman of *Fondation d'Entreprise Air Liquide*

Chairman of the Audit Committee and Director of Groupe Danone

Director of *École Centrale des Arts & Manufactures*

Member of the French Council of Insead

Director of ANSA

Director of AFEP

Director of *Cercle de l'industrie*

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#### 4.3.4. STATEMENTS

There are no family relationships between any of the Supervisory Board members or Managing Partners.

To the best of the Company's knowledge, no Supervisory Board member or Managing Partner has been convicted of fraud during the past five years. No Supervisory Board member or Managing Partner has been associated with a bankruptcy, receivership or liquidation during the past five years. No Supervisory Board member or Managing Partner has been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.

No Supervisory Board member or Managing Partner has a service contract with the Company or any of its subsidiaries.

There are no:

- arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which they were selected as a member of the Supervisory Board or as a Managing Partner;
- conflicts of interest between the duties to the Company of the Supervisory Board members and the Managing Partners and their private interests and/or other duties;
- Supervisory Board member or Managing Partner has agreed to any restriction on the disposal within a certain period of time of their holdings in Michelin's securities, except for those resulting from insider dealing rules and the rules applicable to Managing General Partners.

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## 4.4. COMPENSATION, BENEFITS AND STOCK OPTIONS AWARDED TO THE MANAGING PARTNERS AND SUPERVISORY BOARD MEMBERS

The data and tables in this section have been prepared:

- in accordance with the AFEP-MEDEF Corporate Governance Code dated December 2008 and the AMF's recommendation of December 22, 2008 concerning the information about management compensation to be disclosed in Registration Documents,
- in compliance with the July 9, 2009 "AMF Report" guidelines concerning the compensation awarded to the senior executives of listed companies and the implementation of AFEP-MEDEF recommendations.

### 4.4.1. SUMMARY INFORMATION

#### 4.4.1.a) COMPENSATION, STOCK OPTIONS AND PERFORMANCE SHARES AWARDED TO EACH MANAGING PARTNER (IN €)

| <b>Michel Rollier, Managing General Partner with unlimited personal liability for the Company's debts</b> | <b>2008</b>              | <b>2009</b>            |
|---|--------------------------|------------------------|
| Compensation due for the year (see table 4.4.1.b for details)   | 2,478,760 <sup>(1)</sup> | 743,628 <sup>(2)</sup> |
| Value of options granted during the year (see table 3 for details)  | 0                        | 0                      |
| Value of performance shares granted during the year   | 0                        | 0                      |
| <b>TOTAL</b>  | <b>2,478,760</b>         | <b>743,628</b>         |

(1) Corresponding to Michel Rollier's statutory share of the 2008 profits of CGEM and a company controlled by CGEM (Compagnie Financière Michelin – CFM) in his capacity as General Partner, as approved by these companies' Annual Shareholders Meetings held in 2009. This compensation is entirely variable to the extent that it depends on the level of each company's profit.

(2) The 70% year-on-year decrease stems directly from the decline in 2009 profit compared with 2008. This is a total estimated amount that is subject to approval of the Managing Partners' statutory share of profits by CGEM shareholders at the Annual Shareholders Meeting of May 7, 2010 called to approve the 2009 accounts and appropriate profit. No other controlled company will pay any compensation to Mr. Rollier for 2009.

| <b>Didier Miraton, Non-General Managing Partner</b>           | <b>2008</b>    | <b>2009</b>    |
|---|----------------|----------------|
| Compensation due for the year (see table 4.4.1.b for details) | 476,293        | 794,414        |
| Value of options granted during the year                      | 0              | 0              |
| Value of performance shares granted during the year           | 0              | 0              |
| <b>TOTAL</b>  | <b>476,293</b> | <b>794,414</b> |

| <b>Jean-Dominique Senard, Non-General Managing Partner</b>    | <b>2008</b>    | <b>2009</b>      |
|---|----------------|------------------|
| Compensation due for the year (see table 4.4.1.b for details) | 663,947        | 1,060,291        |
| Value of options granted during the year                      | 0              | 0                |
| Value of performance shares granted during the year           | 0              | 0                |
| <b>TOTAL</b>  | <b>663,947</b> | <b>1,060,291</b> |

● 4.4.1.b) COMPENSATION DUE AND PAID TO EACH MANAGING PARTNER (IN €)

|   | 2008                     |                          | 2009                   |                          |
|---|--------------------------|--------------------------|------------------------|--------------------------|
|   | Due                      | Paid                     | Due                    | Paid                     |
| <b>Michel Rollier, Managing General Partner<br/>with unlimited personal liability for the Company's debts</b> |                          |                          |                        |                          |
| Fixed compensation  | 0                        | 0                        | 0                      | 0                        |
| Variable compensation   | 2,478,760 <sup>(1)</sup> | 5,342,932 <sup>(2)</sup> | 743,628 <sup>(3)</sup> | 2,478,760 <sup>(1)</sup> |
| Exceptional compensation  | 0                        | 0                        | 0                      | 0                        |
| Director's fees   | 0                        | 0                        | 0                      | 0                        |
| Fringe benefits   | 0                        | 0                        | 0                      | 0                        |
| <b>TOTAL</b>  | <b>2,478,760</b>         | <b>5,342,932</b>         | <b>743,628</b>         | <b>2,478,760</b>         |

- (1) Of which €2,292,841 statutory share of 2008 profit attributable to Michel Rollier in his capacity as General Partner, as approved at the Annual Shareholders Meeting of May 15, 2009, and €185,919 corresponding to his statutory share of the 2008 profit of CFM. These amounts are entirely variable to the extent that they depend on the level of each company's profit.
- (2) Of which €4,760,000 statutory share of 2007 profit attributable to Michel Rollier in his capacity as General Partner, as approved at the Annual Shareholders Meeting of May 16, 2008, and €582,932 corresponding to his statutory share of the 2007 profits of two companies controlled by CGEM (MFPM and CFM). These amounts are entirely variable to the extent that they depend on the level of each company's profit.
- (3) The 70% year-on-year decrease stems directly from the decline in 2009 profit compared with 2008. This is a total estimated amount that is subject to i) approval of the Managing Partners' statutory share of profits by CGEM shareholders at the Annual Shareholders Meeting of May 7, 2010 called to approve the 2009 accounts and appropriate profit, and ii) approval by the other General Partner (SAGES). No other controlled company will pay any compensation to Mr. Rollier for 2009.

|   | 2008           |                  | 2009                   |                       |
|---|----------------|------------------|------------------------|-----------------------|
|   | Due            | Paid             | Due                    | Paid                  |
| <b>Didier Miraton, Non-General Managing Partner<sup>(1)</sup></b> |                |                  |                        |                       |
| Fixed compensation  | 420,004        | 420,004          | 420,004                | 420,004               |
| - Performance bonus   | 0              | 267,001          | 371,105 <sup>(3)</sup> | 0 <sup>(4)</sup>      |
| - Long-term incentive bonus                                       | 0              | 0 <sup>(2)</sup> | 0 <sup>(5)</sup>       | 0 <sup>(2)</sup>      |
| Exceptional compensation  | 0              | 0                | 0                      | 0                     |
| Director's fees   | 0              | 0                | 0                      | 0                     |
| Fringe benefits, including:                                       |                |                  |                        |                       |
| - foreign mobility bonus  | 49,984         | 26,176           | 0 <sup>(7)</sup>       | 49,984 <sup>(6)</sup> |
| - car   | 6,305          | 6,305            | 6,305                  | 6,305                 |
| <b>TOTAL</b>  | <b>476,293</b> | <b>719,486</b>   | <b>797,414</b>         | <b>476,293</b>        |

- (1) In accordance with the bylaws, Didier Miraton's compensation package was decided by the General Partners after a favorable opinion was issued by the Supervisory Board.
- (2) No payments were made to Didier Miraton in 2008 or 2009 respectively in respect of long-term incentive bonuses for 2007 and 2008. The long-term incentive scheme is described in detail in section 4.4.4.
- (3) Didier Miraton's performance bonus was determined based on quantitative and qualitative performance criteria. It will be paid in the second quarter of 2010 after the Supervisory Board expressed a favorable opinion on the proposed amount at its meeting on February 8, 2010.
- (4) No performance bonus was payable to Didier Miraton in 2009 in respect of 2008 because the minimum performance criteria for 2008 were not met.
- (5) Didier Miraton waived the long-term incentive bonus due to him in respect of his 2009 performance.
- (6) Paid in the second quarter of 2009 in respect of 2008.
- (7) This benefit has been withdrawn effective from 2009.



|  | 2008           |                  | 2009                   |                       |
|--|----------------|------------------|------------------------|-----------------------|
|  | Due            | Paid             | Due                    | Paid                  |
| <b>Jean-Dominique Senard, Non-General Managing Partner<sup>(1)</sup></b> |                |                  |                        |                       |
| Fixed compensation   | 560,001        | 560,001          | 560,001                | 560,001               |
| - Performance bonus  | 0              | 409,405          | 494,807 <sup>(3)</sup> | 0 <sup>(4)</sup>      |
| - Long-term incentive bonus  | 0              | 0 <sup>(2)</sup> | 0 <sup>(5)</sup>       | 0 <sup>(2)</sup>      |
| Exceptional compensation <sup>(4)</sup>                                  | 0              | 0                | 0                      | 0                     |
| Director's fees  | 0              | 0                | 0                      | 0                     |
| Fringe benefits, including:  |                |                  |                        |                       |
| - foreign mobility bonus   | 98,463         | 40,158           | 0 <sup>(7)</sup>       | 98,463 <sup>(6)</sup> |
| - car  | 5,483          | 5,483            | 5,483                  | 5,483                 |
| <b>TOTAL</b>   | <b>663,947</b> | <b>1,015,047</b> | <b>1,060,291</b>       | <b>663,947</b>        |

(1) In accordance with the bylaws, Jean-Dominique Senard's total compensation package was decided by the General Partners after a favorable opinion was issued by the Supervisory Board.

(2) No payments were made to Jean-Dominique Senard in 2008 or 2009 respectively in respect of long-term incentive bonuses for 2007 and 2008. The long-term incentive scheme is described in detail in section 4.4.4.

(3) Jean-Dominique Senard's performance bonus was determined based on quantitative and qualitative performance criteria. It will be paid in the second quarter of 2010 after the Supervisory Board expressed a favorable opinion on the proposed amount at its meeting on February 8, 2010.

(4) No performance bonus was payable to Jean-Dominique Senard in 2009 in respect of 2008 because the minimum performance criteria for 2008 were not met.

(5) Jean-Dominique Senard waived the long-term incentive bonus due to him in respect of his 2009 performance.

(6) Paid in the second quarter of 2009 in respect of 2008.

(7) This benefit has been withdrawn effective from 2009.

#### ● 4.4.1.c) DIRECTORS' FEES AND OTHER COMPENSATION RECEIVED BY THE SUPERVISORY BOARD MEMBERS

See table, page 102.

#### ● 4.4.1.d) STOCK OPTIONS GRANTED DURING THE YEAR TO THE MANAGING PARTNERS\*

| Stock options granted to the Managing Partners by the Company and any other Group companies | Plan no. and date | Type of options (purchase or subscription) | Value of the options calculated by the method used for the consolidated accounts | Number of options granted during the year | Exercise price | Exercise period |
|---|-------------------|--|--|---|----------------|-----------------|
| Michel Rollier  | -                 | -  | 0  | 0   | -              | -               |
| Didier Miraton  | -                 | -  | 0  | 0   | -              | -               |
| Jean-Dominique Senard   | -                 | -  | 0  | 0   | -              | -               |

\* See also the table in section 5.5.4. concerning stock options.

● **4.4.1.e) STOCK OPTIONS EXERCISED DURING THE YEAR BY THE MANAGING PARTNERS\***

| Options exercised during the year by the Managing Partners | Plan no. and date | Number of options exercised during the year | Exercise price | Grant year |
|--|-------------------|---|----------------|------------|
| Michel Rollier   | -                 | 0   | -              | -          |
| Didier Miraton   | -                 | 0   | -              | -          |
| Jean-Dominique Senard                                      | -                 | 0   | -              | -          |

● **4.4.1.f) PERFORMANCE SHARES GRANTED TO THE MANAGING PARTNERS**

| Performance shares granted to the Managing Partners by the Company and any other Group company | Plan no. and date | Number of performance shares granted during the year | Value of the performance shares calculated by the method used for the consolidated accounts | Vesting date | End of lock-up period |
|--|-------------------|--|---|--------------|-----------------------|
| Michel Rollier   | -                 | 0  | 0   | -            | -                     |
| Didier Miraton   | -                 | 0  | 0   | -            | -                     |
| Jean-Dominique Senard  | -                 | 0  | 0   | -            | -                     |

● **4.4.1.g) MANAGING PARTNERS' PERFORMANCE SHARES THAT VESTED DURING THE YEAR**

| Managing Partners' performance shares that vested during the year | Plan no. and date | Number of performance shares that vested during the year | Vesting conditions | Grant year |
|---|-------------------|--|--------------------|------------|
| Michel Rollier  | -                 | 0  | -                  | -          |
| Didier Miraton  | -                 | 0  | -                  | -          |
| Jean-Dominique Senard   | -                 | 0  | -                  | -          |

● **4.4.1.h) HISTORICAL INFORMATION ABOUT STOCK OPTIONS**

See table in section 5.5.4.

\* See also the table in section 5.5.4. concerning stock options.

#### ● 4.4.1.i) STOCK OPTIONS GRANTED AND EXERCISED DURING THE YEAR

| Stock options granted by CGEM <sup>(1)</sup> to the ten grantees other than Managing Partners who received the greatest number of options and options exercised by the ten grantees other than Managing Partners who exercised the greatest number of options | Number of options granted/exercised | Exercise Price | End of exercise period | Date of the Managing Partners' decision to grant the options |
|---|-------------------------------------|----------------|------------------------|--|
| Options granted   | 100,500 <sup>(2)(3)</sup>           | €53            | Nov. 22, 2018          | Nov. 23, 2009  |
| Options exercised   | 3,400 <sup>(3)</sup>                | €32.25         | May 18, 2012           | May 19, 2003   |

(1) No options have been granted by any qualifying company apart from CGEM.

(2) Out of a total of 1,398,310 options granted (exercisable for new shares).

(3) See section 5.5.4. for more details.

#### Performance shares

No performance shares were granted during the year.

|  | Number of performance shares granted during the year | Date of the Managing Partners' decision to grant the performance shares |
|--|--|---|
| Performance shares granted by CGEM to the ten grantees other than the Managing Partners who received the greatest number of shares | 0  | -   |

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#### ● 4.4.1.j) EMPLOYMENT CONTRACTS, SUPPLEMENTARY PENSION BENEFITS AND OTHER BENEFITS AND ALLOWANCES

| Managing Partners   | Employment contract | Supplementary pension benefits                             | Compensation for loss of office   | Non-compete clause consideration   |
|---|---------------------|--|---|--|
| Michel Rollier<br><i>(joined the Group in 1996)</i><br>Managing General Partner<br>First elected: 2005 AGM<br>Current term expires: 2017 AGM (due to age limit) | None                | None   | None  | None   |
| Didier Miraton<br><i>(joined the Group in 1982)</i><br>Non-General Managing Partner<br>First appointed: 2007<br>Current term expires: 2012                      | Suspended           | Defined benefit plan set up for all employees (see p. 99)  | Compensation payable: <ul style="list-style-type: none"> <li>in the event of forced departure due to a change of strategy or of control</li> <li>subject to performance conditions being met (see p. 99 and 100)</li> <li>limited to 2 years' fixed and variable compensation (including severance pay due on termination of suspended employment contract)</li> </ul>  | <ul style="list-style-type: none"> <li>in respect of his employment contract and in application of the rubber industry collective bargaining agreement (see p. 100)</li> <li>included in the blanket ceiling of two years' fixed and variable compensation in the event of forced resignation</li> </ul> |
| Jean-Dominique Senard<br><i>(joined the Group in 2005)</i><br>Non-General Managing Partner<br>First elected: 2007 AGM<br>Current term expires: 2012 AGM         | Suspended           | Defined benefit plan set up for all employees (see p. 101) | Compensation payable: <ul style="list-style-type: none"> <li>in the event of forced departure due to a change of strategy or of control</li> <li>subject to performance conditions being met (see p. 101)</li> <li>limited to 2 years' fixed and variable compensation (including non-compete clause consideration and severance pay due on termination of suspended employment contract)</li> </ul> Contractual termination benefit (see p. 101), waived by Mr. Senard | <ul style="list-style-type: none"> <li>in respect of his employment contract and in application of the rubber industry collective bargaining agreement (see p. 101)</li> <li>included in the blanket ceiling of two years' fixed and variable compensation in the event of forced resignation</li> </ul> |

#### 4.4.2. AMOUNTS ALLOCATED TO THE MANAGING GENERAL PARTNER, MICHEL ROLLIER

In his capacity as General Partner, Michel Rollier has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners<sup>(1)</sup> each receive a statutory capped portion of Company profits<sup>(2)</sup>. This means that their interests are fully aligned with those of the shareholders, as they are paid this consideration only if the Company makes a profit.

##### ● 4.4.2.a) COMPENSATION PAID IN 2009

The 53% drop in the compensation received by Michel Rollier in 2009 in respect of 2008 was the direct consequence of the fall in the Company's 2008 profit compared with 2007.

(1) The Group has two General Partners – Michel Rollier, Managing Partner, and SAGES (see presentation on page 82).

(2) See the provisions of article 30 of the bylaws (page 115).

In 2009, Michel Rollier did not receive any salary, benefits in kind, director's fees, bonus, performance shares or stock options in his capacity as Managing Partner or as executive director or partner of any controlled companies.

Neither the Company nor any of its controlled affiliates:

- paid any pension contributions on Michel Rollier's behalf; or
- gave any commitment to paying any severance package to Michel Rollier should he cease to act as a Managing Partner.

##### ● 4.4.2.b) 2009 COMPENSATION

In 2009, the Group reported consolidated net profit of €104 million, reflecting the significant restructuring provisions set aside during the year and a sharp fall-off in business.

In view of the level of consolidated net profit and the statutory share of profit attributed to the General Partners, Michel Rollier's 2009 compensation payable in 2010 will be 70% lower than the amount received in 2009 (see table in section 4.4.1.b).

As in 2009, Michel Rollier will not be granted any stock options or performance shares in 2010, nor will he receive any salary, fringe benefits, director's fees or bonus, and the Company will not pay any pension, social insurance or other benefit contributions on his behalf.

### 4.4.3. COMPENSATION AND BENEFITS RECEIVED BY THE NON-GENERAL MANAGING PARTNERS, DIDIER MIRATON AND JEAN-DOMINIQUE SENARD

#### 4.4.3.a) DIDIER MIRATON

The components of Didier Miraton's compensation, decided by the General Partners after a favorable opinion was issued by the Supervisory Board, are presented below (see table, section 4.4.1.b), for further details).

##### Compensation paid in 2009

- Salary: unchanged from 2008.
- Performance bonus: calculated on the basis of the 2008 business and financial performance indicators used to set the Group component of management bonuses, capped at 120% of salary. The bonus would have been payable only if 2008 consolidated operating margin was at least equal to 7.8%. As the reported margin was below this threshold, Didier Miraton was not entitled to any bonus for 2008.
- Long-term incentive bonus: no long-term incentive bonus was awarded or paid to Didier Miraton in 2009.
- Fringe benefits: identical to those granted to the members of the Executive Council (foreign mobility bonus and company car).
- Director's fees – stock options – performance shares: In 2009, Didier Miraton did not receive any director's fees from any Group companies, or any benefits other than those listed above. No stock options or performance shares were granted to him during the year.

##### 2009 compensation

- Performance bonus: Didier Miraton is entitled to a performance bonus of up to 120% of his fixed salary. The 2009 bonus was calculated based on a set of quantitative and qualitative indicators related to the Group's business and financial performance, including the indicators used to set the portion of management bonuses tied to the Group's performance.

These challenging indicators, which are not disclosed for reasons of confidentiality and business secrecy, were defined in detail during the first quarter of 2009, setting targets at a level corresponding to a resilient performance by the Group in last year's crisis-hit environment.

They were submitted to the Supervisory Board, which expressed a favorable opinion.

The Managing Partners responded swiftly to the crisis by tightening their management of the business. Their assertive action and that of the Executive Council members and of managers at all levels in the organization helped to limit the fall-off in sales and operating margin, while ensuring that the Group remained in a positive cash position and reduced its gearing, and that the main financial indicators held firm.

In light of these results, which attest to Michelin's resilience, Didier Miraton was considered as having met most of his targets and the Supervisory Board concurred with this assessment at its meeting on February 8, 2010.

In recognition of his very good performance in 2009, Didier Miraton has been awarded a significantly higher performance bonus for the year after receiving no bonus for 2008 (see table in section 4.4.1.b).

- Long-term incentive bonus: starting with the 2009 bonus, Didier Miraton's long-term incentive bonus is based on his annual performance bonus. Whenever he receives a performance bonus, he will be awarded a long-term incentive bonus in the same amount, which may be cashed in between the fifth and ninth anniversaries of the reference year, unless he is removed from office due to mismanagement.

The long-term incentive bonus will be adjusted by applying an indexation clause based on the long-term change in the Michelin share price, determined by comparing the average share price for the quarter preceding the award date to the average price for the quarter preceding the date when Didier Miraton elects to cash in the bonus. The indexation adjustment may be positive or negative, depending on whether the average share price rises or falls, and will be capped at 100% of the performance bonus used as the basis for calculating the long-term incentive.

As Didier Miraton has been awarded a performance bonus for 2009, he is entitled to a long-term incentive bonus in the same amount indexed to the long-term change in the Michelin share price, that can be cashed in between 2014 and 2018 unless he is removed from office due to mismanagement.

However, considering the severe economic crisis in 2009 and the measures taken by the Group during the year in response to this situation, Mr. Miraton has waived his long-term incentive bonus in respect of 2009.

- Supplementary pension benefits: Didier Miraton does not participate in any pension plan set up specifically for the Managing Partners. He participates in the supplementary pension plan set up in 1996 for all employees of MFPM (the largest employer within the Group in France) and CGEM. Participants are entitled to benefits under the plan only if they are still employed by the Group when they retire and if their benefit entitlement under compulsory plans represents a gross replacement rate of less than 55%. The cost of this top-hat plan is recognized as a liability in the balance sheet in accordance with IAS 19 – Employee Benefits. Based on his years of service with the Group and on current retirement assumptions, benefits payable under this plan would represent 11.6% of Didier Miraton's pre-tax income at the time of retirement.
- Compensation for loss of office: in 2009, in the event that he had been removed from office by decision of the General Partners other than on the grounds of mismanagement, Didier Miraton

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would have been entitled to compensation for loss of office in an amount equivalent to his fixed and variable compensation for the previous two years. The actual compensation amount would have been adjusted based on his average annual variable compensation (in his capacity as either an employee or a Managing Partner) for the previous five years.

To be entitled to the maximum compensation for loss of office, his average annual variable compensation for the five-year period would have had to represent over 60% of the maximum annual variable compensation for the period. Below this percentage, the compensation for loss of office would have been reduced proportionately, with no compensation payable if his average annual variable compensation for the five-year period had been less than 20% of the maximum. The compensation for loss of office would have been reduced, if applicable, so that any other severance payment due as a result of terminating his suspended employment contract would not have resulted in his receiving an aggregate severance package in excess of the ceiling of two years' fixed and variable compensation, as recommended in the AFEP-MEDEF Corporate Governance Code.

No compensation was payable to Didier Miraton in 2009.

- **Termination benefit provided for in the suspended employment contract:** Like other Michelin employees who have specific knowledge and expertise that needs to be protected in order to avoid its use by a competitor in a manner that is detrimental to the Company's interests, Didier Miraton is bound by a non-compete clause in his employment contract, drawn up in compliance with the relevant provisions of the rubber industry collective bargaining agreement. Under this agreement, if the company decided to apply the non-compete clause over a two-year period, it would have to pay consideration to Didier Miraton of up to 16 months' compensation unless it was decided to extend the application period. In this event, his compensation for loss of office (as Non-General Managing Partner) would be reduced or withheld so that his total severance package did not exceed two years' fixed and variable compensation, in accordance with the AFEP-MEDEF Corporate Governance Code.

No termination benefit was payable to Didier Miraton in 2009.

The Company does not have any other specific commitments towards Didier Miraton, other than those described above.

#### ● 4.4.3.b) JEAN-DOMINIQUE SENARD

##### Compensation paid in 2009

The components of Jean-Dominique Senard's compensation, decided by the General Partners after a favorable opinion was issued by the Supervisory Board, are presented below (see table, section 4.4.1.b), for further details).

- **Salary:** unchanged from 2008.
- **Performance bonus:** calculated on the basis of the 2008 business and financial performance indicators used to set the portion of management bonuses tied to the Group's performance, capped at 120% of salary. The bonus would have been payable only if 2008 consolidated operating margin had been at least equal to 7.8%. As the reported margin was below this threshold, Jean-Dominique Senard was not entitled to any bonus for 2008.

- **Long-term incentive bonus:** no long-term incentive bonus was awarded or paid to Jean-Dominique Senard in 2009.
- **Fringe benefits:** identical to those granted to the members of the Executive Council (foreign mobility bonus and company car).
- **Director's fees – stock options – performance shares:** In 2009, Jean-Dominique Senard did not receive any director's fees from any Group companies, or any benefits other than those listed above. No stock options or performance shares were granted to him during the year.

##### 2009 compensation

- **Performance bonus:** Jean-Dominique Senard is entitled to a performance bonus of up to 120% of his fixed salary. The 2009 bonus was calculated based on a set of quantitative and qualitative indicators related to the Group's business and financial performance, including the indicators used to set the portion of management bonuses tied to the Group's performance.

These challenging indicators, which are not disclosed for reasons of confidentiality and business secrecy, were defined in detail during the first quarter of 2009, setting targets at a level corresponding to a resilient performance by the Group in last year's crisis-hit environment. They were submitted to the Supervisory Board, which expressed a favorable opinion.

The Managing Partners responded swiftly to the crisis by tightening their management of the business. Their assertive action and that of the Executive Council members and of managers at all levels in the organization helped to limit the fall-off in sales and operating margin, while ensuring that the Group remained in a positive cash position and reduced its gearing, and that that the main financial indicators held firm.

In light of these results, which attest to Michelin's resilience, Jean-Dominique Senard was considered as having met most of his targets and the Supervisory Board concurred with this assessment at its meeting on February 8, 2010.

In recognition of his very good performance in 2009, Jean-Dominique Senard has been awarded a significantly higher performance bonus for the year after receiving no bonus for 2008 (see table in section 4.4.1.b).

- **Long-term incentive bonus:** starting with the 2009 bonus, Jean-Dominique Senard's long-term incentive bonus is based on his annual performance bonus. Whenever he receives a performance bonus, he will be awarded a long-term incentive bonus in the same amount, which may be cashed in between the fifth and ninth anniversaries of the reference year, unless he is removed from office due to mismanagement.

The long-term incentive bonus will be adjusted by applying an indexation clause based on the long-term change in the Michelin share price, determined by comparing the average share price for the quarter preceding the award date to the average price for the quarter preceding the date when Jean-Dominique Senard elects to cash in the bonus. The indexation adjustment may be positive or negative, depending on whether the average share price rises or falls, and will be capped at 100% of the performance bonus used as the basis for calculating the long-term incentive.

As Jean-Dominique Senard has been awarded a performance bonus for 2009, he is entitled to a long-term incentive bonus in the same amount indexed to the long-term change in the

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Michelin share price, that can be cashed in between 2014 and 2018 unless he is removed from office due to mismanagement.

However, considering the severe economic crisis in 2009 and the measures taken by the Group during the year in response to this situation, Mr. Senard has waived his long-term incentive bonus in respect of 2009.

- Supplementary pension benefits: Jean-Dominique Senard does not participate in any pension plan set up specifically for the Managing Partners. He participates in the supplementary pension plan set up in 1996 for all employees of MFPM (the largest employer within the Group in France) and CGEM. Participants are entitled to benefits under the plan only if they are still employed by the Group when they retire and if their benefit entitlement under compulsory plans represents a gross replacement rate of less than 55%. The cost of this top-hat plan is recognized as a liability in the balance sheet in accordance with IAS19 – Employee Benefits. Based on his years of service with the Group and on current retirement assumptions, benefits payable under this plan would represent 3.0% of Jean-Dominique Senard's pre-tax income at the time of retirement.

- Compensation for loss of office: in 2009, in the event that he had been removed from office by decision of the General Partners other than on the grounds of mismanagement, Jean-Dominique Senard would have been entitled to compensation for loss of office in an amount equivalent to his fixed and variable compensation for the previous two years. The actual compensation amount would have been adjusted based on his average annual variable compensation (in his capacity as either an employee or a Managing Partner) for the previous five years.

To be entitled to the maximum compensation for loss of office, his average annual variable compensation for the five-year period would have had to represent over 60% of the maximum annual variable compensation for the period. Below this percentage, the compensation for loss of office would have been reduced proportionately, with no compensation payable if his average annual variable compensation for the five-year period had been less than 20% of the maximum. The compensation for loss of office would have been reduced, if applicable, so that any other severance payment due as a result of terminating his suspended employment contract would not have resulted in his receiving an aggregate severance package in excess of the ceiling of two years' fixed and variable compensation, as recommended in the AFEP-MEDEF Corporate Governance Code.

No compensation was payable to Jean-Dominique Senard in 2009.

- Termination benefit provided for in the suspended employment contract: to avoid any risk of duplicate severance payments, when he was elected as Managing Partner, Jean-Dominique Senard unilaterally waived his entitlement to the termination benefit provided for in his suspended employment contract in the event that his employment were to be terminated by MFPM within six months of his ceasing to act as Non-General Managing Partner of CGEM.

Like other Michelin employees who have specific knowledge and expertise that needs to be protected in order to avoid its use by a competitor in a manner that is detrimental to the Company's interests, Jean-Dominique Senard is bound by a non-compete clause in his employment contract, drawn up in compliance with the relevant provisions of the rubber industry collective bargaining agreement. Under this agreement, if the company decided to apply the non-compete clause

over a two-year period, it would have to pay consideration to Jean-Dominique Senard of up to 16 months' compensation. In this event, his compensation for loss of office (as Non-General Managing Partner) would be reduced or withheld so that his total severance package did not exceed two years' fixed and variable compensation, in accordance with the AFEP-MEDEF Corporate Governance Code.

No termination benefit was payable to Jean-Dominique Senard in 2009.

The Company does not have any other specific commitments towards Jean-Dominique Senard, other than those described above.

#### 4.4.4. SUMMARY OF LONG-TERM INCENTIVE BONUSES AT DECEMBER 31, 2009

##### 4.4.4.a) 2007 AND 2008 LONG-TERM INCENTIVE BONUSES

|  | 2008 <sup>(1)</sup> | 2007 <sup>(1)</sup> |
|--|---------------------|---------------------|
| Date of the decision by the General Partners   | May 19, 2008        | Dec. 10, 2007       |
| Total number of units awarded during the year: |                     |                     |
| - Michel Rollier                               | 0                   | 0                   |
| - Didier Miraton                               | 17,000              | 14,000              |
| - Jean-Dominique Senard                        | 20,000              | 18,000              |
| Total  | 37,000              | 32,000              |
| Starting date of exercise period               | May 19, 2012        | May 14, 2011        |
| Expiry date                                    | May 18, 2017        | May 14, 2016        |
| Exercise price (in €)                          | 62                  | 91                  |
| Fair value of the units (in €) <sup>(2)</sup>  | 0                   | 0                   |
| Units exercised in 2009                        | 0                   | 0                   |
| Units cancelled                                | 0                   | 0                   |
| Units outstanding at December 31, 2009         | 37,000              | 32,000              |

- (1) Long-term incentive bonuses are awarded in the form of units whose value is equal to the difference between (i) the value of Michelin shares on the date the units are cashed in and (ii) the benchmark share price, defined as the exercise price of the stock options granted to Group employees on May 29, 2008. The other terms and conditions (particularly the vesting period and eligibility criteria) are identical to those of the May 29, 2008 stock option plan, except for certain minor adjustments made to reflect to the Non-General Managing Partners' legal status.
- (2) The fair value of the cash-settled liability is equal to the difference between the Michelin share price on December 31, 2009 and the exercise price of the long-term incentive plan units. As the exercise price is greater than the Michelin share price, the fair value of the liability is 0.

#### ● 4.4.4.b) LONG-TERM INCENTIVE BONUSES AWARDED SINCE 2009

| (in €)   | 2009 <sup>(1)</sup> |
|--|---------------------|
| Date of the decision by the General Partners                 | April 27, 2009      |
| Long-term incentive bonus:                                   |                     |
| - Michel Rollier   | 0                   |
| - Didier Miraton   | 0 <sup>(2)</sup>    |
| - Jean-Dominique Senard                                      | 0 <sup>(3)</sup>    |
| Total  | 0                   |
| Starting date of cash-in period                              | -                   |
| Expiry date  | -                   |
| Fair value   | 0                   |
| Long-term incentive bonuses cashed in during 2009            | 0                   |
| Long-term incentive bonuses cancelled or lapsed              | 0                   |
| Long-term incentive bonuses outstanding at December 31, 2009 | 0                   |

(1) Following a change of calculation method, since 2009 the long-term incentive bonus is based on the Managing Partner's performance bonus (see description on pages 99 and 100).

(2) Didier Miraton waived the proposed long-term incentive bonus.

(3) Jean-Dominique Senard waived the proposed long-term incentive bonus.

#### ■ 4.4.5. STOCK OPTIONS<sup>(1)</sup>

Of the 1,398,310 stock options granted on November 23, 2009, pursuant to the authorization given at the May 15, 2009 Annual Shareholders Meeting, none were granted to the Managing Partners. The Managing Partners have not received any stock options since 2005.

#### ■ 4.4.6. SUPERVISORY BOARD

The total directors' fees awarded to the Supervisory Board were set by the Annual Shareholders Meeting on May 12, 2006. The Supervisory Board decides how to allocate this amount between its members.

Fees and other compensation paid to Supervisory Board members in 2008 and 2009 were as follows:

#### DIRECTORS' FEES AND OTHER COMPENSATION RECEIVED BY THE SUPERVISORY BOARD MEMBERS

| (in €)   | Directors' fees paid in 2008 | Other compensation paid in 2008 | Directors' fees paid in 2009 | Other compensation paid in 2009 |
|--|------------------------------|---------------------------------|------------------------------|---------------------------------|
| Eric Bourdais de Charbonnière                      | 50,000                       | 0                               | 50,000                       | 0                               |
| Pat Cox  | 30,000                       | 0                               | 30,000                       | 0                               |
| Barbara Dalibard (member since May 16, 2008)       | 0                            | 0                               | 15,000                       | 0                               |
| Louis Gallois (member since May 16, 2008)          | 0                            | 0                               | 15,000                       | 0                               |
| François Grappotte                                 | 45,000                       | 0                               | 45,000                       | 0                               |
| Pierre Michelin                                    | 40,000                       | 0                               | 40,000                       | 0                               |
| Laurence Parisot                                   | 30,000                       | 0                               | 30,000                       | 0                               |
| Benoît Potier                                      | 30,000                       | 0                               | 40,000                       | 0                               |
| Edouard de Royère (member until November 30, 2007) | 40,000                       | 0                               | 0                            | 0                               |
| <b>TOTAL</b>                                       | <b>265,000</b>               | <b>0</b>                        | <b>265,000</b>               | <b>0</b>                        |

#### ■ 4.4.7. EXECUTIVE COUNCIL

The aggregate gross compensation paid to the members of the Executive Council in 2009 amounted to €3,144,776 (of which aggregate 2008 bonuses of €218,003 paid in the second half of 2009) versus €5,017,390 in 2008 (of which aggregate 2007 bonuses of €1,342,643 paid in the second quarter of 2008<sup>(2)</sup>). The list of Executive Council members is provided on page 83. The Executive Council members do not receive any directors' fees as members of the Boards of any Group companies.

(1) The Managing Partners' Special Report and details of current plans are presented in the Additional Information About the Capital section, on page 124.

(2) Including the prorated compensation paid to Didier Miraton and Jean-Dominique Senard, in their capacity as Group Executive Council members until May 11, 2007.

## 4.5. TRADING IN MICHELIN SHARES BY MANAGING PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2009

### ● 4.5.1.a) MANAGING PARTNERS

#### Michel Rollier

On June 22, 2009, Michel Rollier acquired 485 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### Didier Miraton

None.

#### Jean-Dominique Senard

None.

### ● 4.5.1.b) SUPERVISORY BOARD

#### Eric Bourdais de Charbonnière

On June 22, 2009, Eric Bourdais de Charbonnière acquired 10 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### Pat Cox

On June 22, 2009, Pat Cox acquired 5 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### Barbara Dalibard

On June 22, 2009, Barbara Dalibard acquired 10 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### François Grappotte

On June 22, 2009, François Grappotte acquired 29 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### Pierre Michelin

On June 22, 2009, Pierre Michelin acquired 38 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

#### Benoît Potier

On June 22, 2009, Benoît Potier acquired 74 shares at a price of €33.731 per share, corresponding to the reinvestment of dividends.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by any Managing Partners, Supervisory Board members, or their close relatives, during the reporting period.

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## 4.6. REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

To the shareholders

In my capacity as Chairman of the Supervisory Board, I hereby report to you on (i) the membership structure of the Board, (ii) the Supervisory Board's practices during the year ended December 31, 2009 and (iii) the internal control and risk management procedures put in place by the Company.

This report contains a corporate governance statement based on the AFEP-MEDEF Corporate Governance Code applicable to listed companies, which the Company's Supervisory Board has decided to use as its reference framework (see press release dated December 8, 2008).

### 4.6.1. MEMBERSHIP OF THE SUPERVISORY BOARD AND SUPERVISORY BOARD PRACTICES

#### ● 4.6.1.a) MEMBERS

In accordance with the applicable law and the Company's bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years<sup>(1)</sup>. All Supervisory Board members must be shareholders.

According to the bylaws, no more than one-third of Supervisory Board members may be aged over 75.

The Supervisory Board is currently made up of the following eight members, all of whom are considered as independent based on the criteria set out in the Board's internal rules:

- Eric Bourdais de Charbonnière (Chairman) – member of the Supervisory Boards of Oddo et Cie and Thomson SA; former Chairman of JP Morgan in France;
- Pat Cox – President of the European Movement International; member of the Board of Trustees of the International Crisis Group; former President of the European Parliament; former member of the Irish Parliament;
- Barbara Dalibard – Chief Executive Officer of SNCF Voyages;
- Louis Gallois – Executive Chairman of EADS NV;
- François Grappotte – Honorary Chairman of Legrand and Director of BNP Paribas;
- Pierre Michelin – Divisional Chief Executive, Groupe Bull;

- Laurence Parisot – Vice-Chairman of the Management Board of Ifop and President of MEDEF;
- Benoît Potier – Chairman and Chief Executive Officer of Air Liquide.

#### ● 4.6.1.b) ROLE AND RESPONSIBILITIES

In 2009, the Supervisory Board fulfilled its role of overseeing the Company's management. In accordance with its internal rules, its oversight procedures include:

- reviewing the annual and interim separate and consolidated financial statements approved by the Managing Partners;
- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing and implementing the strategic roadmap;
- obtaining assurance that shareholders' rights are respected.

In addition, the Supervisory Board receives regular information about the Group's strategy and outlook.

#### ● 4.6.1.c) ANNUAL SELF-ASSESSMENT OF THE SUPERVISORY BOARD'S PERFORMANCE AND INDEPENDENCE OF ITS MEMBERS

In accordance with its internal rules and with the AFEP-MEDEF Corporate Governance Code guidelines, in 2009 the Supervisory Board carried out an annual self-assessment of its procedures and practices to verify that Board members had received appropriate advance information about important matters and that these had been adequately discussed, and to evaluate the contribution of each member to the Board's work.

For the purposes of this self-assessment, at the end of 2009 the Chairman of the Board asked the members to fill out a questionnaire. The results were presented by the Chairman and discussed at the Board's meeting of February 8, 2010. In particular, the members noted that progress had been made in transmitting documents to the Board more quickly and expressed the wish to see this improvement continue.

Furthermore, the Board decided to update its internal rules and those of the Audit Committee so as to bring them into compliance with legal and regulatory changes.

In conclusion, the Supervisory Board considered that it had the relevant information to effectively fulfill its oversight role.

<sup>(1)</sup> Five years for members elected prior to 2009.



Furthermore, the Board considers that all its members are independent, based on the criteria set out in its internal rules. These criteria correspond to those prescribed in the AFEP-MEDEF Corporate Governance Code for listed companies dated December 2008, except that the Code sets a limit on the aggregate period during which a member may serve on the Board<sup>(1)</sup>.

#### ● 4.6.1.d) REPORT ON THE SUPERVISORY BOARD'S ACTIVITIES DURING 2009

The Supervisory Board met five times in 2009, on February 9, April 24, May 15, July 27 and December 2-3, with an attendance rate of 90%.

During each of these meetings, a detailed analysis of the Group's results was presented to the Board. On February 9 and July 27 respectively, the Board reviewed (i) the separate and consolidated financial statements for the year ended December 31, 2008 and (ii) the interim financial statements for the six months ended June 30, 2009. It also examined and expressed its opinion on the financial information communicated to the markets.

Specific presentations were made during the year to the Supervisory Board by the Managing Partners or by other senior executives on a number of topics, including:

- the Managing Partners' analysis of results;
- internal control and risk management;
- corporate strategy and the quality of its implementation;
- manufacturing strategy;
- research and development;
- compensation and appointment policies;
- Passenger car and Light truck tire market strategy;
- corporate governance.

The Supervisory Board dedicated an entire day during the year to reviewing the Group's strategy.

#### ● 4.6.1.e) REPORT ON THE AUDIT COMMITTEE'S ACTIVITIES DURING 2009

The Audit Committee comprises the following members, all of whom are independent:

- François Grappotte, Chairman of the Audit Committee – Honorary Chairman of Legrand and Director of BNP Paribas;
- Eric Bourdais de Charbonniere – member of the Supervisory Boards of Oddo et Cie and Thomson SA; former Chairman of JP Morgan in France;
- Pierre Michelin – Divisional Chief Executive, Groupe Bull;
- Benoît Potier – Chairman and Chief Executive Officer of Air Liquide.

The Audit Committee monitors issues relating to the preparation and control of accounting and financial information, in accordance with Articles L.823-19 and L.823-20-4° of the French Commercial Code.

The Audit Committee met four times in 2009 (on February 9, April 24, July 24 and November 24), with a 100% attendance rate.

During its meetings the Audit Committee made inquiries of the Chief Financial Officer and the heads of the Accounting Department, Financial Affairs and Internal Audit. The main purpose of the meetings was to review:

- the audited consolidated financial statements for the year ended December 31, 2008 and the financial results analysis. In particular, the Audit Committee analyzed changes in inventory, trade receivables, the effective tax rate paid by the Group, the debt situation and liquidity needs, and changes in post-employment benefit costs. It noted that the audit of the accounts had gone smoothly and that the Statutory Auditors had issued an unqualified opinion on the Company's financial statements and the consolidated financial statements for 2008;
- the interim financial statements for the six months ended June 30, 2009, as reviewed by the Statutory Auditors. The Audit Committee mainly analyzed changes in free cash flow and inventory management. The Statutory Auditors had no matters to report concerning the 2009 interim financial statements;
- internal control and risk management procedures. Updated information was presented to the Audit Committee concerning the Group's internal control system, objectives and processes. The Committee also reviewed the Group's overall risk management approach;
- liquidity and interest rate risks. The Committee examined liquidity and interest rate risk management principles and procedures as well as the Group's debt and liquidity policies and objectives;
- the call for bids launched with a view to re-appointing the incumbent Auditors or appointing new Auditors. The Audit Committee received regular updates on the selection process and recommended the final candidates to be proposed for appointment at the Shareholders' Meeting.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 9, July 27 and December 2 and 3, 2009.

#### ● 4.6.1.f) REPORT ON THE COMPENSATION COMMITTEE'S ACTIVITIES DURING 2009

In accordance with its internal rules, the Supervisory Board as a whole performs the duties generally assigned to a Compensation Committee. As stated above, all of the Supervisory Board's members are considered to be independent.

The Compensation Committee met twice in 2009 (on February 9 and April 24), with a 94% attendance rate.

During the year, the Committee approved the Managing Partners' decision to postpone from May 2009 to November 2009 the launch of a stock option plan, in which the Managing Partners are not entitled to participate. The Committee noted that 2008 operating margin was below the threshold set for performance bonus payments and that consequently:

- no management bonuses would be paid based on Group performance; and
- no performance bonuses or long-term incentive bonuses would be paid to the Non-General Managing Partners.

The Committee examined the indicators used to determine the portion of the bonus based on the Group's 2009 performance payable in 2010. It concurred with the General Partners' proposal to amend the criteria for granting performance bonuses and long-term incentive bonuses to

(1) See the corporate governance statement by the Supervisory Board on pages 106 and 107.



the Non-General Managing Partners and the indexation clause applicable to Non-General Managing Partners' compensation for loss of office. The Committee approved the Managing Partners' decision to freeze management pay in 2009 in light of the difficult economic environment.

Lastly, the Compensation Committee discussed senior executive and Managing Partner compensation policies, career development plans and succession plans, having been consulted on these matters. In order to ensure that these compensation policies were appropriate, the Committee reviewed several benchmarking surveys performed by external consultants.

During the first half of 2009, the Group had to put in place a number of structural measures as a result of the economic environment, which affected the compensation and jobs of its employees in France. Against this backdrop and to comply with Michelin's high corporate governance standards, the Supervisory Board requested an opinion from the MEDEF's Committee of Experts set up in May 2009 in order to ensure that the Group's compensation policy for its Managing Partners complied with the principles of reasonableness, balance and consistency provided for in the AFEP-MEDEF Corporate Governance Code applicable to listed companies.

The MEDEF's Committee of Experts informed the Supervisory Board that in its opinion, the compensation awarded to the Company's Managing Partners complied with AFEP-MEDEF recommendations.

#### 4.6.2. CORPORATE GOVERNANCE STATEMENT

The Supervisory Board considers that Michelin complies with the AFEP-MEDEF recommendations issued on October 6, 2008 concerning executive directors' compensation (which the Board examined at its meeting on December 4, 2008) and that these recommendations are reflected in the Company's corporate governance processes.

Although these recommendations state that they apply to "Managing Partners of partnerships limited by shares", from a legal and economic standpoint they cannot directly apply to the share of the Company's profit paid to the Managing General Partner in accordance with the Company's bylaws. This statutory share of profit, which represents the Managing General Partner's sole form of compensation, consists of consideration for the risk incurred by the General Partners by virtue of their unlimited personal liability for the Company's debts. It is determined by the shareholders in General Meeting on the basis of the prior year's profit and is therefore entirely variable.

Together, the applicable laws and the Company's bylaws bar Managing Partners from receiving any other form of compensation without the specific prior approval of the shareholders in General Meeting. Nevertheless, in practice, the characteristics of the share of profit allocated to General Partners by CGEM comply with the spirit of the AFEP-MEDEF recommendations:

- either because the profit shares comply with certain of the requirements set out in the recommendations, i.e.:
  - the criteria applicable for determining Managing Partners' compensation, and
  - full disclosure.
- or because the other prohibitions or ceilings in the recommendations already form part of the underlying partnership approach adopted by Michelin for its General Partners, including:
  - no employment contract,

- no severance package,
- no supplementary or other pension benefits paid for by the Company,
- no stock option, performance share or other incentive plans.

In 2009, the Supervisory Board noted that the corporate governance measures previously announced by the Company and referred to in the Board's report to shareholders for 2008 were implemented during the year.

For example, the method used for calculating Non-General Managing Partners' long-term incentive bonuses – as determined by the General Partners after consulting the Supervisory Board – was amended in 2009 and is now based on their annual performance bonuses. The long-term incentive bonus is adjusted by applying a positive or negative indexation clause based on the long-term growth in the Michelin share price. It may be cashed in between the fifth and ninth anniversaries following the reference year, unless the Managing Partner is removed from office due to mismanagement. The indexation adjustment is determined by comparing the average share price for the quarter preceding the bonus award date to the average price for the quarter preceding the date when the Managing Partner elects to cash in the bonus. The amount of the indexation adjustment may not exceed 100% of the performance bonus used as the basis for calculating the long-term incentive.

The conditions concerning the awarding of compensation for loss of office to Non-General Managing Partners were also amended in 2009, so that the entire compensation is now contingent on performance conditions, versus half of the amount as was previously the case.

The compensation for loss of office is capped at two years' fixed and variable compensation.

The actual amount of compensation for loss of office would be adjusted based on the Non-General Managing Partner's average annual variable compensation for the previous five years.

To be entitled to the maximum compensation for loss of office, his average annual variable compensation for the five-year period would have to represent over 60% of the maximum annual variable compensation for the period.

Below this percentage, the compensation for loss of office would be reduced proportionately, with no compensation payable if his average annual variable compensation for the five-year period was less than 20% of the maximum.

Performance bonuses are determined by reference to business and financial indicators, including those indicators used to calculate the portion of management bonuses that is based on the Group's performance. The performance indicators are defined in detail at the beginning of each year and submitted to the Supervisory Board for opinion. The Managing Partners' performance is assessed annually by the Supervisory Board for the purpose of determining the amount of their bonus.

The compensation for loss of office payable to Managing Partners would be reduced, if applicable, so that any other severance payment due as a result of terminating their suspended employment contract would not result in them receiving an aggregate severance package in excess of the ceiling of two years' fixed and variable compensation.

Concerning the AFEP-MEDEF recommendation to terminate the employment contracts of executive directors (or Managing Partners) of listed companies who were elected or re-elected after October 6, 2008 (which is not the case for the Group's current Non-General Managing Partners), as stated in the 2008 registration document, the Board considers that the major drawbacks

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of combining a corporate office with an employment contract have been eliminated, notably thanks to:

- the above-described overall cap on severance pay resulting from (i) the Managing Partner's removal from office and (ii) the termination of his suspended employment contract; and
- the absence of any special pension arrangements for Managing Partners.

The Board will re-examine the consequences of combining a corporate office with an employment contract when the current Non-General Managing Partners whose employment contracts have been suspended stand for re-election as Managing Partners.

As mentioned earlier, the Company has elected to use the December 2008 AFEP-MEDEF Corporate Governance Code applicable to listed companies as its reference framework for the purposes of this report.

The Supervisory Board hereby states that the Company applies all of the principles of said Code, with the necessary adjustments to take account of its corporate structure as a partnership limited by shares, apart from the following two exceptions:

- recommendation concerning independent directors: the Company complies with all of the Code's independence criteria except for the 12-year limit on the aggregate period of time served on the Board.

The Board considers that the aggregate term served by a Supervisory Board member in a partnership limited by shares is not an obstacle to the exercise of his or her free judgment in relation to the Company. Quite the reverse, it helps the member to understand the Company in all its complexity and efficiently oversee its management on an ongoing basis;

- recommendation concerning Supervisory Board members' compensation: the Company complies with all of the Code's principles, except for the recommendation that directors' fees should include a variable portion.

In view of the level of commitment demonstrated by Supervisory Board members, as reflected in the high attendance rates at meetings of the Supervisory Board and its committees, the Board has not considered it necessary to make part of the fee payable to its members contingent upon their attendance at meetings.

Lastly, the specific rules concerning shareholder participation at General Meetings are presented on page 115 of the 2009 Registration Document and in the 2010 Shareholders Guide (in the section entitled "Your Rights as a Shareholder") which can be downloaded from the Group's corporate website ([www.michelin.com/corporate](http://www.michelin.com/corporate)).

### 4.6.3. MICHELIN GROUP INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES

#### 4.6.3.a) THE CONTROL ENVIRONMENT

The Michelin Group is organized around Product Lines, each of which is dedicated to a specific business and has its own marketing, development, production and sales resources. Two distribution networks are attached to the Product Lines – Euromaster in Europe and Tire Centers, Inc. (TCI) in North America.

The Product Lines are backed by ten Corporate Services that are responsible for support functions such as Procurement, Legal Affairs, Human Resources, Logistics and Finance. To leverage synergies and guarantee consistency, the Group's operations are organized geographically around eight Regions – Europe, Eastern Europe, North America, South America, Asean-Australia, China, Japan-Korea, and Africa India-Middle East.

The role, responsibilities and structure of each of these entities have been defined by the Group, along with their contribution to strategic decisions, their performance indicators and how they exchange information with other entities.

In addition, formal criteria and procedures have been drawn up covering the appointment of corporate officers of Group subsidiaries and the renewal of their terms of office, as well as the conditions applicable for exercising and delegating their powers

The Group places great importance on accountability, integrity and ethical conduct. These values are set out in Michelin's Performance and Responsibility Charter, which is widely circulated both within and outside the Group. The Charter describes how the Group endeavors to put into practice its key values of respecting customers, shareholders and general human rights, together with its commitment to protecting the environment and providing transparent information. The Group's Annual Report and Sustainable Development Report describes its operations and results for the year as well as its Performance and Responsibility process.

#### 4.6.3.b) INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF FINANCIAL AND ACCOUNTING INFORMATION

##### Reference framework

The Michelin Group has adopted the definition of internal control set out in the AMF's Reference Framework published in January 2007, which is very similar to the COSO definition used in 2006.

The AMF definition states that internal control is a company's system, defined and implemented under its responsibility and comprising a set of resources, patterns of conduct, procedures and actions adapted to the individual characteristics of each company, which:

- contributes to the control over its activities, to the efficiency of its operations and to the efficient utilization of its resources; and
- enables it to take into consideration, in an appropriate manner, all major operational, financial and compliance risks.

More particularly, the system is designed to ensure that:

- laws and regulations are complied with;
- the instructions and directional guidelines fixed by the Managing Partners are applied;
- the Company's internal processes function correctly, particularly those involving the security of its assets;
- financial information is reliable.

However, the internal control system cannot provide an absolute guarantee that the Company's objectives will be met. Any internal control system has intrinsic limitations arising for example from uncertainties about the external environment, the exercise of judgment and the cost effectiveness of introducing new controls.

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Within the Michelin Group, the Company ensures that subsidiaries have set up internal control procedures that are aligned with the subsidiaries' individual characteristics as well as with their transactions with the Company.

#### Preparation and processing of accounting and financial information

The Managing Partners are responsible for publishing reliable financial and accounting information. The accounting, consolidation, management control and financial communication departments all contribute to the process of producing this information.

Under the Group's organizational structure, accounting teams generally report to the heads of the Regions, while management controllers report to the heads of the Product Lines.

Separate and consolidated financial statements are drawn up monthly according to the same overall processes as for the annual financial statements.

Local internal control procedures have been set up to ensure that accounting information produced by the individual entities is reliable. These include a physical inventory (for both fixed assets and stocks), segregation of tasks and reconciliations with independent sources of information.

A dedicated team is in charge of aligning accounting policies throughout the Group, monitoring changes in applicable financial reporting standards, updating accounting manuals for all Group subsidiaries and dealing with any questions that may be raised by these entities.

Statutory and management accounting data are reported simultaneously by the subsidiaries and programmed controls check that the main indicators – such as revenue and operating income – are consistent between the two sets of data.

Statutory accounting data received from the subsidiaries is checked for consistency and then consolidated to produce the Group's financial statements.

Monthly changes in consolidated data are systematically analyzed. Differences between forecast and actual management accounting data are examined in detail every month by the Group's Executive Council and the Product Lines.

At every interim and annual closing, the heads of the Regions certify in writing that, to the best of their knowledge, the separate accounts submitted by the companies within their region provide a true and fair view of the results of their operations. This statement specifically covers a number of issues that could significantly affect the financial statements in the event of non-compliance (applicable laws and regulations and contractual provisions) or occurrence (e.g. disputes or fraud).

Each year the Group Internal Audit Department puts forward proposals to the Managing Partners for specific audits of control procedures for financial and accounting information and if approved, subsequently performs the related audits.

In addition, as part of their audit work on the separate and consolidated financial statements, the Group's Statutory Auditors issue instructions to the local auditors on applying international auditing standards.

The Statutory Auditors audit the consolidated financial statements based on the work of the local auditors, conducted in accordance with the audit instructions and questionnaires sent by the Statutory Auditors. The local auditors send to the Statutory Auditors clearance reports on their limited review of the interim financial statements and their audit of the annual financial statements, together with reports on their audit work and regular communications throughout the year on specific issues or matters.

The Statutory Auditors visit several of the Group's sites outside France every year in order to meet the local audit teams and review a number of points together.

The Investor Relations Department, which forms an integral part of the Group Finance Department, is responsible for drawing up and relaying to the financial markets all of the Group's financial communications, which primarily comprise:

- the Annual Report and Sustainable Development Report and the Registration Document;
- financial press releases;
- presentations to analysts and investors.

The Investor Relations Department is responsible for coordinating the drafting of the Annual and Sustainable Development Report and the Registration Document, with significant input from the Group Legal Affairs Department. Both of these documents include high quality in-depth information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are systematically reviewed by the Head of Investor Relations and results announcements are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department and approved by the Managing Partners.

#### ● 4.6.3.c) INTERNAL CONTROL MANAGEMENT

Group managers can detect any weaknesses in their internal control processes through the systems used to monitor operations. In addition, internal reviews are performed within the entities by specialists in the fields concerned.

Strict procedures have also been put in place for receiving, analyzing and responding to customer complaints concerning product quality.

#### Control procedures

The Group's risk management processes form part of the Michelin Quality System which sets out procedures and instructions, allocates roles and responsibilities and defines the relevant methods and controls.

Audits are also carried out by specially trained Quality Auditors as part of the Michelin Quality System, to ensure compliance with Group quality standards, which are largely based on the applicable international standards. In addition to these internal audits the Group obtains quality certifications awarded by external bodies.

Management regularly carries out reviews to assess the efficiency and performance of the overall system and to pinpoint areas where progress can be made.

#### Information

Information generated by the Group's management systems is analyzed and reported to the relevant managers for inclusion in the scorecards used to monitor their operations. Management information is also reported to the Group's Executive Council on a monthly basis. Quarterly reports are also presented to the Supervisory Board. The Group Finance Department is responsible for ensuring the relevance and consistency of this management data.

The Group IT Department is in charge of overseeing IT policies and the corresponding resources. The procedures contained in the Group's Quality System include rules relating to data access and

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protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

The Group Internal Audit Department reports directly to the Managing Partners and is totally independent from the operating units. It is made up of a Group-level team in charge of auditing Group operations worldwide, local teams in North and South America and auditors in several Asian and African countries. The Internal Audit Department regularly carries out reviews of internal control and risk management processes concerning operational, accounting, IT, manufacturing and product quality risks. The Department's scope of reference covers all of the Group's processes and entities. The internal auditors issue recommendations to the entities concerned, based on their observations, and perform follow-up reviews to ensure that the action plans drawn up by the audited entities to address the identified weaknesses have been duly implemented. Periodic summaries of internal audit findings and the related action plans are presented to the various line managers, the Managing Partners and the Audit Committee.

In the Group's various host countries local Statutory Auditors issue their own internal control recommendations to accounts department managers who are responsible for ensuring that these recommendations are acted upon.

#### ● 4.6.3.d) ASSESSMENT OF PROCESSES AFFECTING THE RELIABILITY OF FINANCIAL INFORMATION

##### Financial internal control objectives

To ensure that the work carried out to comply with France's Financial Security Act (*Loi de Sécurité Financière*) generates lasting improvements, the Internal Control Department reports to the Finance Department. The Internal Control Department is responsible for managing internal control processes and for overseeing work on financial internal control with a view to providing reasonable assurance that the Group's financial information is reliable and that its assets are safeguarded.

It also draws up internal control standards, coordinates and sets up internal control information systems and day-to-day procedures, and assists the Group's network of internal controllers within the various regions and main business lines to help teams with implementing the related processes.

Its role includes:

- deploying internal control best practices and providing training to each region's correspondents;
- regularly updating key risks by process;
- defining major control issues in conjunction with the owners of the processes concerned;
- drafting control guidelines and internal control tests;
- overseeing the internal control activities of the heads of the regions and operational areas concerned;
- structuring the internal control network;
- acting as an interface with the other players in the relevant processes, such as process owners, risk managers and internal and external auditors.

A worldwide software application for monitoring financial internal control was set up and rolled out in 2009. The application leverages existing Group databases and principles drawn up in previous phases that were launched in 2004 and will continue to be extended to cover additional processes and legal entities.

##### Processes concerned

Fifteen key processes were initially identified for the Michelin Group as a whole in 2004. These processes are gradually being integrated into the financial internal control system with completion scheduled for 2010.

The main processes that have been identified and integrated to date are as follows:

- purchases (from the order through to supplier payment);
- sales (from the customer order through to payment);
- inventory management;
- inventory valuation;
- Group financing and financial risk management;
- management of intra-group transactions (transfer pricing and elimination of intra-group balances);
- identification of on- and off-balance sheet commitments;
- information systems management and administration;
- accounts closing;
- project and fixed asset management;
- taxes.

The other processes that will be integrated as from 2010 are as follows:

- human resource management (compensation, benefits and travel expenses);
- consolidation;
- financial communications;
- mergers/acquisitions/divestments.

##### Internal control manuals

The Group's internal control manuals describe the main risks that exist within each business process or cycle, together with the corresponding control objectives and activities aimed at mitigating the risk concerned.

##### Target companies

The first phase involved a sample of companies that account for around 80% of the Group's consolidated accounting balances. This sample also spanned all of the Group's Regions and operations, including manufacturing, sales and distribution networks.

The system will be extended to the smaller entities as from 2010 with the aim of covering the whole Group by 2014.

##### Method

This method was applied in 2009 to a broader array of companies and processes.

At every company concerned by the system, self-assessments are carried out by line personnel each year on the key internal control activities for each process, with additional controls implemented where required.

The key controls for all processes are tested at all sites at least once every four years and more often where necessary.



Action plans are drawn up by the various companies to address the identified areas for improvement, and are implemented by line personnel.

This overall approach forms part of the Group's objective of continuously improving its internal control processes, taking into account work conducted by the external and internal auditors.

#### Monitoring findings

The findings of the work performed by Financial Internal Control and the implementation of the ensuing action plans are appraised and monitored by line management. These findings are regularly presented to the Finance Committee as well as to the managers in charge of the relevant processes and operational areas.

The Audit Committee provides the Supervisory Board with status reports on the assessment process.

#### ● 4.6.3.e) RISK ASSESSMENT AND CONTROL

The Group's objectives are set by the Managing Partners and relate not only to financial performance but also to the areas in which the Group aims to achieve a particular level of excellence, such as people management, quality, innovation, working conditions and the environment.

The main objectives are updated every year and relayed to the Group's various entities which subsequently translate them into five-year strategic goals and yearly action plans. These plans cover both operational aspects and improvement targets aimed at enhancing performance and service quality.

Objectives are based on past performance and detailed diagnostics, and they also take into account changes in the Group's operating environment.

Operational risk assessment forms an integral part of the planning process during which critical success factors are determined and a sensitivity analysis is performed on the main assumptions underlying the objectives. Strategic risks are specifically addressed as part of this process.

#### ● 4.6.3.f) RISK MAPPING

The Group also ensures that its operational risks are effectively managed. These risks are divided into the following eleven categories: safety and security; products and services; continuity of supply/production/deliveries; accounting and finance; legal and tax affairs; environmental issues; labor relations; skills and expertise; fraud and ethics; information technology; and communication.

Risks are controlled at three levels:

- line managers (Operating Units, Product Lines and Geographic Regions) are responsible for identifying and managing their entity's risks. Their responsibility encompasses:
  - risk-prevention measures,
  - measures to protect people, assets and equipment in order to mitigate losses or injury in the event of risk occurrence,
  - plans to ensure continuity of operations in the event of a major incident;

- for each of the eleven risk categories, the relevant Corporate Service (Procurement, Legal Affairs, IT systems, Environment and Prevention, etc.) or Performance Division analyzes the corresponding risks, defines the applicable standards for risk prevention and protection measures and manages and monitors implementation of these standards.

The Group Risk Manager is responsible for the general oversight of risk assessment and control procedures. This role includes defining the related methods, organizing the rollout of procedures, promoting a risk management culture across the Group and ensuring that major risks are effectively controlled by the entities concerned. He also verifies that the Company's risk management process functions effectively, focusing particularly on major risks.

During 2009, the Group pursued its formal documentation of continuity plans and additional crisis management units were set up, with simulation-based training provided to the units' teams.

The Group Risk Committee, comprising Heads of Product Lines and the Group's corporate departments, reviews the most significant risks to which the Group is exposed and recommends to the Managing Partners procedures that substantially reduce both the probability that risks will occur and their potential impact

The Committee met three times in 2009, to discuss the Group-wide risk mapping process carried out by the Group Risk Manager by consolidating the results of risk analyses performed by the operating entities.

The Group risk map constitutes a useful tool for managing risks, identifying priority risks that may require a specific action plan, regularly controlling the most significant risks and helping to draw up the work plan for the Internal Audit team.

In 2009 the Group Risk Committee used the risk map to review a predefined list of risks, including those relating to (i) synthetic rubber, semi-finished products and tooling procurement, (ii) disaster recovery plans for commercial IT systems, (iii) epidemics (for employees working in risk-prone regions), (iv) total or partial failure of plants supplying other sites with semi-finished or key products for specific types of small run series and (v) risks arising from changes in local regulations that may trigger compliance issues for products and raw materials.

This review led the Committee to observe that the implementation of various risk prevention and protection measures had reduced the Group's exposure to previously identified, high-priority risks. In addition, the Committee assessed the business continuity plans developed to ensure that entities would be able to honor their commitments to customers, even when faced with the occurrence of high-impact risks, and made certain recommendations.

This report, presented by the Chairman of the Supervisory Board, was approved by the Supervisory Board on February 8, 2010.

Eric Bourdais de Charbonnière  
Chairman of the Supervisory Board

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## 4.7. STATUTORY AUDITORS' REPORT ON THE REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD

**For the year ended December 31, 2009**

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Compagnie Générale des Etablissements Michelin  
Ladies and Gentlemen,

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin, and in accordance with article L.226-10-1 of the French Commercial Code (*Code de Commerce*), we hereby report to you on the report prepared by the Chairman of the Supervisory Board "the Chairman" of your company in accordance with article L.226-10-1 of the French Commercial Code for the year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Supervisory Board for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by article L.226-10-1 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L.226-10-1 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### **Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information**

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;

- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman's report, prepared in accordance with article L.226-10-1 of the French Commercial Code.

### **Other information**

We attest that the report of the Chairman of the Supervisory Board sets out the other information required by article L.226-10-1 of the French Commercial Code.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit

Christian Marcellin

Corevise

Jean-Yves Lépinay

The Statutory Auditors

Members of "Compagnies Régionales" of Versailles and Paris

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## INVESTOR RELATIONS



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## 5.1. INFORMATION ABOUT THE COMPANY

### 5.1.1. GENERAL INFORMATION

#### ● Legal and Commercial Name of the Company

COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

#### ● Place of Registration and Registration Number

The Company is registered in the Clermont-Ferrand Trade and Companies Register under number 855,200,887.

#### ● Date of Incorporation and Term

The Company was incorporated on July 15, 1863. Its term will end on December 31, 2050, unless it is wound up before that date or its term is extended.

#### ● Registered Office

The Company's registered office is located at 12, cours Sablon, Clermont-Ferrand (Puy-de-Dôme), France.

Phone: +33 (0)4 73 98 59 00

#### ● Legal Form and Governing Law

The Company is a *société en commandite par actions* (partnership limited by shares) governed by articles L.226-1 to L.226-14 of the French Commercial Code.

### 5.1.2. ARTICLES OF INCORPORATION AND BYLAWS <sup>(1)</sup>

#### ● 5.1.2.a) GENERAL PARTNERS (ARTICLE 1 OF THE BYLAWS)

- Michel Rollier, Managing Partner.
- Société Auxiliaire de Gestion – SAGES (registered in the Clermont-Ferrand Trade and Companies register under number 870,200,466), a simplified joint stock company chaired by Edouard de Royère. SAGES's corporate purpose is:
  - to act as General Partner of CGEM; and

- in the absence of a Managing Partner, to act as CGEM's Managing Partner and call an Extraordinary Shareholders Meeting to elect a new Managing Partner.

Since 2007, SAGES has been owned by members of the founding family, current and former Michelin executives, and qualified persons from outside the Group, with all three categories represented equally on the Board.

To enable SAGES to assume its liability as CGEM General Partner, a portion of its distributable earnings (derived exclusively from the statutory share of profits paid by CGEM) is allocated to a contingency reserve fund, for the purpose of covering any losses resulting from its liability as General Partner or, as the case may be, as Managing Partner. At least 50% of the reserve is invested in CGEM shares.

#### ● 5.1.2.b) CORPORATE PURPOSE (ARTICLE 2 OF THE BYLAWS)

- All operations and activities directly or indirectly linked to the production, manufacture and sale of rubber, at all stages of manufacture, in all forms and for all uses.
- All industrial, commercial and financial operations, related in particular to:
  - tires, tire components, tire accessories and manufactured rubber in general;
  - mechanical engineering in all its applications, and in particular motor vehicles and industrial vehicles, components, spare parts and accessories;
  - the production, sale and use of natural or synthetic chemicals and their derivatives, in particular the various sorts of elastomers, plastics, fibers and resins, and generally all activities and products of the chemicals industry, especially as related to the products and operations described above;
  - the filing, acquisition, use, transfer or sale of any intangible property rights, and in particular patents and related rights, trademarks and manufacturing processes relating to the corporate purpose.
- To be carried out directly, as well as through equity interests, the creation of new companies, joint ventures (*sociétés en participation*) and economic interest groups (*groupements d'intérêt économique*), contributions, partnerships (*commandites*), the subscription, purchase or exchange of securities, or interests, in all businesses whose activities relate to the aforementioned purposes, or by way of merger or otherwise.
- And generally, all commercial, industrial, real estate, securities and financial transactions related directly or indirectly in whole or in part to any of the purposes specified above or to any similar or related purposes.

(1) The Bylaws, in French and English, can be downloaded from the Company's website ([www.michelin.com/corporate](http://www.michelin.com/corporate)).

● **5.1.2.c) MANAGING PARTNERS (ARTICLE 10 OF THE BYLAWS)**

The Company is managed by one or more Managing Partners, who are individuals and who may or may not be General Partners. The Managing Partners, acting jointly or separately, are vested with the broadest powers to act in all circumstances in the name of the Company.

● **5.1.2.d) FISCAL YEAR (ARTICLE 29 OF THE BYLAWS)**

The Company's fiscal year begins on January 1 and ends on December 31.

● **5.1.2.e) STATUTORY ALLOCATION OF PROFITS (ARTICLE 30 OF THE BYLAWS)**

An amount equivalent to 12% of net profit for the year is allocated to the General Partners. This amount is capped at 1% of consolidated net profit for the year, with any excess being allocated to profit available for appropriation. Net profit comprises net revenue for the year less general and administrative costs and all other expenses of the Company, including any depreciation, amortization and provisions deemed necessary. Net profit remaining after the 12% allocation to the General Partners, plus any retained earnings brought forward from the prior year, is attributable to shareholders.

The shareholders may decide to make deductions from this attributable net profit to be used, as recommended by the Managing Partners, to create or increase one or more reserve or contingency funds, over which the General Partners shall not have any rights.

Any attributable net profit remaining after the above deduction shall be distributed to shareholders.

● **5.1.2.f) SHAREHOLDERS MEETINGS**

**Notices of Meeting (Article 21 of the Bylaws)**

Notices of meeting are issued in such form and with such advance notice as is prescribed by law.

**Conditions of Attendance (Articles 22 and 24 of the Bylaws)**

Shareholders may attend Shareholders Meetings regardless of how many shares they own, provided such shares are fully paid up and are registered in the Company's share register at least three days before the date of the Meeting.

**Exercising Voting Rights – Attribution of Double Voting Rights (Article 22 of the Bylaws)**

Except as otherwise provided for by law, a shareholder at the Meeting may exercise one vote for each share he or she owns or represents by proxy, without limitation.

However, owners or proxies of owners of fully-paid up shares registered in the name of the same holder for at least four years shall have two votes per share, without limitation.

In the event of a capital increase paid up by capitalizing retained earnings, profits or additional paid-in capital, the resulting bonus shares distributed in respect of registered shares carrying double voting rights shall similarly carry double voting rights.

Transfer through inheritance, liquidation of marital assets, *inter vivos* transfers to a spouse or to a relative in the ascending or descending line shall not result in the loss of double voting rights or a break in the qualifying period described above.

Shares transferred for any other reason shall lose their double voting rights *ipso jure*.

**Statutory disclosure thresholds**

The Bylaws do not provide for any disclosure to the Company when certain shareholding thresholds are exceeded.

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## 5.2. SHARE INFORMATION

### 5.2.1. THE MICHELIN SHARE

#### ● Traded on the NYSE Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2;
- Traded in units of: 1.

#### ● Market capitalization

€7.90 billion at December 31, 2009.

#### ● Average daily trading volume

1,117,648 in 2009.

#### ● Indices

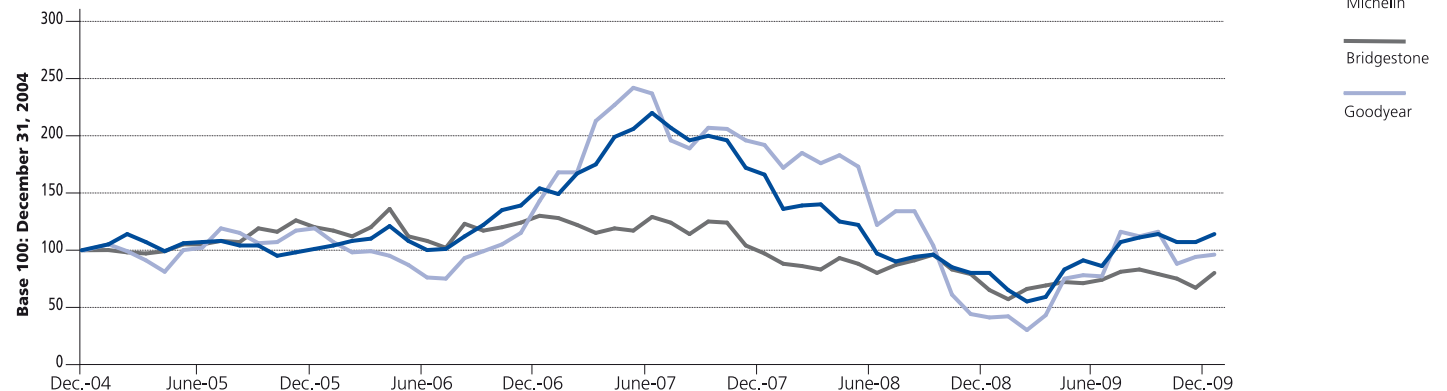
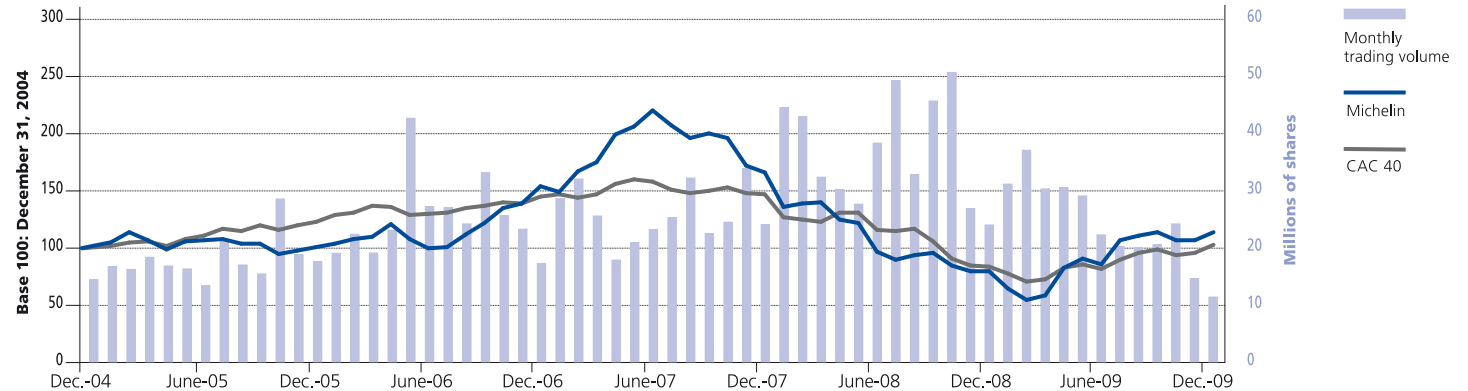
The Michelin share is included in two leading stock market indices. As of December 31, 2009, it represented:

- 0.94% of the CAC 40 index;
- 0.52% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe;
- Advanced Sustainable Performance Index (ASPI) Eurozone.

#### SHARE PERFORMANCE (Closing price at December 31)



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## 5.2.2. SHARE DATA

|   | 2009        | 2008        | 2007         | 2006         | 2005        |
|---|-------------|-------------|--------------|--------------|-------------|
| Share price in euros                                    |             |             |              |              |             |
| High  | 58.67       | 79.90       | 106.70       | 73.30        | 56.20       |
| Low   | 22.69       | 30.65       | 67.75        | 43.21        | 43.75       |
| High/low ratio  | 2.59        | 2.61        | 1.57         | 1.70         | 1.28        |
| Closing price for the year                              | 53.58       | 37.57       | 78.50        | 72.50        | 47.48       |
| Change over the year                                    | +42.6%      | -52.1%      | +8.3%        | +52.7%       | +0.6%       |
| Change in the CAC 40 over the year                      | +22%        | -43%        | +1%          | +18%         | +23%        |
| <b>Market capitalization</b> (year end, in EUR billion) | <b>7.90</b> | <b>5.45</b> | <b>11.30</b> | <b>10.41</b> | <b>6.81</b> |
| Average daily trading volume over the year              | 1,138,691   | 1,740,267   | 1,217,949    | 1,191,679    | 842,053     |
| Average shares outstanding                              | 146,184,080 | 144,495,251 | 143,770,101  | 143,390,450  | 143,387,025 |
| Volume of shares traded over the year                   | 291,504,866 | 445,508,266 | 310,577,078  | 303,878,126  | 216,407,691 |
| Share turnover ratio                                    | 199%        | 308%        | 216%         | 212%         | 151%        |

## 5.2.3. PER-SHARE DATA

| In euros except for ratios      | 2009        | 2008        | 2007        | 2006        | 2005       |
|---------------------------------|-------------|-------------|-------------|-------------|------------|
| Net assets                      | 37.2        | 35.2        | 36.7        | 32.6        | 31.5       |
| Basic earnings                  | 0.71        | 2.46        | 5.32        | 3.95        | 6.13       |
| Diluted earnings <sup>(1)</sup> | 0.71        | 2.46        | 5.22        | 3.94        | 6.12       |
| <b>P/E</b>                      | <b>75.5</b> | <b>15.3</b> | <b>14.8</b> | <b>18.4</b> | <b>7.7</b> |
| Dividend                        | 1.00*       | 1.00        | 1.60        | 1.45        | 1.35       |
| Distribution rate               | 140.8%      | 40.7%       | 30.1%       | 36.7%       | 22.0%      |
| Yield <sup>(2)</sup>            | 1.9%        | 2.7%        | 2.0%        | 2.0%        | 2.8%       |

\* Dividend proposed to the Shareholders at the May 7, 2010 Annual General Meeting.

(1) Earnings per share adjusted for the effect on net income and on the average number of shares of the exercise of outstanding dilutive instruments.

(2) Dividend/Share price at December 31.

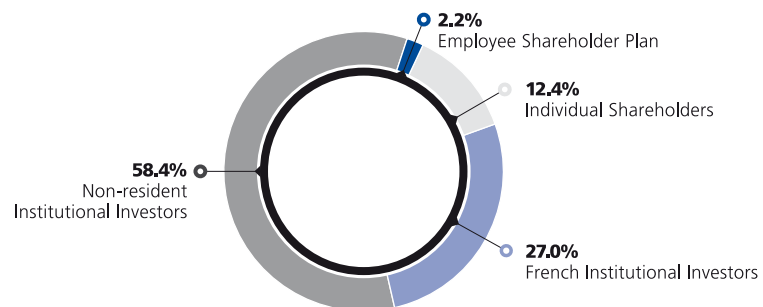
## 5.2.4. CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2009:

- share capital: €294,872,714;
- shares outstanding: 147,436,357, all fully paid-up;
- voting rights outstanding: 199,296,891;
- number of shareholders: 192,486, of which:
  - more than 2,500 institutional investors,
  - 116,000 individual shareholders,
  - 74,000 employee shareholders.

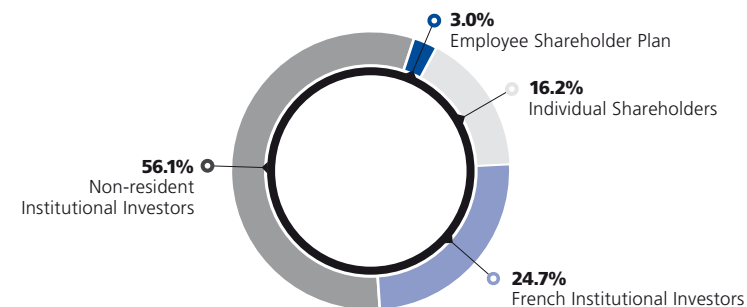
### CAPITAL STRUCTURE

At December 31, 2009



### VOTING RIGHTS STRUCTURE

At December 31, 2009



Shares held in the same name for at least four years carry double voting rights.

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## 5.3. SHAREHOLDER RELATIONS

Every shareholder has access to clear, comprehensive, transparent information, tailored to his or her individual needs.

In particular, extensive information about our business operations, strategy and financial performance may be found in a wide variety of regulatory filings, such as press releases, the Annual and Sustainable Development Report, the Registration Document, the Annual and Interim Financial Reports, the Shareholders Guide, Letters to Shareholders and the Company Bylaws. All of these publications are readily available in French and English at [www.michelin.com/corporate](http://www.michelin.com/corporate) in the Finance section and on request from the Investor Relations Department.

In addition, five meetings with French shareholders were held in 2009, in Biarritz, La Rochelle, Lyon, Marseille and Orléans, and on November 20 and 21, 2009, Michelin attended the Actionaria retail investor fair in Paris to meet with individual shareholders and present the Group to prospective shareholders.

At the same time, 300 group and individual meetings were organized during the year with 765 institutional investors and financial analysts in 16 countries, offering valuable opportunities for face-to-face discussions. Analysts, investors and portfolio managers were also invited to a number of presentations on specific topics and plant visits. As well, dedicated programs are in place to keep Socially Responsible Investment funds and rating agencies regularly informed of our commitment and performance in this area. Meetings were held with 32 representatives of such funds and agencies in 2009.

## 5.4. DOCUMENTS ON DISPLAY

Historical financial information, Registration Documents, Letters to Shareholders, Notices and Minutes of Shareholders Meetings, the Company's Bylaws, and all of the regulatory filings within the meaning of article 221-1 of AMF General Regulations (particularly press releases, quarterly

Created in 2003, the Shareholder Consultative Committee is comprised of 12 members, including two employee shareholders. Through its input and recommendations, the Committee helps to improve the quality of our financial and/or image communication with individual shareholders. The Committee met twice in 2009.

Each year, shareholders and proxy solicitors are notified of the date of the Annual Shareholders Meeting and of the voting procedures.

According to the Bylaws of the Company, shares held in the same name for at least four years carry double voting rights.

reports and the Interim and Annual Reports, also available on the French website of record, [www.infofinanciere.fr](http://www.infofinanciere.fr)), and can be viewed in French or English at [www.michelin.com/corporate](http://www.michelin.com/corporate) (Finance section) or at the Company's registered office.

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## 5.5. ADDITIONAL INFORMATION ABOUT THE CAPITAL

### 5.5.1. CHANGES IN SHARE CAPITAL

| Year | Transaction                 | Number of shares   | Change in capital   |                         |
|------|-----------------------------|--------------------|---------------------|-------------------------|
|      |                             |                    | Per value<br>(in €) | Share premium<br>(in €) |
| 2005 | <b>At December 31, 2005</b> | <b>143,387,625</b> | <b>286,775,250</b>  |                         |
| 2006 | Exercise of stock options   | 264,693            | 529,386             | 10,901,156              |
|      | <b>At December 31, 2006</b> | <b>143,652,318</b> | <b>287,304,636</b>  |                         |
| 2007 | Conversion of OCEANE bonds  | 21                 | 42                  | 2,138                   |
|      | Exercise of stock options   | 346,830            | 693,660             | 6,032,866               |
|      | <b>At December 31, 2007</b> | <b>143,999,169</b> | <b>287,998,338</b>  |                         |
| 2008 | Conversion of OCEANE bonds  | 0                  | 0                   | 0                       |
|      | Employee share issue        | 952,733            | 1,905,466           | 46,683,917              |
|      | Exercise of stock options   | 45,520             | 91,040              | 1,562,777               |
|      | <b>At December 31, 2008</b> | <b>144,997,422</b> | <b>289,994,844</b>  |                         |
| 2009 | Conversion of OCEANE bonds  | 0                  | 0                   | 0                       |
|      | Dividend reinvestment       | 2,371,623          | 4,743,246           | 75,253,969              |
|      | Exercise of stock options   | 65,619             | 131,238             | 2,288,224               |
|      | <b>At December 31, 2009</b> | <b>147,436,357</b> | <b>294,872,714</b>  |                         |

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## 5.5.2. FINANCIAL AUTHORIZATIONS

### 5.5.2.a) GRANTED BY THE ANNUAL SHAREHOLDERS MEETING OF MAY 16, 2008

#### Issuance of shares and share equivalents with pre-emptive subscription rights

| Corporate action   | Resolution       | Duration (expiry date) | Maximum issue amount, based of a share price of €45  | Maximum aggregate per value of shares                           | Utilization during the year |
|--|------------------|------------------------|--|---|-----------------------------|
| Issuance of new shares of common stock and share equivalents | 11 <sup>th</sup> | 26 months (July 2010)  | <ul style="list-style-type: none"> <li>• €2.25 billion (common stock)</li> <li>• €1 billion<sup>(3)</sup> (share equivalents)</li> </ul> | €100 million <sup>(1)(2)</sup> or 35% of current issued capital | None                        |
| Issuance of new shares by capitalizing reserves              | 15 <sup>th</sup> | 26 months (July 2010)  | €1.8 billion   | €80 million   | None                        |

(1) With the aggregate par value of shares issued under the 11<sup>th</sup>, 12<sup>th</sup> and 16<sup>th</sup> resolutions not to exceed €100 million (20<sup>th</sup> resolution).

(2) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 11<sup>th</sup> and 12<sup>th</sup> resolutions (13<sup>th</sup> resolution).

(3) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> and 17<sup>th</sup> resolutions not to exceed €2 billion (20<sup>th</sup> resolution).

#### Issuance of shares and share equivalents without pre-emptive subscription rights

| Corporate action  | Resolution       | Duration (expiry date) | Maximum issue amount, based of a share price of €45   | Maximum aggregate per value of shares (in €)                        | Utilization during the year |
|---|------------------|------------------------|---|---|-----------------------------|
| Issuance of shares of common stock and share equivalents  | 12 <sup>th</sup> | 26 months (July 2010)  | <ul style="list-style-type: none"> <li>• €1,283 million (common stock)</li> <li>• €700 million<sup>(4)</sup> (share equivalents)</li> </ul> | €57 million <sup>(1)(2)(3)</sup> (or 20% of current issued capital) | None                        |
| Issuance of shares of common stock in connection with a stock-for-stock offer or in payment of contributed assets | 16 <sup>th</sup> | 26 months (July 2010)  | €1,283 million  | €57 million <sup>(5)</sup>  | None                        |

(1) With the aggregate par value of shares issued under the 11<sup>th</sup>, 12<sup>th</sup> and 16<sup>th</sup> resolutions not to exceed €100 million (20<sup>th</sup> resolution).

(2) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 11<sup>th</sup> and 12<sup>th</sup> resolutions (13<sup>th</sup> resolution).

(3) With authorization to freely set the issue price of the common stock, up to the equivalent of 10% of the Company's issued capital per year (14<sup>th</sup> resolution).

(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> and 17<sup>th</sup> resolutions not to exceed €2 billion (20<sup>th</sup> resolution).

(5) Amount to be included in the maximum total capital increase authorized under the 12<sup>th</sup> resolution.

#### Employee share issues

| Corporate action                       | Resolution       | Duration (expiry date) | Comments   | Utilization during the year |
|--|------------------|------------------------|--|-----------------------------|
| Performance share grants               | 18 <sup>th</sup> | 38 months (July 2011)  | <ul style="list-style-type: none"> <li>• Managing Partners excluded</li> <li>• Capped at 0.5% of issued capital</li> </ul> | None                        |
| Issuance of new shares of common stock | 19 <sup>th</sup> | 26 months (July 2010)  | Capped at 2% of current issued capital   | None                        |

### Debt securities without rights to shares/Other debt securities

| Corporate action  | Resolution       | Duration (expiry date) | Maximum nominal amount authorized (in €) | Utilization during the year |
|---|------------------|------------------------|--|-----------------------------|
| Issuance of bonds   | 10 <sup>th</sup> | 26 months (July 2010)  | €1 billion <sup>(1)</sup>                | None                        |
| Issuance of securities carrying the right to debt securities without rights to shares | 17 <sup>th</sup> | 26 months (July 2010)  | €1 billion <sup>(1)</sup>                | None                        |

(1) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup> and 17<sup>th</sup> resolutions not to exceed €2 billion (20<sup>th</sup> resolution).

### ● 5.5.2.b) GRANTED BY THE ANNUAL SHAREHOLDERS MEETING OF MAY 15, 2009

#### Employee share issue

| Corporate action   | Resolution       | Duration (expiry date) | Comments  | Utilization during the year                  |
|--|------------------|------------------------|---|--|
| Issuance of stock options (to purchase new or existing shares of common stock) | 17 <sup>th</sup> | 38 months (July 2012)  | <ul style="list-style-type: none"> <li>• Managing Partners excluded</li> <li>• Exercise price set without a discount</li> <li>• Capped at 2% of current issued capital</li> </ul> | Capital increased by €131,238 <sup>(1)</sup> |

(1) Please refer to the statement of changes in share capital, page 120, and the table on page 124.

#### Share buyback program

| Corporate action      | Resolution      | Duration (expiry date)    | Ceilings   | Utilization during the year |
|-----------------------|-----------------|---------------------------|--|-----------------------------|
| Share buyback program | 7 <sup>th</sup> | 18 months (November 2010) | Statutory limit of 10% of issued capital<br>Maximum purchase price: €100 | None                        |

## 5.5.3. POTENTIAL SHARES

### ● 5.5.3.a) OUTSTANDING SECURITIES CONVERTIBLE, EXCHANGEABLE, REDEEMABLE OR OTHERWISE EXERCISABLE FOR SHARES

#### OCEANE bonds

In March 2007, the Company issued bonds convertible and/or exchangeable for new or existing shares of common stock (OCEANES). The issue, which was fully subscribed, was described in a prospectus filed with the French securities regulator (AMF) on March 12, 2007, under number 07-082.

The main characteristics of this bond issue were as follows:

- listing: NYSE Euronext Paris;

- ISIN: FR0010449264;
- issue, cum-interest and settlement date: March 21, 2007;
- term: 9 years and 286 days;
- total nominal value issued: €699,999,913.16;
- number of bonds issued: 6,742,438;
- number of bonds outstanding at December 31, 2009: 6,742,417;
- nominal value: €103.82;
- issue price: At par;
- nominal interest rate: None (zero-coupon bonds);
- gross annual yield to maturity: 3.07% (for bonds not converted or exchanged);
- repayment: in full at maturity on January 1, 2017 at €139.57 per bond;

- early redemption at the Company's option from March 21, 2011 if, over 20 consecutive trading days, the average share price and the average conversion or exchange ratio exceed 1.3 times the early redemption price;

- conversion or exchange ratio (subject to change in line with the law and the provisions for the issue contract) set at the issue date and applicable as of the date of filing this report: 1 share of common stock for 1 bond.

**Options to purchase new shares of common stock:**

Please refer to the detailed information in the table below.

● **5.5.3.b) MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2009**

*(In number of shares with a par value of €2.00)*

|   | Maximum number of<br>potential new shares | Issued capital<br><i>(in €)</i> |
|---|---|---------------------------------|
| <b>Issued capital at December 31, 2009</b>  |   | <b>294,872,714</b>              |
| <b>OCEANE bonds</b>   |   |                                 |
| In the event that all of the 6,742,417 bonds outstanding as of December 31, 2009 are redeemed for new shares on the basis of one share for one bond with a nominal value of €103.83 (the bonds may also be redeemed for existing shares <sup>(1)</sup> ).<br>Maturity: January 2017 | 6,742,417                                 |                                 |
| <b>Stock options outstanding as of December 31, 2009</b>  |   |                                 |
| May 19, 2002 Plan: options exercisable at a price of €44 from May 19, 2006 to May 18, 2011  | 202,236                                   |                                 |
| May 19, 2003 Plan: options exercisable at a price of €32.25 from May 19, 2007 to May 18, 2012   | 75,275                                    |                                 |
| November 24, 2003 Plan: options exercisable at a price of €34 from November 24, 2007 to November 23, 2012   | 157,700                                   |                                 |
| May 17, 2004 Plan: options exercisable at a price of €40 from May 17, 2008 to May 16, 2013  | 145,300                                   |                                 |
| July 5, 2004 Plan: options exercisable at a price of €44.50 from July 5, 2008 to July 4, 2013   | 116,200                                   |                                 |
| May 23, 2005 Plan: options exercisable at a price of €48 from May 23, 2009 to May 22, 2014  | 216,000                                   |                                 |
| November 7, 2005 Plan: options exercisable at a price of €48 from November 7, 2009 to November 6, 2014  | 857,880                                   |                                 |
| May 15, 2006 Plan: options exercisable at a price of €58 from May 15, 2010 to May 14, 2015  | 133,900                                   |                                 |
| May 14, 2007 Plan: options exercisable at a price of €91 from May 14, 2011 to May 13, 2016  | 1,154,920                                 |                                 |
| May 19, 2008 Plan: options exercisable at a price of €62 from May 19, 2012 to May 18, 2017  | 310,000                                   |                                 |
| November 23, 2009 Plan: options exercisable at a price of €53 from November 23, 2013 to November 22, 2018   | 1,398,310                                 |                                 |
| <b>Total stock options outstanding</b>  | <b>4,767,721</b>                          |                                 |
| <b>Maximum potential shares as of December 31, 2009 (+7.8%)</b>   |   | <b>317,892,990</b>              |

*(1) Out of the 6,742,438 bonds issued in total, 21 were converted into shares in 2007 and none were converted in 2008 or 2009.*

**5.5.4. STOCK OPTIONS**

Michelin regularly grants options to purchase new or existing shares of Company stock, based on a conservative and fair allocation policy in place since 2002. The options are exercisable at the market price prevailing at the time of grant, without any discount and without any reset mechanism in the event that they fall out of the money due to a decline in the share price. The options are subject to

a four year vesting period and have a five year exercise period. The Annual Shareholders Meeting of May 15, 2009 authorized the Managing Partners to grant stock options to senior executives and employees of Group companies, with the exception of CGEM Managing Partners. The total number of options to purchase new shares may not be exercisable for more than an aggregate 3,000,000 shares or around 2% of current issued capital.





● **5.5.4.a) STOCK OPTION PLANS IN EFFECT AT DECEMBER 31, 2009**

|   | Plan 1    | Plan 2    | Plan 3     | Plan 4    | Plan 5    | Plan 6    | Plan 7    | Plan 8    | Plan 9    | Plan 10   | Plan 11    |
|---|-----------|-----------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| Date of the shareholder authorization   | 5/18/2001 | 5/18/2001 | 5/18/2001  | 5/18/2001 | 5/18/2001 | 5/14/2004 | 5/14/2004 | 5/12/2006 | 5/12/2006 | 5/12/2006 | 5/15/2009  |
| Date granted by the Managing Partners   | 5/19/2002 | 5/19/2003 | 11/24/2003 | 5/17/2004 | 7/5/2004  | 5/23/2005 | 11/7/2005 | 5/15/2006 | 5/14/2007 | 5/19/2008 | 11/23/2009 |
| Total number of new or existing shares that may be purchased upon exercise of the options | 716,600   | 243,000   | 226,200    | 179,900   | 129,100   | 218,500   | 913,350   | 136,700   | 1,188,230 | 310,000   | 1,398,310  |
| Of which new shares purchased by<br>(before being appointed as Managing Partners):        |           |           |            |           |           |           |           |           |           |           |            |
| Michel Rollier  | 8,000     | 10,000    | 0          | 7,000     | 0         | 10,000    | 0         | 0         | 0         | 0         | 0          |
| Didier Miraton  | 8,000     | 10,000    | 0          | 7,000     | 0         | 10,000    | 0         | 6,000     | 0         | 0         | 0          |
| Jean-Dominique Sénard   | 0         | 0         | 0          | 0         | 0         | 10,000    | 0         | 6,000     | 0         | 0         | 0          |
| Vesting date  | 5/19/2006 | 5/19/2007 | 11/24/2007 | 5/17/2008 | 7/5/2008  | 5/23/2009 | 11/7/2009 | 5/15/2010 | 5/14/2011 | 5/19/2012 | 11/23/2013 |
| Expiry date   | 5/18/2011 | 5/18/2012 | 11/23/2012 | 5/16/2013 | 7/4/2013  | 5/22/2014 | 11/6/2014 | 5/14/2015 | 5/13/2016 | 5/18/2017 | 11/22/2018 |
| Exercise price  | €44.00    | €32.25    | €34.00     | €40.00    | €44.50    | €48.00    | €48.00    | €58.00    | €91.00    | €62.00    | €53.00     |
| Exercise terms  |           |           |            |           |           |           |           |           |           |           |            |
| Number of options exercised as of December 31, 2009                                       | 464,870   | 162,525   | 53,990     | 32,600    | 3,900     | 0         | 7,070     | 0         | 0         | 0         | 0          |
| Number of options cancelled   | 49,494    | 5,200     | 14,510     | 2,000     | 9,000     | 2,500     | 48,400    | 2,800     | 33,310    | 0         | 0          |
| Number of options outstanding as of December 31, 2009                                     | 202,236   | 75,275    | 157,700    | 145,300   | 116,200   | 216,000   | 857,880   | 133,900   | 1,154,920 | 310,000   | 1,398,310  |

● **5.5.4.b) SPECIAL REPORT OF THE MANAGING PARTNERS**

The Annual Shareholders Meeting of May 15, 2009 authorized the grant of stock options to employees of the Company (except Managing Partners) and of related companies within the meaning of article L. 225-180 of the French Commercial Code, with the number of new shares that may be issued upon exercise limited to 3,000,000 or around 2% of current issued capital.

This authorization was used to grant 1,398,310 options to purchase new shares of common stock to 2,088 grantees, exercisable from November 23, 2013 at a price of €53.00.

None of the Managing Partners were granted any stock options in 2009.

The ten employees other than Managing Partners who were granted or exercised the greatest number of options:

- received 100,500 options, with three grantees receiving 13,500, four receiving 10,000, one receiving 8,000 and two receiving 6,000;
- exercised 3,400 options at a unit price of €32.25 (options granted on May 19, 2003).

Clermont-Ferrand – February 8, 2010

Michel Rollier

Didier Miraton

Jean-Dominique Senard

Managing Partners

### 5.5.5. PERFORMANCE SHARE GRANTS

Since the Annual Shareholders Meeting of May 16, 2008, the Managing Partners have been authorized to grant shares of common stock to employees on a conservative and selective basis. These grants, which may not be made to CGEM's Managing Partners, are primarily intended for employees of Group companies other than senior management, to motivate them and give them a personal stake in meeting our business objectives.

Performance shares may be granted by the Managing Partners only if consolidated operating margin for the preceding year exceeds the trigger point for the payment of the portion of management bonuses based on Group performance, namely:

- for a grant in 2010, operating margin of at least 3% in 2009;
- for a grant in 2011, a minimum margin to be determined.

No performance shares were granted in 2009 as 2008 margin was below the 7.8% trigger point.

### 5.5.6. EMPLOYEE SHARE OWNERSHIP

Following the three Employee Shareholder Plans, nearly 74,000 employees and former employees in 67 countries and five continents are now shareholders. At December 31, 2009, employees owned 2.2% of issued capital.

### 5.5.7. INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

In 2009 and until the date of filing in 2010, the Company did not hold any of its own shares, either directly or indirectly, nor did it purchase, sell or transfer any of its shares. Likewise, no liquidity contract was in force with an investment service provider during the period.

### 5.5.8. DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL MEETING OF MAY 7, 2010

The following description has been prepared in accordance with articles 241-1 et seq. of the General Regulations of the Autorité des marchés financiers and European Commission regulation No. 2273/2003/EC of December 22, 2003.

#### ● Date of the Shareholders Meeting at which the share buyback program is submitted for approval

May 7, 2010.

#### ● Purposes of the new share buyback program, in declining order of priority

- To maintain a liquid market for the Company's shares under a liquidity contract that complies with a code of ethics recognized by the Autorité des marchés financiers.
- To sell or grant shares to employees of the Company and its subsidiaries in accordance with the law, notably through stock option or performance share plans or employee share issues with or without a matching contribution from the Company.
- For allotment upon exercise of rights attached to securities convertible, exchangeable, redeemable or otherwise exercisable for shares.
- To purchase shares to be held and subsequently delivered (as consideration, in exchange or otherwise) in connection with external growth transactions.
- To implement any and all market practices that may be authorized in the future by legislation or the AMF.
- To cancel all or some of the bought back shares, subject to shareholder approval to reduce the Company's capital.

#### ● Maximum percentage of issued capital, maximum number and characteristics of the shares the Company proposes to buy back and maximum purchase price

The Company would be authorized to buy back up to 10% of the total shares outstanding, i.e. 14,737,073 shares at the date of this report. Based on the maximum purchase price of €100 per share and the absence of any shares currently held in treasury, this would correspond to a maximum theoretical investment of €1,473,707,300.

In accordance with the law, when shares are bought back for the first purpose listed above, the number of shares used to calculate the 10% limit is the number bought back less the number sold during the course of the program.

Pursuant to article L. 225-210 of the French Commercial Code, the total value of shares held in treasury may not exceed the amount of available reserves (other than the legal reserve) recorded in the Company's balance sheet at December 31, 2009.

#### ● Duration of the share buyback program

Subject to shareholder approval, the shares may be bought back at any time during the 18 months from the May 7, 2010 Shareholders Meeting, i.e. until the close of trading on November 6, 2011.

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# 6 MICHELIN PERFORMANCE AND RESPONSIBILITY



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## 6.1. 2009 EMPLOYEE AND ENVIRONMENTAL INFORMATION PUBLISHED IN COMPLIANCE WITH FRENCH NRE LEGISLATION

Michelin is actively deploying a sustainable development process, known as *Michelin Performance and Responsibility*. Its basic principles are presented in the Michelin Performance and Responsibility Charter, which is available on request or may be downloaded from [www.michelin.com](http://www.michelin.com). A core component of this process is Michelin's understanding of its social and environmental challenges, which enables it to identify the most effective ways to drive balanced, responsible growth both in its own business and in its industry as a whole, and to support better, more sustainable mobility.

Published in May 2009, the 2007-2008 Michelin Performance and Responsibility Report presents the detailed results from programs underway to meet the Group's growth and financial performance objectives while effectively fulfilling all of its responsibilities. Readers are strongly encouraged to consult the report, which is available upon request from the Investor Relations Department or at [www.michelin.com](http://www.michelin.com).

The 2009 Annual and Sustainable Development Report – Performance and Responsibility is a combined document presenting the Group's 2009 strategy and results in every aspect of its business, thereby expressing the seamless integration of all of its performance and responsibility objectives.

In this 2009 Registration Document, the employee information in section 6.2. and the environmental information in section 6.3. comply with Article L. 225-102-1 of the French Commercial Code and the related application decrees of February 20 and April 30, 2002, which require a company to

disclose in its Annual Report "information on the way in which it takes into account the social and environmental impact of its business".

Michelin is continuing to formalize and improve the reliability of its indicators, which are used by its 72 production facilities in 19 countries and its sales and marketing operations. The Group is committed to obtaining as accurate an understanding as possible of each site's social and environmental responsibilities and to driving continuous improvement, year after year, in the quality of this information. Unless otherwise specified, the scope of reporting is the entire Group.

For the fourth consecutive year, PricewaterhouseCoopers was commissioned to review the procedures used to prepare the indicators presented in this document. The internal review of the environmental and social data was extended in 2009 to NO<sub>x</sub> and SO<sub>x</sub> emissions.

The review opinion may be found in section 6.4.

In the following tables, indicators marked with two asterisks were verified during the review.

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## 6.2. 2009 EMPLOYEE INFORMATION

### 6.2.1 EMPLOYEES

#### 6.2.1.a) NUMBER OF GROUP EMPLOYEES, BREAKDOWN BY GENDER, EMPLOYEE MOVEMENTS, FIXED-TERM CONTRACTS, OVERTIME AND THIRD-PARTY MANPOWER

Group Employees on payroll at December 31, 2009 (All types of work contracts)

|                                   | Europe | North America | South America | Asia-Pacific | Africa & the Middle East | Group Total |
|-----------------------------------|--------|---------------|---------------|--------------|--------------------------|-------------|
| Number of employees on payroll ** | 68,251 | 21,141        | 5,454         | 13,246       | 1,101                    | 109,193     |

Full-time equivalent employees at December 31, 2009 (All types of work contracts)

|   | Europe | North America | South America | Asia-Pacific | Africa & the Middle East | Group Total |
|---|--------|---------------|---------------|--------------|--------------------------|-------------|
| Number of full-time equivalent employees ** | 63,158 | 20,315        | 4,892         | 13,229       | 1,098                    | 102,692     |

\*\*Data related to these indicators have been reviewed by PricewaterhouseCoopers.

Employees on payroll by gender (All types of work contracts)

Women as a percentage of employees on payroll at December 31, 2009

|                                    | Europe | North America | South America | Asia-Pacific | Africa & the Middle East | Group Total |
|------------------------------------|--------|---------------|---------------|--------------|--------------------------|-------------|
| Production workers                 | 7.6%   | 12.3%         | 4.5%          | 2.8%         | 0.8%                     | 8.1%        |
| Administrative and technical staff | 26.1%  | 27.6%         | 27.6%         | 26.5%        | 24.1%                    | 26.6%       |
| Managers                           | 16.0%  | 13.7%         | 14.9%         | 17.7%        | 10.7%                    | 15.8%       |

Scope of reporting: Group excluding Euromaster and TCI.

Overall, women accounted for 14.0% of total employees on payroll.

Employee movements in 2009 (All types of work contracts)

|                         | Europe | North America | South America | Asia-Pacific | Africa & the Middle East | Group Total |
|-------------------------|--------|---------------|---------------|--------------|--------------------------|-------------|
| Natural attrition       | 2,439  | 1,280         | 442           | 1,104        | 160                      | 5,425       |
| Negotiated redundancies | 3,150  | 1,664         | 317           | 368          | 15                       | 5,514       |
| Early retirement        | 844    | 584           | 0             | 18           | 0                        | 1,446       |
| New hires               | 1,943  | 1,186         | 1,222         | 1,289        | 65                       | 5,705       |

Scope of reporting: Group excluding Euromaster.

### Fixed-term contracts

In 2009, fixed-term contracts accounted for 1.0% of total Group payroll.

### Overtime and third-party manpower

Overtime may be used to offset a lack of available personnel or to respond to customer demand. In 2009, overtime accounted for 2.84% of the total number of hours worked by production workers in the Group, with the rate varying from 0.7% in Europe to 6.1% in Asia.

Overtime pay for all job categories amounted to 1.4% of total payroll for the year.

Third-party manpower working on Group sites (excluding Euromaster and TCI) represented an average 2.2% of full-time equivalent employees in 2009, with the proportion ranging from 0% in Africa and the Middle East, where third-party manpower is not used, to 8.0% in South America.

### ● 6.2.1.b) REDUNDANCY PLANS, JOB RETENTION INITIATIVES AND RETRAINING, PLACEMENT AND SUPPORT PROGRAMS

Michelin's manufacturing strategy is to increase production capacity in the growth markets of Eastern Europe, Asia and South America while enhancing competitiveness in the developed, mature markets of Western Europe, North America and Japan.

#### Restructuring and employee support measures in 2009

Designed to drive growth and the Company's long-term sustainability, this strategy involves reorganizing the manufacturing base, which can lead to the elimination of jobs. This was the case in 2009, when slightly more than 5,500 employees were concerned by negotiated redundancy plans or retraining and placement programs in Spain, France (Toul, Montceau-les-Mines, and Noyelles-lès-Seclin), Italy (Turin) and the United States (Opelika, Ala.). In Europe and North America, these organisational shifts are being facilitated by natural attrition, with nearly 30,000 employees expected to retire or leave between 2008 and 2012.

Restructuring programs are systematically accompanied by a wide range of initiatives, generally exceeding the minimum legal requirements, to avoid outright dismissals wherever possible and to support each employee concerned. These include:

- An ongoing process of foreseeing and facilitating opportunities for transfers and outplacement in France and Italy, with job search training provided in resume writing, interview techniques and job market monitoring;
- Individual inplacement opportunities, either in the same unit or in another Group company, including expatriate positions. Primarily used in France, Italy and the United States in 2009, inplacement is the preferred solution and is generally supported with assistance in finding housing and jobs for spouses;
- Early retirement systems, such as the CATS program in France, the *mobilita corta* and *mobilita lunga* agreements in Italy, conventional or *contrato de relevo* early retirement plans in Spain and similar schemes in the United Kingdom. These systems all helped to avoid separations during the year;

- Group-financed outplacement services provided by employment offices and outplacement consultants.

In Europe, Canada and the United States, the Michelin Development program is designed to help create jobs in the Group's host regions (see paragraph 6.2.10 below on the regional impact of targeted job and economic development initiatives). Its projects can facilitate career transitions outside the Group, while maintaining or stimulating local economic growth by creating a large number of new jobs.

In a follow-up to the closure of the Kléber plant in Toul, France, a new round of *Professional Transition Workshops* was organized for successive groups of employees who had signed up for the Kléber Mobility Program. Every day and in the same location, the workshops offered participants access to resources and methods to help them build a new career, including i) personalized support from resource advisors; ii) role-playing exercises and technical training enabling them to discover other fields such as robotics, masonry, welding and industrial or home electrical contracting; iii) job search coaching; iv) sports, stress management and relaxation workshops; v) spaces for self-expression and discussion; vi) a partnership with the National Employment Office; and vii) a Resource Library. By the end of December 2009, more than 695 employees had found a new profession. In addition, Michelin Development is deploying programs in the Toul region, where the first three projects in the pipeline will create more than 450 new jobs.

#### Voluntary separation plan in France

In 2009, a voluntary separation plan was presented and implemented to support the announced developments in Michelin's operations in France. By proposing early or pre-retirement arrangements and outplacement support, the plan is freeing up jobs for employees affected by site restructuring. It is being offered to all employees under permanent contracts on the payrolls of MFPM, SEAM and SODG as of October 1, 2009.

#### Career change support in Italy

Launched in October 2008, the plan to restructure the Italian manufacturing base will run through 2013. To facilitate the transfer or outplacement of affected employees, a career transition office was set up at every site in Italy to offer in and outplacement opportunities, support in creating a business, retraining and placement assistance and early retirement plans. Thanks to all of these services, by the end of 2009, 80% of the people concerned had embarked on a new career path.

#### Adjusting to lower demand and output

The sudden fall-off in demand that began at the end of 2008 impacted Michelin plants throughout 2009, forcing them to sharply reduce production volumes. A full range of resources were deployed for employees in response to this new environment, with a focus on saving jobs and maintaining compensation to the extent possible with such solutions as training courses, vacation leaves, maintenance shutdowns and employer-enhanced short-time compensation. As soon as markets return to growth, Michelin is ready to ramp production back up to previous levels and reap the full benefit of measures undertaken in recent years.

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## 6.2.2. WORKING HOURS, PART-TIME WORK AND ABSENTEEISM

### 6.2.2.a) WORKING HOURS

Working hours in the manufacturing plants and the research, logistics, sales and administrative facilities are strictly organized according to the applicable labor laws of the country concerned. For full-time non-shift employees, annual working time varies from 1,595 hours in Hungary to 2,640 hours in Brazil, and from 213 days in France and Hungary to 262 days in the United States and Mexico.

Working in shifts enables a plant to operate up to seven days a week and 360 days a year, thereby optimizing capacity utilization. In exchange, shift workers enjoy significantly reduced working hours and certain compensation benefits. On a Group-wide basis, more than 63,000 people work in shifts, mostly in three 8-hour shifts, but also in four 8-hour shifts, five 8-hour shifts, two 12-hour shifts and week-end shifts, reflecting different manufacturing requirements, prevailing legislation and local practices.

### 6.2.2.b) PART-TIME WORK

Used in many host countries, part-time contracts covered 1.8% of the total workforce, across all job categories, in 2009.

### Part-time employees by gender and job category as a percentage of total employees at December 31, 2009

|                                    | Women | Men  | Total |
|------------------------------------|-------|------|-------|
| Production workers                 | 3.0%  | 1.4% | 1.6%  |
| Administrative and technical staff | 6.1%  | 0.5% | 2.1%  |
| Managers                           | 16.1% | 0.7% | 3.4%  |
| Total                              | 5.5%  | 1.2% | 1.8%  |

Scope of reporting: Group excluding Euromaster.

### 6.2.2.c) PRODUCTION WORKER ABSENTEEISM

In most host countries, absenteeism at Michelin facilities tends to be lower than national rates in similar industries. Group-wide, the number of hours of absence, regardless of the cause, represented 3.9% of the expected number of hours worked.

| Sick leave | Lost time due to occupational injury | Long-term leave | Group Total |
|------------|--------------------------------------|-----------------|-------------|
| 2.1%       | 0.1%                                 | 1.7%            | 3.9%        |

## 6.2.3. COMPENSATION, PAYROLL TAXES, GENDER EQUALITY, DISCRETIONARY AND NON-DISCRETIONARY PROFIT-SHARING AND EMPLOYEE SAVINGS PLANS

### Total employee benefits expense in 2009 (in € millions)

|       | Production workers | Administrative and technical staff | Managers | Fixed-term contracts | Severance pay and restructuring | Taxes, provisions and advances |
|-------|--------------------|------------------------------------|----------|----------------------|---------------------------------|--------------------------------|
| 4,515 | 1,770              | 1,719                              | 613      | 44                   | (19)                            | 388                            |

"Taxes, provisions and advances" includes taxes, provisions for post-retirement benefits, stock-option advances and other long-term advances.

### 6.2.3.a) COMPENSATION, PAYROLL TAXES AND OTHER EMPLOYEE BENEFITS

Employee benefits expense amounted to €4,515 million or 30.5% of net sales, in 2009, of which €914 million in employer payroll taxes.



The total may be analyzed as follows:

(in € millions)

|   |              |             |
|---|--------------|-------------|
| Wages and salaries  | 3,248        | 71.9%       |
| Employer payroll taxes  | 914          | 20.3%       |
| Benefit contributions, pensions, severance and retraining costs | 343          | 7.6%        |
| Share-based payments  | 10           | 0.2%        |
| <b>TOTAL</b>  | <b>4,515</b> | <b>100%</b> |

Michelin is committed to offering competitive compensation and raises in every host country by seeking the best possible balance between employee fulfilment and the Group's financial performance. This crucial balance is carefully managed, as compensation levels have a direct impact on production costs and, by extension, on the Group's ability to withstand competitive pressure. Compensation policies are designed with a long-term approach, taking into account job responsibility, individual performance in meeting shared objectives, career development, evolving market conditions and local practices. Every employee benefits from performance-based compensation that rewards his or her contribution to the Group's development.

Michelin has set up a variety of profit-sharing and bonus systems, depending on the country and employee category. In particular, dynamic bonus policies have been deployed for managers to reward their achievement of personal objectives, consistent performance over time, ability to work with others and contribution to shared goals. For the sake of consistency, incentive bonuses are governed by similar rules and procedures in every host country.

Because pay scales are pegged to criteria specific to each country, in particular to reflect widely varying local conditions (such as inflation ranging from 0.5% to 13.0%), the average pay raise for the year is not material. However, in France, which has the largest number of employees (25,000 on payroll including Euromaster at December 31, 2009) and where inflation ran at 1.0% for the year, pay rises were as follows in 2009:

|                                    |       |
|------------------------------------|-------|
| Production workers                 | +2.2% |
| Administrative and technical staff | +2.5% |
| Managers                           | +0.4% |

Data for France

The steep decline in 2009 sales made it necessary to limit wage and salary increases during the year. This was particularly true for managers, whose 2009 bonus reflected only their performance in meeting their personal objectives, without any increase in salary or a bonus based the Group's 2008 operating income target, which was not met.

### ● 6.2.3.b) GENDER EQUALITY

In each country and employee category, the average wage differential between men and women is calculated for the three levels of responsibility at which women are most represented, in order to obtain a meaningful indicator. An average weighted for the number of employees in each country is then calculated for the Group.

#### Average pay differential between men and women employees, Groupwide

| Category                           | Differential |
|------------------------------------|--------------|
| Production workers                 | -2.20%       |
| Administrative and technical staff | -2.25%       |
| Managers                           | -5.91%       |

The differential stems from the fact that women employees tend to have less seniority than men, and therefore less experience and lower job responsibility. In addition, statistical monitoring is difficult given the number of entry-level hires now underway following the retirement of older employees. Regardless of job category, however, the methods used to manage compensation and assess performance are exactly the same for men and women in every country. Performance appraisals based on anything other than professional criteria, which are clearly listed in exhaustive detail in Michelin's standards manuals, would violate the Group's most fundamental principles of equity.

### ● 6.2.3.c) DISCRETIONARY AND NON-DISCRETIONARY PROFIT-SHARING AND EMPLOYEE SAVINGS PLANS

In addition to salary and performance-based bonuses (for meeting either personal or corporate targets), overtime pay and compensation directly related to the nature of work performed, Michelin offers employees supplementary compensation in forms that vary widely depending on local legislation. These include discretionary profit-shares, non-discretionary profit-shares, agreements, contributions to supplementary health insurance, retirement savings plans and employee savings plans with matching employer contributions of up to 50%. Seventeen country organizations provide such programs, benefiting nearly 72,000 employees. The amounts awarded under these supplementary programs vary considerably from one country to another and can account for up to 30% of an individual's compensation.

At *Manufacture Française des Pneumatiques Michelin*, the 2008-2010 discretionary profit-sharing agreement signed with the trade unions uses multiple indicators to calculate profit-shares, as follows: i) the number and success rate of Progress Ideas; ii) the reduction in the Group's environmental footprint, as measured by the decline in waste generated and waste landfilled, CO<sub>2</sub> and volatile organic compounds (VOC) emitted, and energy and water consumed, all per metric ton of tires produced; iii) the frequency of workplace accidents; and iv) the achievement of production targets. The amount of the profit-share, which is paid in the first quarter of the following year, can account for up to 5% of total compensation. The amount paid in 2009 in respect of 2008 profit-shares came to approximately €14 million, representing an average 2.0% of gross compensation.

## 6.2.4. EMPLOYEE RELATIONS AND COLLECTIVE BARGAINING AGREEMENTS

One or more collective agreements are being applied in the following countries: Algeria, Brazil, Colombia, France, Germany, Hungary, Italy, Japan, Mexico, the Netherlands, Poland, Romania, Serbia, Spain, Sweden, Thailand, the United Kingdom and the United States. In all, these agreements cover more than 57,000 employees.

In 2009, a total of 2,049 official meetings were scheduled with employee representatives in 22 countries, compared with 1,969 meetings in 22 countries in 2008. In addition to providing a forum for formal and informal dialogue, the meetings led to the signature of a wide range of agreements.

In 2009, for example, 49 collective agreements were signed with employee representatives in 15 countries, concerning nearly 51,000 employees. In several countries, collective agreements signed in previous years remained in effect in 2009.

### 6.2.4.a) EXAMPLES OF AGREEMENTS SIGNED IN 2009 INCLUDE:

#### Europe

- Spain: an innovative agreement introducing exceptional measures in response to the fall-off in business in a crisis economy; an agreement to set or change production conditions, linked to production worker compensation;
- France: at MFPM, agreements concerning non-discretionary profit-sharing, the PERCO retirement savings plan, 2008-2010 discretionary profit-sharing and terms of the 2009 employer contribution; at Pneu Laurent, a human resources planning and development agreement; an agreement on hiring and retaining employees over 50; agreements on the Mandatory Annual Salary Negotiations (NAO), discretionary and discretionary profit-sharing, death and disability insurance coverage and employee savings plans, an amendment to the 35-hour workweek agreement and a human resources planning and development agreement; an agreement concerning Works Council information; a geographic mobility agreement; at Kléber, a unit wide agreement on the new allocation of discretionary profit-shares;
- Poland: an agreement concerning salary increases and internal procedures;
- United Kingdom: the 2009-2011 Pay and Conditions Agreement for production workers;
- Serbia: a general agreement on new hires, employee guarantees, staffing and overstaffing, working and rest hours, vacation, compensation and separations.

#### North America

- Mexico: a collective agreement on salaries, working hours and working conditions;
- United States: an agreement regarding benefits, salaries and working conditions at the Tuscaloosa and Fort Wayne facilities; an agreement concerning employee support resources following discontinuation of operations at the Opelika plant, together with regular meetings with officials of the United Steelworkers of America union to share information about Michelin's operations, address current issues and exchange views on common concerns;

#### South America

- Brazil: the annual collective agreement setting general working conditions and pay increases for 2009 with Rio de Janeiro's Rubber Workers Union; an agreement on working hours and non-discretionary profit-sharing at the Campo Grande plant;
- Colombia: an agreement on a voluntary profit-sharing plan open to unionized and non-unionized production workers; implementation of a temporary six-month collective agreement (without union approval) in August 2009.

#### Asia

- Thailand: agreement on the terms and conditions of employee bonuses.

### 6.2.4.b) A WIDE VARIETY OF INFORMATION AND CONSULTATION PROCESSES

Michelin is deeply committed to fostering effective communication with employees, both directly and through their representatives. Group facilities have deployed a broad array of processes to share information and exchange views with employees. These processes and the scope of their implementation in each country are reviewed every year.

These reviews have found that around 20 separate communication channels and a dozen different consultation processes are in general use across the Group. On average, each country uses 12 of them, including the Intranet, e-mail, Family Day events, site, country and unit magazines, specialized pamphlets, daily, weekly and monthly team meetings, newscasts such as the Group's *Forward* weekly news program, meetings with employee representatives, Intranet surveys and polls, roundtables, forums, bulletin boards and information display stands.

## 6.2.5. WORKPLACE HEALTH AND SAFETY

### 6.2.5.a) MANAGING OCCUPATIONAL HEALTH AND HYGIENE RISKS

Supported by the network of Group Health Correspondents, Technology Center materials experts and occupational physicians, the corporate occupational health and hygiene team leads a program to manage risks in two main areas, workstation chemical risks and asbestos-related risks. It also prepares guidelines for analyzing risks and tracking exposure.

To manage asbestos-related risk, an annually updated survey in every plant clearly identifies all of the materials containing encapsulated asbestos (i.e. not likely to release fibers to the air) still present in buildings or equipment. These vestiges date back to the 1960s and 1970s, when, like many companies, Michelin used asbestos as thermal insulation for pipes and curing presses, as well as in brake linings.

A risk analysis application, developed with the accredited Bureau Veritas inspection firm based on Group surveys, is used to classify the risks presented by each situation and to schedule the removal of materials containing encapsulated asbestos, which is carried out in stages each year. To prevent any damage to employee health or the environment, asbestos removal is supervised by a Group-level manager.

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Another ongoing priority is to manage exposure to workstation chemicals, an area where programs led by the corporate occupational health team continued in 2009. As with asbestos, a workstation risk analysis application was developed with the assistance of Bureau Veritas. Its deployment in 2009 will provide an accurate view of chemical risk exposure, enabling the team to schedule the necessary remedial procedures.

The Group is continuing to roll out its centralized occupational health and hygiene expert information system. Based on Group best practices, the system enables the generation of standardized safety documents for all products, including semi-finished, used by the Group worldwide. These documents, which comply with both local legislation and Group standards, include safety data sheets and instructions for the safe use of products at the workstation.

### ● 6.2.5.b) MONITORING EMPLOYEE HEALTH

Employee health is monitored via check-ups conducted by Michelin medical teams or by outside healthcare providers coordinated by a Group physician. The organization, priorities and action plans for medical services in each region are defined in a regularly updated corporate *Guide to Health Service Activities*, which is based on best practices from inside and outside the organization.

Below are some examples of initiatives being tracked at Group level and implemented by the country organizations:

#### Preparing for a possible Influenza A pandemic

To protect employees and prevent business interruptions in the event of an Influenza A pandemic, a wide range of measures have been devised to minimize the disease's spread in the workplace. These protective measures, which take into account World Health Organization alert levels and the different types of workplace activities, can be deployed across the organization in accordance with each country's local legislation.

A prevention alert threshold called P6+ has been defined and can be activated by a local unit, with the agreement of the country unit, whenever a major risk of contagion is identified or several clustered cases are reported in a given work area. The protective measures would apply to everyone entering a Michelin site, including customers, service providers, suppliers, etc.

#### Preventing stress-related risks

The major difficulty in preventing stress lies in the diversity of people's reactions, with some handling stress well (sometimes by transferring it to those around them) and others suffering far more intensely. In recent years, Michelin has offered employees a number of stress management training courses, which had been attended by more than 2,700 people as of December 31, 2009. In early 2010, the Group began talks with employee representatives concerning psychosocial risks.

#### Conducting public health campaigns

In every host country around the world, public health campaigns aligned with local needs and practices have been conducted for Michelin employees and their families. Initiatives deployed as part of these campaigns include i) training in lifting heavy loads, preventing back and joint pain, and avoiding the risks associated with a sedentary lifestyle; ii) advice on healthy eating and wellness; iii) anti-smoking and anti-alcoholism courses; and iv) exercise programs.

In the United States, the *Choose Well-Live Well* program's health care correspondents advise employees on the right choices for physical exercise and healthy living, while in France, the *Oxygène* program, launched in September 2009 at corporate headquarters in Clermont-Ferrand, offers employees the opportunity to practice a variety of physical activities in the workplace.

#### Liaising with local public health care facilities

Whenever the quality of local public health care facilities is deemed inadequate, particularly at isolated locations in emerging countries, Michelin takes the necessary steps to improve them. In China, for example, the Group is working with hospitals in Shanghai and Shenyang to organize better care for local employees and expatriates, with a particular emphasis on preventing health care-associated infections.

#### Preventing HIV/AIDS

Michelin continued to deploy HIV/AIDS prevention programs in 2009, focusing on the worst hit countries. The Group also conducts a large number of HIV/AIDS awareness campaigns for its employees and host communities in areas where such awareness is lacking or denied.

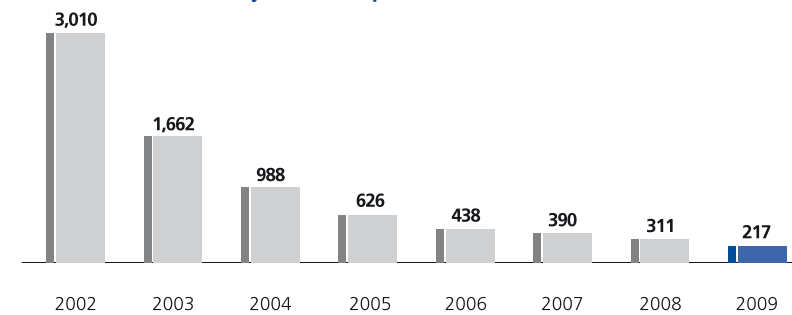
#### Improving workplace safety

The Group-wide lost-time injury frequency rate (LTIFR) continued to trend downward from 2.0 in 2009, while the lost-time injury severity rate (LTISR) fell below 0.20 for the year.

|          | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|----------|------|------|------|------|------|------|
| LTIFR ** | 5.73 | 3.61 | 2.55 | 2.39 | 1.85 | 1.41 |
| LTISR ** | 0.32 | 0.25 | 0.21 | 0.21 | 0.21 | 0.18 |

\*\*Data related to these indicators have been reviewed by PricewaterhouseCoopers (see section 6.4.).

#### Number of lost-time injuries, Group-wide



The number of accidents has been divided by more than 13 in seven years.

The lost-time injury frequency rate (LTIFR) corresponds to the number of injuries resulting in more than one day's lost time per million hours worked. The lost-time injury severity rate (LTISR) corresponds to the number of working days (more than 1 day) lost to accidents per thousand hours worked.

In 2009, 32 plants worldwide and all of the Group's warehouses in France reported no lost-time injuries for the year. The LTIFR was halved in South America and saw significant improvement in a number of European countries, including Germany, Spain, France, Italy and the United Kingdom. On the other hand, it was stable to slightly higher in other countries in the region, particularly in Eastern Europe, although most rates were lower than the Group average.

In the sales and marketing operations, the LTIFR was halved in 2009, a significant improvement that was driven by a dedicated road safety program and by the work carried out by technicians assigned to trucking companies.

2009 saw sustained improvement in the Group's safety performance:

- Employee involvement in the safety commitment continued to increase, with more than half of employees taking part in a safety initiative each month;
- On every Group site, programs have been deployed to eliminate 4 specific risks related to in-plant traffic, working at heights, power distribution and lockout procedures during maintenance work. On-site visits to assist plants in implementing these programs more effectively were initiated in North America and extended to Europe in the last quarter. Best practices observed on the sites are steadily integrated into the programs;
- Following on from the *Managing Safety in My Shop* course attended by all of the Group's workshop managers, a new *Managing Safety in My Self-Managed Team* course has been launched for front-line supervisors. By the end of 2009, a total of 1,200 people, or two-thirds of all supervisors, had already been trained. The course helps to define the roles and responsibilities of each level of management, while training participants in the shop-floor safety systems and procedures developed for all of the Group's plants;
- There has been a significant increase in the number of people working with a workstation accident prevention file and applying the Preventive Safety Observations;
- In addition to the LTIFR and LTISR, new accident prevention indicators are gradually being introduced. A study was initiated in 2008 to identify key success factors (notably the employee participation rate), which will be integrated into a prevention indicator to be deployed across the Group in coming years;
- By transposing product quality best practices, closed loop applications have been defined to systematically check compliance with safety rules and guidelines. They will gradually be rolled out to every plant;
- Group safety policies have been restructured and enhanced to identify the responsibilities, deliverables and resources associated with each level of management in the production facilities. Training for the 80,000 plant employees concerned is scheduled for 2010 and 2011. The new policies are now being adapted to marketing and sales operations;
- The decline in production output offered an opportunity to increase training hours in France, Germany and South America.

### Improving workstation ergonomics

Despite the challenging economic environment, the ergonomics expert network continued to improve the working conditions of production workers in 2009, focusing on reducing or eliminating physical stressors and environmental hazards such as poor lighting, noise at production workstations, etc.

A second program, which is also directly affecting production workers, is helping to design ergonomics into shopfloor equipment used in strategic Group projects. It has already developed ergonomic rubber compound feeders, pallet risers and other kits for use as standard equipment on future installations.

The Group's commitment to ergonomics has also led to a number of cross product-unit projects to resolve challenging working conditions. These projects have resulted in the development of ergonomic production prototypes, such as extrusion lines and mold-room mold maintenance stations. The development of cross-unit ergonomic solutions will continue in 2010, backed by a dedicated budget.

### Working with temporary employment agencies

The workplace health and safety programs initiated with temporary employment agencies were pursued in 2009 with the sustained deployment of the action plan based on:

- A workplace safety charter signed by Michelin and each temporary employment agency;
- Self-assessments and action plans carried out in partnership with the local agencies on every site;
- Best practices identified during on-site safety audits conducted in partnership with the local agencies;
- Annual meetings between the Michelin manager and the managing directors of the temporary employment agencies, to track and supervise the process.

Results have been encouraging, with the lost-time injury frequency rate declining by two-thirds over the past four years. However, the cutback in production volumes has sharply reduced the number of temporary employees, so that the program will now focus on maintaining the virtuous dynamic once business recovers.

### Leveraging internal communication to improve workplace safety

Internal communication plays a critical role in deploying the Group's workplace safety policies. Several campaigns were undertaken across every plant in 2009, with an emphasis on the Group Safety Programs, fire prevention and the four main causes of fire, and the cross-fertilization of best practices.

The effectiveness of these initiatives is being heightened by the synergies among the internal communication systems, which include on-site CCTV networks, bulletin boards, team meeting presentations, the managerial intranet and dedicated collaterals.

The new *Michelin Safety Award* is helping to promote excellent practices to achieve 100% safety, by showcasing the winning sites' best practices in articles, video reports and other internal communication media.

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### Improving occupational road safety

In addition to its general initiatives to promote safer, more sustainable mobility, Michelin pursued its occupational road safety program in 2009, working alongside public and private partners in national and international programs aimed at curbing road accidents.

In 2009, the risks of accidents while commuting or driving on business were addressed with internal campaigns promoting safer driving practices and more efficient travel management.

During the year, a half-day road safety training course was also added to the orientation program for new marketing and sales employees.

Information tools deployed during the year included a road safety awareness kit offered to employees in countries where Michelin has manufacturing operations, contests, safe driving campaigns, and reports on national road-safety campaigns in the *Forward* weekly news program before the summer vacation period and in early winter. In France and Germany, road safety documentation was also sent to employees' homes.

All of these initiatives embody Michelin's long-term commitments, expressed in particular in the Road Safety Charters signed with national and European bodies.

## 6.2.6. TRAINING

In conjunction with active career management, Michelin is committed to offering employees all the training they need to do their jobs efficiently, while preparing them for an array of new career opportunities. Initial training for incoming employees is a top priority.

This constant focus on training is reflected in the percentage of training hours per total hours worked, which was 3.9% in 2009 and 4.2% in 2008. Total training hours amounted to 6.0 million in 2009 (6.9 million in 2008), for an average of 66 hours per employee (69 in 2008) and 72 hours per trainee (87 in 2008).

### Training hours by employee category

|                          | Production workers | Administrative and technical staff | Managers | Total     |
|--------------------------|--------------------|------------------------------------|----------|-----------|
| Number of training hours | 4,217,404          | 1,507,044                          | 231,761  | 5,956,209 |
| Percentage of total      | 71%                | 25%                                | 4%       | 100%      |

Job-specific courses accounted for the bulk of the training program in 2009, in line with the Group's commitment to helping develop people's skills and employability.

These statistics were calculated using monthly employment figures averaged over the year and a quota per employee of 1,700 hours worked per year.

## 6.2.7. DIVERSITY

In recent years, Michelin's diversity process has been organized around five key areas: cultures and nationalities, gender equality, ethnic origin, age and physical abilities. It is supported by a network, comprising around 20 people and led by a manager at Group level, that actively organizes the sharing among the country organizations of best practices in all five areas.

### 6.2.7.a) A 2009 DIVERSITY TROPHY FOR MICHELIN

Every year, a group of French organizations specialized in diversity issues presents Diversity Awards to companies excelling in a given area of diversity. In 2009, Michelin received the Award for companies with the most innovative way of promoting diversity, in recognition of its employee training and awareness-building initiatives.

### 6.2.7.b) SENSITIVITY TRAINING FOR EVERYONE

Sensitivity campaigns and special training programs have been introduced to promote equal opportunity and competency-based hiring and promotion practices, with the goal of instilling an effective diversity culture throughout the organization. Between 2007 and 2009, diversity training courses were attended by executive committee members, managers, Personnel teams and production workers.

In France, some 2,000 managers, 120 Personnel officers and 400 production workers have been trained. The goal is to extend the program to the Group's 23,000 employees in France by 2012.

Combining theory, practice, individual assignments and role-playing, the training programs are organized around small groups of approximately ten people. They help employees to recognize discriminatory situations and behavior, avoid stereotyping, become familiar with laws and regulations, and work as members of diverse teams. They also encourage participants to undertake meaningful initiatives that promote diversity.

### 6.2.7.c) GENDER EQUALITY

Michelin is actively promoting gender equality at all levels of responsibility. In particular, the Group is committed to making the tire industry more appealing to women, who are under-represented in the schools that provide training in Michelin professions. On the shopfloor, for example, the progress made in workstation ergonomics means that women can now hold more production jobs than ever before, although they still accounted for just 8.1% of production workers at end-2009. Women are more represented among the administrative and technical staff (26.6%) and management (15.8%). Rates in these categories are rising thanks to pro-active career management policies (including expatriation wherever possible) and the support of a mentoring and experience-sharing network. All of these processes are being driven by the Personnel Department.

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● **6.2.7.d) ETHNIC ORIGINS**

Diversity issues related to ethnic origins are addressed by programs underway in North America, but also in Europe, particularly with regards to hiring and orientation procedures. Such programs are also deployed locally, for example in Nova Scotia, Canada, where an agreement has been signed with the local Afro-Canadian community and the provincial government to facilitate the hiring and retention of people of African origin in the Group.

● **6.2.7.e) CULTURES AND NATIONALITIES**

Management is becoming increasingly international as non-French and non-European employees acquire experience and move up the career ladder. This is the case in Asia, for example, where Michelin's operational presence is more recent.

● **6.2.7.f) EMPLOYMENT OF DISABLED PEOPLE**

Of the five areas of diversity, the employment of disabled people is perhaps the most complex, as Michelin is a manufacturer and therefore a significant number of its jobs involve physical activities. Formally defined in 2006, Group policies clearly express a commitment to non-discrimination and to hiring and retaining the disabled. Significant progress has been made in this area in a number of countries, such as Brazil and France.

From a legal standpoint, the issue of hiring the disabled is particularly complex, since each country has its own legislation. Fourteen host countries require employers to hire a certain percentage of disabled people – ranging from 0.5% in Thailand to 7% in Italy – while others, including Canada, the United States, Russia and Serbia, have no such requirement. The Netherlands and Colombia, on the other hand, have incentive-based policies. Several countries levy a financial penalty if the required percentage is not respected. In addition, laws generally protect the disabled with regard to both confidentiality about their disability and the right to continued employment. This is the case in the United Kingdom, Canada and the United States, for example.

Disabilities are recognized based on a declaration by the person concerned, which, in certain countries, such as Brazil and Russia, must be validated by a medical commission. In some countries, like the United States, the declaration is necessary for a person to be included in the Company's disabled employee statistics. Given that some people prefer not to declare a disability for cultural or personal reasons, the statistics should be interpreted cautiously. They probably underestimate reality, but it is impossible to determine to what extent.

Taking into account these reservations concerning the reliability of disabled employment statistics, Michelin believes that 2.5% of the 90,597 employees in the global scope of reporting may be qualified as disabled. Statistics vary widely among regions, ranging from 3.8% in Europe, to 0.6% in North America, 2.8% in South America, 0.3% in Asia and 0% in Africa/Middle East. There are also significant differences between countries, with qualified disabled employees representing 0% of the workforce in several countries, 7.5% in France, 0.3% in Thailand, 0.5% in Hungary, 0.7% in China, 1.3% in Japan, 1.4% in Poland, 1.5% in Spain and Italy, 3.6% in Brazil and Canada and 4.2% in Germany.

● **6.2.7.g) AGE**

Managing older employees is becoming an increasingly important issue for Michelin, as one third of its workforce – mostly production workers – are now over 50, and their numbers will continue to rise in coming years. Measures taken to address this issue include improving workstation ergonomics, offering new job opportunities or international assignments lasting several months to leverage the employee's acquired experience, and setting up a mentoring system for new hires. The mentoring program clearly demonstrates that Michelin values the skills and abilities of its older employees and recognizes the educational needs of its new hires, in line with its core value of respecting people. In the United States, Michelin was included in the American Association of Retired Persons' list of the Best Employers for Workers Over 50 for the fourth time in 2009.

**6.2.8. EMPLOYEE BENEFITS**

In every host country, Michelin financially contributes to a wide range of activities, services and other benefits for its employees and their families. Some of these benefits are mandated and defined by local legislation, while others are provided on a voluntary basis. They include supplementary health insurance, foodservices, transportation, cultural activities, sports activities and health campaigns organized by works councils or similar organizations. Michelin contributes several tens of millions of euros to financing these benefits every year.

**6.2.9. SUBCONTRACTING**

In 2009, subcontractor fees for work unrelated to production operations amounted to the equivalent of 14.5% of payroll, versus 16.3% in 2008. These services included the cleaning of buildings, machinery and workwear, security services, handling and storage, waste disposal, information technology projects, telecommunications and administrative services.

**6.2.10. CREATING JOBS AND SUPPORTING LOCAL ECONOMIC DEVELOPMENT IN NORTH AMERICA AND EUROPE VIA MICHELIN DEVELOPMENT**

With the assistance of its subsidiaries dedicated to promoting economic development and employment in the communities near Michelin plants (such as SIDE in France), Michelin Development continued to support small and medium-sized businesses in 2009 by providing unsecured low-interest loans and technical expertise, with a focus on innovative projects capable of offering sustainable employment opportunities. As part of this process, Michelin Development was involved in the creation of several business clusters (a geographic concentration of interconnected businesses, specialized suppliers and service providers in a particular field or industry, which share

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common skills and work in synergy), by enabling innovative companies to gain access to research centers and universities.

In Europe, Michelin Development's 20-person team carried out nearly 127 technical consulting assignments in 2009, of which 45 in France. It also helped to create 2,200 jobs by validating and financing business development projects, mainly in Germany, Spain, France (1,116 jobs), Italy and the United Kingdom, but also in Hungary, Poland and Romania. In Canada, Michelin Development loans helped to create 859 jobs near the Kitchener plant, while in the United States, the unit has supported the creation of 85 jobs in Opelika and 141 jobs in South Carolina, where Michelin has been present for 40 years.

Since its foundation in 1990, Michelin Development has carried out more than 1,100 technical consulting assignments, of which 545 in France, and helped to create 21,000 jobs, of which 15,200 in France.

## 6.2.11. RELATIONSHIPS WITH COMMUNITIES, SCHOOLS AND NON-PROFIT ASSOCIATIONS

### 6.2.11.a) REACHING OUT TO LOCAL COMMUNITIES

Wherever it operates, Michelin takes an active part in community life by nurturing friendly, constructive contacts with public authorities, schools, associations and other local organizations. When appropriate, Michelin participates in their activities, by sharing its expertise or providing financial support. In particular, the Group takes a long-term interest in projects concerning the mobility of people and goods, education-related projects and a wide range of cultural, sports and charity activities.

In 2009, Group employees devoted more than 14,200 days to these outreach activities, and the Group donated more than €9 million to outside organizations. In each region, the number of participating employees was generally proportional to the number of local employees.

Educational projects accounted for 35% or almost 5,000 of the days of service directly contributed by Michelin employees, mobility projects for 10% and miscellaneous causes for the remaining 55%.

Most of the financing was channeled into teaching and education (52%), with another 40% going towards health-related, social and charity causes as well as sports and cultural programs and 6% towards road safety and other mobility initiatives.

Community service programs are an extremely popular form of outreach, with more than 2,000 underway Groupwide. While their diversity makes an exhaustive overview very difficult, significant examples include:

- **North America:** a more than \$2 million donation to a renowned US charity, including substantial employee contributions to the fundraising drive; donations to local food banks and

fire departments; donations to and partnerships with several universities in South Carolina and schools in the vicinity of each site (including Querétaro, Mexico); numerous in-school initiatives to mentor struggling students or share employee experience in the business world; funding for volunteer organizations working to help the sick, disabled, elderly or needy as well as for sports clubs, environmental non-profit organizations and museums; support for meal delivery programs like *Meals on Wheels of Greenville*, blood drives, Red Cross donations and tire donations or funding for emergency vehicles...

- **South America:** Food bank donations; a program supporting family farming in Bahia, funding for biodiversity research in Bahia, monthly financial contributions to local youth educational programs, campaigns against alcohol and drug abuse; donation of 600 shirts in honor of Disability Awareness Day; sponsorship of a DVD produced to commemorate National Day for the Hearing Impaired; donation of fire extinguishers to the Resende fire department; a third consecutive year of funding for the educational *Na Pista No Melhor Caminho* road safety game in partnership with the Rio de Janeiro Urban Traffic Department (DETRAN) for use in the city's schools; in Colombia, contribution to maintaining the buildings and equipment of a girls' boarding school, support for all-day health initiatives providing free parasite removal, vaccination and dental care services and a program for struggling public school students.
- **Europe:** support for sports clubs and sporting events; *Training Night* in Germany; funding for offices for non-profit organizations; road safety classes for schoolchildren, the *Vado a Piedi e Uso la Testa* (Go on Foot and Use Your Head) road safety event for primary school children in Italy; support for the *Pedibus* walking school bus program; sponsorship of road safety campaigns in cooperation with local automobile clubs, support of *Ta Route ... Ta Sécurité* road safety day, anti-drunk driving campaigns and the revamping of homes for the disabled; organization of sporting events, donations to non-profit sports programs for the disabled, donation of information technology equipment, donations to local Red Cross organizations, blood drives, job-search training for the long-term unemployed, Michelin choir concerts for charities, donations to the *Ligue Contre la Violence Routière* organization against road rage and to the *Prévention Routière* road safety organization; in Spain, sponsoring of organizations for the disabled; furniture donations to a pediatric hospital, tire donations to emergency, charity or health services, funding for medical equipment such as defibrillators or for hospital vehicles; supporting schools by teaching classes, serving on examination boards and monitoring struggling students; renovation of the playing field and playgrounds of a school in Hungary, student career awareness outreach; participation in a *Girls' Day* campaign to encourage young women to pursue vocational training; funding for local library books; prizes for contests, raffles, charity events; and advertising in local non-profit magazines.

In Clermont Ferrand, Michelin has been highly involved in the *Association Sportive Montferrandaise* (ASM) since the multi-sports club was founded by Marcel Michelin in 1911, both through funding and the hands-on contributions of Group managers. ASM offers its 3,000 members access to three practice facilities and 15 sports programs led by 400 coaches and organizers, with a special emphasis on training young people and monitoring athlete health.

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- **Africa:** tire pressure awareness campaigns; Safety Week in cooperation with outside organizations such as the Algerian highway safety agency and the Red Crescent; funding for a disabled people's association.
- **Asia-Pacific:** in China, weather disaster and Sichuan earthquake relief; donation to an orphanage, funding to build school sports facilities, support for a national campaign to encourage helmet-wearing in cooperation with the Asia Injury Prevention Foundation in Vietnam, funding for AIDS patients, financial support for school buildings, scholarships, information technology equipment and libraries; donations to a local charity and the local Red Cross, gifts to traditional local community events, sponsorship of a local *Don't drink and drive campaign*; educational campaign on climate change, funding for playgrounds and green spaces for children; tire donations for emergency service vehicles.

### ● 6.2.11.b) HELPING TO IMPROVE ROAD SAFETY

In line with the Michelin Performance and Responsibility commitments, Michelin is helping to improve road safety by communicating directly with road users through awareness-building, educational and training campaigns to discourage accident-prone behavior. The *Road Safety* project was extended across Europe in 2009, before deployment in all of the host regions in 2010. Also in 2009, Michelin renewed its support for the European Road Safety Charter, thereby reaffirming its long-term commitment to safer road mobility.

#### In cooperation with other global organizations

Large-scale programs are being organized by leveraging a wide range of public-private and national-international alliances like the Global Road Safety Partnership (GRSP), which brings together international organizations, multi-national companies and non-governmental organizations. The GRSP focuses its actions on countries where road safety issues are most acute (Thailand, Vietnam, China, Kuwait, South Africa, Poland, Romania, Hungary and Brazil), offering their governments technical support, legislative advice and prevention expertise to urge them to address these issues.

In 2009, the World Health Organization founded *Youth for Road Safety* (YOURS), the first global youth non-governmental organization (NGO) specifically focused on road safety. With Michelin's support, the organization provides young people with the resources they need to take an active role in their own safety. Over the next ten years, YOURS is committed to developing an international network of young road safety activists to share best practices and encourage mutual support. The network already comprises 400 youths in 100 countries who will partner with government authorities, other NGOs and the media to organize awareness-building campaigns.

The emergence of broad-based, worldwide concern for road safety was illustrated in November 2009, when the first UN Ministerial Conference on global road safety was held in Moscow. Michelin, represented by its Managing General Partner Michel Rollier, was the only worldclass private sector company to attend. During the roundtable discussions, several strategies for driving a general improvement in road safety were identified. The Conference also called for a new *Decade of Action* to reduce by five million the projected increase in global road deaths between 2010 and 2020.

To meet that target, all of the participating countries must adopt an institutional model, so that the commitment to improving road safety can be backed by the necessary resources:

- The highest level of government must take a stand and make road safety a priority. The cost of road accidents represents 1 to 3% of GDP, depending on the country. Road safety is closely correlated with economic growth and development, and calls for action must be capable of effectively addressing the major issues involved. At the same time, road safety activism must not hinder economic growth or the development of new mobility solutions. It is therefore crucial that governments get involved;
- An inter-ministerial delegation, based on the French model, should address this challenge by cross-functionally coordinating the programs implemented by participating institutions.

#### Independently through driver awareness campaigns and host community outreach programs

Michelin has identified the most accident-prone behavior associated with tires, its core business. In 2009, *Fill Up With Air* awareness campaigns were rolled out in seven European countries, giving motorists an opportunity to learn about proper tire inflation pressure. In all, the tire pressure on some 12,000 cars was checked, with more than 60% identified as having at least one under-inflated tire.

To make it easier to maintain proper tire pressure, 89 Michelin Man air pumps have already been installed in highway service areas or public-access Michelin parking lots in 12 countries, enabling motorists to check their pressure and top up their tires. Of these, 62 are in France, where they are available around the clock in Michelin parking lots (28) and, thanks to partnerships, in rest areas on motorways operated by ASF (29) and Cofiroute (5). The others are installed in Germany, Austria, China, the United States, Hungary, Italy, Romania, the United Kingdom, Thailand, Serbia and Poland.

Lastly, Michelin is promoting road safety by protecting segments of the population that are most vulnerable to accidents, such as young people, cyclists and pedestrians.

For schoolchildren, the *Safest Way* educational program has been deployed in several countries, such as Brazil, where it is known as *Na pista do melhor Caminho*, and Italy, in partnership with the local authorities in Fossano. *All-day Junior Bike* events have been organized in Alessandria, Cuneo and Fossano in Italy, where more than 187,000 children have participated in such events since 1998. *Venezuela's first Junior Bike* event was organized in September 2009.

For teenagers, campaigns are regularly organized, particularly in emerging markets, to raise awareness of the importance of wearing a helmet while riding a motorbike. For the past six years, the *Achtung Auto* program for 14-15 year olds has been deployed in partnership with Germany's ADAC automobile club, reaching some one million teenagers in all.

For young adults learning to drive, Michelin distributes educational materials on tire safety in driving schools.





## 6.2.12. SUPPLIER RELATIONSHIPS

Michelin believes that it has a responsibility to practice its sustainable development principles in dealings with outside suppliers, particularly in light of its extensive purchases, which represent 59% of revenue. By nurturing meaningful dialogue, Michelin can select its suppliers not only on the basis of their product or service's value for money, but also according to their overall performance in terms of social, environmental and ethical criteria.

The principles applied by the Purchasing Department in its relationships with suppliers are entirely consistent with the Group's values, as expressed in the Michelin Performance and Responsibility process. In particular, the Group is committed to developing sustainable relationships with suppliers and to preventing the risks associated with environmentally harmful practices or labor law violations.

These principles are presented in the Michelin Purchasing Code, a document published five years ago that requires suppliers to comply with a set of labor-related and environmental principles, such as International Labour Organization conventions and the ability to assess and manage their environmental impact.

In 2009, the Purchasing Department continued to integrate the provisions of the Michelin Purchasing Code into its own documents and guidelines. Supplier evaluation questionnaires, internal and external audit guidelines, local contracts and framework agreements, indicators for evaluating suppliers and performance reviews all include specific criteria aligned with the values of the Michelin Performance and Responsibility process.

A maturity scale originally developed for raw material purchases is now being gradually rolled out for equipment suppliers. Initially, it is being applied to the largest suppliers, with meetings scheduled to review results and exchange views.

The results show that, in the case of raw materials, 58% of supplier sites, accounting for 80% of purchasing volume, are ISO 14001-certified.

In addition, every year Michelin teams conduct 30 to 40 detailed supplier audits, during which they systematically discuss the Group's workplace safety or ergonomics practices. This approach meets the needs of suppliers, who appreciate Michelin's positive attitude and unrivaled support in helping them to make progress in these areas.

The audit process is stricter for suppliers in emerging markets, who account for an increasing percentage of total procurement. They are carefully monitored and regularly audited, with particular attention paid to the issue of child labor. Any breach of child labor laws is cause for the immediate termination of the supplier relationship.

In 2009, Michelin also extensively reviewed European REACH legislation with suppliers, both to help suppliers register and obtain authorization for their chemicals and to manage its own risks if certain substances are replaced.

Alongside these external programs, the Purchasing Department has set up an Internal Control unit tasked with identifying and eliminating risks of fraud while ensuring compliance with the Group's Purchasing Ethics guidelines. This process is supported by the systematic risk identification procedures deployed by the Internal Audit Department. The Purchasing Ethics guidelines have been rolled out to the Purchasing teams and to key managers through an internal communication campaign, and are now displayed in all the rooms in which meetings are held with suppliers.

Lastly, the publication of the new *Raw Material Supplier Quality Assurance Manual* was a further opportunity to emphasize the importance of purchasing ethics, with explanatory letters systematically sent to all the suppliers concerned.

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## 6.3. 2009 ENVIRONMENTAL INFORMATION

### 6.3.1. MICHELIN'S ENVIRONMENTAL MANAGEMENT PROCESS

Michelin's environmental management process has been built on the findings of impact studies of its business operations. In particular, life-cycle assessments have shown that most of a tire's environmental impact occurs during use, with the manufacturing phase and end-of-life recovery and reuse having comparatively a much weaker impact. These assessments also take into account health indicators.

To drive improvement in environmental performance, Michelin is focusing on both its products and its production facilities.

#### 6.3.1.a) MANAGING THE IMPACT OF MICHELIN PRODUCTS

Life cycle assessments have shown that, based on a standard 40,000 kilometers travelled, more than 92% of a Passenger car tire's health and environmental impact occurs during use, primarily as a result of its rolling resistance. This proportion rises to nearly 95% for a Truck tire, based on a standard tread-life of 600,000 kilometers. In normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption, which is currently estimated at 20% for Passenger cars and more than 30% for trucks.

For many years now, Michelin has been steadily focusing on increasing the energy efficiency of its tires while simultaneously improving other performance factors, especially safety and tread-life. Reducing a tire's rolling resistance improves its fuel efficiency, which in turn reduces CO<sub>2</sub> and other emissions during use. Extending tread-life enables more efficient use of raw materials and energy required during the manufacturing process.

Invented in 1992 and now on their fourth generation, Michelin's highly energy-efficient MICHELIN Energy™ Saver car tires offer up to 25% less rolling resistance than competing tires and, compared to the preceding generation, improve fuel consumption in an average European vehicle by 0.2 liters/100 km, for an average 4 g/km reduction in carbon emissions.

In Truck tires, a set of technological innovations collectively known as Michelin Durable Technologies is driving a sustained improvement in fuel efficiency and therefore CO<sub>2</sub> emissions. Over its four tread-lives, for example, the Michelin X Energy™ SaverGreen tire avoids the emission of approximately six metric tons of CO<sub>2</sub>. These technologies also increase not only Truck tire load capacity but also tread-life, which has doubled since 1980.

In sixteen years, the more than 600 million highly energy-efficient Michelin tires sold worldwide have already saved an estimated 12 billion-plus liters of fuel and avoided the emission of 30 million metric tons of CO<sub>2</sub> – the equivalent of what could be captured by more than one billion trees in a year.<sup>(1)</sup>

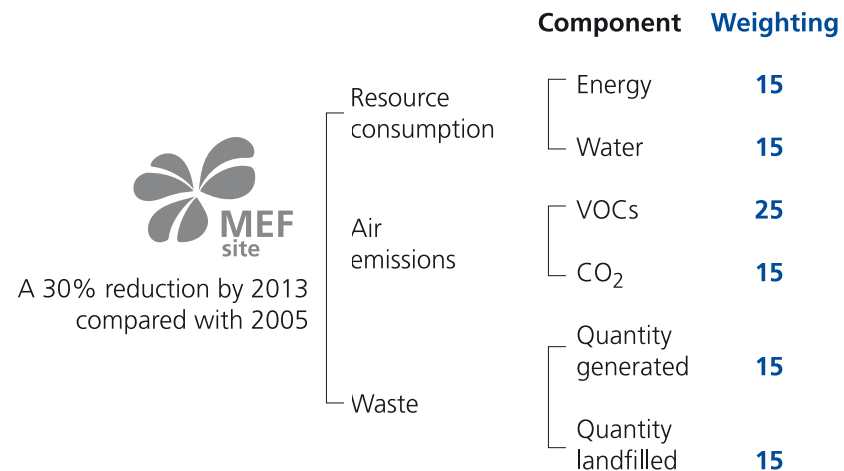
Further reducing rolling resistance, while improving or at least maintaining at their peak the other tire performance factors, remains the primary objective of the Group's research and development process.

Lastly, Michelin is actively involved in deploying and operating effective end-of-life tire recovery and reuse solutions, based on either recovering materials for reuse in such areas as synthetic surfaces, draining sub-layers, molded objects and backfill, or recovering energy by burning scrap tires as fuel in cement plants or steel mills. For more details, please refer to the 2009 Annual and Sustainable Development Report.

#### 6.3.1.b) IMPROVING THE ENVIRONMENTAL PERFORMANCE OF MICHELIN FACILITIES

To drive continuous improvement, the environmental performance of Group facilities has to be measured holistically. That's why in 2005, the Michelin sites Environmental Footprint (MEF) indicator was defined to measure the six environmental performance criteria deemed to be the most important for meeting the Group's medium-term challenges, namely water and energy consumption, carbon dioxide (CO<sub>2</sub>) and volatile organic compound (VOC) emissions, total weight of waste produced and total weight of waste landfilled. Each criterion is weighted according to its impact (see diagram below) and calculated per metric ton of tires produced.

#### COMPONENTS AND WEIGHTING OF THE MICHELIN SITES ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR



(1) According to a calculation method certified by France's Technical Authority for Automobiles, Motorcycles and Cycles (UTAC).

Since 2005, the Group has steadily reduced the environmental impact of its facilities by tracking MEF performance. After the initial target of a 20% reduction by 2011 compared with 2005 was met in 2008, a new target of a 30% reduction by 2013, still compared with 2005, was defined. The MEF is included in the Group's management indicators, with data reported quarterly.

In 2009, the business environment forced the Group to sharply reduce production volumes, to bring them in line with demand. This had the effect of masking progress in the MEF, whose components are expressed per metric ton of tires produced. As a result, even the indicator's slight 0.5-point improvement over the year demonstrated the commitment of employees to managing their facility's environmental footprint, with, in particular, gains in waste management and VOC emissions.

The following table shows the performance of the six MEF components since 2005.

**PERFORMANCE OF THE MICHELIN SITE ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR, 2005 TO 2009**

|     | 2013 target compared with 2005 | 2005 | 2006 | 2007 | 2008 | 2009 | % change 2005-2009 |
|-----|--------------------------------|------|------|------|------|------|--------------------|
| MEF | -30%                           | 100  | 92.9 | 83.6 | 78.6 | 78.1 | -21.9%             |

| Component                    | Unit                 | 2005 | 2006 | 2007 | 2008  | 2009  | % change 2005-2009 |
|------------------------------|----------------------|------|------|------|-------|-------|--------------------|
| Energy consumption **        | Gj/t PP              | 17.4 | 17.2 | 15.6 | 15.3  | 16.1  | -7.5%              |
| Water consumption **         | m <sup>3</sup> /t PP | 15.0 | 14.9 | 13.3 | 12.8  | 13.3  | -11.3%             |
| VOC emissions **             | kg/t PP              | 4.27 | 3.97 | 3.48 | 3.13  | 3.04  | -28.8%             |
| CO <sub>2</sub> emissions ** | t/t PP               | 1.53 | 1.48 | 1.37 | 1.35  | 1.43  | -6.5%              |
| Waste generated **           | kg/t PP              | 140  | 130  | 128  | 127.5 | 121.2 | -13.5%             |
| Waste landfilled **          | kg/t PP              | 33   | 26   | 20   | 16.2  | 13.3  | -59.7%             |

t PP = metric ton of tires produced.

\*\* Data related to these indicators have been reviewed by PricewaterhouseCoopers (see section 6.4.).

**● 6.3.1.c) MANAGING PRODUCTION FACILITY EMISSIONS AND DEVELOPING THE USE OF RENEWABLE ENERGIES**

Michelin is committed to contributing to global efforts to reduce greenhouse gas emissions in the road transportation and manufacturing industries. By the end of 2009, carbon dioxide emissions from all of the Group's manufacturing operations, per metric ton of product, had been reduced by 6.5% compared with 2005.

Energy efficiency programs are being pursued across the Group through deployment of action plans based on the energy audits conducted in the production facilities. Following the diagnostic reviews conducted in 2008, new renewable energy projects are being developed using biomass, solar power and wind power, in alignment with Group policies. These projects are at various stages in what are sometimes long maturity cycles, but in the near future, they will help directly or indirectly to reduce the Group's carbon footprint.

Examples include the photovoltaic roof panels installed on four facilities in Germany (in Bad Kreuznach, Homburg, Bamberg and Landau), whose output has been raised to 12 MW

from 9 MW, and the biomass-fired boilers soon scheduled to come on stream at two facilities in France.

In 2009, wind turbines generated 20% of the electricity used by the Dundee plant in Scotland, while the synthetic rubber plant in Bassens, France received 9% of its heat from the incineration of industrial and hospital waste.

Other projects underway include the extension of solar power installations at two new facilities in Ulm and Karlsruhe, Germany, and the installation of two wind turbine units in Ballymena, Northern Ireland.

**● 6.3.1.d) SCOPE OF ENVIRONMENTAL DATA REPORTING**

The figures presented below cover all of the Group's manufacturing operations, research and development activities and rubber tree plantations. The quality and completeness of the reported environmental data is followed closely.

## 6.3.2. REVIEW OF COMPLIANCE INDICATORS

### 6.3.2.a) AIR EMISSIONS

#### Greenhouse gas emissions

Total CO<sub>2</sub> emissions amounted to 1.43 metric ton per ton of finished product in 2009, a decrease of 6.5% compared with 2005.

Direct emissions from Group boilers stood at 0.64 metric ton per ton of finished product, down 15.1% versus 2005.

In European Union countries, carbon emissions are subject to allowances issued under the EU's Emissions Trading System, which has integrated Kyoto Protocol mechanisms since entering its Second Trading Period in January 2008. As in previous years, carbon emissions from Michelin's installations in Europe did not exceed allocated allowances, with a reduction of more than 135,800 metric tons of CO<sub>2</sub> emitted in 2009 compared to 2008.

Indirect CO<sub>2</sub> emissions through the purchase of electricity and steam are estimated at 0.79 metric ton per ton of finished product, an increase of 5.3% on the 0.75 metric ton reported in 2008 that was primarily due to the decline in production volumes in 2009 and to the early 2008 outsourcing of steam supply at the plant in Cuneo, Italy.

Optimized operations management and deployment of the Group's best manufacturing practices drove a further reduction in the use of electricity, which declined 13.3% in Gigajoules during the year. Due to the decline in production volumes, however, electricity used rose 7.3% year-on-year on a per metric ton of finished product basis.

On-site renewable energy installations avoided the direct or indirect emission of the more than 23,000 metric ton of CO<sub>2</sub> in 2009.

| Plant   | Technology   | CO <sub>2</sub> emissions avoided |
|---|--|-----------------------------------|
| Bamberg, Hombourg, Bad Kreuznach and Landau (Germany) | Photovoltaic panels  | -8,800 metric ton/year – indirect |
| Dundee (United Kingdom)                               | Wind turbine   | -3,500 metric ton/year – indirect |
| Bassens (France)                                      | Heat recovery from an incineration CHP plant located 1 km away | -11,000 metric ton/year – direct  |

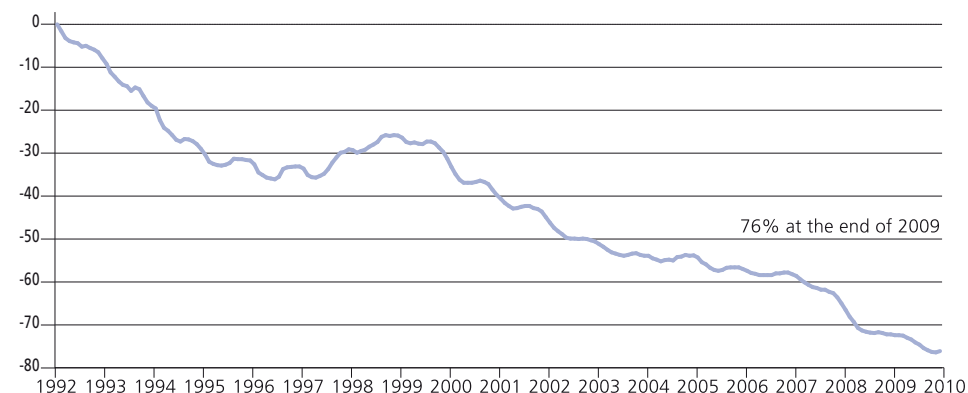
#### Other air emissions\*

#### VOLATILE ORGANIC COMPOUNDS (VOCs)

VOC emissions declined by 2.9% to 3.04 kg per metric ton of finished product in 2009, which saw sustained deployment of innovative new production processes designed to use fewer solvents and therefore emit fewer VOCs.

The following chart illustrates the major 76% decrease in solvent use by the European Passenger car and Light truck tire manufacturing operations since the reduction project was implemented in 1992.

SOLVENT USE IN EUROPEAN PASSENGER CAR AND LIGHT TRUCK TIRES MANUFACTURING (g/Kg)



#### NITROGEN OXIDES (NO<sub>x</sub>)

Despite the decline in production volumes, NO<sub>x</sub> emissions from Group boilers remained unchanged in 2009, at the 0.82 kg per metric ton of finished product reported in 2008.

#### SULFUR OXIDES (SO<sub>x</sub>)

SO<sub>x</sub> emissions rose to 1.17 kg per metric ton of finished product from 1.08 kg per metric ton in 2008, reflecting the limited flexibility of plants using solid fuel (which emits SO<sub>x</sub>) compared with facilities using liquid fuel or gas-fired installations.

### 6.3.2.b) WATER CONSUMPTION AND DISCHARGES TO WATER

#### Water consumption

Michelin plants mainly use water to cool installations and transfer heat. After proper treatment, this process water is discharged either to the environment or to local wastewater treatment plants.

Water consumption amounted to 13.3 cubic meters per metric ton of finished product in 2009, an 11.3% decrease on 2005 that primarily reflected the assertive programs deployed by the three facilities that use the most water, which have driven an average 23% reduction since 2005.

#### Discharges to water

The main substances likely to be released in process water discharged by Group tire plants are total suspended solids and residual hydrocarbons, which are inherent in most industrial processes and not specific to Michelin.

\* Corresponding to substances contributing to acidification or photochemical pollution as defined by French ministerial order of April 30, 2002.

In the case of water used in processes to treat metal cords and produce synthetic elastomers, which may contain respectively metals (copper, zinc) and residual hydrocarbons, each plant is equipped with appropriate treatment facilities.

#### ● 6.3.2.c) GROUND WATER DISCHARGE

Michelin's operations do not result in any continuous discharge into ground or subsurface waters. The Michelin Environmental Management System (MEMS) includes a dedicated process to prevent the risk of accidental spills. It comprises both physical systems, for soil protection and leak prevention, and standard operating procedures for activities at risk and in the event of an accident.

The Group Environmental Standards require that all new plant and equipment comply with the highest levels of soil protection, in line with the strictest regulatory standards and often exceeding local legislation.

#### ● 6.3.2.d) WASTE

Programs to reduce the total weight of landfilled waste were pursued in 2009, when gross weight of waste generated per metric ton of tires produced declined to 121.2 kg and the weight of landfilled waste improved by 17.9% to 13.3 kg from 16.2 kg in 2008. In all, since 2005, the weight of waste generated per metric ton of tire produced has been reduced 13.5% to 121.2 kg from 140 kg and the weight of landfilled waste has fallen by 59.7% to 13.3 kg from 33 kg.

To help meet the target of reducing the MEF by 30% from 2005 to 2013, Michelin is committed to reducing the weight of landfilled waste by 80% over the period.

#### ● 6.3.2.e) ENERGY CONSUMPTION

Energy used per metric ton of tires produced rose 5.2% in 2009, to 16.1 GJ from 15.3 GJ in 2008, as the sharp decline in production volumes offset the impact of an improvement in absolute terms. During the year, a cross-functional Energy organization was created and tasked with improving the energy efficiency of Group plant by:

- Deploying its energy diagnostic method;
- Identifying best practices;
- Sharing these best practices by incorporating them in a Group standards manual.

By the end of 2009, initial audits had been performed and action plans prepared at 84 sites. Follow-up audits are now underway, which show that an average 85% of the best practices are being applied. Energy performance indicators have been introduced in facilities in North America and Europe, and will be extended across the Group in 2010.

As described in paragraph 6.3.1.c) above, Michelin is continuing to deploy a variety of renewable energy projects, in a commitment to improving both environment and financial performance.

#### ● 6.3.2.f) PROTECTING ECOSYSTEMS AND BIODIVERSITY

Like any manufacturer, Michelin relies on the benefits of local ecosystems. For example, 50% of the rubber used by Michelin is natural rubber, which is a renewable resource that comes from trees. The Group is therefore acutely aware of both the important role ecosystems play and their growing fragility.

To sustainably secure its ecosystem benefits, the Group has initiated a number of programs to abate its impact and to protect ecosystems and biodiversity:

- Implementing programs in recent years to preserve fragile environments around certain facilities (see below);
- Integrating ecosystem and biodiversity issues into the Michelin Performance and Responsibility process;
- Gradually instilling awareness of the interactions between Group facilities and their local ecosystems;
- Applying Group Environmental Standards where they are more demanding than the local ecosystem protection legislation;
- Installing new processes and equipment to limit water consumption;
- Designing lighter tires, whose production uses fewer raw materials and that are more energy efficient and longer lasting.

##### A deep commitment to biodiversity

In 2008, the plant in Nyiregyhaza, Hungary conducted a pilot Ecosystem Services Review (ESR), which is designed to reveal a facility's dependence on its environment. Performed by a specially trained Michelin engineer, the process is based on an assessment method developed by the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI) and adapted to the tire industry. In particular, the review showed that the plant was at risk under certain situations that were possibly beyond its control, such as air pollution, and remedial actions are now underway. To improve the Group's understanding, another method may be tested at the Cholet plant in France in 2010, in order to measure the facility's impact on the environment and biodiversity.

In July 2005, employees highly committed to the environment encouraged the plant in Cholet, France to partner with the *Association pour la Découverte de la Nature* (ADN) to manage an unused 18,000 square-meter tract of land on its site. Working with the ADN, the plant decided to recreate a wetland and leave it free for several layers of vegetation to develop. In addition, a partnership with the local tourist office is enabling visitors to see for themselves how successful the initiative has been.

The creation of an entomological garden on the Cholet plant site has demonstrated that manufacturing is compatible with protecting biodiversity.

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### Preserving biodiversity on the Bahia plantation

Through the *Ouro Verde* (Green Gold) project conducted on its Bahia rubber plantation in Brazil, Michelin has been working since 2003 to preserve the primary Atlantic Forest that is exceptionally rich in biodiversity, but is threatened by deforestation.

The Biodiversity Research Center based on the plantation offers scientists from around the world an open-air laboratory on the Atlantic Forest. The Center can accommodate up to 16 researchers, with the equipment necessary for their work. Michelin is helping to finance some of the Center's research programs, including 36 biodiversity studies. Educational walking trails have been prepared for visitors.

To build awareness of environmental issues in the local community, the *Understanding the Atlantic Forest* program offers guided tours of the protected area for small groups or field trips for school children. In addition, the Michelin Environmental Reference Center provides detailed information on the Atlantic Forest.

### Supporting biodiversity at the Almería test center

Created in 1973, the Almería Test Center (CEMA) covers 4,500 hectares, of which 1,500 lie in the heart of the Cabo de Gata-Níjar Natural Park in Andalusia, in southern Spain. The park, which was created in 1987, is located in an arid region with the lowest rainfall in Europe and is home to a number of plant and animal species, including many found only in the region.

Programs initiated by the Test Center have helped to preserve a specimen of the Canary Islands Dragon Tree (*Dracaena draco*) that is more than 500 years old.

The test center has been ISO 14001-certified since 2005.

### 6.3.2.g) MANAGING RISKS OF POLLUTION

Pollution risk management processes, presented in the paragraphs above, are also discussed in the section 2.11.2. on industrial risk.

### 6.3.2.h) CONTINUOUS IMPROVEMENT PROCESS

#### Ensuring compliance through certification processes and audits

The robustness of Michelin's strategy for managing the environmental footprint of its manufacturing facilities is underpinned:

- By the Michelin Environmental Management System (MEMS), which is designed to enable each plant to manage both its day-to-day and long-term environmental impact; and
- By the Group Environmental Standards (EEG), which define the performance levels that a Michelin facility is expected to achieve, which in some cases exceed local regulatory requirements.

Another key aspect of the Michelin continuous improvement process is earning ISO 14001 certification, to provide outside validation of the Group's ability to effectively address environmental issues.

Core components of the MEMS include:

- Compliance audits, based on local legislation and Michelin standards;

- Continuous improvement targets, aligned with local issues, which must be defined and met every year;
- Procedures to prevent accidental pollution.

Michelin is committed to having the MEMS deployed in every facility acquired more than five years ago. By the end of 2009, the system was up and running in 98% of the Group's production facilities, Technology Centers and plantations acquired more than five years ago, and is now being introduced in the logistics centers.

Further progress towards the goal of environmental excellence on every site is being driven in two ways: i) by applying Group Environmental Standards to all new and upgraded installations and ii) by auditing existing production plant and Technology Center installations for shortfalls against the Group Environmental Standards and, based on the findings, defining and implementing remedial actions. To date, 97.4% of existing facilities have been audited.

At the end of 2009, 99.5% of the Group's tires were made in ISO-14001 certified plants. In addition, all of the natural rubber production units, main Technology Center facilities and semi-finished product plants had been certified. While not a prerequisite, deployment of the MEMS has clearly helped to earn ISO 14001 certification.

### Environmental governance and internal organization

Tasked with addressing a full range of environmental, industrial hygiene, workplace safety and industrial risk prevention issues, the Environment and Prevention (EP) network helps to keep the risk analysis process robust and ensures that the resulting solutions are effective.

The network comprises some one hundred experts based in the Group's different country organizations and product lines, as well as a dedicated team on each site. It has its own budget and the manager reports directly to the Group's Executive Council.

Every year, the Annual Plan defines a target for improvement in the MEF indicator (see above section 6.3.1.b), whose Group objective has been raised to a 30% reduction by end-2013 (versus 2005) from a 20% reduction by end-2011. Systematic deployment of the target across the organization ensures that it is realistic. Progress towards the target is reviewed quarterly by the Prevention and Manufacturing Performance Division and is reported in the Group's management indicators.

### Employee training and information

Training courses to support MEMS deployment have raised environmental awareness among the more than 104,000 employees working on certified sites. The courses, which are tailored to each workstation, focus on the main impacts from the facility's operations. In addition, employees are encouraged to attend regular refresher courses.

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### ● 6.3.2.i) PROVISIONS FOR ENVIRONMENTAL RISKS AND ENVIRONMENT-RELATED EXPENDITURE

Aggregate provisions for environmental risk amounted to €3.2 million as of December 31, 2009. As analyzed in the table below, nearly €14 million was committed during the year to projects to enhance the environmental performance of the production facilities. Priority environmental projects were maintained, despite the financial crisis, but other expenditures had to be postponed. The amount of expenditure was based on the definition recommended by the French accounting Board (CNC recommendation 2003-R02 of October 21, 2003), which covers only outlays that are “supplementary” (i.e. excluding routine maintenance, operating, waste management and similar expenses) and “exclusively environmental” (i.e. excluding the environmental aspects of capital expenditure projects).

|  | Capital expenditure | Operating expense | Total expenditure |               |
|--|---------------------|-------------------|-------------------|---------------|
|  | 2009                | 2009              | 2009              | 2008          |
| <i>(in € thousands)</i>                        |                     |                   |                   |               |
| Air pollution prevention                       | 1,765               | 472               | 2,237             | 6,808         |
| Surface water pollution prevention             | 1,213               | 783               | 1,996             | 3,392         |
| Soil and subsurface water pollution prevention | 699                 | 740               | 1,439             | 2,064         |
| Other  | 4,487               | 3,744             | 8,231             | 10,727        |
| <b>TOTAL</b>                                   | <b>8,164</b>        | <b>5,739</b>      | <b>13,903</b>     | <b>22,990</b> |

### ● 6.3.2.j) OTHER INFORMATION

#### Odors and noise

Although entirely innocuous, odors are a concern for plants located in urban areas that process certain types of natural rubber indispensable for tire manufacturing.

A standard solution, based on the thermal oxidation of effluents, is now operational in six European plants and is being steadily implemented across the Group. Research is continuing into even more efficient and environmentally friendly odor suppression techniques.

More generally, on-site teams, supported by Group experts, are deploying a variety of solutions to abate odors, noise and other nuisances that manufacturing operations can cause local residents.

#### Relations with environmental protection associations

Michelin is committed to fostering close ties, whenever appropriate, with environmental protection associations or organizations

The rehabilitation project on the Cholet site in France (see section 6.3.2.f) was carried out in cooperation with the *Association pour la Découverte de la Nature*.

In North America, Michelin’s commitment to environmental stewardship and its related programs have been recognized by the US Environmental Protection Agency, which selected ten plants to take part in the National Environmental Performance Track public-private partnership from 2005 until the program ended in 2009. To be eligible, a plant had to demonstrate that it had i) adopted and implemented an environmental management system (EMS); ii) demonstrated specific past environmental achievements; iii) recorded sustained compliance with environmental requirements; iv) committed to continued environmental improvement; and v) committed to public outreach and performance reporting.

Michelin North America is also continuing to work in partnership with a wide range of associations and public authorities, particularly those active in the area of energy savings (such as the Alliance to Save Energy) and the reduction of transportation-related emissions (such as the EPA’s SmartWay Transport Partnership).

As part of its commitment to developing renewable energy plant and equipment in Europe and the United States, Michelin has been a member since 2007 of the Green Power Market Development Group, which is led by the World Resources Institute (WRI).

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### 6.3.3. SUMMARY TABLE OF DATA

In the following table, the last column shows the corresponding Global Reporting Initiative (GRI) indicator.

|   | 2005  | 2006  | 2007     | 2008     | 2009     | % change<br>2008-2009 | GRI Indicator |
|---|-------|-------|----------|----------|----------|-----------------------|---------------|
| Water consumption ** (m <sup>3</sup> /t)  | 15.0  | 14.9  | 13.3     | 12.8     | 13.3     | +3.9%                 | EN8           |
| Energy consumption ** (Gj/t)  | 17.4  | 17.2  | 15.6     | 15.3     | 16.1     | +5.2%                 | EN3-EN4       |
| of which: Michelin stationary installations   | 10.6  | 10.5  | 9        | 8.5      | 9.0      | +5.9%                 | EN3           |
| Steam   | 1.0   | 1.1   | 1.2      | 1.3      | 1.2      | -7.7%                 | EN4           |
| Electricity   | 5.7   | 5.6   | 5.4      | 5.5      | 5.9      | +7.3%                 | EN4           |
| Greenhouse gas emissions ** (t/t)   | 1.53  | 1.48  | 1.37     | 1.35     | 1.43     | +5.9%                 | EN16          |
| of which: Direct emissions from Michelin stationary installations                                   | 0.75  | 0.73  | 0.64     | 0.60     | 0.64     | +6.7%                 | EN16          |
| Indirect emissions, steam generation  | 0.11  | 0.12  | 0.13     | 0.15     | 0.13     | -13.3%                | EN16          |
| Indirect emissions, electricity generation  | 0.66  | 0.63  | 0.59     | 0.60     | 0.66     | +10.0%                | EN16          |
| Total Michelin direct and indirect emissions avoided  |       |       | 12,400 t | 31,200 t | 23,300 t | -25.3%                | EN18          |
| Sulfur dioxide emissions ** (kg/t)  | 1.65  | 1.22  | 1.27     | 1.08     | 1.17     | +8.3%                 | EN20          |
| Nitrogen dioxide emissions ** (kg/t)  | 1.01  | 0.85  | 0.89     | 0.82     | 0.82     | +0%                   | EN20          |
| Volatile organic compound emissions ** (kg/t)   | 4.27  | 3.97  | 3.48     | 3.13     | 3.04     | -2.9%                 | EN20          |
| Total weight of waste produced ** (kg/t)  | 140   | 130   | 128      | 127.5    | 121.2    | -5.0%                 | EN22          |
| Total weight of waste landfilled ** (kg/t)  | 33    | 26    | 20       | 16.2     | 13.3     | -17.9%                | EN22          |
| Environmental management (% of finished products manufactured in ISO 14001 certified facilities) ** | 94.8% | 99.4% | 99.5%    | 99.5%    | 99.5%    |                       |               |

\*\* Data related to these indicators have been reviewed by PricewaterhouseCoopers (see section 6.4.).

To find out more about Michelin's environmental commitment, please refer to the 2005-2006 Michelin Performance and Responsibility Report published in May 2007, the 2007 update published in May 2008 and the 2007-2008 Report published in May 2009 and the 2009 Annual and Sustainable Development Report.

## 6.4. REVIEW REPORT FROM ONE OF THE STATUTORY AUDITORS, PRICEWATERHOUSECOOPERS AUDIT, ON THE PROCESSES USED TO COMPILE CERTAIN SOCIAL AND ENVIRONMENTAL INFORMATION, AND ON CERTAIN SOCIAL, AND ENVIRONMENTAL INDICATORS

*This is a free translation into English of the Statutory Auditor's review report issued in the French language and is provided solely for the convenience of English speaking readers. The review report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

Further to your request and in our capacity as Statutory Auditor of the Michelin Group, we have carried out a review for the purpose of enabling us to express moderate assurance on the processes used to compile certain social and environmental information published by the Michelin Group in its Registration Document for 2009:

- Social information includes indicators for "Frequency rate" and "Severity rate" for workplace accidents, "Headcount", "Full-time equivalent Headcount", "Absenteeism", "Training access rate", and "Male/female distribution by status and geographic zone";
- Environmental indicators include all indicators shown in the "Data Recap Table".

We have also carried out a review for the purpose of enabling us to express moderate assurance on certain of the social and environmental indicators listed above (marked "\*\*\*" on pages 129, 134, 142 and 147 of this 2009 Registration Document).

These processes, together with the indicators set forth in this 2009 Registration Document, are the responsibility of the "Prevention and Industrial Performance Department", the "Personnel Group Service", and the Michelin Group "Michelin Performance and Responsibility Department", in accordance with the Group's internal reporting standards. These standards are available on request from the Group's head office. Our responsibility is to express our conclusion on these data compilation processes as well as on these indicators, based on our work.

### Nature and scope of our work

We performed our works in accordance with the doctrine of the Compagnie Nationale des Commissaires aux Comptes relative to this mission.

We performed the procedures described below to obtain moderate assurance that no material irregularities exist with regard to the processes used to compile certain social and environmental information as well as certain social and environmental indicators published. We did not perform all of the procedures required to obtain reasonable assurance (a higher level of assurance).

We performed the following procedures with regard to the processes used to compile the social and environmental information:

- We assessed the procedures used to report the above-mentioned social and environmental information in light of the relevance, reliability, objectivity and understandability of such information;
- We conducted interviews with the persons responsible for compiling and consolidating the data and applying the procedures at Group level, in order to verify that the procedures had been properly understood and implemented. We also met with people from the following divisions

and departments: the "Finance Group Service", the "Personnel Group Service / Training"; the "Personnel Group Service / Global Compensation", the "Prevention and Industrial Performance Department / Environment and Hygiene", the "Prevention and Industrial Performance Department / Persons and Goods Safety";

- We also compiled and sent a questionnaire to 19 Group sites in 9 countries, in order to determine whether social and environmental reporting procedures were properly applied;
- We performed consistency checks on a test basis in order to verify that the data had been correctly centralized and consolidated.

In addition to the work regarding the above-mentioned reporting procedures, for the social and environmental indicators marked "\*\*\*" in this 2009 Registration Document we selected a sample of industrial plants (Alessandria, Bassens, Cholet, Columbia, Fort Wayne, Lasarte, Olsztyn, Shanghai TME, Vitoria) on the basis of their contribution to the Group's consolidated data. We checked, on site, that the procedures had been properly understood and implemented at these selected sites and performed in-depth checks on a test basis to verify the calculations and reconcile the data with the supporting documents. The contribution of these sites to the consolidated data was as follows:

- Contribution to overall social indicators: 15% of the Group's total headcount, expressed as full time equivalents and 13% of hours worked;
- Contribution to overall environmental indicators: energy consumption: 25%; water consumption: 27%; SOx emissions: 58%; NOx emissions: 46%; VOC emissions: 22%; tire manufacturing: 22%; Waste production: 27%; Waste disposal volume: 18%.

We were assisted in our work by experts from our Sustainable Development department.

### Conclusion

Based on our work, no material irregularities came to light causing us to believe that the following processes and indicators do not comply with the Michelin Group's reporting indicators for 2009:

- the processes used to compile social and environmental information for the above-mentioned indicators in accordance with the Group's internal reporting standards applicable in 2009; and
- the indicators reviewed (marked "\*\*\*" in this 2009 Registration Document) in accordance with the Group's internal reporting standards applicable in 2009.

Neuilly-sur-Seine, February 25, 2010

PricewaterhouseCoopers Audit

Christian Marcellin  
Associé  
Statutory Auditor

Sylvain Lambert  
Associé  
Sustainable Development Department

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## CONSOLIDATED FINANCIAL STATEMENTS



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## 7.1. CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2009

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**CONSOLIDATED INCOME STATEMENT**

| <i>(in EUR million, except per share data)</i>                   | Note | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|--|------|---------------------------------|---------------------------------|
| Net sales  | 5    | 14,807                          | 16,408                          |
| Cost of sales  |      | (10,527)                        | (12,024)                        |
| <b>Gross income</b>  |      | <b>4,280</b>                    | <b>4,384</b>                    |
| Sales and marketing expenses                                     |      | (1,650)                         | (1,730)                         |
| Research and development expenses                                |      | (506)                           | (499)                           |
| General and administrative expenses                              |      | (1,113)                         | (1,161)                         |
| Other operating income and expenses                              | 8    | (149)                           | (74)                            |
| <b>Operating income before non-recurring income and expenses</b> | 5    | <b>862</b>                      | <b>920</b>                      |
| Non-recurring expenses   | 9    | (412)                           | (77)                            |
| <b>Operating income</b>  |      | <b>450</b>                      | <b>843</b>                      |
| Cost of net debt   | 10   | (292)                           | (330)                           |
| Other financial income and expenses                              | 10   | 40                              | (3)                             |
| Share of profit/(loss) from associates                           |      | 9                               | 10                              |
| <b>Income before taxes</b>                                       |      | <b>207</b>                      | <b>520</b>                      |
| Income tax   | 11   | (103)                           | (163)                           |
| <b>NET INCOME</b>  |      | <b>104</b>                      | <b>357</b>                      |
| • Attributable to Shareholders of the Company                    |      | 106                             | 360                             |
| • Attributable to non-controlling interests                      |      | (2)                             | (3)                             |
| <b>Earnings per share</b> <i>(in EUR)</i>                        | 12   |                                 |                                 |
| • Basic  |      | 0.71                            | 2.46                            |
| • Diluted  |      | 0.71                            | 2.46                            |

The notes 1 to 36 are an integral part of the consolidated financial statements.

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| <i>(in EUR million)</i>   | Note    | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------|---------------------------------|---------------------------------|
| <b>Net income</b>   |         | <b>104</b>                      | <b>357</b>                      |
| Available-for-sale financial assets – unrealized gain/(loss)                              | 15.1    | 131                             | (109)                           |
| Available-for-sale financial assets – realized (gain)/loss recognized in income statement | 10      | (5)                             | -                               |
| Changes in fair value of cash flow hedges   |         | 4                               | (4)                             |
| Stock option plans – cost of services rendered  | 7 and 8 | 10                              | 10                              |
| Share purchase plan – cost of services rendered   |         | -                               | 15                              |
| Currency translation differences  |         | 216                             | (242)                           |
| Other   |         | (1)                             | 1                               |
| Tax effect  | 18      | (8)                             | -                               |
| <b>Other comprehensive income</b>   |         | <b>347</b>                      | <b>(329)</b>                    |
| <b>COMPREHENSIVE INCOME</b>   |         | <b>451</b>                      | <b>28</b>                       |
| • Attributable to Shareholders of the Company   |         | 453                             | 31                              |
| • Attributable to non-controlling interests   |         | (2)                             | (3)                             |

The notes 1 to 36 are an integral part of the consolidated financial statements.

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**CONSOLIDATED BALANCE SHEET**

(in EUR million)

|   | Note | December 31, 2009 | December 31, 2008 |
|---|------|-------------------|-------------------|
| Goodwill                                      | 13   | 403               | 401               |
| Other intangible assets                       | 13   | 321               | 310               |
| Property, plant and equipment (PP&E)          | 14   | 6,782             | 7,046             |
| Non-current financial assets and other assets | 15   | 712               | 382               |
| Investments in associates and joint ventures  | 17   | 71                | 65                |
| Deferred tax assets                           | 18   | 942               | 896               |
| <b>Non-current assets</b>                     |      | <b>9,231</b>      | <b>9,100</b>      |
| Inventories                                   | 19   | 2,994             | 3,677             |
| Trade receivables                             | 20   | 2,314             | 2,456             |
| Current financial assets                      | 21   | 165               | 173               |
| Other current assets                          | 22   | 583               | 732               |
| Cash and cash equivalents                     | 23   | 1,231             | 456               |
| <b>Current assets</b>                         |      | <b>7,287</b>      | <b>7,494</b>      |
| <b>TOTAL ASSETS</b>                           |      | <b>16,518</b>     | <b>16,594</b>     |
| Share capital                                 | 24   | 295               | 290               |
| Share premiums                                | 24   | 1,987             | 1,944             |
| Reserves                                      | 25   | 3,210             | 2,874             |
| Non-controlling interests                     |      | 3                 | 5                 |
| <b>Total equity</b>                           |      | <b>5,495</b>      | <b>5,113</b>      |
| Non-current financial liabilities             | 26   | 3,568             | 3,446             |
| Employee benefit obligations                  | 27.1 | 2,374             | 2,448             |
| Provisions and other non-current liabilities  | 29   | 1,105             | 760               |
| Deferred tax liabilities                      | 18   | 40                | 39                |
| <b>Non-current liabilities</b>                |      | <b>7,087</b>      | <b>6,693</b>      |
| Current financial liabilities                 | 26   | 760               | 1,440             |
| Trade payables                                |      | 1,249             | 1,504             |
| Other current liabilities                     | 30   | 1,927             | 1,844             |
| <b>Current liabilities</b>                    |      | <b>3,936</b>      | <b>4,788</b>      |
| <b>TOTAL EQUITY AND LIABILITIES</b>           |      | <b>16,518</b>     | <b>16,594</b>     |

The notes 1 to 36 are an integral part of the consolidated financial statements.





## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| <i>(in EUR million)</i>         | Share capital<br><i>(Note 24)</i> | Share premiums<br><i>(Note 24)</i> | Reserves<br><i>(Note 25)</i> | Non-controlling<br>interests | Total        |
|---------------------------------|-----------------------------------|------------------------------------|------------------------------|------------------------------|--------------|
| <b>At January 1, 2008</b>       | <b>288</b>                        | <b>1,885</b>                       | <b>3,109</b>                 | <b>8</b>                     | <b>5,290</b> |
| Issuance of shares              | 2                                 | 34                                 | -                            | -                            | 36           |
| Dividends and other allocations | -                                 | -                                  | (240)                        | -                            | (240)        |
| Comprehensive income            | -                                 | 25                                 | 6                            | (3)                          | 28           |
| Other                           | -                                 | -                                  | (1)                          | -                            | (1)          |
| <b>At December 31, 2008</b>     | <b>290</b>                        | <b>1,944</b>                       | <b>2,874</b>                 | <b>5</b>                     | <b>5,113</b> |
| Issuance of shares              | 5                                 | 77                                 | -                            | -                            | 82           |
| Dividends and other allocations | -                                 | -                                  | (150)                        | -                            | (150)        |
| Comprehensive income            | -                                 | -                                  | 453                          | (2)                          | 451          |
| Other (Note 24)                 | -                                 | (34)                               | 33                           | -                            | (1)          |
| <b>AT DECEMBER 31, 2009</b>     | <b>295</b>                        | <b>1,987</b>                       | <b>3,210</b>                 | <b>3</b>                     | <b>5,495</b> |

The notes 1 to 36 are an integral part of the consolidated financial statements.

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**CONSOLIDATED CASH FLOW STATEMENT**

| (in EUR million)   | Note | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|--|------|---------------------------------|---------------------------------|
| Net income   |      | 104                             | 357                             |
| Adjustments  |      |                                 |                                 |
| • Cost of net debt   | 10   | 292                             | 330                             |
| • Other financial income and expenses  | 10   | (40)                            | 3                               |
| • Income tax   | 11   | 103                             | 163                             |
| • Amortization, depreciation and impairment of intangible assets and PP&E  |      | 940                             | 928                             |
| • Non-recurring income and expenses  | 9    | 412                             | 77                              |
| • Share of loss/(profit) from associates   |      | (9)                             | (10)                            |
| EBITDA adjusted (before non-recurring income and expenses)   | 3.7  | 1,802                           | 1,848                           |
| Other non-cash income and expenses   | 31   | (28)                            | 10                              |
| Change in provisions, including employee benefit obligations   |      | (372)                           | (268)                           |
| Cost of net debt and other financial income and expenses paid  | 31   | (207)                           | (266)                           |
| Income tax paid  |      | (19)                            | (275)                           |
| Change in working capital, net of impairments  | 31   | 947                             | (134)                           |
| <b>Cash flows from operating activities</b>  |      | <b>2,123</b>                    | <b>915</b>                      |
| Purchases of intangible assets and PP&E  | 31   | (707)                           | (1,289)                         |
| Proceeds from sale of intangible assets and PP&E   |      | 47                              | 52                              |
| Equity investments in consolidated companies, net of cash acquired   |      | (1)                             | (1)                             |
| Disposals of equity investments in consolidated companies, net of cash sold  |      | 10                              | 5                               |
| Purchases of available-for-sale investments  |      | (5)                             | (62)                            |
| Proceeds from sale of available-for-sale investments   |      | 29                              | 6                               |
| Cash flows from other financial assets   | 31   | (109)                           | 15                              |
| <b>Cash flows from investing activities</b>  |      | <b>(736)</b>                    | <b>(1,274)</b>                  |
| Proceeds from issuance of shares   | 24   | 2                               | 36                              |
| Dividends paid to Shareholders of the Company  |      | (65)                            | (230)                           |
| Cash flows from financial liabilities  | 31   | (667)                           | 768                             |
| Other cash flows from financing activities   |      | (20)                            | (93)                            |
| <b>Cash flows from financing activities</b>  |      | <b>(750)</b>                    | <b>481</b>                      |
| <b>Effect of changes in exchange rates</b>   |      | <b>2</b>                        | <b>4</b>                        |
| <b>INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS</b>  |      | <b>639</b>                      | <b>126</b>                      |
| <b>Cash and cash equivalents as at January 1</b><br><i>(as adjusted, without bank overdrafts of EUR 136 million in 2009)</i> | 3.20 | <b>592</b>                      | <b>330</b>                      |
| <b>Cash and cash equivalents as at December 31</b>   | 23   | <b>1,231</b>                    | <b>456</b>                      |

The notes 1 to 36 are an integral part of the consolidated financial statements.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 GENERAL INFORMATION

Compagnie Générale des Etablissements Michelin (CGEM or the “Company”) and its subsidiaries (together “the Group”) manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Partners on February 8, 2010.

Except as otherwise stated, all amounts are presented in EUR million.

### NOTE 2 BASIS OF PREPARATION

#### 2.1. STATEMENT OF COMPLIANCE

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) as adopted by the European Union. The consolidated financial statements have been prepared under the historical cost convention, as modified by the measurement of available-for-sale financial assets and financial assets and liabilities (including derivatives) at fair value through profit and loss.

IFRS standards and interpretations are available on the European Commission internet: [http://ec.europa.eu/internal\\_market/accounting/ias/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias/index_en.htm).

#### 2.2. ACCOUNTING POLICIES

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in Note 3. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS APPLIED FROM JANUARY 1, 2009

The following standards, amendments and interpretations to existing standards have been published and are applicable for the Group accounting periods beginning on or after January 1, 2009:

- IFRS 7 ‘Financial instruments – Disclosures’. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share;

- IFRS 8 ‘Operating segments’. This new standard, which replaces IAS 14, requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Neither the basis of segmentation nor the basis of measurement of segment profit or loss is different from the ones used for the last annual financial statements. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share;
- IAS 1 (revised). ‘Presentation of financial statements’. The Group has elected to present two performance statements (the income statement and the statement of comprehensive income). Non-owner changes in equity, which are now required to be presented separately from owner changes in equity, are included in this new statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share;
- IAS 23 (amended) ‘Borrowing costs’. The amended standard prohibits the recognition as expense of borrowing costs that are directly attributable to the acquisition, construction or production of an asset. These costs are prospectively capitalized as part of that asset.

All other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2009, are not relevant to the Group operations.

#### 2.4. STANDARDS, AMENDMENTS AND INTERPRETATIONS TO EXISTING STANDARDS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED BY THE GROUP

The following standards, amendments and interpretations to existing standards have been published and are applicable for the Group accounting periods beginning on or after January 1, 2010 or later periods, but have not been early adopted by the Group:

- IAS 27 (revised), ‘Consolidated and separate financial statements’. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from January 1, 2010;
- IFRS 3 (revised), ‘Business combinations’. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from January 1, 2010;

- IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Group will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group financial statements.

All other new standards, amendments and interpretations to existing standards, which have been published and which are applicable for the accounting periods beginning on or after January 1, 2010, are not relevant to the Group operations.

## ● 2.5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires that management should use assumptions and estimates reflected in the value of assets and liabilities at the balance sheet date and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgements are the impairment of non-financial assets and the employee benefit obligations.

### 2.5.1. Impairment of non-financial assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (Note 3 – Impairment of non-financial assets) are derived from the Group rolling five-year business plan. The construction of the business plan is an exercise involving the various actors within the CGUs and the projections are validated by their management. It requires critical estimates and judgements, especially in the determination of market trends, raw material costs and pricing policies. Therefore, the actual cash flows may differ from the estimates used in the calculation of value in use.

Quantitative information is provided in Notes 13 and 14.

### 2.5.2. Employee benefit obligations

The Group provides to its employees and retirees various pension plans, jubilees and other post-employment benefits. The valuation of these benefits is carried out annually by independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the long term salary increase rate, the expected rate of return on plan assets and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and early retirement.

Assumptions and statistical information are determined by Group management in charge of employee benefits according to internal guidelines in consultation with the actuaries.

The discount rates are chosen using local market indicators to the extent that they are in line with the guidance of IAS19 such as iBoxx, Reuters and Bloomberg, as well as benchmarks of

the actuaries. If a number of these indicators are considered to be less relevant as they may include corporate bonds of a lower quality than those required by IAS19 (when information concerning the computation of such indicators is available and it is confirmed that such indicators are of a lower quality), they are not retained or they are averaged with other indicators.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practice as well as career development, promotion, seniority and others.

The inflation rates are determined using several sources of information to cross check data as information from Central banks which publish their target inflation. One of the main sources is provided by Reuters, taking the spread between inflation-linked bonds and conventional securities. The rate is then adjusted with a spread which represents the liquidity and risk premium imbedded in the inflation-linked bonds.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The expected returns on plan assets are determined for each portfolio taking into account market conditions, portfolios allocation as well as long-term returns of each class and sub-class, including a premium for manager's performance, net of management fees.

The current data (such as inflation, turnover, mortality, real return on assets...) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in the income statement over the expected average remaining working lives of the employees participating in the plans, only to the extent that the net cumulative difference exceeds 10% of the greater of (1) the present value of the defined benefit obligation or (2) the fair value of the plan assets.

Quantitative information is provided in Note 27.

## NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### ● 3.1. CONSOLIDATION

The Group consolidated financial statements include all subsidiaries, associates and joint ventures of Compagnie Générale des Etablissements Michelin.

#### 3.1.1. Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

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The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 3.1.2. Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Investments in associates are accounted for by the equity method and are initially recognized at cost. The Group investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group share of its associates' post-acquisition profits and losses is recognized in the income statement until the date that significant influence ceases.

When the Group share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognize future losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

### 3.1.3. Joint ventures

Joint ventures are entities over which the Group has joint control, according to contractual agreement. Investments in joint ventures are accounted for by the equity method as described in paragraph 3.1.2.

Shareholdings in companies which are not subsidiaries, associates or joint ventures are not consolidated. They are accounted for as non-derivative financial assets (see the related accounting policy).

## 3.2. SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the Managing Partners.

The Managing Partners are allocating resources to the segments and assessing their performance, therefore they have been identified as the chief operating decision makers of the Group.

## 3.3. FOREIGN CURRENCY

### 3.3.1. Presentation and functional currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in euros (EUR), which is the Company's functional currency.

### 3.3.2. Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on equity investments classified as available-for-sale financial assets are included in the fair value reserve in equity until the investment is sold.

### 3.3.3. Translation

The financial statements of Group entities whose functional currency is different from the Group presentation currency are translated into euros as follows: assets and liabilities are translated at the closing rate at the balance sheet date, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized as a separate component of equity.

Cash flows are also translated at the average rate of the period.

When an entity is disposed of, the translation differences accumulated in equity are recycled in the income statement as part of the gain or loss on disposal.

Goodwill and fair value adjustments recognized on the acquisition of an entity are treated as assets and liabilities of the entity and translated at the spot rate on the transaction date.

### 3.3.4. Exchange rates of major currencies

| Against the euro:     | Closing rates     |                   | Average rates                   |                                 |
|-----------------------|-------------------|-------------------|---------------------------------|---------------------------------|
|                       | December 31, 2009 | December 31, 2008 | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
| US dollar (USD)       | 1.444             | 1.413             | 1.394                           | 1.471                           |
| British pound (GBP)   | 0.895             | 0.977             | 0.892                           | 0.797                           |
| Canadian dollar (CAD) | 1.516             | 1.720             | 1.586                           | 1.561                           |
| Polish zloty (PLN)    | 4.127             | 4.171             | 4.327                           | 3.515                           |
| Brazilian real (BRL)  | 2.512             | 3.295             | 2.773                           | 2.677                           |
| Japanese yen (JPY)    | 132.9             | 127.5             | 130.3                           | 152.4                           |
| Chinese yuan (CNY)    | 9.855             | 9.648             | 9.524                           | 10.23                           |

● **3.4. DERIVATIVE FINANCIAL INSTRUMENTS**

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

● **3.5. HEDGING**

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges);
- hedges of highly probable forecast transactions (cash flow hedges); or
- hedges of net investments in foreign operations.

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (derivatives policy). Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge:

**3.5.1. Fair value hedges**

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

**3.5.2. Cash flow hedges**

The effective portion of changes in the fair value of derivatives is recognized in equity. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the period when the hedged item affects the income statement. However, when the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at the time remains in equity and is recognized in the income statement when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**3.5.3. Hedges of net investments in foreign operations**

These hedges are accounted for similarly to cash flow hedges. The effective portion of the gain or loss on the hedging instrument is recognized in equity; the ineffective portion of the gain or loss is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

● **3.6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

Effective January 1, 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This amendment requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value of interest rate swaps calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of forward foreign exchange contracts determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### ● 3.7. ADJUSTED EBITDA

The Group defines adjusted EBITDA as operating income before (i) non-recurring income and expenses and (ii) depreciation of property, plant and equipment and amortization of intangible assets, and any related impairment charge.

### ● 3.8. REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises;
- revenue from sales of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- interest income is recognized on an accrual basis using the effective interest method;
- dividend income is recognized when the right to receive payment is established.

### ● 3.9. COST OF SALES

Cost of sales comprises the costs of manufacturing products and the cost of goods purchased for resale.

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

### ● 3.10. RESEARCH AND DEVELOPMENT

Research costs cannot be capitalized. Development cost are capitalized as intangible assets when the conditions relating to the commercial and technical feasibility of the project, the ability to allocate the costs reliably and the probability of generating future economic benefits are fulfilled.

Development costs are reviewed annually in order to determine whether the criteria for recognition as intangible assets are met.

### ● 3.11. NON-RECURRING INCOME AND EXPENSES

Unusual, abnormal or non-frequent significant items of income and expenses are separately disclosed in the income statement. They are fully described in the Note 9.

### ● 3.12. INCOME TAX

Income tax expense in the income statement includes both current and deferred taxes, plus any withholding tax on royalties and the distribution of retained earnings within the Group, except if it relates to items recognized directly in equity, in which case the expense is recognized in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be utilized.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.



● **3.13. INTANGIBLE ASSETS**

**3.13.1. Goodwill**

Goodwill includes both the excess of the cost of an acquisition over the fair value of the acquired assets and liabilities at the date the acquisition is committed and the excess of the cost of purchased minority shares over the carrying value of the purchased non-controlling interests.

Goodwill is not amortized. It is carried at cost less any accumulated impairment losses.

Adjustments to contingent consideration are recognized against goodwill.

**3.13.2. Other intangible assets**

Other intangible assets are capitalized to the extent that the future economic benefit related to these assets will flow to the Group and their costs can be reliably identified.

They are amortized on a straight-line basis over their useful life which generally does not exceed 7 years.

● **3.14. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment are measured at cost less accumulated depreciation and, when necessary, impairment.

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset. Investment grants are initially accounted for as deferred revenue and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

- buildings and general installations of land and buildings 25 years
- industrial and commercial equipments 5-12 years
- computer and telecommunication equipments 5 years
- vehicles 5 years
- other 2-12 years

The useful lives of the assets and their respective residual values are reviewed annually.

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in other operating income and expenses.

Property, plant and equipment which are financed by leases giving the Group substantially all of the risks and rewards of ownership are capitalized at the lower of the fair value of the leased item and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the balance sheet. The payments related to operating leases are expensed as incurred.

● **3.15. BORROWING COSTS**

IAS 23 (revised) is applied to borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after January 1, 2009.

The Group previously recognized all borrowing costs as expenses immediately. Because of the prospective application of this standard, comparative figures have not been restated.

● **3.16. IMPAIRMENT OF NON-FINANCIAL ASSETS**

When there is any indication that the recoverable amount of an asset (intangible assets and property, plant and equipment) may be less than its carrying amount, the recoverable amount of the asset is measured and a charge is potentially accounted for.

At individual asset level, such indications generally come from a fall in market value, technical obsolescence or an anticipated change of use. The recoverable amount is usually based on the market value.

At Group level, non-financial assets are combined for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU ViaMichelin) This approach allows to identify if cash flows of these operations, generated by an asset (or group of assets), are separately identifiable of the cash flows generated by other assets (or group of assets).

CGUs are tested annually as long as a goodwill is allocated to them. For most CGUs, recoverable amount is based on value in use, which is equal to future cash flows discounted using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are based on the CGU's five-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC.



The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of debt capital and a risk premium reflecting the risks of the countries where the assets are located. Those rates are adjusted in order to determine a pre-tax discount rate, consistent with the pre-tax cash flow forecasts.

The gearing is based on target information. The Beta is calculated according to the variance and the covariance between the Company stock price and the CAC 40 index using a mobile average on 24 months.

When the value in use of the distribution CGUs is lower than the CGUs' asset value, recoverable amount is measured at fair value less costs to sell. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in other operating income and expenses unless classified as non-recurring items.

### ● 3.17. NON DERIVATIVE FINANCIAL ASSETS

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, and held-to-maturity investments. The classification depends on the purpose for which the assets have been acquired. Management determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date.
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by management. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.
- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group management has the positive intention and ability to hold to maturity.

Purchases and sales of non-derivative financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables and held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity unless the gains and losses are incurred as part of fair value hedges and therefore included in the income statement in the period in which they arise. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments cannot be reversed.

### ● 3.18. INVENTORIES

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. Inventories are measured using the weighted-average cost method.

Net realizable value is the estimated selling price less the estimated cost to complete and estimated selling expenses.

An impairment loss is recognized when net realizable value is lower than cost and is reversed when it becomes apparent that the circumstances which previously caused inventories to be written down below cost no longer exist.

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● **3.19. TRADE RECEIVABLES**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than 6 months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. In the case of receivables that are more than 6 months overdue, the credit department determines if the risk is limited to the overdue amount, or if it includes all other receivables from the debtor. The impairment loss is also determined by the credit department for economic and/or political risk, and for an adverse change in the debtor's credit situation. For all other cases the total amount of the receivable is considered as impaired. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding allowance account. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

● **3.20. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

To improve the presentation of its financial statements, the Group decided in 2009 to present its bank overdrafts as part of its current financial liabilities (loans from financial institutions and other) instead of in cash and cash equivalents (see Note 10, 23 and 26 for the impacts of this reclassification).

● **3.21. SHARE CAPITAL**

Ordinary shares are classified as equity.

Where any Group company purchases the Company's shares, directly or through a liquidity contract with an investment services provider, the consideration paid, including any directly attributable incremental costs, is classified as treasury shares and is deducted from equity.

Where such shares are subsequently sold, any consideration received, net of any directly attributable costs, is included in equity.

● **3.22. NON-DERIVATIVE FINANCIAL LIABILITIES**

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Equity financing is classified as a non-derivative financial liability when there is a repayment obligation.

Non-derivative financial liabilities are recognized initially at fair value, net of transaction costs, and subsequently at amortized cost; any difference between the issue proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in equity, net of income tax effects.

To the extent that borrowings are hedged by qualifying fair value hedges, the carrying value of the hedged item is adjusted for the change in fair value attributable to the risk being hedged.

● **3.23. EMPLOYEE BENEFITS**

Wages, salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by Group employees.

Where long-term employee benefits, such as pension and other post-employment benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

**3.23.1. Pension and other post-employment benefits**

Post-employment benefits are benefits payable after the completion of employment. Group companies provide retirement benefits for most of their employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

Group companies provide post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the company pays fixed contributions to state or private insurance companies. Once the contributions have been paid, the company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay the corresponding benefits to all employees.

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The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Most of the current post-employment benefit plans are defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are provided by independent actuaries. Actuarial assumptions primarily regarding discount rates, projected rates of remuneration growth, expected growth of healthcare costs and expected long-term rates of return on plan assets are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets taking into account any unrecognized actuarial gains or losses and past service costs.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds in the country of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains or losses arise mainly from changes in actuarial assumptions and differences between assumptions and actual experience. They are recognized in the income statement as a component of the Group net benefit plan cost only to the extent that, as of the beginning of the year, their net cumulative amount exceeds 10% of the greater of (1) the present value of the defined benefit obligation or (2) the fair value of the plan assets. In such case, the portion of actuarial gains or losses recognized in the income statement is the resulting excess divided by the expected average remaining working lives of the employees participating in the plan.

Past service costs may arise when a new defined benefit plan is set up or changes to benefits payable under an existing defined benefit plan are introduced. They are recognized immediately in the income statement if the benefits are vested. They are amortized on a straight-line basis over the average period until the benefits become vested if the benefits are not yet vested.

The Group net benefit plan cost recognized in the operating income consists of current service cost, interest cost, expected return on assets, curtailments and settlements, past service costs as well as actuarial gains and losses to the extent that they are recognized.

### 3.23.2. Share based payments

#### EMPLOYEE SHARE OPTION PLANS

Benefits related to share options granted to the General Managing Partner and to some Group employees are measured at grant date using a binomial model.

Grant date is the date when eligible employees are informed of the Managing Partners' decision on the number of options granted to them and are given the document describing the conditions attached to the options.

The binomial model is based on the spot price for Company shares (corresponding to the average of the prices quoted over the 20 days before the grant date), the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in other operating income and expenses.

#### EMPLOYEE SHARE PURCHASE PLANS

The Group may offer to substantially all of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares through an employee rights issue.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at the subscription price measured as the average of the opening market prices for Company shares over the 20 days preceding the date the price is set with a maximum discount of 20%. The benefit to the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments.

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● **3.24. PROVISIONS**

Provisions are recognized when a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated.

Restructuring provisions are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

● **3.25. TRADE PAYABLES**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

**NOTE 4 FINANCIAL RISK MANAGEMENT**

● **4.1. FINANCIAL RISK MANAGEMENT POLICY**

**4.1.1. Organization of financial risk management**

Financial risk control, measurement and supervision are carried out under the responsibility of the Group finance function, at the subsidiary and geographic region level, and at the Group level by the Corporate Financing Department. The Corporate Financing Department reports directly to the Group Financial Management.

One of the Corporate Financing Department's ongoing missions is the formulation of financial risk management policy, monitored on the basis of a full array of internal standards, procedures and authoritative literature. Geographic zone finance managers oversee the implementation of the Group financial risk management policy by the subsidiary finance managers. In addition, compliance with financial risk policy is assessed through internal audit reviews to evaluate risk control efficiency and identify means of improvement.

All strategic decisions regarding Group financial risk hedging policy are taken by the Group Financial Management. As a general rule, the Group strictly limits the use of derivatives to the sole purpose of hedging clearly identified exposures.

A financial risks committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The financial risks committee meets on a monthly basis and includes members of the Group Financial Management and of the Corporate Financing Department.

**4.1.2. Liquidity Risk**

The Corporate Financing Department is responsible for ensuring Group financing and liquidity at the lowest cost. The Group raises financial resources on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and the securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and has cash investments that are calibrated in order to insure the refinancing of the short term debt. Long term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular the Compagnie Financière Michelin (CFM), which acts as the financing hub for the Group.

In addition, the Group seeks to maintain the average maturity of its long term debt at a minimum of five years.

Except in the case of particular obligations related to the specific features of local financial markets, the subsidiaries are financed in accordance with a model that is being progressively deployed across the Group:

- cash pooling with the Group for the management of day to day liquidity requirements;
- intercompany credit lines and loans to meet medium and long term requirements.

Short term financing for subsidiaries that do not participate in the cash pooling is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short and long term financing requirements (Free Cash Flow) based on business forecasts and the strategic plans of operating entities.

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. As at December 31, 2009 no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising and their possible impact on the financial situation of the Group is not significant.

**4.1.3. Currency risk**

**CURRENCY TRANSACTION RISK**

Group subsidiaries continually calculate their accounting foreign exchange exposure in relation to their functional currency and hedge it systematically. A number of temporary exemptions can, however, be granted by the Group Financial Management when it is not possible to hedge a currency or when it is justified under exceptional market conditions.

Foreign currency payables and receivables of the same type and with similar maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding company in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts, of which the majority has short term maturities of around three months. Constant monitoring of exchange gains and losses as well as regular internal audits ensure that the hedging policy is adhered to by all Group entities.

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Currency risk monitoring and hedging is based on Group internal standards and procedures. A transactional currency risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis on a detailed management report.

#### CURRENCY TRANSLATION RISK

Investments in foreign subsidiaries are booked in the functional currency of the holding company and are not included in the latter's foreign exchange position.

Future cash flows from these long-term investments (dividends, fees for R&D services and trademark licenses, and capital increases) are hedged on a selective basis according to the probability of the cash flows occurring.

Available-for-sale financial assets are not hedged for currency risks.

#### 4.1.4. Interest rate Risk

The objective of interest rate management is to minimize financing costs whilst protecting future cash flows against unfavorable movements in interest rates. For this purpose, the Group uses various derivative instruments available in the market, but restricts itself to the use of "plain vanilla" instruments (interest rate swaps, caps, collars, etc).

Interest rate exposure is analyzed and monitored by the financial risks committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department which is the only entity permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies (EUR, USD, THB, PLN, and JPY) which represent approximately 75% of the net debt. The financial risk committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

#### 4.1.5. Equity Risk

Equity investments are made for strategic rather than trading purposes. Equities are held under a medium or long term strategy, and not for short term trading portfolio management.

#### 4.1.6. Counterparty Risk

The Group chooses its banks extremely carefully, particularly in the case of cash investments. As it would be inappropriate to add financial risk to the industrial and trading risks that are associated with its operations, the Group gives priority to the security and the liquidity of all its cash investments. These are invested in the short-term (less than three months) with blue chip banks and in low risk financial instruments (deposit certificate, money-market funds or investments that exclude a risk on the capital invested), while avoiding significant concentration levels.

As well as cash investments, counterparty risk is borne on the value of the assets of derivative instruments used for hedging purposes. These amounts and their distribution by bank are tracked monthly by the financial risks committee.

#### 4.1.7. Credit Risk

In 2009, trade receivables represent less than 16% of annual sales. The Credit Department, which is part of the Group Finance Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection.

The main policies and procedures are defined at Group level and are monitored and controlled at both the region and Group level. A monthly credit reporting system operates within the Group.

In 2009, the Group Credit Department continued the gradual reduction of the accounts receivable. Others actions were focused on the modernization of the credit management systems, on the efficiency of the services and on enhancing the skills of credit managers in the Group.

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● 4.2. FINANCIAL RISK DATA

4.2.1. Liquidity Risk

The Group liquidity position can be analyzed as follows:

| (in EUR million)   | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Financial liabilities (Note 26)  | 4,328             | 4,886             |
| • Less, derivative instruments recognized in liabilities (notes 16 and 26) | (69)              | (38)              |
| <b>Financial liabilities excluding derivative instruments</b>              | <b>4,259</b>      | <b>4,848</b>      |
| • Of which, current portion  | 725               | 1,436             |
| • Of which, non-current portion  | 3,534             | 3,412             |
| <b>Cash and cash equivalents (Note 23)</b>                                 | <b>(1,231)</b>    | <b>(456)</b>      |
| <b>Undrawn, confirmed credit lines (more than one year)</b>                | <b>1,500</b>      | <b>1,397</b>      |

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines and cash available.

4.2.2. Currency Risk

TRANSACTIONAL CURRENCY RISK

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the company's functional currency), before and after hedging:

| (in EUR million)                   | December 31, 2009 |             |           |           |             |            | December 31, 2008 |             |           |           |          |             |
|------------------------------------|-------------------|-------------|-----------|-----------|-------------|------------|-------------------|-------------|-----------|-----------|----------|-------------|
|                                    | EUR               | USD         | CHF       | AUD       | PLN         | Other      | EUR               | USD         | CHF       | AUD       | PLN      | Autres      |
| Monetary assets                    | 1,069             | 3,285       | 100       | 160       | 77          | 1,722      | 8,045             | 3,385       | 25        | 121       | 4        | 1 744       |
| Monetary liabilities               | (1,473)           | (2,350)     | (30)      | (79)      | (143)       | (1,150)    | (8,442)           | (2,726)     | (4)       | (60)      | -        | (1 123)     |
| <b>Net position before hedging</b> | <b>(404)</b>      | <b>935</b>  | <b>70</b> | <b>81</b> | <b>(66)</b> | <b>572</b> | <b>(397)</b>      | <b>659</b>  | <b>21</b> | <b>61</b> | <b>4</b> | <b>621</b>  |
| Hedges                             | 320               | (975)       | (64)      | (74)      | 188         | (565)      | 414               | (754)       | (21)      | (56)      | (3)      | (694)       |
| <b>NET POSITION AFTER HEDGING</b>  | <b>(84)</b>       | <b>(40)</b> | <b>6</b>  | <b>7</b>  | <b>122</b>  | <b>7</b>   | <b>17</b>         | <b>(95)</b> | <b>-</b>  | <b>5</b>  | <b>1</b> | <b>(73)</b> |

An unfavorable change in the value of the Euro against all the other currencies would have a negative aggregate impact, after hedging, of less than EUR 1 million (2008: EUR 2 million) in the consolidated income statement for every cent change. A favorable change in the value of the Euro

As at December 31, 2009, the repayment schedule of long-term debts (interest included) as well as the ageing balance of undrawn credit lines are as follows:

| (in EUR million)                                | 2011       | 2012         | 2013       | 2014       | 2015      | 2016 and beyond* |
|---|------------|--------------|------------|------------|-----------|------------------|
| Bonds   | 112        | 612          | 79         | 829        | 15        | 1,437            |
| Loans from financial institutions and other     | 322        | 270          | 597        | 111        | -         | -                |
| Obligations under finance leases                | 11         | 11           | 29         | 10         | 10        | 27               |
| Derivative instruments                          | 5          | 3            | (4)        | (19)       | -         | -                |
| <b>Repayment schedule of long-term debts</b>    | <b>450</b> | <b>896</b>   | <b>701</b> | <b>931</b> | <b>25</b> | <b>1,464</b>     |
| <b>Long-term undrawn confirmed credit lines</b> | <b>-</b>   | <b>1,500</b> | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>         |

\* Includes the super-subordinated notes issued by CGEM in 2003 and redeemable in cash (TSDR) for an amount of EUR 231 million. The notes are redeemable in December 2033. However CGEM is entitled, at its discretion, to redeem early all the notes in cash at par in December 2013, and thereafter at quarterly intervals until the maturity date of the notes in December 2033.

against all the other currencies would have a positive impact of less than EUR 1 million for every cent change (2008: EUR 2 million).



**CURRENCY TRANSLATION RISK**

A breakdown of consolidated equity risk by currency is provided in the following table:

| <i>(in EUR million)</i> | December 31, 2009 | December 31, 2008 |
|-------------------------|-------------------|-------------------|
| EUR                     | 2,740             | 1,899             |
| USD                     | 901               | 839               |
| BRL                     | 713               | 585               |
| CAD                     | 358               | 262               |
| GBP                     | 184               | 157               |
| THB                     | 152               | 105               |
| RSD                     | 85                | 68                |
| MXN                     | 82                | 63                |
| CNY                     | 80                | 96                |
| COP                     | 34                | 33                |
| JPY                     | 33                | 33                |
| PLN                     | -                 | 367               |
| CHF                     | (20)              | 411               |
| Other                   | 153               | 195               |
| <b>TOTAL</b>            | <b>5,495</b>      | <b>5,113</b>      |

The fluctuations on the PLN and the CHF are due to the changes of functional currencies in two of the Group companies.

**4.2.3. Interest Rate Risk**

The net interest rate exposure both before and after hedging is as follows:

| <i>(in EUR million)</i>            | December 31, 2009 |              |            |              | December 31, 2008 |              |              |              |
|------------------------------------|-------------------|--------------|------------|--------------|-------------------|--------------|--------------|--------------|
|                                    | Floating rates    | Fixed rates  |            | Total        | Floating rates    | Fixed rates  |              | Total        |
|                                    | 1-5 years         | > 5 years    |            |              | 1-5 years         | > 5 years    |              |              |
| Liabilities                        | 2,072             | 1,255        | 932        | 4,259        | 3,239             | 592          | 1,055        | 4,886        |
| Assets                             | (1,389)           | (87)         | (20)       | (1,496)      | (535)             | (52)         | (33)         | (620)        |
| <b>Net exposure before hedging</b> | <b>683</b>        | <b>1,168</b> | <b>912</b> | <b>2,763</b> | <b>2,704</b>      | <b>540</b>   | <b>1,022</b> | <b>4,266</b> |
| Hedges                             | 197               | (197)        | -          | -            | (550)             | 550          | -            | -            |
| <b>NET EXPOSURE AFTER HEDGING</b>  | <b>880</b>        | <b>971</b>   | <b>912</b> | <b>2,763</b> | <b>2,763</b>      | <b>1,090</b> | <b>1,022</b> | <b>4,266</b> |

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2009:

| (in EUR million)       | Cash impact<br>booked in income<br>statement | Fair value impact                 |                      |                | Total |
|------------------------|--|-----------------------------------|----------------------|----------------|-------|
|                        |  | Booked in income<br>statement (1) | Booked in equity (2) | Not booked (3) |       |
| 1-point downward shift | 9  | (25)                              | -                    | (70)           | (95)  |
| 1-point upward shift   | (9)  | 22                                | -                    | 68             | 90    |

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.

(2) For derivatives qualifying for hedge accounting.

(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

Net debt as at December 31, 2009 by type of hedges and currencies can be detailed as follows:

| (in EUR million)                                  | Net debt before hedging |            |              | Currency<br>hedging | Net debt after currency hedging but<br>before interest rate hedging |            |              | Interest rate hedging |           | Net debt after hedging |              |              |
|---|-------------------------|------------|--------------|---------------------|---|------------|--------------|-----------------------|-----------|------------------------|--------------|--------------|
|   | Fixed                   | Variable   | Total        |                     | Fixed   | Variable   | Total        | Fixed                 | Variable  | Fixed                  | Variable     | Total        |
| EUR   | 2,173                   | 593        | 2,766        | (1,659)             | 2,173   | (1,066)    | 1,107        | (810)                 | 810       | 1,363                  | (256)        | 1,107        |
| USD   | 3                       | 1          | 4            | 612                 | (133)   | 749        | 616          | 485                   | (485)     | 352                    | 264          | 616          |
| THB   | 1                       | 193        | 194          | 169                 | -   | 363        | 363          | 249                   | (249)     | 249                    | 114          | 363          |
| Other currencies                                  | 11                      | 53         | 64           | 878                 | 27  | 915        | 942          | -                     | -         | 27                     | 915          | 942          |
| <b>Total before derivatives</b>                   | <b>2,188</b>            | <b>840</b> | <b>3,028</b> | -                   | <b>2,067</b>  | <b>961</b> | <b>3,028</b> | <b>(76)</b>           | <b>76</b> | <b>1,991</b>           | <b>1,037</b> | <b>3,028</b> |
| Fair value of derivatives included<br>in net debt |                         |            | 23           |                     |   |            | 23           |                       |           |                        |              | 23           |
| <b>TOTAL</b>                                      |                         |            | <b>3,051</b> |                     |   |            | <b>3,051</b> |                       |           |                        |              | <b>3,051</b> |

#### 4.2.4. Equity Risk

Equity risk is the risk of a 10% unfavorable change in the price of the Group investment portfolio.

| (in EUR million)   | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Carrying amount (Note 15)  | 321               | 218               |
| <b>Impact on equity of a 10% unfavorable change<br/>in the price of the Group investment portfolio</b> | <b>(29)</b>       | <b>(20)</b>       |

#### 4.2.5. Counterparty Risk

More than 80% of the Group cash and cash equivalents are distributed amongst 15 major international banking groups that are all rated single A or above.

#### 4.2.6. Credit Risk

As at December 31, 2009, net receivable balances from the 10 largest customers amounted to EUR 362 million (2008: EUR 345 million). 7 of these customers are located in North America and 3 in Europe. At the same date, 43 customers (2008: 42) had been granted credit limits in excess of EUR 10 million. Out of these, 22 are located in Europe, 19 in North America and 2 in Asia. There was no significant collateral received to limit credit risk. In 2009, credit losses represented 0.27% of sales (2008: 0.11%).

#### 4.2.7. Commodities derivatives

In 2009, the Group did not have any significant hedges of commodities purchases.

**4.3. CAPITAL RISK MANAGEMENT**

The Group objectives when managing its capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for Shareholders of the Company and benefits for other stakeholders, and
- to provide an adequate return to Shareholders of the Company by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Group thoroughly assesses its working capital needs and the expected return on its capital expenditure to minimize its financing requirements. Ultimately, the Group may also issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

The Group strategy is to optimize its net debt in order to secure access to financial resources at a reasonable cost by maintaining its investment grade credit ratings (Note 26.3). The gearing ratios are as follows:

| <i>(in EUR million)</i>                      | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Net debt (Note 26)                           | 3,051             | 4,273             |
| Total equity (as shown in the balance sheet) | 5,495             | 5,113             |
| <b>Gearing ratio</b>                         | <b>0.56</b>       | <b>0.84</b>       |

Changes in the ratio have not been impacted by any exceptional debt or equity transaction.

**NOTE 5 SEGMENT REPORTING**

The Group is organized into product lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light Truck tires and related distribution;
- Truck tires and related distribution;
- Specialty businesses (Earthmover, Agricultural, Two-Wheel and Aircraft tires; Maps and Guides, ViaMichelin and Michelin Lifestyle).

The operating segment performance is evaluated based on operating income before non-recurring income and expenses, consistently with operating income before non-recurring income and expenses in the consolidated financial statements. This measurement basis excludes the effects of non-recurring expenses from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a group basis and are not allocated to operating segments.

Segment assets consist of goodwill and other intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Partners with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and other intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

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The segment information is as follows:

|   | 2009   |                                      |                      |               | 2008   |                                      |                      |               |
|---|--|--------------------------------------|----------------------|---------------|--|--------------------------------------|----------------------|---------------|
| <i>(in EUR million)</i>                                   | Passenger Car and Light Truck tires and related distribution | Truck tires and related distribution | Specialty businesses | Total         | Passenger Car and Light Truck tires and related distribution | Truck tires and related distribution | Specialty businesses | Total         |
| <b>Profit and loss information</b>                        |  |                                      |                      |               |  |                                      |                      |               |
| Net sales   | 8,280  | 4,496                                | 2,031                | <b>14,807</b> | 8,668  | 5,433                                | 2,307                | <b>16,408</b> |
| Operating income before non-recurring income and expenses | 661  | (69)                                 | 270                  | <b>862</b>    | 370  | 138                                  | 412                  | <b>920</b>    |
| <i>In percentage of sales</i>                             | 8.0%   | (1.5%)                               | 13.3%                | <b>5.8%</b>   | 4.3%   | 2.5%                                 | 17.9%                | <b>5.6%</b>   |
| Depreciation and amortization                             | (513)  | (286)                                | (140)                | <b>(939)</b>  | (519)  | (285)                                | (123)                | <b>(927)</b>  |
| Impairment  | 7  | (6)                                  | (2)                  | <b>(1)</b>    | (2)  | 2                                    | (1)                  | <b>(1)</b>    |
| <b>Segment assets</b>                                     |  |                                      |                      |               |  |                                      |                      |               |
| Intangible assets and PP&E                                | 3,682  | 2,546                                | 1,278                | <b>7,506</b>  | 4,079  | 2,451                                | 1,227                | <b>7,757</b>  |
| Finished products inventories                             | 973  | 674                                  | 344                  | <b>1,991</b>  | 1,205  | 859                                  | 403                  | <b>2,467</b>  |
| Trade receivables   | 1,251  | 813                                  | 250                  | <b>2,314</b>  | 1,233  | 900                                  | 323                  | <b>2,456</b>  |
| <b>Total</b>  | <b>5,906</b>   | <b>4,033</b>                         | <b>1,872</b>         | <b>11,811</b> | <b>6,517</b>   | <b>4,210</b>                         | <b>1,953</b>         | <b>12,680</b> |
| <b>Other information</b>                                  |  |                                      |                      |               |  |                                      |                      |               |
| Capital expenditure                                       | 322  | 178                                  | 172                  | <b>672</b>    | 635  | 353                                  | 283                  | <b>1,271</b>  |

Sales between segments are carried at arm's length. The sales to external parties reported to the Managing Partners is measured in a manner consistent with that in the consolidated income statement. Segment reporting assets are reconciled to total Group assets as follows:

| <i>(In EUR million)</i>  | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| <b>Segment assets</b>  | <b>11,811</b>     | <b>12,680</b>     |
| Non-current financial assets and other assets                        | 712               | 382               |
| Investments in associates and joint ventures                         | 71                | 65                |
| Deferred tax assets  | 942               | 896               |
| Other net inventories (raw materials and supplies, work in progress) | 1,003             | 1,210             |
| Current financial assets   | 165               | 173               |
| Other current assets   | 583               | 732               |
| Cash and cash equivalents  | 1,231             | 456               |
| <b>TOTAL GROUP ASSETS</b>  | <b>16,518</b>     | <b>16,594</b>     |

The geographic information is splitted by zone hereunder:

| (in EUR million)           | 2009   |               |       |               | 2008   |               |       |               |
|----------------------------|--------|---------------|-------|---------------|--------|---------------|-------|---------------|
|                            | Europe | North America | Other | Total         | Europe | North America | Other | Total         |
| Net sales                  | 6,752  | 4,994         | 3,061 | <b>14,807</b> | 8,158  | 5,157         | 3,093 | <b>16,408</b> |
| Intangible assets and PP&E | 4,409  | 1,549         | 1,548 | <b>7,506</b>  | 4,564  | 1,666         | 1,527 | <b>7,757</b>  |
| Capital expenditure        | 423    | 152           | 97    | <b>672</b>    | 709    | 280           | 282   | <b>1,271</b>  |

Europe includes western and eastern European countries. North America comprises Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

No single external customer amounted to 10% or more of the Group sales in 2009 and 2008.

### NOTE 6 EXPENSES BY NATURE

The following recurring items are allocated to the appropriate headings of expenses by function in the income statement:

| (in EUR million)  | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Raw materials and consumables used and changes in finished products inventories | (5,943)                         | (7,031)                         |
| Employee benefit costs (Note 7)   | (4,515)                         | (4,606)                         |
| Transportation of goods   | (773)                           | (979)                           |
| Depreciation, amortization and impairment charges                               | (940)                           | (928)                           |
| Other expenses  | (1,774)                         | (1,944)                         |
| <b>TOTAL</b>  | <b>(13,945)</b>                 | <b>(15,488)</b>                 |

### NOTE 7 EMPLOYEE BENEFITS COSTS

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement.

| (in EUR million)                            | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Wages and salaries                          | (3,248)                         | (3,411)                         |
| Payroll taxes                               | (914)                           | (927)                           |
| Defined benefit plan costs (Note 27.1)      | (253)                           | (173)                           |
| Defined contribution plan costs (Note 27.2) | (90)                            | (69)                            |
| Share-based payments (Note 28)              | (10)                            | (26)                            |
| <b>EMPLOYEE BENEFITS COSTS</b>              | <b>(4,515)</b>                  | <b>(4,606)</b>                  |

The average number of employees in 2009 was 112,527 (2008: 120,067).

## NOTE 8 OTHER OPERATING INCOME AND EXPENSES

The following recurring items are recognized within other operating income and expenses in the income statement:

| <i>(in EUR million)</i>  | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|--|---------------------------------|---------------------------------|
| Gain/(loss) on disposal of intangible assets and property, plant and equipment         | 20                              | (2)                             |
| Net restructuring costs  | (22)                            | 36                              |
| (Charge)/reversal on impairment of intangible assets and property, plant and equipment | (2)                             | (1)                             |
| Retiree benefit costs  | (104)                           | (39)                            |
| Share-based payments (Note 28)   | (10)                            | (26)                            |
| Other operating income/(expenses)  | (31)                            | (42)                            |
| <b>OTHER OPERATING INCOME AND EXPENSES</b>   | <b>(149)</b>                    | <b>(74)</b>                     |

## NOTE 9 NON-RECURRING INCOME AND EXPENSES

The non-recurring income and expenses can be detailed as follows:

| <i>(in EUR million)</i>                  | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|--|---------------------------------|---------------------------------|
| France – Specialization Plan             | (172)                           | -                               |
| France – “Plan de Volontariat”           | (41)                            | -                               |
| North America                            | (127)                           | -                               |
| Japan                                    | (72)                            | -                               |
| Italy                                    | -                               | (77)                            |
| <b>NON-RECURRING INCOME AND EXPENSES</b> | <b>(412)</b>                    | <b>(77)</b>                     |

### 9.1. FRANCE

The Group announced a project aiming at a new specialization of some of its industrial operations in France. The objectives are:

- to develop the Montceau plant into a high-performance facility for Earthmover tires and one of the two largest European rubber compounds centers. Its current passenger car tire operations will be consolidated with those of other Group plants in Western Europe;

- to make the Tours plant a benchmark for Europe’s high-tech truck tires. This specialization will lead to the closure of its rubber compound workshop whose production will be transferred to the Montceau and Cholet plants.
- to continue to produce Super Sport car tires in France by transferring production from the Seclin facility to Les Gravanches plant near Clermont-Ferrand.

The provision recognized for a net amount of EUR 172 million relates to the social costs, the equipment impairments and the costs necessary to deploy the revitalization plan implemented to help the impacted regions for EUR 192 million less an amount of EUR 20 million reversed from a provision for pensions and employees benefits.

In addition to the announcement concerning the development and reinforcement of Michelin activities in France and as a part of its ongoing management of jobs and competencies, the Group presented to the Central Works Committee dated June 24, 2009 a new workforce streamlining plan called “Plan de Volontariat France”. An agreement on the plan was signed by trade unions on November 12, 2009.

This plan offers employees who meet the eligibility criteria the opportunity, on a voluntary basis, to bring forward their departure over the period January 1, 2010 to December 31, 2012. This voluntary separation program is open to employees who are under open-ended contract and registered on the workforce of the Manufacture Française des Pneumatiques Michelin (with the exception of the Tours and Montceau sites) as well as companies SODG and SEAM. Employees were able to enroll starting September 1, 2009 up to November 30, 2009.

The plan includes two sets of measures:

- assistance to help prepare for a planned separation, with the exception of retirement. Following acceptance of their application by the company, employees will benefit from financial assistance to help them to pursue other professional opportunities. This measure involves 73 employees.
- measures regarding either part-time work in preparation for a voluntary early retirement or a voluntary retirement prior to May 1, 2010 without preliminary part-time. These measures comprise an annual remuneration set at 66% for a part-time work, compensation from the company for social contributions, a termination benefit premium calculated using a single departure age set at 65 years and a supra-conventional premium set at EUR 3,600 for each full year in the program.

These measures involve 1,802 employees, including 253 managers who are not entitled to the part-time measures but who will take advantage, as the others categories of employees, of the tax and social system for premiums paid within the context of a job saving program.

A voluntary separation plan, which is similar to the one at MFPM, has been offered in December 2009 to the employees of the KLEBER manufacturing facility in Troyes. This plan involves potentially 40 employees.

The provision recognized for a net amount of EUR 41 million corresponds to the costs of the measures of the “Plan de Volontariat France” for EUR 116 million less an amount of EUR 75 million reversed from the provision for retirement bonuses.

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## 9.2. NORTH AMERICA

Faced with the sustained consequences of the current economic recession on its markets, Michelin North America implemented in the first half of the year an industrial and commercial restructuring plan. A non-recurring provision of EUR127 million was recognized to cover the overall estimated costs of this plan, including severance expenses and equipment impairments.

This amount includes but is not limited to:

- the costs associated with the closing of the Opelika passenger car tire manufacturing operation (USA) for a USD 156 million (EUR 112 million) estimated cost, including expenses associated with the severance of approximately 1,000 employees;
- the costs associated with closing the Querétaro truck retreading tread pressing operation (Mexico) for a MXP 277 million (EUR 15 million), including costs associated with the severance of approximately 80 employees.

## 9.3. JAPAN

Within the very competitive local environment, and despite the capital and efforts invested in the site, the Ota factory's production costs are too high to maintain the competitive level required in the long-term Group strategy.

The Group sustains its development and presence in the Japan/Korea zone through a number of activities, including: Nihon Michelin Tire Co. Ltd.'s headquarters in Tokyo, Research & Development based in Ota, and commercial operations throughout the zone.

A provision for EUR 72 million has been recognized in non recurring items covering the following costs:

- the severance expenses and the all accompanying measures for departure proposed within the Restructuring program estimated to JPY 3,993 million (EUR 31 million);
- the costs of restoration and redevelopment of the site estimated to JPY 668 million (EUR 4 million);
- the impairments of equipments estimated to JPY 4,775 million (EUR 37 million).

## 9.4. ITALY

On October 28, 2008 Michelin presented a plan intended to make its operations more competitive, by modernizing its Italian plants, reorganizing the Turin Stura site and revitalizing the Turin employment area.

A non-recurring provision of EUR 77 million was recognized in 2008 to cover severance costs and asset write-downs.

## NOTE 10 COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

Cost of net debt and other financial income and expenses are broken down in the table below:

| <i>(in EUR million)</i>  | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|--|---------------------------------|---------------------------------|
| Interest expenses  | (230)                           | (255)                           |
| Currency remeasurement   | (42)                            | (32)                            |
| Interest rate risk management  | (10)                            | (30)                            |
| Other financing expenses   | (19)                            | (14)                            |
| <b>Cost of gross debt</b>  | <b>(301)</b>                    | <b>(331)</b>                    |
| <b>Interest income from cash and cash equivalents</b>                          | <b>9</b>                        | <b>1</b>                        |
| <b>COST OF NET DEBT</b>  | <b>(292)</b>                    | <b>(330)</b>                    |
| Interest income  | 5                               | 6                               |
| Disposal of available-for-sale financial assets                                | 5                               | 1                               |
| Impairment of financial assets   | (1)                             | (13)                            |
| Dividend income  | 10                              | 7                               |
| <b>Net income from financial assets (other than cash and cash equivalents)</b> | <b>19</b>                       | <b>1</b>                        |
| <b>Expense from unwinding the discount on provisions</b>                       | <b>(5)</b>                      | <b>(16)</b>                     |
| <b>Other</b>   | <b>26</b>                       | <b>12</b>                       |
| <b>OTHER FINANCIAL INCOME AND EXPENSES</b>                                     | <b>40</b>                       | <b>(3)</b>                      |

As mentioned in Note 3.20, the Group reclassified in 2009 its bank overdrafts from cash and cash equivalents to current financial liabilities. As a consequence, within the cost of net debt, the related interest expenses have therefore been reclassified in 2009 from interest from cash and cash equivalents to interest expenses. The related interest expenses in 2008, amounting to EUR 11 million, have not been reclassified in the table above.



● 10.1. DERIVATIVES NOT ACCOUNTED FOR USING HEDGE ACCOUNTING

As described in the financial risk management policy, the Group financing activities are mostly centralized (see Note 4.1.2. "Liquidity Risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (see Note 4.1.4. "Interest Rate Risk").

As a consequence:

- borrowings are essentially raised in euros (see Note 26 "Financial Liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (see Note 16 "Derivative Financial Instruments").

This process is described in the summary table in Note 4.2.3.

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in Note 3 "Summary of Significant Accounting Policies – Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decline in fair value during the year amounted to EUR 10 million (2008: EUR 27 million) and is included in the line Interest rate risk management (cost of net debt).

● 10.2. INEFFECTIVE HEDGES

The ineffective portion of fair value hedges amounting to less than 1 million euro (2008: EUR 3 million) is included in the line Interest rate risk management (cost of net debt). No cash flow hedge ineffectiveness has been recognized in the income statement (2008: nil).

**NOTE 11 INCOME TAX**

Income tax expense is detailed as follows:

| (in EUR million)                        | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Current tax expense                     | (125)                           | (172)                           |
| Deferred tax income/(expense) (Note 18) | 22                              | 9                               |
| <b>INCOME TAX</b>                       | <b>(103)</b>                    | <b>(163)</b>                    |

Current tax includes EUR 21 million of withholding tax on royalties and distribution of retained earnings between Group companies (2008: EUR 26 million).

Reconciliation of the Group effective income tax:

| (in EUR million)  | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Income before tax   | 207                             | 520                             |
| <b>Tax calculated using domestic tax rates applicable to income in the respective countries</b> | <b>(37)</b>                     | <b>(173)</b>                    |
| Tax effect from:  |                                 |                                 |
| • untaxed transactions  | -                               | (3)                             |
| • changes in unrecognized temporary differences   | (32)                            | 7                               |
| • changes in unrecognized tax losses  | (26)                            | (30)                            |
| • change in tax rates   | (2)                             | (5)                             |
| • tax credits and withholding tax   | 2                               | 40                              |
| • other items   | (8)                             | 1                               |
| <b>INCOME TAX</b>   | <b>(103)</b>                    | <b>(163)</b>                    |

In France, the Group regards the CVAE component ("Contributions à la Valeur Ajoutée des Entreprises") of the French business tax (CET), applicable from January 1, 2010, as income tax. Thus, a deferred tax expense of EUR 11 million is included in 2009 in the "other items" caption above.

**NOTE 12 EARNINGS PER SHARE**

Basic earnings per share are calculated by dividing income attributable to the Shareholders of the Company by the weighted average number of shares outstanding during the year, excluding shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company has two types of dilutive potential shares: stock options (Note 28) and convertible bonds (Note 26). The convertible bonds are assumed to have been converted into ordinary shares, and net income is adjusted to eliminate the interest expense less the tax effect. For the stock options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the stock options.



Components of the basic and diluted earnings per share calculations are presented in the table below:

|   | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| Net income (in EUR million), excluding the non-controlling interest   | 106                             | 360                             |
| • less, proposed grants to the General Partners   | (2)                             | (4)                             |
| Net income attributable to Shareholders of the Company used in the calculation of basic earnings per share              | 104                             | 356                             |
| • plus, interest expenses on convertible bonds  | -                               | -                               |
| Net income attributable to Shareholders of the Company used in the calculation of diluted earnings per share            | 104                             | 356                             |
| Weighted average number of shares (thousands of shares) outstanding used in the calculation of basic earnings per share | 146,184                         | 144,495                         |
| • plus, adjustment for stock options and convertible bonds  | 72                              | 183                             |
| Weighted average number of shares used in the calculation of diluted earnings per share                                 | 146,256                         | 144,678                         |
| <b>Earnings per share (in EUR)</b>  |                                 |                                 |
| • basic   | <b>0.71</b>                     | <b>2.46</b>                     |
| • diluted   | <b>0.71</b>                     | <b>2.46</b>                     |

Since the convertible bonds were antidilutive in 2008 and 2009, they have not been considered in the calculation of diluted earnings per share.

## NOTE 13 INTANGIBLE ASSETS

Changes in intangible assets are as follows:

| (in EUR million)                                 | Goodwill    | Other intangibles | Total        |
|--|-------------|-------------------|--------------|
| <b>GROSS CARRYING AMOUNTS</b>                    |             |                   |              |
| <b>At January 1, 2008</b>                        | <b>433</b>  | <b>779</b>        | <b>1,212</b> |
| Translation adjustments                          | (3)         | 2                 | (1)          |
| Additions  | 6           | 159               | 165          |
| Disposals  | (33)        | (6)               | (39)         |
| Changes in scope of consolidation                | -           | 1                 | 1            |
| Transfers and other                              | (2)         | 1                 | (1)          |
| <b>At December 31, 2008</b>                      | <b>401</b>  | <b>936</b>        | <b>1,337</b> |
| Translation adjustments                          | 1           | -                 | 1            |
| Additions  | 1           | 77                | 78           |
| Disposals  | -           | (22)              | (22)         |
| Changes in scope of consolidation                | -           | -                 | -            |
| Transfers and other                              | -           | 2                 | 2            |
| <b>At December 31, 2009</b>                      | <b>403</b>  | <b>993</b>        | <b>1,396</b> |
| <b>ACCUMULATED AMORTIZATION AND IMPAIRMENT</b>   |             |                   |              |
| <b>At January 1, 2008</b>                        | <b>(32)</b> | <b>(579)</b>      | <b>(611)</b> |
| Translation adjustments                          | (2)         | (2)               | (4)          |
| Amortization                                     | -           | (49)              | (49)         |
| Net impairment                                   | -           | -                 | -            |
| Disposals  | 33          | 4                 | 37           |
| Changes in scope of consolidation                | -           | -                 | -            |
| Transfers and other                              | 1           | -                 | 1            |
| <b>At December 31, 2008</b>                      | <b>-</b>    | <b>(626)</b>      | <b>(626)</b> |
| Translation adjustments                          | -           | (1)               | (1)          |
| Amortization                                     | -           | (53)              | (53)         |
| Net impairment                                   | -           | -                 | -            |
| Disposals  | -           | 8                 | 8            |
| Changes in scope of consolidation                | -           | -                 | -            |
| Transfers and other                              | -           | -                 | -            |
| <b>At December 31, 2009</b>                      | <b>-</b>    | <b>(672)</b>      | <b>(672)</b> |
| <b>NET CARRYING AMOUNTS AT DECEMBER 31, 2009</b> | <b>403</b>  | <b>321</b>        | <b>724</b>   |
| Net carrying amounts at December 31, 2008        | 401         | 310               | 711          |

● **13.1. GOODWILL**

The amounts allocated to the CGUs are as follows:

| <i>(in EUR million)</i>  | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| CGU Passenger car and light truck tires North America (including Mexico) | 99                | 109               |
| CGU Passenger car and light truck tires Asia                             | 102               | 101               |
| CGU Passenger car and light truck tires Other zones (including Europe)   | 70                | 61                |
| Other CGUs (including CGUs Truck tires)                                  | 132               | 130               |
| <b>GOODWILL</b>  | <b>403</b>        | <b>401</b>        |

No impairment has been recognized in 2009 and 2008. The analysis has been done taking into account the two main following assumptions:

- the terminal value measured with a 1.5% growth rate for the CGUs located in mature countries, and 3% growth rate for the CGUs located in emerging countries;
- the pre-tax discount rate used to discount the future cash flows of the CGUs ranged between 11% and 14%

In 2008, the terminal value was measured with any growth rate and the work capital was not included in the assets tested. The evolution of these application methods has no influence on the impairment testing conclusions.

Since the amount of goodwill is quite low compared to its total balance sheet or to its net equity, the Group does not disclose any sensitivity analysis to the main key assumptions.

● **13.2. OTHER INTANGIBLE ASSETS**

There are no other intangible assets with an indefinite useful life.

In 2009, additions to intangible assets, amounting to EUR 77 million (2008: EUR 159 million) break down into the following categories:

- Software EUR 64 million
- Emission rights – allowances granted EUR 7 million
- Other EUR 6 million

**13.2.1. Software**

The net carrying amount of software at December 31, 2009 was EUR 211 million (2008: EUR 192 million).

Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other cost directly attributable to the acquisition or production.

**13.2.2. Emission rights**

The allowances granted are recognized as an intangible asset at their price on the grant date. A government grant for the same amount is recognized in liabilities. The expense and the related liability for actual emissions and the income corresponding to the use of the government grant are accounted for using the price in force at the grant date. The balance of the rights granted at December 31, 2009 amounts to 2.5 million metric tons representing a value of EUR 36 million. The liability related to actual emissions in 2009 amounts to 1 million metric tons representing a value of EUR 15 million. It will be offset by the delivery of the allowances granted.

**13.2.3. Development costs**

In 2009 and 2008, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfill six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

● **13.3. IMPAIRMENT OF INTANGIBLE ASSETS**

Accumulated impairment losses on intangible assets at December 31, 2009 amounted to EUR 15 million (2008: EUR 15 million).



## NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

| <i>(in EUR million)</i>                          | Land and Buildings | Plant and Industrial Equipment | Other equipment | Total           |
|--|--------------------|--------------------------------|-----------------|-----------------|
| <b>GROSS CARRYING AMOUNTS</b>                    |                    |                                |                 |                 |
| <b>At January 1, 2008</b>                        | <b>3,938</b>       | <b>11,565</b>                  | <b>1,347</b>    | <b>16,850</b>   |
| Translation adjustments                          | (146)              | (297)                          | (45)            | (488)           |
| Additions  | 196                | 909                            | 65              | 1,170           |
| Disposals  | (34)               | (352)                          | (36)            | (422)           |
| Changes in scope of consolidation                | -                  | (2)                            | -               | (2)             |
| Transfers and other                              | (15)               | 7                              | -               | (8)             |
| <b>At December 31, 2008</b>                      | <b>3,939</b>       | <b>11,830</b>                  | <b>1,331</b>    | <b>17,100</b>   |
| Translation adjustments                          | 95                 | 241                            | 29              | 365             |
| Additions  | 104                | 462                            | 43              | 609             |
| Disposals  | (65)               | (566)                          | (87)            | (718)           |
| Changes in scope of consolidation                | 6                  | 8                              | 4               | 18              |
| Transfers and other                              | 2                  | 1                              | (9)             | (6)             |
| <b>At December 31, 2009</b>                      | <b>4,081</b>       | <b>11,976</b>                  | <b>1,311</b>    | <b>17,368</b>   |
| <b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>   |                    |                                |                 |                 |
| <b>At January 1, 2008</b>                        | <b>(1,806)</b>     | <b>(6,967)</b>                 | <b>(953)</b>    | <b>(9,726)</b>  |
| Translation adjustments                          | 49                 | 134                            | 34              | 217             |
| Depreciation                                     | (112)              | (695)                          | (71)            | (878)           |
| Net impairment                                   | -                  | (21)                           | (9)             | (30)            |
| Disposals  | 15                 | 317                            | 36              | 368             |
| Changes in scope of consolidation                | -                  | 2                              | -               | 2               |
| Transfers and other                              | -                  | (7)                            | -               | (7)             |
| <b>At December 31, 2008</b>                      | <b>(1,854)</b>     | <b>(7,237)</b>                 | <b>(963)</b>    | <b>(10,054)</b> |
| Translation adjustments                          | (33)               | (114)                          | (22)            | (169)           |
| Depreciation                                     | (114)              | (705)                          | (67)            | (886)           |
| Net impairment                                   | (35)               | (110)                          | (8)             | (153)           |
| Disposals  | 42                 | 562                            | 83              | 687             |
| Changes in scope of consolidation                | (1)                | (8)                            | (2)             | (11)            |
| Transfers and other                              | -                  | (3)                            | 3               | -               |
| <b>At December 31, 2009</b>                      | <b>(1,995)</b>     | <b>(7,615)</b>                 | <b>(976)</b>    | <b>(10,586)</b> |
| <b>NET CARRYING AMOUNTS AT DECEMBER 31, 2009</b> | <b>2,086</b>       | <b>4,361</b>                   | <b>335</b>      | <b>6,782</b>    |
| Net carrying amounts at December 31, 2008        | 2,085              | 4,593                          | 368             | 7,046           |

PP&E pledged as collateral amounted to EUR 40 million (2008: EUR 40 million) and PP&E under construction amounted to EUR 978 million (2008: EUR 1,013 million). No significant PP&E under construction has been stopped due to the economical crisis.

Accumulated impairment losses amounted to EUR 229 million (2008: EUR 150 million). The increase can be explained mainly by the non-recurring restructuring expenses.

The borrowing costs capitalized in PP&E is below EUR 1 million.

#### ● 14.1. FINANCE LEASES

Capitalized property, plant and equipment held under finance leases amounted to EUR 106 million (2008: EUR 133 million). The gross carrying amounts of these assets totaled EUR 138 million (2008: EUR 257 million).

The future minimum payments under finance leases by maturity are shown in the following table:

|  | December 31, 2009 |                    | December 31, 2008 |                    |
|--|-------------------|--------------------|-------------------|--------------------|
|  | Present value     | Undiscounted value | Present value     | Undiscounted value |
| <i>(in EUR million)</i>                        |                   |                    |                   |                    |
| Within one year                                | 12                | 15                 | 38                | 47                 |
| Between one and five years                     | 53                | 58                 | 81                | 100                |
| More than five years                           | 35                | 48                 | 59                | 77                 |
| <b>TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)</b> | <b>100</b>        | <b>121</b>         | <b>178</b>        | <b>224</b>         |

#### ● 14.2. OPERATING LEASES

Total operating lease rents recognized in the income statement in 2009 amounted to EUR 259 million (2008: EUR 251 million).

Future minimum payments under non-cancelable operating leases by maturity are as follows (not discounted):

|                                      | December 31, 2009 | December 31, 2008 |
|--------------------------------------|-------------------|-------------------|
| <i>(in EUR million)</i>              |                   |                   |
| Within one year                      | 139               | 139               |
| Between one and five years           | 330               | 284               |
| More than five years                 | 105               | 113               |
| <b>TOTAL FUTURE MINIMUM PAYMENTS</b> | <b>574</b>        | <b>536</b>        |

### NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the non-current financial assets and other assets is analyzed in the table below:

| <i>(in EUR million)</i>  | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Available-for-sale financial assets (Note 15.1)                                    | 321               | 218               |
| Loans and deposits (Note 15.2)   | 107               | 140               |
| Derivative instruments (Note 16.1)   | 39                | 8                 |
| Other  | 10                | 11                |
| <b>Financial assets</b>  | <b>477</b>        | <b>377</b>        |
| <b>Other non-current assets – Defined benefit plans – plan surpluses (Note 27)</b> | <b>235</b>        | <b>5</b>          |
| <b>NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS</b>                               | <b>712</b>        | <b>382</b>        |

#### ● 15.1. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets consist essentially of a portfolio of equities, which are mostly quoted on a stock exchange.

Movements in the portfolio during the year are broken down in the table below:

| <i>(in EUR million)</i> | 2009       | 2008       |
|-------------------------|------------|------------|
| <b>At January 1</b>     | <b>218</b> | <b>265</b> |
| Translation adjustments | (2)        | 19         |
| Additions               | 6          | 63         |
| Disposals               | (32)       | (5)        |
| Fair value changes      | 131        | (124)      |
| <b>AT DECEMBER 31</b>   | <b>321</b> | <b>218</b> |

No significant available-for-sale financial asset has a book value below its historical cost.

The portfolio by currency can be broken down as follows:

| <i>(in EUR million)</i> | December 31, 2009 | December 31, 2008 |
|-------------------------|-------------------|-------------------|
| KRW                     | 230               | 131               |
| EUR                     | 57                | 66                |
| USD                     | 21                | -                 |
| Other currencies        | 13                | 21                |
| <b>TOTAL</b>            | <b>321</b>        | <b>218</b>        |

## 15.2. LOANS AND DEPOSITS

The carrying amount of loans and deposits is analyzed in the table below:

| <i>(in EUR million)</i>          | December 31, 2009 | December 31, 2008 |
|----------------------------------|-------------------|-------------------|
| Gross loans and deposits         | 330               | 229               |
| • Less impairment                | (65)              | (65)              |
| <b>Net loans and deposits</b>    | <b>265</b>        | <b>164</b>        |
| • Less current portion (Note 21) | (158)             | (24)              |
| <b>NON-CURRENT PORTION</b>       | <b>107</b>        | <b>140</b>        |

The breakdown by currency and maturity is presented in the table below:

| <i>(in EUR million)</i> | December 31, 2009 |                            |                      |            | December 31, 2008 |                            |                      |            |
|-------------------------|-------------------|----------------------------|----------------------|------------|-------------------|----------------------------|----------------------|------------|
|                         | Within one year   | Between one and five years | More than five years | Total      | Within one year   | Between one and five years | More than five years | Total      |
| EUR                     | 139               | 59                         | 20                   | <b>218</b> | 19                | 71                         | 33                   | <b>123</b> |
| GBP                     | 14                | 3                          | -                    | <b>17</b>  | 1                 | 15                         | -                    | <b>16</b>  |
| USD                     | 1                 | 4                          | -                    | <b>5</b>   | 14                | 6                          | -                    | <b>20</b>  |
| Other                   | 4                 | 21                         | -                    | <b>25</b>  | (10)              | 15                         | -                    | <b>5</b>   |
| <b>TOTAL</b>            | <b>158</b>        | <b>87</b>                  | <b>20</b>            | <b>265</b> | <b>24</b>         | <b>107</b>                 | <b>33</b>            | <b>164</b> |

## 15.3. LOANS AND DEPOSITS

The following table presents the Group assets and liabilities that are measured at fair value at December 31, 2009 by level of the fair value measurement hierarchy:

| <i>(in EUR million)</i>              | Level 1    | Level 2   | Level 3   | Total      |
|--------------------------------------|------------|-----------|-----------|------------|
| Derivatives (Note 16.1)              | -          | 46        | -         | 46         |
| Available-for-sales financial assets | 253        | -         | 68        | 321        |
| <b>TOTAL ASSETS</b>                  | <b>253</b> | <b>46</b> | <b>68</b> | <b>367</b> |
| Derivatives (Note 16.2)              | -          | 69        | -         | 69         |
| <b>TOTAL LIABILITIES</b>             | <b>-</b>   | <b>69</b> | <b>-</b>  | <b>69</b>  |

There has been no significant transfer during the year between the level 1 and the level 2.

Loans and deposits consist mainly of investment in money market funds for EUR 120 million (2008: nil) as well as bank deposits of more than three months and loans to employees and customers.

At December 31, 2009 the effective interest rate was 0.99% (2008: 0.97%).

The following table presents the changes in level 3 instruments for the year ended December 31, 2009:

| <i>(in EUR million)</i>   |           |
|---|-----------|
| <b>At January 1, 2009</b>   | <b>47</b> |
| Additions   | 6         |
| Disposals   | (6)       |
| Transfers from other levels into level 3                                | -         |
| Transfers from level 3 to other levels                                  | -         |
| Gains or losses for the year included in the net income                 | -         |
| Gains or losses for the year included in the other comprehensive income | 21        |
| <b>AT DECEMBER 31, 2009</b>   | <b>68</b> |

## NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in Note 3.5, some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

### 16.1. DERIVATIVES RECOGNIZED IN ASSETS

| <i>(in EUR million)</i>  | December 31, 2009 |                     | December 31, 2008 |                     |
|--|-------------------|---------------------|-------------------|---------------------|
|  | Fair values       | Contractual amounts | Fair values       | Contractual amounts |
| Interest-rate derivatives qualifying as fair value hedges                        | 22                | 810                 | 13                | 280                 |
| Derivatives not qualifying for hedge accounting                                  |                   |                     |                   |                     |
| • Currency derivatives   | 16                | 610                 | 141               | 2,002               |
| • Interest-rate derivatives  | 2                 | 223                 | 3                 | 227                 |
| • Other derivatives  | 6                 | 100                 | -                 | -                   |
| <b>Derivatives recognized in assets (Notes 15.3 and 26)</b>                      | <b>46</b>         | <b>1,743</b>        | <b>157</b>        | <b>2,509</b>        |
| Interest-rate derivatives qualifying as fair value hedges                        | (22)              | (810)               | (5)               | (60)                |
| Derivatives not qualifying for hedge accounting                                  |                   |                     |                   |                     |
| • Currency derivatives   | (11)              | (300)               | -                 | -                   |
| • Interest-rate derivatives  | -                 | (69)                | (3)               | (227)               |
| • Other derivatives  | (6)               | (100)               | -                 | -                   |
| <b>Less long-term portion included in non-current financial assets (Note 15)</b> | <b>(39)</b>       | <b>(1,279)</b>      | <b>(8)</b>        | <b>(287)</b>        |
| <b>SHORT-TERM PORTION INCLUDED IN CURRENT FINANCIAL ASSETS (NOTE 21)</b>         | <b>7</b>          | <b>464</b>          | <b>149</b>        | <b>2,222</b>        |

### 16.2. DERIVATIVES RECOGNIZED IN LIABILITIES

| <i>(in EUR million)</i>   | December 31, 2009 |                     | December 31, 2008 |                     |
|---|-------------------|---------------------|-------------------|---------------------|
|   | Fair values       | Contractual amounts | Fair values       | Contractual amounts |
| Interest-rate derivatives qualifying as cash flow hedges                              | -                 | -                   | 4                 | 61                  |
| Derivatives not qualifying for hedge accounting                                       |                   |                     |                   |                     |
| • Currency derivatives  | 18                | 1,955               | 2                 | 54                  |
| • Interest-rate derivatives   | 51                | 1,137               | 32                | 962                 |
| <b>Derivatives recognized in liabilities (Note 15.3)</b>                              | <b>69</b>         | <b>3,092</b>        | <b>38</b>         | <b>1,077</b>        |
| Interest-rate derivatives qualifying as cash flow hedges                              | -                 | -                   | (4)               | (61)                |
| Interest-rate derivatives not qualifying for hedge accounting                         | (34)              | (943)               | (30)              | (820)               |
| <b>Less long-term portion included in non-current financial liabilities (Note 26)</b> | <b>(34)</b>       | <b>(943)</b>        | <b>(34)</b>       | <b>(881)</b>        |
| <b>SHORT-TERM PORTION INCLUDED IN CURRENT FINANCIAL LIABILITIES (NOTE 26)</b>         | <b>35</b>         | <b>2,149</b>        | <b>4</b>          | <b>196</b>          |



The contractual amounts of forward exchange contracts are presented by currency in the table below:

| (in EUR million)         | December 31, 2009            |            |            |            |           |           |           |              | December 31, 2008            |          |            |           |           |           |            |              |
|--------------------------|------------------------------|------------|------------|------------|-----------|-----------|-----------|--------------|------------------------------|----------|------------|-----------|-----------|-----------|------------|--------------|
|                          | Currencies purchased forward |            |            |            |           |           |           |              | Currencies purchased forward |          |            |           |           |           |            |              |
|                          | EUR                          | JPY        | USD        | PLN        | THB       | BRL       | Other     | Total        | EUR                          | JPY      | USD        | PLN       | THB       | BRL       | Other      | Total        |
| Currencies sold forward: |                              |            |            |            |           |           |           |              |                              |          |            |           |           |           |            |              |
| USD                      | 487                          | 9          | -          | 2          | 64        | 18        | 75        | 655          | 283                          | 3        | -          | -         | 83        | 10        | 205        | 584          |
| PLN                      | 332                          | -          | -          | -          | -         | -         | -         | 332          | 367                          | -        | -          | -         | -         | -         | -          | 367          |
| JPY                      | 253                          | -          | -          | -          | 1         | -         | -         | 254          | 179                          | -        | -          | -         | -         | -         | -          | 179          |
| THB                      | 8                            | 216        | 17         | -          | -         | -         | -         | 241          | 197                          | -        | 22         | -         | -         | -         | -          | 219          |
| EUR                      | -                            | -          | -          | 114        | 5         | 19        | 19        | 157          | -                            | -        | -          | 19        | 3         | -         | 13         | 35           |
| HUF                      | 137                          | -          | -          | -          | -         | -         | -         | 137          | 54                           | -        | 1          | -         | -         | -         | -          | 55           |
| Other                    | 295                          | -          | 190        | -          | 3         | 1         | -         | 489          | 409                          | 2        | 171        | 3         | 3         | -         | 8          | 596          |
| <b>TOTAL</b>             | <b>1,512</b>                 | <b>225</b> | <b>207</b> | <b>116</b> | <b>73</b> | <b>38</b> | <b>94</b> | <b>2,265</b> | <b>1,489</b>                 | <b>5</b> | <b>194</b> | <b>22</b> | <b>89</b> | <b>10</b> | <b>226</b> | <b>2,035</b> |

The contractual amounts of other derivative financial instruments are presented by currency in the table below:

| (in EUR million)   | December 31, 2009 |              |            |              | December 31, 2008 |              |            |              |
|--|-------------------|--------------|------------|--------------|-------------------|--------------|------------|--------------|
|  | EUR               | USD          | THB        | Total        | EUR               | USD          | THB        | Total        |
| Interest-rate derivatives (including cross currency swaps) | 1,114             | 1,106        | 250        | 2,470        | 284               | 1,002        | 244        | 1,530        |
| Other derivatives  | 100               | -            | -          | 100          | -                 | -            | -          | -            |
| <b>TOTAL</b>   | <b>1,214</b>      | <b>1,106</b> | <b>250</b> | <b>2,570</b> | <b>284</b>        | <b>1,002</b> | <b>244</b> | <b>1,530</b> |

## NOTE 17 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures of EUR 71 million (2008: EUR 65 million) include essentially MC Projects B.V. in the Netherlands, SIPH Group in France and Elemica Inc. in the United States of America.

The associates and joint ventures' financial statements include the following amounts:

| (in EUR million) | 2009 | 2008 |
|------------------|------|------|
| Assets           | 430  | 433  |
| Liabilities      | 166  | 186  |
| Net sales        | 476  | 777  |
| Net income       | 24   | 33   |

## NOTE 18 DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes in the balance sheet are as follows:

| (in EUR million)              | December 31, 2009 | December 31, 2008 |
|-------------------------------|-------------------|-------------------|
| Deferred tax assets           | 942               | 896               |
| Deferred tax liabilities      | (40)              | (39)              |
| <b>NET DEFERRED TAX ASSET</b> | <b>902</b>        | <b>857</b>        |

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

| (in EUR million)  | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Intangible assets   | 25                | 31                |
| Financial instruments   | 128               | 107               |
| Inventories   | 50                | 41                |
| Receivables/payables  | 113               | 180               |
| Employee benefits   | 693               | 764               |
| Provisions  | 99                | 108               |
| Unused tax losses   | 168               | 101               |
| Unused tax credits  | (12)              | (25)              |
| <b>Deferred tax assets by type of temporary difference</b>      | <b>1,264</b>      | <b>1,307</b>      |
| Property, plant and equipment                                   | (362)             | (450)             |
| <b>Deferred tax liabilities by type of temporary difference</b> | <b>(362)</b>      | <b>(450)</b>      |
| <b>NET DEFERRED TAX ASSET</b>                                   | <b>902</b>        | <b>857</b>        |

The change in the net deferred tax asset over the year is as follows:

| (in EUR million)                        | 2009       | 2008       |
|---|------------|------------|
| <b>At January 1</b>                     | <b>857</b> | <b>865</b> |
| Translation adjustments                 | 15         | (12)       |
| Deferred tax income/(expense) (Note 11) | 22         | 9          |
| Tax recognized in equity                | 8          | (1)        |
| Other                                   | -          | (4)        |
| <b>AT DECEMBER 31</b>                   | <b>902</b> | <b>857</b> |

The deferred income tax recognized in equity is as follows:

| (in EUR million)  | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Available-for-sale financial assets (statement of comprehensive income) | (8)               | -                 |
| Compound financial instruments (convertible bond)                       | (16)              | (16)              |
| <b>TOTAL DEFERRED TAX INCOME RECOGNIZED IN EQUITY</b>                   | <b>(24)</b>       | <b>(16)</b>       |

(-) means a negative effect on equity.

Deferred tax assets are recognized to the extent that the realization of future taxable profits is probable and will offset tax losses carried forward and deductible temporary differences.

The main deferred tax asset recognized in 2009 come from tax losses generated in France, mainly due to non recurrent expenses mentioned in the Note 9.

The detail of unrecognized deferred tax assets is as follows:

| (in EUR million)                              | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| <b>Deductible temporary differences</b>       | <b>92</b>         | <b>78</b>         |
| Tax losses                                    |                   |                   |
| • of which expiring in less than one year     | 5                 | 27                |
| • of which expiring between 1 to 5 years      | 62                | 39                |
| • of which expiring in more than 5 years      | 13                | 30                |
| • of which evergreen                          | 66                | 55                |
| <b>Total tax losses</b>                       | <b>146</b>        | <b>151</b>        |
| <b>Tax credits</b>                            | <b>62</b>         | <b>83</b>         |
| <b>TOTAL UNRECOGNIZED DEFERRED TAX ASSETS</b> | <b>300</b>        | <b>312</b>        |

## NOTE 19 INVENTORIES

Inventories include the following:

| (in EUR million)           | December 31, 2009 | December 31, 2008 |
|----------------------------|-------------------|-------------------|
| Raw materials and supplies | 801               | 975               |
| Work in progress           | 241               | 272               |
| Finished goods             | 2,058             | 2,549             |
| Less write-downs           | (106)             | (119)             |
| <b>NET INVENTORY</b>       | <b>2,994</b>      | <b>3,677</b>      |

Sub-activity reduces the inventory balance and increases the operating expenses in « cost of sales ». The expense amounts to EUR 405 million for the year ended December 31, 2009 (2008: EUR 224 million). The impact of sub-activity in the inventory balance at December 31, 2009 is estimated at EUR 85 million (2008: EUR 224 million).

When the actual production is at a level which may have a significant impact on the measurement of the inventories, an assessment of sub activity is carried out. The amount of sub activity is determined as the proportion of fixed production overheads not absorbed by the actual production, when compared to a normal capacity of production. The coefficients of charge variability are periodically revised to take into account of the changes of the fixed overheads level.

Movements in inventory write-downs were as follows:

| <i>(in EUR million)</i>   | 2009         | 2008         |
|---|--------------|--------------|
| <b>At January 1</b>   | <b>(119)</b> | <b>(110)</b> |
| Translation adjustments and other                                 | (2)          | 3            |
| Write-downs of inventories recognized as an expense in the period | (91)         | (72)         |
| Reversals of write-downs  | 106          | 60           |
| <b>AT DECEMBER 31</b>   | <b>(106)</b> | <b>(119)</b> |

Inventory write-downs relate to the following categories of inventories:

- raw materials and supplies EUR 38 million (2008: EUR 37 million)
- work in progress EUR 1 million (2008: EUR 1 million)
- finished products EUR 67 million (2008: EUR 81 million)

Facing the consequences of the current economic crisis, the Group periodically carries out net realizable value assessments of the products held in its inventories. The assumptions used to estimate the selling price of the products include the market evolution, the clearance sale of our distributors, the margin observed and the level of finished products held in the inventories.

## NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

| <i>(in EUR million)</i>  | December 31, 2009 | December 31, 2008 |
|--------------------------|-------------------|-------------------|
| Gross trade receivables  | 2,442             | 2,586             |
| Impairment               | (128)             | (130)             |
| <b>TRADE RECEIVABLES</b> | <b>2,314</b>      | <b>2,456</b>      |

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2009:

| <i>(in EUR million)</i>          | Gross        | Impairment   | Net          |
|----------------------------------|--------------|--------------|--------------|
| <b>Current trade receivables</b> | <b>2,152</b> | <b>(44)</b>  | <b>2,108</b> |
| Overdue                          |              |              |              |
| • from less than 3 months        | 185          | (4)          | 181          |
| • between 3 and 6 months         | 32           | (7)          | 25           |
| • from more than 6 months        | 73           | (73)         | -            |
| <b>Overdue trade receivables</b> | <b>290</b>   | <b>(84)</b>  | <b>206</b>   |
| <b>TRADE RECEIVABLES</b>         | <b>2,442</b> | <b>(128)</b> | <b>2,314</b> |

Movements in impairment are broken down in the table below:

| <i>(in EUR million)</i> | 2009         | 2008         |
|-------------------------|--------------|--------------|
| <b>At January 1</b>     | <b>(130)</b> | <b>(96)</b>  |
| Translation adjustments | (1)          | 2            |
| Impairment charges      | (85)         | (74)         |
| Impairment reversals    | 88           | 38           |
| <b>AT DECEMBER 31</b>   | <b>(128)</b> | <b>(130)</b> |

Impairment reversals in 2009 include write-offs of EUR 39 million (2008: EUR 18 million).

The Group runs 3 separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be drawn from these programs amounts to EUR 758 million (2008: EUR 631 million). Since the Group has retained substantially all the risks and rewards of ownership, the ownership interests in the trade receivable portfolios sold by the European and North American subsidiaries have not been derecognized and the financing received from the financial institutions, amounting to EUR 594 million as at December 31, 2009 (2008: EUR 627 million), has been accounted for as collateralized loans (Note 26.2). As at December 31, 2009, the programs provide overcollateralization of EUR 137 million (2008: EUR 132 million) to the financial institutions.

## NOTE 21 CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is broken down in the table below:

| (in EUR million)                   | December 31, 2009 | December 31, 2008 |
|------------------------------------|-------------------|-------------------|
| Loans and deposits (Note 15.2)     | 158               | 24                |
| Derivative instruments (Note 16.1) | 7                 | 149               |
| <b>CURRENT FINANCIAL ASSETS</b>    | <b>165</b>        | <b>173</b>        |

## NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is analyzed in the table below:

| (in EUR million)               | December 31, 2009 | December 31, 2008 |
|--------------------------------|-------------------|-------------------|
| Suppliers                      | 75                | 112               |
| Current tax – Advance payments | 99                | 152               |
| Other tax receivables          | 260               | 337               |
| Other                          | 159               | 140               |
| Less impairment                | (10)              | (9)               |
| <b>OTHER CURRENT ASSETS</b>    | <b>583</b>        | <b>732</b>        |

Other tax receivables mainly relate to VAT.

## NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

| (in EUR million)   | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Cash at bank and in hand   | 193               | 169               |
| Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially) | 1,038             | 287               |
| <b>CASH AND CASH EQUIVALENTS</b>   | <b>1,231</b>      | <b>456</b>        |

As mentioned in Note 3.20, the Group reclassified in 2009 its bank overdrafts from cash and cash equivalents to current financial liabilities (loans from financial institutions and other).

The 2008 balance, which is included in cash at bank and in hand and which amounts to EUR 136 million, have not been reclassified in the table above.

The effective interest rate on short-term bank deposits was 1.23% in 2009 (2008: 3.17%).

Cash and cash equivalents are denominated in the following currencies:

| (in EUR million)                 | December 31, 2009 | December 31, 2008 |
|----------------------------------|-------------------|-------------------|
| EUR                              | 835               | 310               |
| USD                              | 215               | 105               |
| BRL                              | 44                | 3                 |
| CAD                              | 37                | 2                 |
| Other                            | 100               | 36                |
| <b>CASH AND CASH EQUIVALENTS</b> | <b>1,231</b>      | <b>456</b>        |

## NOTE 24 SHARE CAPITAL AND PREMIUMS

| (in EUR million)  | Share capital | Share premiums | Total        |
|---|---------------|----------------|--------------|
| <b>At January 1, 2008: 143,999,169 shares outstanding</b>   | <b>288</b>    | <b>1,885</b>   | <b>2,173</b> |
| Employee stock option and share purchase plans              |               |                |              |
| • proceeds from 998,253 shares issued                       | 2             | 34             | 36           |
| • cost of services rendered                                 | –             | 25             | 25           |
| <b>At December 31, 2008: 144,997,422 shares outstanding</b> | <b>290</b>    | <b>1,944</b>   | <b>2,234</b> |
| Issuance of 2,371,623 shares                                | 5             | 75             | 80           |
| Issuance of 67,312 shares from the service of share option  | –             | 2              | 2            |
| Other   | –             | (34)           | (34)         |
| <b>AT DECEMBER 31, 2009: 147,436,357 SHARES OUTSTANDING</b> | <b>295</b>    | <b>1,987</b>   | <b>2,282</b> |

The par value per share amounts to EUR 2 (2008: EUR 2 per share). All outstanding shares are fully paid and registered. Shares held for more than 4 years have a double voting right.

In 2009, the cumulated amount of the cost of services rendered related to the stock option plans and to the stock purchase plan (EUR 34 million previously presented in share premiums) is reclassified in the retained earnings (Note 25).

## NOTE 25 RESERVES

(in EUR million)

|   | Translation reserve | Other reserves | Retained earnings | Total        |
|---|---------------------|----------------|-------------------|--------------|
| <b>At January 1, 2008</b>   | <b>(58)</b>         | <b>191</b>     | <b>2,976</b>      | <b>3,109</b> |
| Dividends and other allocations   | -                   | -              | (240)             | (240)        |
| Other   | -                   | (1)            | -                 | (1)          |
| Tax effect  | -                   | -              | -                 | -            |
| <b>Transaction with Shareholders of the Company</b>                                       | <b>-</b>            | <b>(1)</b>     | <b>(240)</b>      | <b>(241)</b> |
| Net income attributable to Shareholders of the Company                                    | -                   | -              | 360               | 360          |
| Available-for-sale financial assets - unrealized gain/(loss)                              | -                   | (109)          | -                 | (109)        |
| Changes in fair value of cash flow hedges   | -                   | (4)            | -                 | (4)          |
| Stock option plans – cost of services rendered  | -                   | -              | 10                | 10           |
| Stock purchase plan – cost of services rendered   | -                   | -              | 15                | 15           |
| Currency translation differences  | (242)               | -              | -                 | (242)        |
| Other   | -                   | 1              | (25)              | (24)         |
| Tax effect  | -                   | -              | -                 | -            |
| <b>Comprehensive income</b>   | <b>(242)</b>        | <b>(112)</b>   | <b>360</b>        | <b>6</b>     |
| <b>At December 31, 2008</b>   | <b>(300)</b>        | <b>78</b>      | <b>3,096</b>      | <b>2,874</b> |
| Dividends and other allocations   | -                   | -              | (150)             | (150)        |
| Other (Note 24)   | -                   | (1)            | 34                | 33           |
| Tax effect  | -                   | -              | -                 | -            |
| <b>Transaction with Shareholders of the Company</b>                                       | <b>-</b>            | <b>(1)</b>     | <b>(116)</b>      | <b>(117)</b> |
| Net income attributable to Shareholders of the Company                                    | -                   | -              | 106               | 106          |
| Available-for-sale financial assets - unrealized gain/(loss)                              | -                   | 131            | -                 | 131          |
| Available-for-sale financial assets – realized (gain)/loss recognized in income statement | -                   | (5)            | -                 | (5)          |
| Changes in fair value of cash flow hedges   | -                   | 4              | -                 | 4            |
| Stock option plans - cost of services rendered  | -                   | -              | 10                | 10           |
| Currency translation differences  | 216                 | -              | -                 | 216          |
| Other   | -                   | -              | (1)               | (1)          |
| Tax effect  | -                   | (8)            | -                 | (8)          |
| <b>Comprehensive income</b>   | <b>216</b>          | <b>122</b>     | <b>115</b>        | <b>453</b>   |
| <b>AT DECEMBER 31, 2009</b>   | <b>(84)</b>         | <b>199</b>     | <b>3,095</b>      | <b>3,210</b> |

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## NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

| <i>(in EUR million)</i>                     | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Bonds                                       | 2,158             | 1,501             |
| Loans from financial institutions and other | 1,288             | 1,771             |
| Finance lease liabilities (Note 14)         | 88                | 140               |
| Derivative instruments (Note 16.2)          | 34                | 34                |
| <b>Non-current financial liabilities</b>    | <b>3,568</b>      | <b>3,446</b>      |
| Bonds and commercial paper                  | 185               | 763               |
| Loans from financial institutions and other | 528               | 635               |
| Finance lease liabilities (Note 14)         | 12                | 38                |
| Derivative instruments (Note 16.2)          | 35                | 4                 |
| <b>Current financial liabilities</b>        | <b>760</b>        | <b>1,440</b>      |
| <b>FINANCIAL LIABILITIES</b>                | <b>4,328</b>      | <b>4,886</b>      |

As mentioned in Note 3.20, the Group reclassified in 2009 its bank overdrafts (EUR 44 million) from cash and cash equivalents to current financial liabilities (loans from financial institutions and other). The 2008 balance, which is included in cash at bank and in hand and which amounts to EUR 136 million, have not been reclassified in the loans from financial institutions and other in the table above.

The Group net debt is analyzed in the table below:

| <i>(in EUR million)</i>                      | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Financial liabilities                        | 4,328             | 4,886             |
| Derivatives recognized as assets (Note 16.1) | (46)              | (157)             |
| Cash and cash equivalents (Note 23)          | (1,231)           | (456)             |
| <b>NET DEBT</b>                              | <b>3,051</b>      | <b>4,273</b>      |

The fair value of non-current financial liabilities, calculated in accordance with Note 3, is presented in the table below:

| <i>(in EUR million)</i>                                | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| Bonds  | 2,454             | 1,472             |
| Loans from financial institutions and other            | 1,288             | 1,778             |
| Finance lease liabilities                              | 88                | 143               |
| Derivative instruments                                 | 34                | 34                |
| <b>FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES</b> | <b>3,864</b>      | <b>3,427</b>      |

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## ● 26.1. BONDS AND COMMERCIAL PAPER

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

| Description  | Effective interest rates at December 31, 2009 | Carrying amount (in EUR million) |              |                   |              |
|--|---|----------------------------------|--------------|-------------------|--------------|
|  |   | December 31, 2009                |              | December 31, 2008 |              |
|  |   | Current                          | Non-current  | Current           | Non-current  |
| Subordinated bonds issued by Compagnie Générale des Etablissements Michelin <ul style="list-style-type: none"> <li>nominal value of EUR 231 million (2008: EUR 353 million)</li> <li>issued in December 2003 and due in December 2033, unless the Group elects to redeem them earlier between December 2013 and maturity</li> <li>nominal interest rate of 6.375% until December 2013 and 3-month Euribor +2.95% thereafter</li> <li>option to defer coupon payments when the Company does not distribute dividends</li> <li>partially hedged through a EUR 60 million interest rate swap (2008: EUR 60 million) expiring in December 2013 (fair value hedge) (Note 16)</li> </ul> | 6.60%<br>(5.49%) <sup>(1)</sup>               | -                                | 233          | -                 | 355          |
| Liability component of zero-coupon convertible bonds (Océanes) issued by Compagnie Générale des Etablissements Michelin <ul style="list-style-type: none"> <li>net proceeds received of EUR 694 million</li> <li>annual gross yield of 3.07%</li> <li>conversion and/or exchange ratio of 1 bond for 1 ordinary share</li> <li>issued in March 2007 and due in January 2017</li> <li>amount redeemable at maturity date: EUR 941 million</li> </ul>  | 4.67%   | -                                | 679          | -                 | 648          |
| Bonds issued by Michelin Luxembourg SCS <ul style="list-style-type: none"> <li>nominal value of EUR 750 million</li> <li>issued in April 2009 and due in April 2014</li> <li>nominal interest rate of 8.625%</li> <li>step-up of 125bp if downgraded below investment grade by at least one rating agency</li> <li>partially hedged through a EUR 750 million interest rate swaps (2008: EUR zero million) expiring in April 2014 (fair value hedge) (Note 16)</li> </ul>  | 8.88%<br>(6.99%) <sup>(1)</sup>               | -                                | 747          | -                 | -            |
| Bonds issued by Michelin Luxembourg SCS <ul style="list-style-type: none"> <li>nominal value of EUR 500 million (2008: EUR 500 million)</li> <li>issued in April 2002 and due in April 2012</li> <li>nominal interest rate of 6.5%</li> </ul>  | 6.63%   | -                                | 499          | -                 | 498          |
| Commercial paper issued by Compagnie Générale des Etablissements Michelin <ul style="list-style-type: none"> <li>nominal value of EUR 185 million (2008: EUR 294 million)</li> </ul>   | 0.65%   | 185                              | -            | 292               | -            |
| <b>WEIGHTED AVERAGE EFFECTIVE INTEREST RATE AND TOTAL CARRYING AMOUNTS</b>   | <b>6.31%<br/>(5.59%)<sup>(1)</sup></b>        | <b>185</b>                       | <b>2,158</b> | <b>292</b>        | <b>1,501</b> |

(1) After hedging.



## 26.2. LOANS FROM FINANCIAL INSTITUTIONS AND OTHER

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in Note 20 and liabilities arising from put options granted to minority shareholders of subsidiaries.

Loans from financial institutions and other at December 31, 2009 have the characteristics mentioned in the tables below (before hedging):

| <i>(in EUR million)</i>                            | EUR          | THB          | USD          | CNY          | DZD          | COP          | Other         | Total        |
|--|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|
| Fixed rates  | 1            | -            | -            | -            | -            | -            | -             | 1            |
| Floating rates                                     | 1,230        | 195          | 175          | 110          | 31           | 30           | 44            | 1,815        |
| <b>LOANS FROM FINANCIAL INSTITUTIONS AND OTHER</b> | <b>1,231</b> | <b>195</b>   | <b>175</b>   | <b>110</b>   | <b>31</b>    | <b>30</b>    | <b>44</b>     | <b>1,816</b> |
| <b>Weighted average effective interest rate</b>    | <b>2.47%</b> | <b>3.29%</b> | <b>2.56%</b> | <b>5.26%</b> | <b>3.66%</b> | <b>3.47%</b> | <b>12.17%</b> | <b>3.96%</b> |

The exposure of loans from financial institutions and other to interest rate changes and the contractual repricing dates are as follows:

| <i>(in EUR million)</i>                            | December 31, 2009 | December 31, 2008 |
|--|-------------------|-------------------|
| 6 months or less                                   | 1,815             | 2,250             |
| 6-12 months  | -                 | 24                |
| 1-5 years  | 1                 | 91                |
| Over 5 years                                       | -                 | 41                |
| <b>LOANS FROM FINANCIAL INSTITUTIONS AND OTHER</b> | <b>1,816</b>      | <b>2,406</b>      |

## 26.3. RATING

At December 31, 2009, the corporate credit ratings sought by the Group are as follows:

|                   |                   | CGEM     | CFM      |
|-------------------|-------------------|----------|----------|
| <b>Short-term</b> | Standard & Poor's | A-3      | A-3      |
|                   | Moody's           | P-2      | P-2      |
| <b>Long-term</b>  | Standard & Poor's | BBB      | BBB      |
|                   | Moody's           | Baa2     | Baa2     |
| <b>Outlook</b>    | Standard & Poor's | Negative | Negative |
|                   | Moody's           | Stable   | Stable   |

In 2009, credit ratings remain unchanged.

## NOTE 27 EMPLOYEE BENEFITS

According to the laws and regulations applicable in each country, the Group contributes to pension, insurance, healthcare and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary and contributions to general insurance schemes.

Such plans can be either defined benefit plans or defined contribution plans. In the case of defined benefit plans, Group commitments are measured using the Projected Credit Unit method. In the case of defined contribution plans, liabilities correspond to the contributions due.

### 27.1. DEFINED BENEFIT PLANS

In addition to mandatory social insurance plans, the Group has introduced a number of retirement plans and retiree healthcare plans as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the iBoxx indexes having the same maturities as the liabilities. These rates are compared with other sources of information as Reuters or Bloomberg and the actuaries own benchmarks. If there is a large gap between these sources, the reference rate taken from iBoxx is adjusted. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size up to three rates can be used depending on the steepness of the yield curve. The discount rate in the USA is based on the actuary's Above Median yield curve rates adjusted to reflect the maturities of the liabilities. The discount rate in Canada is based on the PCBond Canadian Corporate Aa Bond full yield curve rates adjusted to reflect the maturities of the liabilities.

The mortality tables used for the pension plans which are funded through insured contracts are the insurers' tables. For the other post retirement main plans the following tables have been used: (i) USA: RP-2000 Static Mortality Table (Nonannuitants projected to 2024 with Scale AA;

Annuitants projected to 2016 with Scale AA); (ii) Canada 1994 UP projected 10 years to 2004; (iii) UK: Generational PMA92 mc + 3yrs and (iv) Germany Heubeck RT 2005 G.

The financial position of the main defined benefit plans is summarized below:

| <i>(in EUR million)</i>                                | Pension plans | Other plans  | December 31, 2009 | December 31, 2008 |
|--|---------------|--------------|-------------------|-------------------|
| Present value of fully or partly funded obligations    | 4,923         | -            | 4,923             | 4,067             |
| Fair value of plan assets                              | (3,867)       | -            | (3,867)           | (3,200)           |
| <b>Funded status deficit/(surplus)</b>                 | <b>1,056</b>  | -            | <b>1,056</b>      | <b>867</b>        |
| Present value of unfunded obligations                  | 565           | 1,491        | 2,056             | 1,963             |
| Unrecognized past service cost                         | (1)           | 66           | 65                | 63                |
| Unrecognized actuarial gains and losses                | (1,026)       | (17)         | (1,043)           | (452)             |
| Unrecognized asset due to application of asset ceiling | 5             | -            | 5                 | 2                 |
| <b>NET DEFINED BENEFIT OBLIGATION</b>                  | <b>599</b>    | <b>1,540</b> | <b>2,139</b>      | <b>2,443</b>      |
| Amounts recognized in the balance sheet:               |               |              |                   |                   |
| • Plan surpluses (Note 15)                             |               |              | (235)             | (5)               |
| • Liabilities  |               |              | 2,374             | 2,448             |
| <b>NET LIABILITY</b>                                   |               |              | <b>2,139</b>      | <b>2,443</b>      |

Unrecognized actuarial gains and losses (corresponding to changes in the present value of projected defined benefit obligations or the fair value of defined benefit plan assets) arise primarily from:

- changes in long-term actuarial assumptions such as inflation rate, discount rate, future salary levels and mortality tables; and
- differences between actuarial assumptions and actual experience.

Unrecognized past service cost corresponds to the value of rights that do not vest immediately when a plan amendment or a new plan is introduced.

The Group does not recognize as an asset any surplus in excess of the sum of (a) cumulative unrecognized net actuarial losses and past service cost and (b) the present value of any economic

benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

At December 31, 2009, unrecognized actuarial losses amounted to EUR 1,043 million (2008: EUR 452 million) and unrecognized past service cost amounted to EUR 65 million (2008: EUR 63 million).

At December 31, 2009, the application of the asset ceiling led the Group not to recognize an asset for an amount of EUR 5 million (2008: EUR 2 million).

Movements in net defined benefit obligations recognized in the balance sheet:

| <i>(in EUR million)</i>   | Pension plans | Other plans  | 2009         | 2008         |
|---|---------------|--------------|--------------|--------------|
| <b>At January 1</b>   | <b>802</b>    | <b>1,641</b> | <b>2,443</b> | <b>2,563</b> |
| Translation adjustments   | 20            | 6            | 26           | (49)         |
| Expenses recognized in the income statement (recurring items) (Note 7)          | 137           | 116          | 253          | 170          |
| Contributions paid to the funds   | (362)         | -            | (362)        | (86)         |
| Benefits paid directly to the beneficiaries                                     | (24)          | (122)        | (146)        | (155)        |
| Portion of benefit expenses recognized within non-recurring restructuring costs | 24            | (99)         | (75)         | -            |
| Changes in scope of consolidation   | 2             | (2)          | -            | -            |
| <b>AT DECEMBER 31</b>   | <b>599</b>    | <b>1,540</b> | <b>2,139</b> | <b>2,443</b> |

In 2009, the net amount recognized in the consolidated income statement was an expense of EUR 178 million (2008: EUR 174 million), broken down as follows:

| <i>(in EUR million)</i>   | Pension plans | Other plans | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------|-------------|---------------------------------|---------------------------------|
| Cost of services rendered during the year                                       | 53            | 35          | 88                              | 115                             |
| Interest cost   | 308           | 93          | 401                             | 392                             |
| Expected return on plan assets  | (238)         | -           | (238)                           | (330)                           |
| Amortization of actuarial gains/losses during the year                          | 18            | 6           | 24                              | (3)                             |
| Past service cost recognized during the year                                    | 15            | -           | 15                              | (10)                            |
| Effect of plan curtailments and settlements                                     | (22)          | (18)        | (40)                            | 8                               |
| Effect of applying the asset ceiling  | 3             | -           | 3                               | 2                               |
| Portion of benefit expenses recognized within non-recurring restructuring costs | 24            | (99)        | (75)                            | -                               |
| <b>TOTAL RECORDED IN THE INCOME STATEMENT</b>                                   | <b>161</b>    | <b>17</b>   | <b>178</b>                      | <b>174</b>                      |

Annual charges are determined by independent actuaries at the beginning of each financial year based on the following factors:

- charge corresponding to acquisition of an additional year of rights (“cost of services rendered during the year”);
- charge corresponding to the discounting adjustment to reflect the reduction in the period until the benefits are due (“interest cost”);
- income corresponding to estimated return on plan assets (“expected return on plan assets”);
- income or charge from annual amortization of actuarial gains or losses (“amortization of actuarial gains/losses during the year”);
- gain/loss resulting from changes in plan benefits (“past service cost recognized during the year”);
- gain/loss resulting from the curtailment or settlement of any plans (curtailments and settlements);
- gain/loss resulting from the effect of applying the asset ceiling.

### 27.1.1. Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary. Such benefits are provided under defined benefit plans or defined contribution plans.

Under defined benefit plans, the Group guarantees the future level of benefits as provided by the plan regulations. The valuation of such defined benefit plans is carried out by independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds specialized in managing the contributions paid to them. In the case of unfunded plans such as German pension plans, a provision is made in the consolidated balance sheet. Defined post-employment benefit plans are mainly found in the United States of America, Canada and the United Kingdom. The future benefits paid by the above plans are generally based on years of service and average end-of-career salaries. Since 2004, Group defined benefit pension plans for

the employees of its North American and UK subsidiaries are gradually being phased out in favor of defined contribution pension plans for newly hired employees as well as for future accruals.

Under defined contribution plans, the Group obligation is limited to the payment of established contributions. This does not guarantee the future level of benefits. Annual charges correspond to

the contributions due during the year. Currently, Group defined contribution plans mainly consist of 401 K plans in the United States of America and the RRSP plan in Canada.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

| (in EUR million)   | 2009          |              |            |              | 2008          |              |            |              |
|--|---------------|--------------|------------|--------------|---------------|--------------|------------|--------------|
|  | North America | Europe       | Other      | Total        | North America | Europe       | Other      | Total        |
| Present value of the obligations at the beginning of the year                        | 2,360         | 2,180        | 24         | 4,564        | 2,664         | 2,889        | 27         | 5,580        |
| Translation adjustments  | 29            | 124          | 4          | 157          | (53)          | (496)        | (3)        | (552)        |
| Changes in scope of consolidation  | 2             | 16           | -          | 18           | -             | 1            | -          | 1            |
| Current service cost   | 28            | 16           | 1          | 45           | 32            | 36           | -          | 68           |
| Interest cost  | 166           | 137          | 2          | 305          | 150           | 131          | 1          | 282          |
| Plan reorganization costs generated during the year:                                 |               |              |            |              |               |              |            |              |
| • Immediately recognized in the income statement                                     | 9             | (16)         | 10         | 3            | 10            | -            | -          | 10           |
| • Unrecognized costs   | -             | -            | -          | -            | -             | -            | -          | -            |
| Benefits paid  | (182)         | (143)        | -          | (325)        | (275)         | (102)        | (1)        | (378)        |
| Other items  | -             | -            | 1          | 1            | -             | 1            | (1)        | -            |
| Unrecognized actuarial (gains)/losses generated during the year                      | 409           | 312          | (1)        | 720          | (168)         | (280)        | 1          | (447)        |
| <b>Present value of the obligations at the end of the year</b>                       | <b>2,821</b>  | <b>2,626</b> | <b>41</b>  | <b>5,488</b> | <b>2,360</b>  | <b>2,180</b> | <b>24</b>  | <b>4,564</b> |
| Fair value of plan assets at the beginning of the year                               | 1,838         | 1,350        | 12         | 3,200        | 2,747         | 1,983        | 14         | 4,744        |
| Translation adjustments  | 39            | 107          | 3          | 149          | (57)          | (448)        | (3)        | (508)        |
| Changes in scope of consolidation  | -             | 17           | -          | 17           | -             | -            | -          | -            |
| Expected return on plan assets   | 148           | 87           | 2          | 237          | 209           | 100          | 1          | 310          |
| Contributions paid to the plans  | 309           | 46           | 1          | 356          | 10            | 81           | 1          | 92           |
| Administration costs   | -             | (7)          | -          | (7)          | -             | (7)          | -          | (7)          |
| Benefits paid by the plans   | (181)         | (122)        | -          | (303)        | (275)         | (83)         | -          | (358)        |
| Other items  | -             | -            | -          | -            | -             | -            | -          | -            |
| Unrecognized actuarial gains/(losses) generated during the year                      | 106           | 111          | 1          | 218          | (796)         | (276)        | (1)        | (1,073)      |
| <b>Fair value of plan assets at the end of the year</b>                              | <b>2,259</b>  | <b>1,589</b> | <b>19</b>  | <b>3,867</b> | <b>1,838</b>  | <b>1,350</b> | <b>12</b>  | <b>3,200</b> |
| <b>DEFICIT/(SURPLUS) AT THE END OF THE YEAR</b>                                      | <b>562</b>    | <b>1,037</b> | <b>22</b>  | <b>1,621</b> | <b>522</b>    | <b>830</b>   | <b>12</b>  | <b>1,364</b> |
| Deferred items at the beginning of the year  | 544           | 19           | (1)        | 562          | (88)          | 24           | (4)        | (68)         |
| Translation adjustments  | (10)          | 5            | -          | (5)          | 1             | -            | 1          | 2            |
| Changes in scope of consolidation  | (1)           | -            | -          | (1)          | -             | -            | -          | -            |
| Unrecognized asset due to application of the asset ceiling generated during the year | (4)           | -            | -          | (4)          | 6             | -            | -          | 6            |
| Amortization of actuarial gains/losses during the year                               | 37            | (6)          | -          | 31           | -             | -            | -          | -            |
| Amortization of plan reorganization costs during the year                            | -             | -            | -          | -            | -             | -            | -          | -            |
| Unrecognized actuarial gains/losses generated during the year                        | 229           | 213          | (3)        | 439          | 625           | (5)          | 2          | 622          |
| Unrecognized plan reorganization costs generated during the year                     | -             | -            | -          | -            | -             | -            | -          | -            |
| <b>DEFERRED ITEMS AT THE END OF THE YEAR</b>   | <b>795</b>    | <b>231</b>   | <b>(4)</b> | <b>1,022</b> | <b>544</b>    | <b>19</b>    | <b>(1)</b> | <b>562</b>   |
| <b>NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR</b>  | <b>(233)</b>  | <b>806</b>   | <b>26</b>  | <b>599</b>   | <b>(22)</b>   | <b>811</b>   | <b>13</b>  | <b>802</b>   |

In 2009, the present value of defined benefit pension obligations increased by EUR 924 million. This increase was due to:

|   |                   |                          |
|---|-------------------|--------------------------|
| • the effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro       | EUR (157) million | (2008: EUR 552 million)  |
| • actuarial losses from changes in actuarial assumptions and the difference between assumptions and actual experience | EUR (720) million | (2008: EUR 447 million)  |
| • the difference between the costs (service cost and interest cost) and the benefits paid during the year             | EUR (25) million  | (2008: EUR 28 million)   |
| • changes in plan regulations   | EUR (3) million   | (2008: EUR (10) million) |
| • changes in the scope of consolidation   | EUR (18) million  | (2008: EUR (1) million)  |
| • other items   | EUR (1) million   | (2008: EUR (-) million)  |

The fair value of plan assets amounted to EUR 3,867 million at December 31, 2009, showing an increase of EUR 667 million compared to December 31, 2008. The factors behind this decline were as follows:

|   |                 |                           |
|---|-----------------|---------------------------|
| • the effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro | EUR 149 million | (2008: EUR (508) million) |
| • the difference between the contributions paid to the funds and the benefits paid by the funds                 | EUR 46 million  | (2008: EUR (266) million) |
| • the actual return on plan assets  | EUR 456 million | (2008: EUR (763) million) |
| • changes in the scope of consolidation   | EUR 17 million  | (2008: EUR (-) million)   |
| • other items   | EUR (-) million | (2008: EUR (7) million)   |

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2009 and the previous three periods:

| <i>(in EUR million)</i>          | 2009           | 2008           | 2007         | 2006           |
|----------------------------------|----------------|----------------|--------------|----------------|
| Defined benefit obligation       | (5,488)        | (4,564)        | (5,580)      | (6,205)        |
| Plan assets                      | 3,867          | 3,200          | 4,744        | 4,858          |
| <b>SURPLUS / (DEFICIT)</b>       | <b>(1,621)</b> | <b>(1,364)</b> | <b>(836)</b> | <b>(1,347)</b> |
| <b>Experience adjustment to:</b> |                |                |              |                |
| • plan liabilities               | (10)           | (80)           | (31)         | (2)            |
| • plan assets                    | 219            | (1,073)        | 64           | 192            |

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

| <b>Experience adjustments to</b>  | 2009   | 2008    | 2007   | 2006  |
|---|--------|---------|--------|-------|
| • the plan liabilities in percentage of the present value of the obligation (DBO) | -0,18% | -1,75%  | -0,56% | -     |
| • to the plan assets in percentage of the fair value of the assets                | 5,66%  | -33,53% | 1,35%  | 3,95% |



The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

|                                 | December 31, 2009 |            |            | December 31, 2008 |            |            |
|---------------------------------|-------------------|------------|------------|-------------------|------------|------------|
|                                 | North America     | Europe     | Other      | North America     | Europe     | Other      |
| Discount rate                   | 5,76%             | 5,50%      | 10,65%     | 6,96%             | 6,09%      | 11,30%     |
| Rate of salary increases        | 2,81%             | 3,49%      | 6,39%      | 2,79%             | 2,96%      | 7,62%      |
| Average remaining service lives | 10,5 years        | 11,2 years | 12,4 years | 10,9 years        | 11,1 years | 12,0 years |
| Expected return on plan assets  | 8,00%             | 6,49%      | 10,65%     | 8,37%             | 6,06%      | 11,30%     |

Group obligations are regularly calculated by independent actuaries using the Projected Unit Credit Method based on end-of-career salaries.

The expected return on plan assets is determined for each portfolio taking into account market conditions at the measurement date, portfolio strategic composition as well as long-term returns of each class and sub-class, with an allocation for active manager's performance and deduction of manager's fees.

Two methods are used to determine the expected returns. One is based upon the expected long term inflation as used in the main assumptions plus a spread for each asset class representing

the long term expected real return plus a spread for active management and diversification impact, less manager fees. The other one based on swap rates plus a risk premium representing the expected return of each asset class and a spread for active management and diversification impact less manager fees.

The discount rates, salary increase and inflation are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported. On the asset side, the change in the expected return on plan assets can have a significant effect on the following year expected benefit cost.

A one-percentage-point change in these rates compared to those used for 2009 would have the following effect:

|  | 1-point increase | 1-point decrease |
|--|------------------|------------------|
| Effect of discount rate change on the defined benefit obligation (DBO)                           | -11,9%           | +14,6%           |
| Effect of discount rate change on the aggregate of current service cost and interest cost        | +1,0%            | -2,1%            |
| Effect of inflation rate change on the defined benefit obligation (DBO)                          | +6,2%            | -6,2%            |
| Effect of inflation rate change on the aggregate of current service cost and interest cost       | +6,4%            | -6,2%            |
| Effect of salary increase rate change on the defined benefit obligation (DBO)                    | +2,9%            | -2,5%            |
| Effect of salary increase rate change on the aggregate of current service cost and interest cost | +3,9%            | -3,3%            |
| Effect of interest rate change on the fair value of plan assets                                  | -4,2%            | +4,8%            |

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

| (in EUR million)  | Year ended December 31, 2009 |            |           |              | Year ended December 31, 2008 |              |          |              |
|---|------------------------------|------------|-----------|--------------|------------------------------|--------------|----------|--------------|
|   | North America                | Europe     | Other     | Total        | North America                | Europe       | Other    | Total        |
| Cost of services rendered during the year                                       | 27                           | 23         | 3         | <b>53</b>    | 32                           | 43           | 2        | <b>77</b>    |
| Interest cost   | 169                          | 138        | 1         | <b>308</b>   | 150                          | 151          | 1        | <b>302</b>   |
| Expected return on plan assets  | (150)                        | (86)       | (2)       | <b>(238)</b> | (208)                        | (121)        | (1)      | <b>(330)</b> |
| Amortization of actuarial gains/losses during the year                          | 24                           | (6)        | -         | <b>18</b>    | -                            | -            | -        | -            |
| Past service cost recognized during the year                                    | -                            | 6          | 9         | <b>15</b>    | -                            | -            | -        | -            |
| Effect of plan curtailments and settlements                                     | -                            | (22)       | -         | <b>(22)</b>  | 8                            | -            | -        | <b>8</b>     |
| Effect of applying the asset ceiling  | 3                            | -          | -         | <b>3</b>     | 2                            | -            | -        | <b>2</b>     |
| Portion of benefit expenses recognized within non-recurring restructuring costs | 24                           | -          | -         | <b>24</b>    | -                            | -            | -        | -            |
| <b>TOTAL DEFINED PENSION BENEFIT EXPENSES</b>                                   | <b>97</b>                    | <b>53</b>  | <b>11</b> | <b>161</b>   | <b>(16)</b>                  | <b>73</b>    | <b>2</b> | <b>59</b>    |
| <b>Actual return on plan assets</b>   | <b>254</b>                   | <b>198</b> | <b>3</b>  | <b>455</b>   | <b>(587)</b>                 | <b>(176)</b> | <b>-</b> | <b>(763)</b> |

The asset allocation of fully and partly funded pension plans is as follows:

|  | December 31, 2009 |                 |                 |             | December 31, 2008 |                |                 |             |
|--|-------------------|-----------------|-----------------|-------------|-------------------|----------------|-----------------|-------------|
|  | Canada            | USA             | UK              | Other       | Canada            | USA            | UK              | Other       |
| Equities   | 56%               | 40%             | 54%             | 8%          | 49%               | 32%            | 52%             | 6%          |
| Alternative investments <sup>(1)</sup>                 | 9%                | 18%             | -               | 2%          | 9%                | 26%            | -               | 1%          |
| Real estate  | -                 | 4%              | -               | 7%          | -                 | 8%             | -               | 3%          |
| Fixed income and cash                                  | 35%               | 38%             | 46%             | 83%         | 42%               | 34%            | 48%             | 90%         |
| <b>TOTAL</b>   | <b>100%</b>       | <b>100%</b>     | <b>100%</b>     | <b>100%</b> | <b>100%</b>       | <b>100%</b>    | <b>100%</b>     | <b>100%</b> |
| <b>Duration in years of the fixed income portfolio</b> | <b>15 years</b>   | <b>11 years</b> | <b>12 years</b> | <b>N/A</b>  | <b>15 years</b>   | <b>8 years</b> | <b>12 years</b> | <b>N/A</b>  |

(1) Hedge funds and private equity.

An internal group of experts, composed by the chairmen of the main investment committee's members, has issued investment guidelines for the use of the local investment committees stating, among other issues, not to invest in any Michelin securities or in any properties used by the Group. Detailed information is not available about the underlying assets held in general insurance funds or alternative investments. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios

Each plan's asset allocation is decided periodically by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent actuaries in consultation with banks or investment management firms. The asset allocation takes into account the structure of employee-related liabilities and their terms.



Group contributions to pension plans and benefit payments made by these plans in 2009 and to be made during the 10 following years are as follows:

| <i>(in EUR million)</i>   | North<br>America | Europe | Other | Total |
|---|------------------|--------|-------|-------|
| <b>Contributions paid/payments made</b>                                       |                  |        |       |       |
| 2009  | 316              | 66     | 3     | 385   |
| <b>Estimates of contributions expected to be paid and payments to be made</b> |                  |        |       |       |
| 2010  | 50               | 47     | 2     | 99    |
| 2011  | 158              | 65     | 1     | 224   |
| 2012  | 181              | 74     | 1     | 256   |
| 2013  | 142              | 77     | 1     | 220   |
| 2014  | 123              | 70     | 1     | 194   |
| 2015-2019   | 234              | 394    | 4     | 632   |

The Group makes contributions to fully and partly funded plans in order to meet its future benefit payment obligations to the beneficiaries. The level of contributions is periodically determined by the Group based on factors such as current funding levels, legal and tax considerations and local practice, in consultation, as the case may be, with local boards and actuaries.

In 2009, on top of the ordinary contributions, it was decided to make advanced contributions in the USA for amounts which are due in 2010.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies. For funded plans, the estimates of future contributions take into account the changes in regulations that are known to date (Pension Protection Act 2006 in the US which will have an impact on funding from 2011 and Pension Act 2004 in the UK implemented since 2007).

#### 27.1.2. Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The “other post-employment benefits” mainly include health insurance and end of service benefit. The “other defined benefit plans” are mainly found in the United States of America, Canada, France and Italy. “Other long-term benefits” include deferred compensation plans that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally concern the Group European companies and are based on seniority.

As in the case of the above-described defined benefit plans, “other defined benefit plans” are valued by independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets but are fully accounted for in the Group balance sheet liabilities.

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Changes in the financial position of "other defined benefit plans" are as follows:

|   | December 31, 2009 |            |          |              | December 31, 2008 |            |          |              |
|---|-------------------|------------|----------|--------------|-------------------|------------|----------|--------------|
|   | North America     | Europe     | Other    | Total        | North America     | Europe     | Other    | Total        |
| <i>(in EUR million)</i>   |                   |            |          |              |                   |            |          |              |
| Present value of the obligation at the beginning of the year                        | 763               | 702        | 1        | 1,466        | 901               | 747        | 2        | 1,650        |
| Translation adjustments   | 4                 | 1          | -        | 5            | (1)               | (2)        | -        | (3)          |
| Changes in scope of consolidation   | -                 | (3)        | -        | (3)          | -                 | (1)        | -        | (1)          |
| Current service cost  | 8                 | 24         | -        | 32           | 12                | 25         | -        | 37           |
| Interest cost   | 52                | 40         | -        | 92           | 53                | 38         | -        | 91           |
| Plan reorganization costs generated during the year:                                |                   |            |          |              |                   |            |          |              |
| • Immediately recognized in the income statement                                    | -                 | (109)      | -        | (109)        | -                 | -          | -        | -            |
| • Unrecognized costs  | -                 | (4)        | -        | (4)          | -                 | -          | -        | -            |
| Benefits paid   | (52)              | (66)       | -        | (118)        | (49)              | (80)       | -        | (129)        |
| Other items   | (1)               | 2          | -        | 1            | (2)               | (1)        | (1)      | (4)          |
| Unrecognized actuarial (gains)/losses generated during the year                     | 84                | 45         | -        | 129          | (151)             | (24)       | -        | (175)        |
| <b>Present value of the obligation at the end of the year</b>                       | <b>858</b>        | <b>632</b> | <b>1</b> | <b>1,491</b> | <b>763</b>        | <b>702</b> | <b>1</b> | <b>1,466</b> |
| Fair value of plan assets at the beginning of the year                              | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Translation adjustments   | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Expected return on plan assets  | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Contributions paid to the plans   | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Administration costs  | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Benefits paid by the plans  | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Other items   | -                 | -          | -        | -            | -                 | -          | -        | -            |
| Unrecognized actuarial gains/(losses) generated during the year                     | -                 | -          | -        | -            | -                 | -          | -        | -            |
| <b>Fair value of plan assets at the end of the year</b>                             | <b>-</b>          | <b>-</b>   | <b>-</b> | <b>-</b>     | <b>-</b>          | <b>-</b>   | <b>-</b> | <b>-</b>     |
| <b>DEFICIT/(SURPLUS) AT THE END OF THE YEAR</b>                                     | <b>858</b>        | <b>632</b> | <b>1</b> | <b>1,491</b> | <b>763</b>        | <b>702</b> | <b>1</b> | <b>1,466</b> |
| Deferred items at the beginning of the year   | (279)             | 104        | -        | (175)        | (143)             | 134        | -        | (9)          |
| Translation adjustments   | -                 | 2          | -        | 2            | (6)               | -          | -        | (6)          |
| Changes in scope of consolidation   | 1                 | -          | -        | 1            | -                 | -          | -        | -            |
| Amortization of actuarial gains/losses during the year                              | (8)               | 11         | -        | 3            | -                 | (3)        | -        | (3)          |
| Amortization of plan reorganization costs during the year                           | 21                | (19)       | -        | 2            | 21                | (10)       | -        | 11           |
| Unrecognized actuarial gains/losses generated during the year                       | 101               | 22         | -        | 123          | (151)             | (17)       | -        | (168)        |
| Unrecognized plan reorganization costs generated during the year                    | -                 | (5)        | -        | (5)          | -                 | -          | -        | -            |
| <b>DEFERRED ITEMS AT THE END OF THE YEAR</b>  | <b>(164)</b>      | <b>115</b> | <b>-</b> | <b>(49)</b>  | <b>(279)</b>      | <b>104</b> | <b>-</b> | <b>(175)</b> |
| <b>NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR</b> | <b>1,022</b>      | <b>517</b> | <b>1</b> | <b>1,540</b> | <b>1,042</b>      | <b>598</b> | <b>1</b> | <b>1,641</b> |

In 2009 the present value of other defined benefit plans increased by EUR (25) million, due to:

- |  |                   |                         |
|--|-------------------|-------------------------|
| • the effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro            | EUR (5) million   | (2008: EUR 3 million)   |
| • changes in plan regulations  | EUR 113 million   | (2008: EUR (-) million) |
| • the difference between the costs (service cost and interest cost) and the benefits paid during the year                  | EUR (6) million   | (2008: EUR 1 million)   |
| • actuarial losses due to changes in actuarial assumptions and to the difference between assumptions and actual experience | EUR (129) million | (2008: EUR 175 million) |
| • other items  | EUR (1) million   | (2008: EUR 5 million)   |
| • changes in the scope of consolidation  | EUR 3 million     | (2008: EUR (-) million) |

The present value of the defined benefit obligation and experience adjustments are as follows for 2009 and the previous three periods:

| <i>(in EUR million)</i>  | 2009    | 2008    | 2007    | 2006    |
|--|---------|---------|---------|---------|
| Defined benefit obligation   | (1,491) | (1,466) | (1,650) | (1,754) |
| Experience adjustments to plan liabilities   | 33      | 18      | 19      | 26      |
| Experience adjustments to plan liabilities (in % of present value of the obligation (DBO)) | 2.21%   | 1.23%   | 1.15%   | 1.48%   |

The main actuarial weighted average assumptions used to measure obligations for other defined benefit plans are as follows:

|                                 | December 31, 2009 |            |                      | December 31, 2008 |            |                      |
|---------------------------------|-------------------|------------|----------------------|-------------------|------------|----------------------|
|                                 | North America     | Europe     | Other <sup>(1)</sup> | North America     | Europe     | Other <sup>(1)</sup> |
| Discount rate                   | 5,74%             | 4,63%      | -                    | 6,93%             | 5,74%      | -                    |
| Average remaining service lives | 12,3 years        | 12,3 years | -                    | 11,9 years        | 12,8 years | -                    |

(1) The Group has no "Other Defined Benefit Plans" requiring the use of actuarial assumptions outside North America and Europe.

Assumptions concerning healthcare cost trends are as follows:

|   | December 31, 2009 |        | December 31, 2008 |        |
|---|-------------------|--------|-------------------|--------|
|   | USA               | Canada | USA               | Canada |
| Expected growth in healthcare costs in the first year       | 8,17%             | 6,35%  | 7,72%             | 7,26%  |
| Minimum long-term rate of annual growth in healthcare costs | 5,00%             | 5,00%  | 5,00%             | 5,00%  |
| Year in which the minimum growth rate will be achieved      | 2015              | 2011   | 2015              | 2011   |

The discount rate and the assumed health care cost trend rate are the main assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

A one-percentage-point change in these rates compared to those used for 2009 would have the following effect:

|  | 1-point increase | 1-point decrease |
|--|------------------|------------------|
| Effect of the discount rate change on the defined benefit obligation (DBO)   | -8.7%            | +10.3%           |
| Effect of the discount rate change on the aggregate of current service cost and interest cost                      | +2.3%            | -2.8%            |
| Effect of the healthcare cost trend on the healthcare defined benefit obligation                                   | +6.6%            | -5.5%            |
| Effect of the healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plans | +7.4%            | -6.1%            |

Net income and expenses recognized in the income statement are as follows:

| <i>(in EUR million)</i>   | Year ended December 31, 2009 |             |          |           | Year ended December 31, 2008 |           |          |            |
|---|------------------------------|-------------|----------|-----------|------------------------------|-----------|----------|------------|
|   | North America                | Europe      | Other    | Total     | North America                | Europe    | Other    | Total      |
| Cost of services rendered during the year                                       | 8                            | 26          | 1        | 35        | 12                           | 26        | -        | 38         |
| Interest cost   | 53                           | 40          | -        | 93        | 52                           | 38        | -        | 90         |
| Expected return on plan assets  | -                            | -           | -        | -         | -                            | -         | -        | -          |
| Amortization of actuarial gains/losses during the year                          | (5)                          | 11          | -        | 6         | -                            | (3)       | -        | (3)        |
| Past service cost recognized during the year                                    | (22)                         | 22          | -        | -         | (20)                         | 10        | -        | (10)       |
| Effect of plan curtailments and settlements                                     | -                            | (18)        | -        | (18)      | -                            | -         | -        | -          |
| Portion of benefit expenses recognized within non-recurring restructuring costs | (4)                          | (95)        | -        | (99)      | -                            | -         | -        | -          |
| <b>TOTAL OTHER DEFINED BENEFIT EXPENSES</b>                                     | <b>30</b>                    | <b>(14)</b> | <b>1</b> | <b>17</b> | <b>44</b>                    | <b>71</b> | <b>-</b> | <b>115</b> |

Group payments made under other defined plans in 2009 and to be made during the 10 following years are as follows:

| <i>(in EUR million)</i>                 | North America | Europe | Other | Total |
|---|---------------|--------|-------|-------|
| <b>Payments made</b>                    |               |        |       |       |
| 2009                                    | 53            | 67     | 2     | 122   |
| <b>Estimates of payments to be made</b> |               |        |       |       |
| 2010                                    | 60            | 42     | -     | 102   |
| 2011                                    | 62            | 47     | -     | 109   |
| 2012                                    | 62            | 69     | -     | 131   |
| 2013                                    | 63            | 82     | -     | 145   |
| 2014                                    | 63            | 80     | -     | 143   |
| 2015-2019                               | 321           | 361    | -     | 682   |

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators. Payments made in 2009 were significantly higher than those forecasted for the coming years due to anticipated payments (mostly in France).

## 27.2. DEFINED CONTRIBUTION PLANS

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans. These are mainly found in the United States of America, Canada and the United Kingdom.

In 2009, the contributions paid to such defined contribution plans and expensed amounted to EUR 90 million (2008: EUR 69 million).

## NOTE 28 SHARE-BASED PAYMENTS

### 28.1. STOCK OPTION PLANS

Changes in the number of options granted under stock option plans and their weighted average exercise price are as follows:

|                       | 2009   |                  | 2008   |                  |
|-----------------------|--|------------------|--|------------------|
|                       | Weighted average exercise price<br>(in EUR per option) | Options          | Weighted average exercise price<br>(in EUR per option) | Options          |
| <b>At January 1</b>   | <b>62.18</b>   | <b>3,468,763</b> | <b>61.80</b>   | <b>3,261,727</b> |
| Granted               | 53.00  | 1,398,310        | 62.00  | 310,000          |
| Forfeited             | 59.79  | (32,040)         | 59.91  | (57,444)         |
| Exercised             | 36.78  | (67,312)         | 36.33  | (45,520)         |
| <b>AT DECEMBER 31</b> | <b>59.86</b>   | <b>4,767,721</b> | <b>62.18</b>   | <b>3,468,763</b> |

1,770,591 of the 4,767,721 options outstanding as at December 31, 2009 are exercisable (2008: 768,663 in total and 3,468,763 exercisable).

Assumptions used to value the share options granted in 2009 are as follows:

|  |                   |
|--|-------------------|
| Grant date   | November 23, 2009 |
| Number of options granted                                      | 1,398,310         |
| Weighted average share price (euros per share)                 | 52.77             |
| Exercise price (euros per share)                               | 53.00             |
| Volatility   | 38.98%            |
| Risk free interest rate  | 3.14%             |
| Market value of the option at grant date (in euros per option) | 8.43              |

The maximum gain allowed is limited to 100% of the exercise price.

Stock option plans have the following exercise prices and expiry dates:

| Grant dates                      | Vesting dates | Expiry dates  | Exercise prices (in EUR per option) | Options           |                   |
|----------------------------------|---------------|---------------|-------------------------------------|-------------------|-------------------|
|                                  |               |               |                                     | December 31, 2009 | December 31, 2008 |
| May 2002                         | May 2006      | May 2011      | 44.00                               | 202,236           | 215,451           |
| May 2003                         | May 2007      | May 2012      | 32.25                               | 75,275            | 103,897           |
| November 2003                    | November 2007 | November 2012 | 34.00                               | 157,700           | 173,515           |
| May 2004                         | May 2008      | May 2013      | 40.00                               | 145,300           | 155,700           |
| July 2004                        | July 2008     | July 2013     | 44.50                               | 116,200           | 120,100           |
| May 2005                         | May 2009      | May 2014      | 48.00                               | 216,000           | 216,000           |
| November 2005                    | November 2009 | November 2014 | 48.00                               | 857,880           | 874,950           |
| May 2006                         | May 2010      | May 2015      | 58.00                               | 133,900           | 133,900           |
| May 2007                         | May 2011      | May 2016      | 91.00                               | 1,154,920         | 1,165,250         |
| May 2008                         | May 2012      | May 2017      | 62.00                               | 310,000           | 310,000           |
| November 2009                    | November 2013 | November 2018 | 53.00                               | 1,398,310         | -                 |
| <b>OUTSTANDING STOCK OPTIONS</b> |               |               |                                     | <b>4,767,721</b>  | <b>3,468,763</b>  |

### 28.2. SHARE PURCHASE PLAN

No share purchase plan has been implemented in 2009.

## NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

The carrying amount of provisions and other long-term liabilities is analyzed in the table below:

| (in EUR million)  | December 31, 2009 | December 31, 2008 |
|---|-------------------|-------------------|
| Restructuring provisions                                | 573               | 319               |
| Litigation provisions                                   | 111               | 110               |
| Other provisions  | 90                | 103               |
| <b>Provisions</b>                                       | <b>774</b>        | <b>532</b>        |
| Deferred revenue – Government grants                    | 128               | 139               |
| Other deferred revenue                                  | 119               | -                 |
| Debts towards employees and social security authorities | 84                | 89                |
| <b>Non-current liabilities</b>                          | <b>331</b>        | <b>228</b>        |
| <b>PROVISIONS AND OTHER NON-CURRENT LIABILITIES</b>     | <b>1,105</b>      | <b>760</b>        |

Movements in provisions during the year:

| <i>(in EUR million)</i>                    | Restructuring | Litigation | Other provisions | Total      |
|--|---------------|------------|------------------|------------|
| <b>At January 1, 2009</b>                  | <b>319</b>    | <b>110</b> | <b>103</b>       | <b>532</b> |
| Additional provisions                      | 358           | 46         | 42               | 446        |
| Provisions utilized during the year        | (99)          | (43)       | (51)             | (193)      |
| Unused provisions reversed during the year | (2)           | (5)        | (4)              | (11)       |
| Translation adjustments                    | (1)           | 3          | -                | 2          |
| Change in scope of consolidation           | -             | -          | -                | -          |
| Other effects                              | (2)           | -          | -                | (2)        |
| <b>AT DECEMBER 31, 2009</b>                | <b>573</b>    | <b>111</b> | <b>90</b>        | <b>774</b> |

### ● 29.1. RESTRUCTURING

The Group has implemented several restructuring plans in 2009.

In France, a plan aiming at a specialization of some industrial operations has been implemented. In addition to this plan, a voluntary separate program (Plan de Volontariat France) has been announced.

A provision for EUR 253 million of euros covering the costs of the specialization plan and the measures of the voluntary separate program has been recognized in the restructuring provisions.

In North America, an industrial and commercial restructuring plan has been implemented in the first half of 2009. The provision recognized in respect of this restructuring plan amounts to EUR 47 million and covers the severance expenses and all the accompanying measures.

In Japan, an industrial restructuring plan has been announced in the course of the second half to 2009. An amount of EUR 36 million covering the social costs of the plan has been recognized in the restructuring provisions.

The details of the restructuring plans are disclosed in the Note 9.

As at December 31, 2009, the remaining restructuring provisions were mainly located in:

- Spain for EUR 154 million
- Italy for EUR 42 million
- France for EUR 283 million
- North America for EUR 50 million
- Japan for EUR 37 million

### ● 29.2. LITIGATION

The amounts recognized represent mainly legal claims introduced by non Group third parties. The provisions recognized in respect of litigation are booked in the income statement, essentially in the heading "general and administrative costs".

### ● 29.3. OTHER PROVISIONS

These amounts represent the risks arising from a commercial, technical or social origin and have been identified by the Group with regard to its clients, suppliers and third parties. These risks arise in the course of the Group ordinary activities.

## NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

| <i>(in EUR million)</i>          | December 31, 2009 | December 31, 2008 |
|----------------------------------|-------------------|-------------------|
| Customers – Deferred rebates     | 694               | 655               |
| Employee benefits                | 318               | 302               |
| Social security liabilities      | 284               | 296               |
| Restructuring liabilities        | 57                | 65                |
| Current income tax payable       | 136               | 69                |
| Other taxes                      | 176               | 121               |
| Other                            | 262               | 336               |
| <b>OTHER CURRENT LIABILITIES</b> | <b>1,927</b>      | <b>1,844</b>      |

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## NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flow statement are presented in the table below:

| <i>(in EUR million)</i>   | Year ended<br>December 31, 2009 | Year ended<br>December 31, 2008 |
|---|---------------------------------|---------------------------------|
| (Gains)/losses on disposal of non-financial assets                    | (20)                            | 1                               |
| Other   | (8)                             | 9                               |
| <b>Other non-cash income and expenses</b>                             | <b>(28)</b>                     | <b>10</b>                       |
| Interest and other financial expenses paid                            | (258)                           | (307)                           |
| Interest and other financial income received                          | 39                              | 30                              |
| Dividends received  | 12                              | 11                              |
| <b>Cost of net debt and other financial income and expenses paid</b>  | <b>(207)</b>                    | <b>(266)</b>                    |
| Change in inventory   | 759                             | (419)                           |
| Change in trade receivables   | 182                             | 478                             |
| Change in other receivables and payables                              | 6                               | (193)                           |
| <b>Change in working capital, net of impairments</b>                  | <b>947</b>                      | <b>(134)</b>                    |
| Purchases of intangible assets  | (70)                            | (112)                           |
| Purchases of PP&E   | (602)                           | (1,159)                         |
| Government grants received  | 3                               | 21                              |
| Change in capital expenditure payables                                | (38)                            | (39)                            |
| <b>Purchases of intangible assets and PP&amp;E</b>                    | <b>(707)</b>                    | <b>(1,289)</b>                  |
| Increase in other non-current financial assets                        | (26)                            | (11)                            |
| Decrease in other non-current financial assets                        | 32                              | 23                              |
| Net cash flows from other current financial assets                    | (115)                           | 3                               |
| <b>Cash flows from other current and non-current financial assets</b> | <b>(109)</b>                    | <b>15</b>                       |
| Bonds issued by Michelin Luxembourg SCS, maturing in 2014             | 750                             | -                               |
| Other increases in non-current financial liabilities                  | 368                             | 775                             |
| Decrease in non-current financial liabilities                         | (709)                           | (127)                           |
| Repayment of finance lease liabilities                                | (87)                            | (49)                            |
| Repayment of bonds issued by Michelin Luxembourg SCS                  | (470)                           | -                               |
| Net cash flows from other current financial liabilities               | (664)                           | 291                             |
| Derivatives   | 145                             | (122)                           |
| <b>Cash flows from current and non-current financial liabilities</b>  | <b>(667)</b>                    | <b>768</b>                      |
| Details of non cash transactions:                                     |                                 |                                 |
| • Finance leases  | 7                               | 10                              |
| • Put options granted to minority shareholders of subsidiaries        | (17)                            | (63)                            |
| • New emission rights   | 7                               | 47                              |
| • Dividends paid in shares  | 80                              | -                               |

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## NOTE 32 COMMITMENTS AND CONTINGENCIES

### 32.1. MICHELIN PENSION TRUST LTD UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between Michelin Pension Trust Ltd U.K. and Michelin U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group issued in 2007 a guarantee towards the pension fund to cover the stream of contributions which its subsidiary will have to make. At December 31, 2009, the discounted guaranteed amount in excess of the amount already recognized in the financial statements amounts to EUR 192 million.

### 32.2. OTHER COMMITMENTS

The Group has various purchase commitments for materials and services as well as for the acquisition of equipment. These commitments primarily concern purchases in 2009 and 2010 and correspond to the forecasts of investments and to the level of activity expected in the first half of 2010. They are established under normal market conditions and arise in the course of the Group ordinary activities.

### 32.3. OTHER CONTINGENCIES

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims. In the opinion of Group management, the outcome of these actions will not have a material adverse effect on the Group financial position or cash flows.

In the opinion of the Group management, there is no governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

## NOTE 33 ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

There were no significant acquisitions or divestments in 2009.

## NOTE 34 RELATED PARTY TRANSACTIONS

### 34.1. SUBSIDIARIES AND ASSOCIATES

The list of the major Group subsidiaries and associates is included in Note 36. Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation. Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

| (in EUR million)  | 2009 | 2008  |
|---|------|-------|
| <b>Income statement</b>                                     |      |       |
| Expenses for the purchase of products or supply of services | (79) | (155) |
| <b>Balance sheet</b>  |      |       |
| Financial liabilities                                       | (21) | (24)  |
| Accounts payable  | (9)  | (10)  |

### 34.2. SENIOR MANAGEMENT AND SUPERVISORY BOARD

In 2009, the Managing General Partner received in respect of 2008, an aggregate amount of EUR 2.5 million, proportional to and dependent upon profit (2008 in respect of 2007: EUR 5.3 million). The Managing General Partner does not receive any other compensation.

The compensation paid to the non-general Managing Partners in 2009 totaled EUR 2.0 million (2008: EUR 1.8 million). This amount breaks broken down as follows:

| (in EUR million)  | 2009       | 2008       |
|---|------------|------------|
| Short term benefits <sup>(1)</sup>                        | 1.5        | 1.6        |
| Post-employment benefits                                  | 0.4        | 0.1        |
| Other long term benefits                                  | -          | -          |
| Termination benefit                                       | -          | -          |
| Share-based payments                                      | 0.1        | 0.1        |
| <b>COMPENSATION PAID TO NON-GENERAL MANAGING PARTNERS</b> | <b>2.0</b> | <b>1.8</b> |

(1) The variable compensation to be paid for 2009 could not be estimated at the date the financial statements were authorized for issue, but will be provided in the Reference Document.

A detailed description of the non-general Managing Partners is provided in chapter 4.4 of the Reference Document.

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The compensation paid to the members of the Group Executive Council in 2009 totaled EUR 5.3 million (2008: EUR 7.6 million). This amount breaks down as follows:

| <i>(in EUR million)</i>  | 2009       | 2008       |
|--|------------|------------|
| Short term benefits  | 4.1        | 6.7        |
| Post-employment benefits   | 0.6        | 0.4        |
| Other long term benefits   | -          | -          |
| Termination benefit  | -          | -          |
| Share-based payments   | 0.6        | 0.5        |
| <b>COMPENSATION PAID TO MEMBERS OF THE GROUP EXECUTIVE COUNCIL</b> | <b>5.3</b> | <b>7.6</b> |

The following fees were paid in 2009 to the Supervisory Board members (for services rendered in 2008): EUR 0.3 million (2008 for services rendered in 2007: EUR 0.3 million).

### NOTE 35 EVENTS AFTER THE BALANCE SHEET DATE

The reported amounts of assets and liabilities at the balance sheet date were adjusted, if needed, up to the date when the Managing Partners authorized for issue the 2009 consolidated financial statements.

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## **NOTE 36 LIST OF MAIN GROUP COMPANIES**

Countries within the Michelin geographical regions are listed according to the alphabetical order of the French names.

### **36.1. FULLY-CONSOLIDATED COMPANIES**

| <b>Companies</b>  | <b>Registered office</b> | <b>Nature</b>              | <b>% of interest</b> |
|---|--------------------------|----------------------------|----------------------|
| <b>EUROPE</b>   |                          |                            |                      |
| <b>Germany</b>  |                          |                            |                      |
| Laurent Reifen GmbH   | Oranienburg              | Manufacturing & commercial | 100.00               |
| Michelin Reifenwerke AG & Co. KgaA                          | Karlsruhe                | Manufacturing & commercial | 100.00               |
| EUROMASTER GmbH   | Kaiserslautern           | Commercial                 | 99.98                |
| ViaMichelin Deutschland GmbH                                | Griesheim                | Commercial                 | 100.00               |
| <b>Austria</b>  |                          |                            |                      |
| Euromaster Reifenservice GmbH                               | Vienna                   | Commercial                 | 97.56                |
| Michelin Reifenverkaufsgesellschaft m.b.H.                  | Vienna                   | Commercial                 | 100.00               |
| <b>Belgium</b>  |                          |                            |                      |
| Michelin Belux S.A.   | Zellik                   | Commercial                 | 100.00               |
| Société pour le Traitement de l'Information TRINFOVER       | Zellik                   | Miscellaneous              | 100.00               |
| <b>Denmark</b>  |                          |                            |                      |
| Michelin Gummi Compagni A/S                                 | Brøndby                  | Commercial                 | 100.00               |
| Euromaster Danmark A/S                                      | Viborg                   | Commercial                 | 99.94                |
| <b>Spain</b>  |                          |                            |                      |
| Michelin España Portugal, S.A.                              | Tres Cantos              | Manufacturing & commercial | 99.80                |
| Euromaster Automoción y Servicios, S.A.                     | Madrid                   | Commercial                 | 99.94                |
| ViaMichelin España, S.L.                                    | Tres Cantos              | Commercial                 | 100.00               |
| <b>Estonia</b>  |                          |                            |                      |
| Michelin Rehvide AS   | Tallinn                  | Commercial                 | 100.00               |
| <b>Finland</b>  |                          |                            |                      |
| Oy Suomen Michelin Ab                                       | Espoo                    | Commercial                 | 100.00               |
| Suomen Euromaster Oy  | Pori                     | Commercial                 | 99.94                |
| <b>France</b>   |                          |                            |                      |
| Compagnie Générale des Etablissements Michelin              | Clermont-Ferrand         | Parent                     | -                    |
| Manufacture Française des Pneumatiques Michelin             | Clermont-Ferrand         | Manufacturing & commercial | 100.00               |
| Pneu Laurent  | Avallon                  | Manufacturing & commercial | 100.00               |
| Pneumatiques KLEBER   | Toul                     | Manufacturing & commercial | 100.00               |
| Simorep et Cie - Société du Caoutchouc Synthétique Michelin | Bassens                  | Manufacturing              | 100.00               |

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| Companies  | Registered office       | Nature                     | % of interest |
|--|-------------------------|----------------------------|---------------|
| <b>France (cont.)</b>  |                         |                            |               |
| Société de Développement Mécanique                                   | Wattignies              | Manufacturing              | 100.00        |
| SODG   | Clermont-Ferrand        | Manufacturing              | 100.00        |
| Euromaster France  | Montbonnot Saint-Martin | Commercial                 | 98.41         |
| Michelin Aircraft Tyre   | Clermont-Ferrand        | Commercial                 | 100.00        |
| Recamic Services   | Clermont-Ferrand        | Commercial                 | 100.00        |
| Transityre France  | Clermont-Ferrand        | Commercial                 | 100.00        |
| ViaMichelin  | Boulogne-Billancourt    | Commercial                 | 100.00        |
| Michelin Middle East   | Clermont-Ferrand        | Financial                  | 100.00        |
| Société des Procédés Industriels Modernes                            | Clermont-Ferrand        | Financial                  | 100.00        |
| Spika  | Clermont-Ferrand        | Financial                  | 100.00        |
| Société Civile Immobilière Michelin Breteuil                         | Paris                   | Miscellaneous              | 100.00        |
| Société de Technologie Michelin                                      | Clermont-Ferrand        | Miscellaneous              | 100.00        |
| <b>Greece</b>  |                         |                            |               |
| Elastika Michelin A.E.   | Halandri                | Commercial                 | 100.00        |
| <b>Hungary</b>   |                         |                            |               |
| Michelin Hungaria Tyre Manufacture Ltd.                              | Nyíregyháza             | Manufacturing & commercial | 100.00        |
| Michelin Central Europe Commercial Private Company Limited by Shares | Budapest                | Commercial                 | 99.98         |
| Taurus Carbonpack Commercial and Supplying Ltd.                      | Tuzsér                  | Commercial                 | 100.00        |
| <b>Ireland</b>   |                         |                            |               |
| Oboken Limited   | Dublin                  | Financial                  | 100.00        |
| Mireis Limited   | Dublin                  | Miscellaneous              | 100.00        |
| Miripro Insurance Company Limited                                    | Dublin                  | Miscellaneous              | 100.00        |
| <b>Italy</b>   |                         |                            |               |
| Società per Azioni Michelin Italiana                                 | Turin                   | Manufacturing & commercial | 100.00        |
| ViaMichelin Italia S.r.l.  | Milan                   | Commercial                 | 100.00        |
| <b>Latvia</b>  |                         |                            |               |
| Michelin Riepas SIA  | Riga                    | Commercial                 | 100.00        |
| <b>Lithuania</b>   |                         |                            |               |
| UAB Michelin Padangos  | Vilnius                 | Commercial                 | 100.00        |
| <b>Luxembourg</b>  |                         |                            |               |
| Michelin Luxembourg SCS  | Luxembourg              | Financial                  | 100.00        |
| <b>Norway</b>  |                         |                            |               |
| Norsk Michelin Gummi AS  | Lørenskog               | Commercial                 | 100.00        |

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| Companies   | Registered office | Nature                     | % of interest |
|---|-------------------|----------------------------|---------------|
| <b>The Netherlands</b>                            |                   |                            |               |
| Eurodrive Services and Distribution N.V.          | Amsterdam         | Commercial                 | 99.94         |
| Euromaster Bandenservice B.V.                     | Deventer          | Commercial                 | 99.94         |
| Michelin Nederland N.V.                           | Drunen            | Commercial                 | 100.00        |
| Transityre B.V.                                   | Breda             | Commercial                 | 100.00        |
| Michelin Finance (Pays-Bas) B.V.                  | Amsterdam         | Financial                  | 100.00        |
| <b>Poland</b>                                     |                   |                            |               |
| Michelin Polska S.A.                              | Olsztyn           | Manufacturing & commercial | 100.00        |
| <b>Portugal</b>                                   |                   |                            |               |
| Michelin-Companhia Luso-Pneu, Limitada            | Lisbon            | Commercial                 | 100.00        |
| <b>Serbia</b>                                     |                   |                            |               |
| Tigar Tyres d.o.o., Pirot                         | Pirot             | Manufacturing & commercial | 100.00        |
| <b>Slovak Republic</b>                            |                   |                            |               |
| Michelin Slovensko, s.r.o.                        | Bratislava        | Commercial                 | 100.00        |
| <b>Czech Republic</b>                             |                   |                            |               |
| Michelin Česká republika s.r.o.                   | Prague            | Commercial                 | 100.00        |
| <b>Romania</b>                                    |                   |                            |               |
| Michelin Romania S.A.                             | Bucharest         | Commercial                 | 99.61         |
| <b>United Kingdom</b>                             |                   |                            |               |
| Michelin Tyre Public Limited Company              | Stoke-on-Trent    | Manufacturing & commercial | 100.00        |
| Associated Tyre Specialists Limited               | Harrow            | Commercial                 | 99.94         |
| Michelin Lifestyle Limited                        | Stoke-on-Trent    | Commercial                 | 100.00        |
| ViaMichelin UK Limited                            | London            | Commercial                 | 100.00        |
| Michelin Europe (EEIG)                            | Stoke-on-Trent    | Miscellaneous              | 99.96         |
| Michelin Services Ltd                             | Stoke-on-Trent    | Miscellaneous              | 100.00        |
| Baldovie Training Limited                         | Dundee            | Miscellaneous              | 100.00        |
| <b>Russia</b>                                     |                   |                            |               |
| LLC "Michelin Russian Tyre Manufacturing Company" | Davydovo          | Manufacturing & commercial | 100.00        |
| Michelin Tyres Russian General Agency ZAO         | Moscow            | Commercial                 | 100.00        |
| <b>Slovenia</b>                                   |                   |                            |               |
| Michelin Slovenija, pnevmatike, d.o.o.            | Ljubljana         | Commercial                 | 100.00        |
| <b>Sweden</b>                                     |                   |                            |               |
| Euromaster AB                                     | Varberg           | Commercial                 | 99.94         |
| Michelin Nordic AB                                | Stockholm         | Commercial                 | 100.00        |

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| Companies   | Registered office | Nature                     | % of interest |
|---|-------------------|----------------------------|---------------|
| <b>Switzerland</b>  |                   |                            |               |
| Euromaster (Suisse) S.A.  | Petit-Lancy       | Commercial                 | 99.94         |
| Michelin Suisse S.A.  | Givisiez          | Commercial                 | 100.00        |
| Compagnie Financière Michelin   | Granges-Paccot    | Financial                  | 100.00        |
| Michelin Recherche et Technique S.A.                                    | Granges-Paccot    | Miscellaneous              | 100.00        |
| <b>NORTH AMERICA AND MEXICO</b>   |                   |                            |               |
| <b>Canada</b>   |                   |                            |               |
| Michelin North America (Canada) Inc.                                    | Laval             | Manufacturing & commercial | 100.00        |
| Michelin Retread Technologies (Canada) Inc.                             | New Glasgow       | Commercial                 | 100.00        |
| <b>United States of America</b>   |                   |                            |               |
| Michelin North America, Inc.  | New York          | Manufacturing & commercial | 100.00        |
| Michelin Retread Technologies, Inc.                                     | Wilmington        | Commercial                 | 100.00        |
| Tire Centers, LLC   | Wilmington        | Commercial                 | 100.00        |
| CR Funding Corporation  | Wilmington        | Financial                  | 100.00        |
| Michelin Corporation  | New York          | Financial                  | 100.00        |
| <b>Mexico</b>   |                   |                            |               |
| Industrias Michelin, S.A. de C.V.                                       | Mexico City       | Manufacturing & commercial | 100.00        |
| Michelin Mexico Holding, S.A. de C.V.                                   | Mexico City       | Financial                  | 100.00        |
| <b>SOUTH AMERICA</b>  |                   |                            |               |
| <b>Argentina</b>  |                   |                            |               |
| Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera | Buenos Aires      | Commercial                 | 100.00        |
| <b>Brazil</b>   |                   |                            |               |
| Sociedade Michelin de Participações, Indústria e Comércio Ltda.         | Rio de Janeiro    | Manufacturing & commercial | 100.00        |
| Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.     | Vila Velha        | Commercial                 | 100.00        |
| Plantações E. Michelin Ltda.  | Rio de Janeiro    | Miscellaneous              | 100.00        |
| Plantações Michelin da Bahia Ltda.                                      | Rio de Janeiro    | Miscellaneous              | 100.00        |
| <b>Chile</b>  |                   |                            |               |
| Michelin Chile Ltda.  | Santiago          | Commercial                 | 100.00        |
| <b>Colombia</b>   |                   |                            |               |
| Industria Colombiana de Llantas S.A.                                    | Cali              | Manufacturing & commercial | 99.94         |
| <b>Peru</b>   |                   |                            |               |
| Michelin del Perú S.A.  | Lima              | Commercial                 | 100.00        |
| <b>Venezuela</b>  |                   |                            |               |
| Michelin Venezuela, S.A.  | Valencia          | Commercial                 | 100.00        |

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| Companies  | Registered office | Nature                     | % of interest |
|--|-------------------|----------------------------|---------------|
| <b>ASIA AND OCEANIA</b>  |                   |                            |               |
| <b>Australia</b>   |                   |                            |               |
| Michelin Australia Pty Ltd   | Melbourne         | Commercial                 | 100.00        |
| <b>China</b>   |                   |                            |               |
| Michelin Shenyang Tire Co., Ltd.                                   | Shenyang          | Manufacturing & commercial | 100.00        |
| Shanghai Michelin Warrior Tire Co., Ltd.                           | Shanghai          | Manufacturing & commercial | 70.00         |
| Michelin (Shanghai) Trading Co., Ltd.                              | Shanghai          | Commercial                 | 100.00        |
| Michelin Asia (Hong Kong) Limited                                  | Hong Kong         | Commercial                 | 100.00        |
| Michelin (China) Investment Co., Ltd.                              | Shanghai          | Commercial                 | 100.00        |
| Michelin Asia-Pacific Export (HK) Limited                          | Hong Kong         | Miscellaneous              | 100.00        |
| Michelin Asia-Pacific Import (HK) Limited                          | Hong Kong         | Miscellaneous              | 100.00        |
| Michelin Asia-Pacific Import-Export (HK) Limited                   | Hong Kong         | Miscellaneous              | 100.00        |
| Michelin Tire Research and Development Center (Shanghai) Co., Ltd. | Shanghai          | Miscellaneous              | 100.00        |
| <b>South Korea</b>   |                   |                            |               |
| Michelin Korea Co., Ltd.   | Seoul             | Commercial                 | 100.00        |
| <b>India</b>   |                   |                            |               |
| Michelin India Private Limited                                     | New Delhi         | Commercial                 | 100.00        |
| Michelin India Tyres Private Limited                               | New Delhi         | Commercial                 | 100.00        |
| <b>Japan</b>   |                   |                            |               |
| Nihon Michelin Tire Co., Ltd.                                      | Tokyo             | Manufacturing & commercial | 100.00        |
| Michelin Research Asia Co., Ltd.                                   | Tokyo             | Miscellaneous              | 100.00        |
| <b>Malaysia</b>  |                   |                            |               |
| Michelin Malaysia Sdn. Bhd.  | Petaling Jaya     | Commercial                 | 100.00        |
| <b>New Zealand</b>   |                   |                            |               |
| M. Michelin & Company Limited                                      | Auckland          | Commercial                 | 100.00        |
| <b>Singapore</b>   |                   |                            |               |
| Michelin Asia (Singapore) Co. Pte. Ltd.                            | Singapore         | Commercial                 | 100.00        |
| Michelin Asia-Pacific Pte Ltd                                      | Singapore         | Miscellaneous              | 100.00        |
| Société des Matières Premières Tropicales Pte. Ltd.                | Singapore         | Miscellaneous              | 100.00        |
| <b>Taiwan</b>  |                   |                            |               |
| Michelin Chun Shin Ltd.  | Taipei            | Commercial                 | 100.00        |
| <b>Thailand</b>  |                   |                            |               |
| Michelin Siam Company Limited                                      | Bangkok           | Manufacturing & commercial | 100.00        |
| Siam Tyre Phra Pradaeng Co., Ltd.                                  | Samutprakarn      | Manufacturing              | 100.00        |
| Michelin Research Asia (Thailand) Co., Ltd.                        | Bangkok           | Miscellaneous              | 100.00        |
| Michelin Siam Group Co., Ltd.                                      | Bangkok           | Financial                  | 100.00        |

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| Companies  | Registered office | Nature                     | % of interest |
|--|-------------------|----------------------------|---------------|
| <b>AFRICA AND THE MIDDLE EAST</b>                        |                   |                            |               |
| <b>South Africa</b>                                      |                   |                            |               |
| Michelin Tyre Company South Africa (Proprietary) Limited | Johannesburg      | Commercial                 | 100.00        |
| <b>Algeria</b>   |                   |                            |               |
| Michelin Algérie SPA                                     | Algiers           | Manufacturing & commercial | 100.00        |
| <b>Cameroon</b>  |                   |                            |               |
| Société Moderne du Pneumatique Camerounais               | Douala            | Commercial                 | 100.00        |
| <b>Nigeria</b>   |                   |                            |               |
| Michelin Tyre Services Company Ltd.                      | Lagos             | Commercial                 | 60.28         |
| <b>Turkey</b>  |                   |                            |               |
| Michelin Lastikleri Ticaret A.S.                         | Istanbul          | Commercial                 | 100.00        |

● **36.2. COMPANIES CONSOLIDATED USING THE EQUITY METHOD**

| Companies                                      | Registered office | Countries                | % of interest |
|--|-------------------|--------------------------|---------------|
| Société Internationale de Plantations d'Hévéas | Courbevoie        | France                   | 20.00         |
| Elemica, Inc.                                  | Exton             | United States of America | 10.12         |
| MC Projects B.V.                               | Amsterdam         | The Netherlands          | 50.00         |

## 7.2. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2009

*This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Compagnie Générale des Etablissements Michelin  
Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying consolidated financial statements of Compagnie Générale des Etablissements Michelin;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Managing Partners. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sample techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2009 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, we draw your attention to the matter set out in the note 2 related to the basis of preparation of the consolidated financial statements describing the implementation of IAS 1 revised.

### II. Justification of our assessments

In accordance with the requirement of article L.823-9 of the French Commercial Code (Code de Commerce) relating to the justification of our assessments, we bring to your attention the following matters:

- Note 2 to the accounts related to the basis of preparation of the consolidated financial statements presents the main assumptions and estimates used by management, in particular with respect to impairment of non financial assets and to employee benefits.

We have examined the process applied for the determination by the management of the assumptions used and their implementation, as well as the corresponding information disclosed in the notes to the accounts.

As mentioned in note 2, the actual future cash flows as well as the actual income and expenses may differ from the estimates used, depending upon market trends and significant changes in the economical and social environments.

- Note 9 to the accounts "Non-recurring income and charges" discloses the provisions accounted for in connection with the plan to specialize some industrial activities and the voluntary separation plan of employees in France, the plan to reorganize manufacturing and sales operations in North America and the specialization plan of the Ota plant in Japan.

As part of our work, we verified that the basis for calculation of these estimates is reasonable.

- Note 18 to the accounts "Deferred tax assets and liabilities" presents deferred tax assets amounting to EUR 902 million.

As part of our work, we verified that the amount of deferred tax assets stated is recoverable.

These assessments were made as part of our audit of the consolidated financial statements, taken as whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

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### III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the Group's management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit  
Christian Marcellin

Corevise  
Jean-Yves Lépinay

The Statutory Auditors Members of « Compagnies Régionales » of Versailles and Paris

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# 8

## COMPANY FINANCIAL STATEMENTS



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## 8.1. FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

### BALANCE SHEET AT DECEMBER 31, 2009

|  | Note                       | December 31, 2009 |  |                  | December 31, 2008 |
|--|----------------------------|-------------------|--|------------------|-------------------|
|  |                            | Cost              | Depreciation, amortization<br>& provisions | Net              | Net               |
| <b>ASSETS (in € thousand)</b>                                    |                            |                   |  |                  |                   |
| <b>Non-current assets</b>  |                            |                   |  |                  |                   |
| <b>Intangible assets</b>   |                            |                   |  |                  |                   |
| Patents, licenses and other rights                               |                            | 26,095            | 25,906                                     | 189              | 534               |
| Other intangible assets  |                            | 61                | 56   | 5                | 6                 |
|  | 5                          | <b>26,156</b>     | <b>25,962</b>                              | <b>194</b>       | <b>540</b>        |
| <b>Property and equipment</b>                                    |                            |                   |  |                  |                   |
| Land   |                            | 102               |  | 102              | 102               |
| Buildings  |                            | 1,837             | 1,805                                      | 32               | 40                |
| Other  |                            | 346               | 325  | 21               | 34                |
|  | 5                          | <b>2,285</b>      | <b>2,130</b>                               | <b>155</b>       | <b>176</b>        |
| <b>Investments</b>   |                            |                   |  |                  |                   |
| Shares in subsidiaries and affiliates                            | 5-6-7-25                   | 5,070,657         | 91   | 5,070,566        | 4,558,839         |
| Loans and advances to subsidiaries and affiliates <sup>(1)</sup> | 5-7-9                      | 855,616           |  | 855,616          | 1,336,429         |
| Other equity interests   | 5-7-9                      | 3,497             |  | 3,497            | 3,429             |
|  | 5                          | <b>5,929,770</b>  | <b>91</b>                                  | <b>5,929,679</b> | <b>5,898,697</b>  |
|  | (I)                        | <b>5,958,211</b>  | <b>28,183</b>                              | <b>5,930,028</b> | <b>5,899,413</b>  |
| <b>Current assets</b>  |                            |                   |  |                  |                   |
| Receivables  | 9                          | 163,719           |  | 163,719          | 204,380           |
| Marketable securities  |                            | 1                 | 0  | 1                | 1                 |
| Cash   |                            | 154               |  | 154              | 122,553           |
|  |                            | 163,874           | 0  | 163,874          | 326,934           |
| <b>Accruals</b>  |                            |                   |  |                  |                   |
| Prepaid expenses   | 12                         | 114               |  | 114              | 2,112             |
|  | (II)                       | <b>163,988</b>    | <b>0</b>                                   | <b>163,988</b>   | <b>329,046</b>    |
| Deferred charges and bond call premiums                          | (III)                      | 1,157             |  | 1,157            | 2,848             |
| Conversion losses  | (IV)                       |                   |  |                  |                   |
| <b>TOTAL ASSETS</b>  | <b>(I)+(II)+(III)+(IV)</b> | <b>6,123,356</b>  | <b>28,183</b>                              | <b>6,095,173</b> | <b>6,231,307</b>  |
| (1) Of which: short-term   |                            |                   |  | 225,616          | 1,336,429         |
| Of which: long-term  |                            |                   |  | 630,000          | -                 |

| <b>EQUITY AND LIABILITIES</b> <i>(in € thousand)</i> | Note                       | December 31, 2009 | December 31, 2008 |
|--|----------------------------|-------------------|-------------------|
| <b>Equity</b>  |                            |                   |                   |
| Share capital  | 15                         | 294,873           | 289,995           |
| Paid-in capital in excess of par                     |                            | 1,987,165         | 1,910,014         |
| Revaluation reserves                                 | 13                         | 624,772           | 624,772           |
| Other reserves                                       | 14                         | 1,277,039         | 1,276,840         |
| Retained earnings                                    |                            | 418,584           | 281,207           |
| Net income for the year                              |                            | 115,592           | 286,147           |
| Untaxed provisions                                   | 6                          | 61,598            | 61,598            |
|  | <b>(I)</b>                 | <b>4,779,623</b>  | <b>4,730,573</b>  |
| <b>Provisions</b>                                    |                            |                   |                   |
| Provisions for charges                               | (II)                       |                   |                   |
| <b>Liabilities <sup>(1)</sup></b>                    |                            |                   |                   |
| Convertible bonds                                    | 10                         | 761,492           | 738,824           |
| Other bonds  |                            | 15                | 15                |
| Subordinated notes                                   | 10                         | 232,483           | 355,132           |
| Other borrowings                                     | 10                         | 185,150           | 294,000           |
| Other financial liabilities <sup>(2)</sup>           | 7-10-11                    | 17,629            | 17,730            |
| Accrued taxes and payroll costs                      |                            | 656               | 2,766             |
| Other liabilities                                    | 7-10-11                    | 118,125           | 92,267            |
|  |                            | <b>1,315,550</b>  | <b>1,500,734</b>  |
| <b>Accruals</b>                                      |                            |                   |                   |
| Deferred income                                      | (III)                      | 1,315,550         | 1,500,734         |
|  | (IV)                       |                   |                   |
| <b>Conversion gains</b>                              |                            |                   |                   |
|  | (IV)                       |                   |                   |
| <b>TOTAL EQUITY AND LIABILITIES</b>                  | <b>(I)+(II)+(III)+(IV)</b> | <b>6,095,174</b>  | <b>6,231,307</b>  |
| (1) Of which: long-term                              |                            | 992,627           | 1,092,253         |
| short-term   |                            | 322,923           | 408,481           |
| (2) Of which: short-term bank loans and overdrafts   |                            | 1                 | -                 |

Notes 1 to 25 are an integral part of the financial statements of Compagnie Générale des Établissements Michelin.



## INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2009

| (in € thousand)   | Note                 | 2009           | 2008           |
|---|----------------------|----------------|----------------|
| <b>Revenue</b>  |                      |                |                |
| Royalties (of which, export revenues: 310,861)            | 16                   | 355,783        | 401,938        |
| Other revenue   |                      | 2,538          | 2,532          |
| <b>Total revenue</b>                                      | <b>(I)</b>           | <b>358,321</b> | <b>404,470</b> |
| <b>Operating expenses</b>                                 |                      |                |                |
| External charges  |                      | 300,878        | 282,744        |
| Taxes other than on income                                |                      | 2,551          | 3,115          |
| Wages and salaries  | 19-20                | 2,027          | 2,290          |
| Payroll taxes   |                      | 726            | 762            |
| Depreciation and amortization                             |                      | 509            | 453            |
| Other   |                      | 330            | 932            |
| <b>Total operating expenses</b>                           | <b>(II)</b>          | <b>307,021</b> | <b>290,296</b> |
| <b>OPERATING INCOME</b>                                   | <b>(I)-(II)</b>      | <b>51,300</b>  | <b>114,174</b> |
| <b>Financial income</b>                                   |                      |                |                |
| Dividends from subsidiaries and affiliates <sup>(1)</sup> |                      | 98,273         | 239,980        |
| Interest income <sup>(1)</sup>                            |                      | 24,456         | 4,327          |
| Provision reversals                                       |                      |                |                |
| Exchange gains  |                      | 2,535          | 4,271          |
| <b>Total financial income</b>                             | <b>(III)</b>         | <b>125,264</b> | <b>248,578</b> |
| <b>Financial expense</b>                                  |                      |                |                |
| Amortization and provision expense                        |                      | 1,690          | 1,699          |
| Interest expense <sup>(2)</sup>                           |                      | 49,194         | 74,416         |
| Exchange losses   |                      | 3,225          | 1,795          |
| <b>Total financial expenses</b>                           | <b>(IV)</b>          | <b>54,109</b>  | <b>77,910</b>  |
| <b>NET FINANCIAL INCOME</b>                               | <b>(III)-(IV)</b>    | <b>71,155</b>  | <b>170,668</b> |
| <b>INCOME BEFORE TAX AND NON-RECURRING ITEMS</b>          | <b>(I-II+III-IV)</b> | <b>122,455</b> | <b>284,842</b> |



| <i>(in € thousand)</i>                                 | Note           | 2009           | 2008           |
|--|----------------|----------------|----------------|
| <b>Non-recurring income</b>                            |                |                |                |
| From revenue transactions                              |                | 22             | 10             |
| From capital transactions                              |                |                | 46,153         |
| Provision reversals                                    |                | 648            | 119,033        |
| <b>Total non-recurring income</b>                      | <b>(V)</b>     | <b>670</b>     | <b>165,196</b> |
| <b>Non-recurring expenses</b>                          |                |                |                |
| From revenue transactions                              |                | 6,558          |                |
| From capital transactions                              |                |                | 163,910        |
| <b>Total non-recurring expenses</b>                    | <b>(VI)</b>    | <b>6,558</b>   | <b>163,910</b> |
| <b>NET NON-RECURRING (EXPENSE) INCOME</b>              | <b>(V-VI)</b>  | <b>(5,886)</b> | <b>1,286</b>   |
| <b>INCOME TAX EXPENSE</b>                              | <b>(VII)</b>   | <b>974</b>     | <b>(19)</b>    |
|  | <b>17</b>      |                |                |
| Total revenue  | (I+III+V)      | 484,255        | 818,244        |
| Total expenses   | (II+IV+VI+VII) | 368,663        | 532,097        |
| <b>NET INCOME</b>                                      |                | <b>115,592</b> | <b>286,147</b> |
| <i>(1) Of which: income from related parties.</i>      |                | 98,137         | 239,693        |
| <i>(2) Of which: expenses paid to related parties.</i> |                | 454            | 4,890          |

Notes 1 to 25 are an integral part of the financial statements of Compagnie Générale des Établissements Michelin.



## NOTES TO THE FINANCIAL STATEMENTS

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## NOTE 1 GENERAL INFORMATION

The Company's financial year covers the 12 months from January 1 to December 31.

The following notes and tables form an integral part of the financial statements.

The financial statements were approved for publication by the Managing Partners on February 8, 2010 after being reviewed by the Supervisory Board.

Unless otherwise specified, all amounts are presented in thousands of euros.

## NOTE 2 SIGNIFICANT EVENT OF THE YEAR

In 2009, the Group decided that all Manufacture Française des Pneumatiques Michelin shares should be held by Compagnie Générale des Établissements Michelin. As a result of this decision, Compagnie Générale des Établissements Michelin acquired the shares previously held by Compagnie Financière Michelin at their net book value of €512 million.

## NOTE 3 BASIS OF PREPARATION

The financial statements of Compagnie Générale des Établissements Michelin have been prepared and presented in accordance with French generally accepted accounting principles (1999 *Plan Comptable Général*). These principles have been applied consistently in all periods presented unless otherwise specified.

## NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1. INTANGIBLE ASSETS

"Concessions, patents and other rights" are stated at historical cost. Patents are amortized over 12 months. Other rights, corresponding primarily to software licenses, are amortized over periods of either 12 months or 3 years, depending on their nature.

Expenses incurred for the creation and protection of brands are recognized as expenses for the year.

"Other intangible assets" consist of vehicle parking rights, which are amortized over 40 years.

### 4.2. PROPERTY AND EQUIPMENT

#### 4.2.1 Cost

Property and equipment are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation which are stated at valuation.

#### 4.2.2 Depreciation

Property and equipment are depreciated on a straight-line basis over the following estimated useful lives:

- buildings: 30 years;
- plant and equipment: 10 years, except for computer equipment which is depreciated over 5 years.

### 4.3. INVESTMENTS

#### 4.3.1. Shares in subsidiaries and affiliates

- Cost: Shares in subsidiaries and affiliates are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation which are stated at valuation.
- Net book values: shares in subsidiaries are written down in the event of a lasting decline in value in use to below cost. Value in use generally corresponds to the Company's share in the investee's underlying adjusted or unadjusted net assets or consolidated net assets, as adjusted for its earnings outlook.

#### 4.3.2. Other equity interests

This item includes shareholdings that the Company intends to retain but which are not held for purposes directly related to the Company's business.

Other equity interests are measured in the same way as shares in subsidiaries and affiliates.

### 4.4. RECEIVABLES

Accounts receivable are stated at nominal value.

### 4.5. PAID IN CAPITAL IN EXCESS OF PAR

This item corresponds mainly to premiums on shares issued for cash or on conversion of bonds, after deducting issuance costs net of tax.

### 4.6. UNTAXED RESERVES

Substantially all untaxed reserves correspond to reinvested capital gains qualifying for rollover relief under the former Article 40 of the French General Tax Code.

### 4.7. CONVERSION OF FOREIGN CURRENCIES

Revenues and expenses in foreign currencies are converted at the transaction date exchange rate. Foreign currency receivables and payables are converted at the year-end exchange rate.

Foreign currency forward contracts that are outstanding at the balance sheet date are marked to market in the balance sheet.

### 4.8. DEFERRED CHARGES AND BOND CALL PREMIUMS

Deferred charges and bond call premiums relate to:

- 2003 subordinated note issuance costs, amortized over 10 years;
- 2003 subordinated note call premiums, amortized over 10 years.

### 4.9. INCOME TAXES

Income tax expense in the income statement includes both current tax and deferred taxes. Deferred taxes are calculated using the liability method.

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## NOTE 5 NON-CURRENT ASSETS

Changes in intangible assets, property and equipment and the corresponding depreciation/amortization can be analyzed as follows:

### 5.1. CHANGES IN NON-CURRENT ASSETS

| <i>(in € thousand)</i>                            | Cost<br>at January 1, 2009 | Additions,<br>new loans,<br>increases in<br>accrued interest | Disposals,<br>decommissioning,<br>reduction in loans<br>and accrued interest | Cost<br>at December 31, 2009 |
|---|----------------------------|--|--|------------------------------|
| Intangible assets                                 | 26,014                     | 142  |  | 26,156                       |
| Property and equipment                            | 2,285                      |  |  | 2,285                        |
|   | <b>28,299</b>              | <b>142</b>   |  | <b>28,441</b>                |
| Shares in subsidiaries and affiliates             | 4,558,930                  | 511,727 <sup>(1)</sup>                                       |  | 5,070,657                    |
| Loans and advances to subsidiaries and affiliates | 1,336,429                  | 651,543  | 1,132,356  | 855,616                      |
| Other equity interests                            | 3,409                      | 68   |  | 3,477                        |
| Other investments                                 | 20                         |  |  | 20                           |
|   | <b>5,898,788</b>           | <b>1,163,338</b>   | <b>1,132,356</b>   | <b>5,929,770</b>             |
| <b>TOTAL</b>                                      | <b>5,927,087</b>           | <b>1,163,480</b>   | <b>1,132,356</b>   | <b>5,958,211</b>             |

(1) As explained in Note 2, Compagnie Générale des Établissements Michelin acquired the Manufacture Française des Pneumatiques Michelin shares previously held by Compagnie Financière Michelin at their net book value of €512 million.

### 5.2. DEPRECIATION AND AMORTIZATION

| <i>(in € thousand)</i>                            | At January 1, 2009 | Increase for the year | Decrease for the year | At December 31, 2009 |
|---|--------------------|-----------------------|-----------------------|----------------------|
| Accumulated amortization (intangible assets)      | 25,474             | 488                   | -                     | 25,962               |
| Accumulated depreciation (property and equipment) | 2,108              | 22                    | -                     | 2,130                |
| <b>TOTAL</b>                                      | <b>27,582</b>      | <b>510</b>            | <b>-</b>              | <b>28,092</b>        |

## NOTE 6 PROVISIONS

| <i>(in € thousand)</i>                          | At January 1, 2009 | Increase for the year | Decrease for the year | At December 31, 2009 |
|---|--------------------|-----------------------|-----------------------|----------------------|
| <b>Untaxed provisions</b>                       | <b>61,598</b>      | -                     | -                     | <b>61,598</b>        |
| <b>Provisions for contingencies and charges</b> |                    |                       |                       |                      |
| Provisions for impairment <sup>(1)</sup>        | 91                 |                       | -                     | 91                   |
| <b>TOTAL</b>                                    | <b>61,689</b>      |                       | -                     | <b>61,689</b>        |
| Of which movements recognized in:               |                    |                       |                       |                      |
| • non-recurring expense/income                  |                    | -                     | -                     |                      |
| • transfers to revaluation reserves             |                    | -                     | -                     |                      |

(1) There were no movements in provisions for impairment during the year.

## NOTE 7 ITEMS RELATING TO SEVERAL BALANCE SHEET ITEMS

| <b>Balance sheet items</b><br><i>(in € thousand)</i>   | related companies | Transactions involving<br>other companies in which Michelin<br>holds an equity interest | Payables or receivables represented<br>by trade notes |
|--|-------------------|---|---|
| Shares in subsidiaries and affiliates (net book value) | 5,070,566         | -   | -   |
| Loans and advances to subsidiaries and affiliates      | 855,616           | -   | -   |
| Other equity interests                                 |                   | 3,477   | -   |
| Other receivables                                      | 128,262           | -   | -   |
| Other long and short-term debt                         | 17,629            | -   | -   |
| Other liabilities                                      | 110,714           | -   | -   |

## NOTE 8 TREASURY STOCK

At December 31, 2009, the Company had no treasury stock.

## NOTE 9 MATURITIES OF LOANS AND RECEIVABLES

| (in € thousand)                                   | Total            | Due within one year | Due in more than one year |
|---|------------------|---------------------|---------------------------|
| <b>Non-Current Assets</b>                         |                  |                     |                           |
| Loans and advances to subsidiaries and affiliates | 855,616          | 225,616             | 630,000                   |
| Other investments                                 | 20               |                     | 20                        |
| <b>Current Assets</b>                             |                  |                     |                           |
| Receivables                                       | 163,719          | 163,719             |                           |
| <b>TOTAL</b>                                      | <b>1,019,355</b> | <b>389,335</b>      | <b>630,020</b>            |

## NOTE 10 MATURITIES OF PAYABLES AND LONG AND SHORT-TERM DEBT

| (in € thousand)                 | Total                  | Due within one year | Due in one to five years | Due in more than five years |
|---------------------------------|------------------------|---------------------|--------------------------|-----------------------------|
| Convertible bonds               | 761,492                | -                   | -                        | 761,492 <sup>(1)</sup>      |
| Subordinated notes              | 232,483                | 1,348               | -                        | 231,135 <sup>(2)</sup>      |
| Other bonds                     | 15                     | 15                  | -                        | -                           |
| Other long and short-term debt  | 185,150 <sup>(3)</sup> | 185,150             | -                        | -                           |
| Other financial liabilities     | 17,629                 | 17,629              | -                        | -                           |
| Accrued taxes and payroll costs | 656                    | 656                 | -                        | -                           |
| Other liabilities               | 118,125                | 118,125             | -                        | -                           |
| Deferred income                 |                        |                     | -                        | -                           |
| <b>TOTAL</b>                    | <b>1,315,550</b>       | <b>322,923</b>      | <b>-</b>                 | <b>992,627</b>              |

(1) 2007-2017 convertible bond issue. The related issuance costs were expensed.

(2) At 6.375% from 2003 to 2013, then at a variable rate from 2014 to 2033.

(3) In 2006, the Company set up a €1 billion commercial paper program. The nominal amount outstanding under the program at December 31, 2009 was €185.2 million.

## NOTE 11 ACCRUED CHARGES

| <i>(in € thousand)</i>          | Amounts      |
|---------------------------------|--------------|
| Subordinated notes              | 1,348        |
| Other financial liabilities     | 11           |
| Accrued taxes and payroll costs | 264          |
| Other liabilities               | 1,681        |
| <b>TOTAL</b>                    | <b>3,304</b> |

## NOTE 12 PREPAID EXPENSES AND DEFERRED INCOME

Prepaid expenses correspond to operating and financial expenses.

In an amount of: €114 thousand.

Deferred income corresponds to operating income.

In an amount of: Nil.

## NOTE 13 REVALUATION RESERVE

Revaluation reserves amount to €624,772 thousand, of which:

- €32 thousand related to land;
- €624,740 thousand related to shares in subsidiaries and affiliates.

## NOTE 14 RESERVES

Reserves at December 31, 2009 break down as follows *(in € thousand)*:

|   |                  |
|---|------------------|
| Legal reserve, of which €26,943 thousand allocated to long-term capital gains | 28,999           |
| Special long-term capital gains reserve                                       | 881,419          |
| Other reserves  | 366,621          |
| <b>TOTAL</b>  | <b>1,277,039</b> |

## NOTE 15 CAPITAL STRUCTURE

|  | Number of shares | Par value<br><i>(in €)</i> |
|--|------------------|----------------------------|
| 1. Shares outstanding at January 1, 2009   | 144,997,422      | 2                          |
| 2. Shares issued during the year           | 2,438,935        | 2                          |
| 3. Shares outstanding at December 31, 2009 | 147,436,357      | 2                          |

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## ● STOCK OPTION PLANS

Stock option plans in effect at December 31, 2009:

| Grant Date                           | Start of exercise period | End of exercise period | Exercise Price<br>(in €) | Options           |                   |
|--------------------------------------|--------------------------|------------------------|--------------------------|-------------------|-------------------|
|                                      |                          |                        |                          | December 31, 2009 | December 31, 2008 |
| May 2002                             | May 2006                 | May 2011               | 44.00                    | 202,236           | 215,451           |
| May 2003                             | May 2007                 | May 2012               | 32.25                    | 75,275            | 103,897           |
| November 2003                        | November 2007            | November 2012          | 34.00                    | 157,700           | 173,515           |
| May 2004                             | May 2008                 | May 2013               | 40.00                    | 145,300           | 155,700           |
| July 2004                            | July 2008                | July 2013              | 44.50                    | 116,200           | 120,100           |
| May 2005                             | May 2009                 | May 2014               | 48.00                    | 216,000           | 216,000           |
| November 2005                        | November 2009            | November 2014          | 48.00                    | 857,880           | 874,950           |
| May 2006                             | May 2010                 | May 2015               | 58.00                    | 133,900           | 133,900           |
| May 2007                             | May 2011                 | May 2016               | 91.00                    | 1,154,920         | 1,165,250         |
| May 2008                             | May 2012                 | May 2017               | 62.00                    | 310,000           | 310,000           |
| November 2009                        | November 2013            | November 2018          | 53.00                    | 1,398,310         | -                 |
| <b>NUMBER OF OPTIONS OUTSTANDING</b> |                          |                        |                          | <b>4,767,721</b>  | <b>3,468,763</b>  |

## NOTE 16 REVENUE

Revenue for the year totaled €355,783 thousand, consisting entirely of royalties received from:

(in € thousand)

|                |                |
|----------------|----------------|
| France         | 44,922         |
| Outside France | 310,861        |
| <b>TOTAL</b>   | <b>355,783</b> |

## NOTE 17 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises four French subsidiaries that are at least 95%-owned, directly or indirectly.

Under the terms of the group relief agreement, each subsidiary in the tax group continues to record the income tax expense that it would have paid if it had been taxed on a stand-alone basis and any group relief is recorded at the level of Compagnie Générale des Établissements Michelin.

The income tax that would be payable by the four subsidiaries if they were taxed on a stand-alone basis amounted to €689 thousand for 2009.

Income tax includes current taxes and deferred taxes.

Income tax for 2009 represented an expense of €974 thousand.

## NOTE 18 MARKET RISKS

### 18.1. INTEREST RATE RISK

The Company does not hold any interest rate instruments.

### 18.2. CURRENCY RISK

At December 31, 2009 the Company had receivables corresponding to royalties with a net book value of €126 million. These receivables, which are denominated in the Group's main trading currencies, have been converted into euros at the year-end exchange rate. The Company's policy consists of hedging its currency risks.

### 18.3. EQUITY RISK

The Company holds shares in subsidiaries and affiliates and other equity interests, which are valued at their value in use for the Company and their probable realizable value.

## NOTE 19 MANAGEMENT COMPENSATION

In accordance with the bylaws, the Company is administered by:

- one or several Managing General Partners who are entitled to a share of the income distributed among all the General Partners in accordance with the provisions of the bylaws. The Managing General Partner(s) do not receive any other compensation or any fringe benefits;
- two Non-General Managing Partners whose compensation is paid by the Company.

The statutory share of 2008 profit allocated to the Managing General Partner in 2009 amounted to €2.5 million (2008: €5.3 million in respect of 2007 profit).

Total benefits expense for the Non-General Managing Partners amounted to €2.0 million in 2009 (2008: €1.8 million). This amount breaks down as follows:

| (In € million)  | 2009       | 2008       |
|---|------------|------------|
| Short-term benefits <sup>(1)</sup>                              | 1.5        | 1.6        |
| Post-employment benefits  | 0.4        | 0.1        |
| Other long-term benefits  | -          | -          |
| Termination benefits  | -          | -          |
| Share-based payments  | 0.1        | 0.1        |
| <b>TOTAL BENEFITS EXPENSE FOR NON-GENERAL MANAGING PARTNERS</b> | <b>2.0</b> | <b>1.8</b> |

(1) Variable compensation payable in respect of 2009 could not be estimated as of the date when the financial statements were approved for publication. This information will be disclosed in the Registration Document.

A detailed description of the bonus scheme for Non-General Managing Partners is provided in section 4.4 of the Registration Document.

## NOTE 20 AVERAGE NUMBER OF EMPLOYEES

|                          | Employees on the payroll | Employees seconded to the Company |
|--------------------------|--------------------------|-----------------------------------|
| Managing Partners        | 2                        |                                   |
| Managers                 | 4                        |                                   |
| Technical staff          | -                        |                                   |
| Administrative employees | 13                       |                                   |
| Maintenance staff        | 1                        | 1                                 |
|                          | <b>20</b>                | <b>1</b>                          |

## NOTE 21 RETIREMENT BENEFITS

The Company is liable for the payment of length-of-service awards to employees on retirement, in accordance with the terms of the applicable Collective Bargaining Agreement. The present value of the related obligation at December 31, 2009 was approximately €3.5 million (2008: €3.3 million). No provision has been recorded for this amount.

## NOTE 22 DEFERRED TAX ASSETS AND LIABILITIES

| Types of temporary differences<br>(in € thousand)                   | Tax base     | Deferred tax asset/(liability) |
|---|--------------|--------------------------------|
| <b>Net deferred tax asset at December 31, 2008</b>                  | <b>2,940</b> | <b>456</b>                     |
| "ORGANIC 2009" tax provision  | 577          | 89                             |
| Cancellation of withholding tax                                     | 5,404        | 837                            |
| C3M patent license amortization                                     | (1,143)      | (177)                          |
| "ORGANIC 2008" tax payment  | (657)        | (102)                          |
| <b>NET DEFERRED TAX ASSET AT DECEMBER 31, 2009 (15.5% TAX RATE)</b> | <b>7,121</b> | <b>1,103</b>                   |

## NOTE 23 FEES PAID TO THE STATUTORY AUDITORS

Audit fees recognized in the 2009 financial statements amount to €370,000.

## NOTE 24 SECURITIES PORTFOLIO AT DECEMBER 31, 2009

(in € thousand)

|  | Number of securities | Book value  |
|--|----------------------|-------------|
| <b>Shares in subsidiaries and affiliates and other equity interests with a book value in excess of €152,449:</b> |                      |             |
| Compagnie Financière Michelin  | 22,388,773 shares    | 3,615,110   |
| Manufacture Française des Pneumatiques Michelin  | 7,999,898 shares     | 1,414,296   |
| Société de Technologie Michelin  | 100,000 shares       | 15,245      |
| Spika S.A.   | 200,000 shares       | 25,915      |
| Siparex Croissance   | 67,710 shares        | 1,060       |
| Siparex Associés   | 137,573 shares       | 2,081       |
| Société Financière d'Innovation du Sud-Est "Sudinnova"   | 21,786 shares        | 335         |
| <b>Other (aggregate)</b>   |                      | <b>n.m.</b> |
| <b>Marketable securities:</b>  |                      |             |
| Treasury stock   | -                    | -           |
| Other marketable securities  |                      | 1           |

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## NOTE 25 LIST OF SUBSIDIARIES AND AFFILIATES

| Subsidiaries and affiliates<br>(in € thousand, unless<br>otherwise specified)  | Capital <sup>(1)</sup>         | Other<br>equity excl.<br>profit <sup>(1)</sup> | % interest                 | Book value of shares |           | Outstanding<br>loans and<br>advances | Guarantees given<br>by the Company | Last published<br>revenue | Last published<br>profit/(loss) <sup>(1)</sup> | Dividends<br>received during<br>the year |
|--|--------------------------------|--|----------------------------|----------------------|-----------|--------------------------------------|------------------------------------|---------------------------|--|--|
|  |                                |  |                            | Cost                 | Net       |                                      |                                    |                           |  |  |
| <b>A – Detailed information about subsidiaries and affiliates (investments with a book value in excess of 1% of the Company's capital)</b> |                                |  |                            |                      |           |                                      |                                    |                           |  |  |
| Compagnie Financière Michelin<br>Route Louis-Braille 10<br>1763 Granges-Paccot<br>Switzerland  | 2,238,949<br>(CHF<br>thousand) | 5,078,343<br>(CHF<br>thousand)                 | 99.99<br>(CHF<br>thousand) | 3,615,110            | 3,615,110 | 833,630                              | -                                  | -                         | 186,371<br>(CHF thousand)                      | 81,396                                   |
| Manufacture Française des Pneumatiques Michelin<br>Place des Carmes-Déchaux<br>63000 Clermont-Ferrand<br>France                            | 304,000                        | 791,363  | 99.99                      | 1,414,296            | 1,414,296 | -                                    | -                                  | 4,056,775                 | (243,214)                                      | -  |
| Société de Technologie Michelin<br>23, rue Breschet<br>63000 Clermont-Ferrand<br>France  | 15,200                         | 2,344  | 100.00                     | 15,245               | 15,245    | -                                    | -                                  | 197,414                   | 3,366  | 3,000                                    |
| Spika S.A.<br>23, rue Breschet<br>63000 Clermont-Ferrand<br>France   | 3,000                          | 57,747   | 100.00                     | 25,915               | 25,915    | -                                    | -                                  | -                         | 2,427  | -  |
| <b>Affiliates (10% to 50%-owned)</b>   |                                |  |                            |                      |           |                                      |                                    |                           |  |  |
| <b>B – Aggregate information about other subsidiaries and affiliates</b>   |                                |  |                            |                      |           |                                      |                                    |                           |  |  |
| <b>1 – Subsidiaries not listed under A:</b>  |                                |  |                            |                      |           |                                      |                                    |                           |  |  |
| - French companies   |                                |  |                            | -                    | -         | -                                    | -                                  | -                         | -  | -  |
| - Foreign companies  |                                |  |                            | -                    | -         | -                                    | -                                  | -                         | -  | -  |
| <b>2 – Affiliates not listed under A:</b>  |                                |  |                            |                      |           |                                      |                                    |                           |  |  |
| - French companies   |                                |  |                            |                      | -         | -                                    | -                                  | -                         | -  | -  |
| - Foreign companies  |                                |  |                            | 91                   | -         | -                                    | -                                  | -                         | -  | -  |

(1) In local currency.



## 8.2. STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

### For the year ended December 31, 2009

*This is a free translation into English of the statutory auditors' report issued in French and is provided solely for the convenience of English speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.*

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders of Compagnie Générale des Établissements Michelin  
Ladies and Gentlemen,

In compliance with the assignment entrusted to us by your Annual General Shareholders' Meeting, we hereby report to you, for the year ended December 31, 2009, on:

- the audit of the accompanying financial statements of Compagnie Générale des Établissements Michelin;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Managing Partners. Our role is to express an opinion on these consolidated financial statements based on our audit.

### I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sample techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2009 and of the results of its operations for the year then ended in accordance with French accounting principles.

### II. Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- The Company makes an annual assessment of the inventory value of its shares in subsidiaries and affiliates using the method described in the note 4 to the financial statements "Accounting policies - Investments".

We have examined the methodology used by the Company and its implementation based on the available information, and we have assessed the fairness of the estimates made by the Company. These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Management Report of the Managing Partners, and in the documents addressed to the Shareholders with respect to the financial position and the financial statements.

Concerning the information relating to the statutory allocation and the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the managing partners and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with the French law, we have verified that the required information concerning the purchase of investments and controlling interests and the identity of shareholders and holders of the voting rights has been properly disclosed in the management report.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit

Christian Marcellin

Corevise

Jean-Yves Lépinay

The Statutory Auditors

Members of "Compagnies Régionales" of Versailles and Paris

## 8.3. STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES (FOR THE YEAR ENDED DECEMBER 31, 2009)

*This is a free translation into English language of the statutory auditors' special report on regulated agreements and commitments issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

To the Shareholders of Compagnie Générale des Établissements Michelin

Ladies and Gentlemen,

In our capacity as Statutory Auditors of your Company, we hereby present our report on the regulated agreements and commitments.

### Agreement entered into during the year

In accordance with article L. 226-10 of the French Commercial Code (Code de commerce), we have been notified of the agreement which has been previously authorised by your Supervisory Board.

We are not required to ascertain whether any other agreements or commitments may exist but to inform you, on the basis of the information provided to us, of the key terms and conditions of those agreements and commitments of which we were notified. We are not expected to determine whether they are useful or appropriate. It is your responsibility, under the term of article R. 226-2 of the French Commercial Code, to assess the purpose sought from the signing of these agreements and commitments prior their approval.

We conducted our work in accordance with the professional standards applicable in France for this mandate. Those standards require that we perform the procedures deemed necessary to verify that the information provided to us is consistent with the underlying documentation from which it was extracted.

### Agreement entered into with Compagnie Financière Michelin

Managing partner: M. Michel Rollier

Your Supervisory Board has authorized the transfer of all the shares of Manufacture Française des Pneumatiques Michelin to Compagnie Générale des Établissements Michelin.

As a consequence, Compagnie Générale des Établissements Michelin has bought the 4.8 million shares owned by the Compagnie Financière Michelin for their book value amounting to €512 million.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit

Christian Marcellin

The Statutory Auditors

Members of "Compagnies Régionales" of Versailles and Paris

Corevise

Jean-Yves Lépinay

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## 8.4. STATEMENT OF CHANGES IN EQUITY

(in € thousand and in € per share)

|   | 2009           | 2008           |
|---|----------------|----------------|
| <b>Net income</b>   |                |                |
| <b>Income</b>   |                |                |
| Total income  | 115,592        | 286,147        |
| Earnings per share  | 0.78           | 1.97           |
| <b>Recommended dividend</b>   |                |                |
| Total dividend  | 147,436        | 144,997        |
| Dividend per share  | 1.00           | 1.00           |
| <b>Statement of changes in equity</b> (in € thousand)               |                |                |
| A) 1 – Equity at December 31, 2008                                  | 4,730,573      | 4,636,078      |
| 2 – Dividend approved by the Annual Shareholders Meeting            | (148,571)      | (238,116)      |
| B) Equity at January 1, 2009  | 4,582,002      | 4,397,962      |
| C) Movements for the year:  |                |                |
| 1 – Par value of shares issued during the year                      | 4,878          | 1,996          |
| 2 – Increase in paid-in capital in excess of par                    | 77,151         | 46,377         |
| 3 – Change in revaluation reserves                                  | -              | (1,910)        |
| 4 – Change in other reserves  | -              | -              |
| 5 – Change in untaxed provisions                                    | -              | -              |
| 6 – Change in retained earnings                                     | -              | -              |
| 7 – Net income for the year   | 115,592        | 286,147        |
| D) Equity at December 31, 2009 before dividends                     | 4,779,623      | 4,730,572      |
| <b>E) Total changes in equity during the year</b>                   | <b>197,621</b> | <b>332,610</b> |
| Notes:  |                |                |
| C3 – Amounts transferred to the revaluation reserve during the year | -              | (1,910)        |
| C6 – Dividends on treasury stock credited to retained earnings      | -              | -              |

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## 8.5. APPROPRIATION OF 2009 NET INCOME

(in € thousand)

### Amount to be appropriated

|   |  |         |
|---|--|---------|
| Retained earnings brought forward from prior year |  | 418,584 |
| Net income for the year                           |  | 115,592 |

### Recommended appropriations

|  |                        |                |
|--|------------------------|----------------|
| Legal reserve  | 488                    |                |
| Special long-term capital gains reserve                      | -                      |                |
| Dividends  | 147,436 <sup>(1)</sup> |                |
| Statutory share of income attributed to the General Partners | 1,040                  |                |
| Tax on distributed earnings                                  | -                      |                |
| Other reserves   | -                      |                |
| Retained earnings  | 385,212                |                |
| <b>TOTAL</b>   | <b>534,176</b>         | <b>534,176</b> |

(1) Subject to approval at the Annual Shareholders Meeting on May 7, 2010.



## 8.6. FIVE-YEAR FINANCIAL SUMMARY

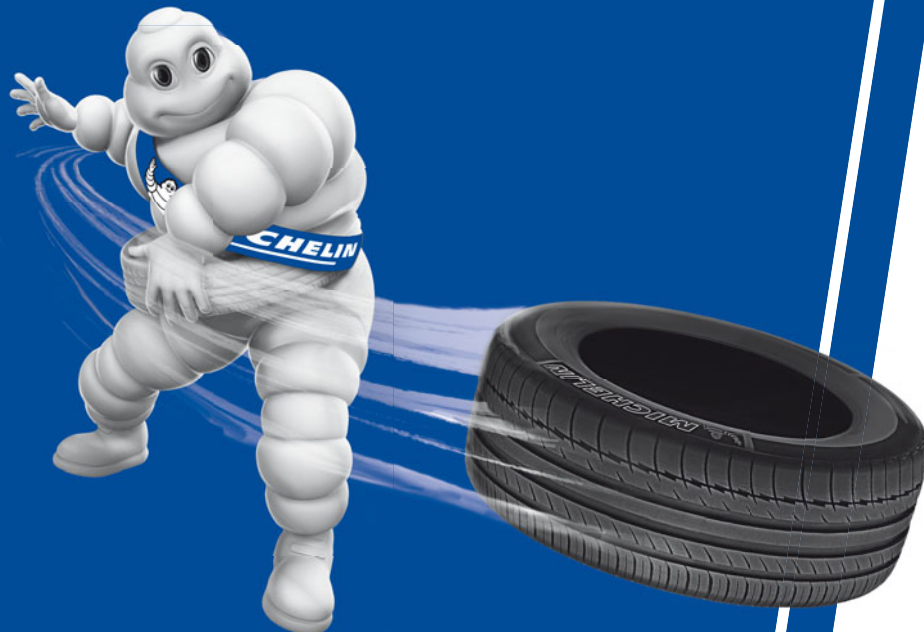
(in € thousand and in € per share, unless otherwise specified)

|   | 2005        | 2006        | 2007        | 2008        | 2009                |
|---|-------------|-------------|-------------|-------------|---------------------|
| <b>I – Capital at December 31</b>   |             |             |             |             |                     |
| a) Share capital  | 286,775     | 287,305     | 287,998     | 289,995     | 294,873             |
| b) Number of common shares outstanding  | 143,387,625 | 143,652,318 | 143,999,169 | 144,997,422 | 147,436,357         |
| c) Number of preferred non-voting shares outstanding  | -           | -           | -           | -           | -                   |
| d) Maximum number of future shares to be created  | -           | -           | -           | -           | -                   |
| <b>II – Results of operations</b>   |             |             |             |             |                     |
| a) Net revenue  | 394,643     | 419,121     | 429,238     | 401,938     | 355,783             |
| b) Earnings before tax, depreciation, amortization and provisions (EBTDA)                       | 196,470     | 252,768     | 336,793     | 169,247     | 118,118             |
| c) Income tax   | 11,225      | 193         | 2,938       | (19)        | 974                 |
| d) Employee profit-sharing  | -           | -           | -           | -           | -                   |
| e) Net income   | 270,156     | 225,095     | 277,548     | 286,147     | 115,592             |
| <b>III – Per share data</b>   |             |             |             |             |                     |
| a) Earnings per share after tax, before depreciation amortization and provision expenses (EBDA) | 1.29        | 1.76        | 2.32        | 1.17        | 0.79                |
| b) Basic earnings per share   | 1.88        | 1.57        | 1.93        | 1.97        | 0.78                |
| c) Dividend per share   | 1.35        | 1.45        | 1.60        | 1.00        | 1.00 <sup>(1)</sup> |
| <b>IV – Employee information</b>  |             |             |             |             |                     |
| a) Average number of employees  | 30          | 29          | 29          | 25          | 20                  |
| b) Total payroll  | 1,068       | 1,113       | 1,956       | 2,290       | 2,027               |
| c) Total benefits   | 410         | 379         | 693         | 762         | 726                 |

(1) Subject to approval at the Annual Shareholders Meeting on May 7, 2010.

# 9

## ADDITIONAL INFORMATION



|   |            |
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## 9.1. PERSONS RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND ANNUAL FINANCIAL REPORT AND FOR THE AUDIT OF THE ACCOUNTS

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### PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Michel Rollier, Managing General Partner

### STATEMENT BY THE PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions, the information contained in the Registration Document is in accordance with the facts and no information has been omitted that would be likely to affect its import.

I further declare that, to the best of my knowledge, (i) the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation, and (ii) the management report (Chapter 2 of this Registration Document) presents fairly the business and earnings performance and the financial position of the Company and the undertakings included in the consolidation, as well as the principal risks and uncertainties they face.

The Consolidated Financial Statements for the year ended December 31, 2009, have been audited by the Statutory Auditors. Their report, which includes an observation on a technical matter, is provided on page 211 of this Registration Document.

I obtained a statement from the Statutory Auditors at the end of their audit affirming that they have verified the information regarding the financial position and the accounts contained herein and have read the entire Registration Document.

Clermont-Ferrand, March 1, 2010

Michel Rollier  
Managing General Partner

## 9.2. STATUTORY AUDITORS

### STATUTORY AUDITORS

Under French law, the accounts of listed companies are required to be audited by two independent Statutory Auditors. The purpose of this requirement is to provide assurance that the financial statements have been properly prepared and comply with the true and fair view principle.

The Statutory Auditors are appointed by the Annual Shareholders Meeting for a six-year term, based on a recommendation made by the Supervisory Board following a selection process overseen by the Audit Committee. They may be re-appointed for successive terms. They test the fairness of financial statements and carry out all of the statutory audit work required by law. Michelin does not ask them to perform any other engagements that might impair their independence.

The Statutory Auditors of Compagnie Générale des Etablissements Michelin, Michelin's holding Company are:

#### PricewaterhouseCoopers Audit

Registered member of the *Compagnie Régionale des Commissaires aux Comptes de Versailles*

63, rue de Villiers

92200 Neuilly-sur-Seine, France

Represented by Christian Marcellin, Partner

Substitute Statutory Auditor, Pierre Coll, Partner, PricewaterhouseCoopers Audit

#### Corevise

Registered member of the *Compagnie Régionale des Commissaires aux Comptes de Paris*

3/5 rue Scheffer

75016 Paris, France

Represented by Stéphane Marie, Partner, until the end of July 2009, then Jean-Yves Lépinay, Associé

Substitute Statutory Auditor, Jacques Zaks, Partner, Corevise.

Corevise practices in France and does not have offices in any other country.

There are no legal or financial ties of any sort between the two accounting firms or the lead partners. The Statutory Auditors were appointed at the Annual Shareholders Meeting of May 14, 2004. Their appointment expires at the end of the Annual Shareholders Meeting to be held in 2010 to approve the 2009 accounts.

With the current term of CGEM's Statutory Auditors coming up for renewal, during the fall of 2009 the Group invited six accounting firms to submit service proposals, including the two incumbent firms. Many conversations and exchanges of information took place between the candidate firms and Michelin finance executives, both at Group level and in the various regions. A selection committee examined in detail the written proposals submitted by the candidate firms which were then asked to make oral presentations. At the end of this process, the selection committee made recommendations to the Supervisory Board. As a stakeholder in the selection process, the Audit Committee was given progress reports at its meetings of July 24 and November 24, 2009 and February 8, 2010.

In line with the recommendation made by the selection committee, which was supported by the Audit Committee, the Supervisory Board decided to propose to the Annual Shareholders Meeting of May 7, 2010 to:

- renew the appointment for six years of PricewaterhouseCoopers Audit, represented by Christian Marcellin, as Statutory Auditor of CGEM, and of Pierre Coll as substitute Auditor;
- appoint for six years Deloitte, represented by Dominique Descours, as Statutory Auditor of CGEM, and B.E.A.S. as substitute Auditor.

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**● Fees paid to the Statutory Auditors of Compagnie Générale des Etablissements Michelin (CGEM)**

The following table sets out the details of fees, excluding tax, paid in 2009 by the Michelin Group to its Statutory Auditors and contractual auditors. CGEM consolidates 202 subsidiaries in 58 countries. The financial statements of each of these subsidiaries are audited in their respective countries by contractual auditors, who may or may not be members of an international network.

|   | PricewaterhouseCoopers |              |               |               | Corevise         |            |               |               | Others           |              |               |               | Total            |              |               |               |
|---|------------------------|--------------|---------------|---------------|------------------|------------|---------------|---------------|------------------|--------------|---------------|---------------|------------------|--------------|---------------|---------------|
|   | milliers d'euros       |              | %             |               | milliers d'euros |            | %             |               | milliers d'euros |              | %             |               | milliers d'euros |              | %             |               |
| Years 2009 and 2008   | 2009                   | 2008         | 2009          | 2008          | 2009             | 2008       | 2009          | 2008          | 2009             | 2008         | 2009          | 2008          | 2009             | 2008         | 2009          | 2008          |
| <b>Audit</b>  |                        |              |               |               |                  |            |               |               |                  |              |               |               |                  |              |               |               |
| Statutory audits, opinions, reviews of standalone and consolidated financial statements |                        |              |               |               |                  |            |               |               |                  |              |               |               |                  |              |               |               |
| • CGEM  | 185                    | 185          | 4.3%          | 4.3%          | 185              | 185        | 48.2%         | 41.1%         | -                | -            | 0.0%          | 0.0%          | 370              | 370          | 4.0%          | 4.1%          |
| • French subsidiaries   | 528                    | 582          | 12.2%         | 13.6%         | 148              | 150        | 38.5%         | 33.3%         | 157              | 182          | 3.5%          | 4.2%          | 833              | 914          | 9.1%          | 10.1%         |
| • Foreign subsidiaries  | 2,748                  | 2,999        | 63.7%         | 70.2%         | -                | -          | 0.0%          | 0.0%          | 1,774            | 1,851        | 39.8%         | 42.8%         | 4,521            | 4,850        | 49.4%         | 53.6%         |
| Other services directly linked to the statutory audit work                              |                        |              |               |               |                  |            |               |               |                  |              |               |               |                  |              |               |               |
| • CGEM  | -                      | 14           | 0.0%          | 0.3%          | -                | -          | 0.0%          | 0.0%          | -                | -            | 0.0%          | 0.0%          | -                | 14           | 0.0%          | 0.2%          |
| • Subsidiaries  | 256                    | 126          | 5.9%          | 2.9%          | 51               | 62         | 13.3%         | 13.8%         | (51)             | 65           | (1.1%)        | 1.5%          | 256              | 253          | 2.8%          | 2.8%          |
| <b>Sub-total Audit</b>  | <b>3,717</b>           | <b>3,906</b> | <b>86.1%</b>  | <b>91.5%</b>  | <b>384</b>       | <b>397</b> | <b>100.0%</b> | <b>88.2%</b>  | <b>1,880</b>     | <b>2,098</b> | <b>42.2%</b>  | <b>48.5%</b>  | <b>5,980</b>     | <b>6,401</b> | <b>65.3%</b>  | <b>70.8%</b>  |
| <b>Other services rendered by auditors networks to subsidiaries</b>                     |                        |              |               |               |                  |            |               |               |                  |              |               |               |                  |              |               |               |
| Legal, tax and social   | 178                    | 222          | 4.1%          | 5.2%          | -                | -          | 0.0%          | 0.0%          | 1,658            | 1,570        | 37.2%         | 36.3%         | 1,837            | 1,792        | 20.1%         | 19.8%         |
| Others  | 421                    | 142          | 9.7%          | 3.3%          | -                | 53         | 0.0%          | 11.8%         | 916              | 659          | 20.6%         | 15.2%         | 1,337            | 854          | 14.6%         | 9.4%          |
| <b>Sub-total Others</b>   | <b>599</b>             | <b>364</b>   | <b>13.9%</b>  | <b>8.5%</b>   | <b>-</b>         | <b>53</b>  | <b>0.0%</b>   | <b>11.8%</b>  | <b>2,574</b>     | <b>2,229</b> | <b>57.8%</b>  | <b>51.5%</b>  | <b>3,173</b>     | <b>2,646</b> | <b>34.7%</b>  | <b>29.2%</b>  |
| <b>TOTAL</b>  | <b>4,316</b>           | <b>4,270</b> | <b>100.0%</b> | <b>100.0%</b> | <b>384</b>       | <b>450</b> | <b>100.0%</b> | <b>100.0%</b> | <b>4,454</b>     | <b>4,327</b> | <b>100.0%</b> | <b>100.0%</b> | <b>9,153</b>     | <b>9,047</b> | <b>100.0%</b> | <b>100.0%</b> |

## 9.3. 2007 AND 2008 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE

The following information is incorporated by reference in this Registration Document:

- Financial statements of the Company and consolidated financial statements for the period ended December 31, 2007 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with AMF on February 29, 2008 (D.08-080), pages 75 to 136 and 137 respectively.
- Financial statements of the Company and consolidated financial statements for the period ended December 31, 2008 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with AMF on March 2, 2009 (D.09-0089), pages 81 to 142 and 143 respectively.

## 9.4. ANNUAL INFORMATION DOCUMENT

### 9.4.1.a) PRESS RELEASES

(available in French and English from the «Finance» section of the corporate website [www.michelin.com/corporate](http://www.michelin.com/corporate) and from the official French site: [www.info-financiere.fr](http://www.info-financiere.fr))

| Title  | Date              |
|--|-------------------|
| Documents for the Annual and Extraordinary Shareholders Meeting of May 15, 2009 made available to shareholders   | April 7, 2009     |
| BFGoodrich Tire Manufacturing Plant in Opelika, Ala. to Close  | April 14, 2009    |
| First-Quarter 2009 Financial Information   | April 28, 2009    |
| 2009 Annual Shareholders Meeting   | May 15, 2009      |
| 2008 Dividend Reinvestment Plan  | May 15, 2009      |
| Repurchase Procedure Launched by Compagnie Générale des Etablissements Michelin Undertaken by Société Générale on the Lowest Ranking Subordinated Notes Redeemable in Cash due 3 December 2033 | June 15, 2009     |
| Michelin Strengthens R&D Operations and Further Specializes Production Facilities in France  | June 17, 2009     |
| Results of the Repurchase Procedure (procédure de désintéressement) on the Lowest Ranking Subordinated Notes Redeemable in Cash due 3 December 2033  | June 24, 2009     |
| Michelin Tread Pressing Plant in Mexico to Close   | July 7, 2009      |
| Double Coin Holdings Ltd. is to Sell its Shares in Shanghai Michelin Warrior Tire Co. Ltd  | July 17, 2009     |
| First-Half 2009 Financial Information  | July 31, 2009     |
| Correction of the Total Number of Notes Repurchased During the Repurchase Procedure on the Lowest Ranking Subordinated Notes Redeemable in Cash due 3 December 2033                            | August 4, 2009    |
| Financial Information for the Nine Months Ended September 30, 2009   | October 26, 2009  |
| Financial Agenda 2009/2010   | November 30, 2009 |
| Errata – Financial Agenda 2009/2010  | December 1, 2009  |
| Michelin Announces the End of Tire Production at Ota in Japan  | January 15, 2010  |
| Michelin is the transferee of the 30% shares of Shanghai Michelin Warrior Tire Co. Ltd   | February 2, 2010  |



### 9.4.1.b) OTHER PERMANENT OR AD HOC INFORMATION

(available in French and English from the «Finance» section of the corporate website [www.michelin.com/corporate](http://www.michelin.com/corporate) and from the official French site: [www.info-financiere.fr](http://www.info-financiere.fr))

| Title  | Date               |
|--|--------------------|
| Disclosure of the total number of voting rights and of the number of shares making up the Company's capital:   |                    |
| • At January 31, 2009  | February 6, 2009   |
| • At February 28, 2009   | March 12, 2009     |
| • At March 31, 2009  | April 20, 2009     |
| • At April 30, 2009  | May 11, 2009       |
| • At May 31, 2009  | June 12, 2009      |
| • At June 30, 2009   | July 8, 2009       |
| • At July 31, 2009   | August 5, 2009     |
| • At August 31, 2009   | September 11, 2009 |
| • At September 30, 2009  | October 13, 2009   |
| • At October 31, 2009  | November 16, 2009  |
| • At November 30, 2009   | December 11, 2009  |
| • At December 31, 2009   | January 11, 2010   |
| • At January 31, 2009  | February 8, 2010   |
| 2009 interim financial report  | July 31, 2009      |
| 2008 Registration Document (including the annual financial report, the internal control and corporate governance report, the description of the share buyback program, the annual information document and information on the fees paid to the Statutory Auditors) | March 2, 2009      |
| 2009 Registration Document (including the annual financial report, the internal control and corporate governance report, the description of the share buyback program, the annual information document and information on the fees paid to the Statutory Auditors) | March 1, 2010      |

### 9.4.1.c) INFORMATION PUBLISHED IN BULLETIN DES ANNONCES LÉGALES OBLIGATOIRES (BALO)

(available in French only from the website [www.journal-officiel.gouv.fr](http://www.journal-officiel.gouv.fr))

| Title  | Date           |
|--|----------------|
| Avis de réunion de l'Assemblée générale mixte des actionnaires                                     | March 4, 2009  |
| Rectificatif à l'avis de reunion   | March 13, 2009 |
| Avis de convocation de l'Assemblée générale mixte des actionnaires                                 | April 6, 2009  |
| Avis d'approbation des comptes annuels et consolidés 2008 et rapports des Commissaires aux Comptes | May 26, 2009   |

### **9.4.1.d) INFORMATION PUBLISHED IN A FRENCH NEWSPAPER SPECIALIZED IN LEGAL ANNOUNCEMENTS**

(available in French only from the newspapers' head offices)

| Title   | Date          |
|---|---------------|
| <i>"l'Annonceur Légal d'Auvergne et du Centre"</i> :  |               |
| Modification des statuts relative à la réduction à 4 ans de la durée des mandats des membres du Conseil de Surveillance                                     | June 4, 2009  |
| Augmentation de capital du 17 juin 2009 résultant du paiement du dividende en actions   | July 9, 2009  |
| Augmentation de capital du 3 juillet 2009 résultant de levées d'options de souscription d'actions effectuées du 1 <sup>er</sup> janvier au 30 juin 2009     | July 9, 2009  |
| Augmentation de capital du 8 janvier 2010 résultant de levées d'options de souscription d'actions effectuées du 1 <sup>er</sup> juillet au 31 décembre 2009 | Jan. 14, 2010 |
| <i>"La Montagne"</i> :  |               |
| Avis de convocation de l'Assemblée générale mixte des actionnaires  | April 6, 2009 |



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## ANNUAL SHAREHOLDERS MEETING OF MAY 7, 2010



|  |            |
|--|------------|
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## 10.1. MANAGING PARTNERS' REPORT AND PRESENTATION OF THE RESOLUTIONS

The resolutions presented below (in blue print) are the resolutions proposed by the Company that will be included in the notice of meeting published in the Bulletin des Annonces Légales Obligatoires. Each shareholder will also be sent a copy of the notice of meeting within the period prescribed by law.

### 10.1.1. ORDINARY RESOLUTIONS

#### ● 1<sup>st</sup> and 2<sup>nd</sup> resolutions

##### Approval of the Company financial statements for the year ended December 31, 2009

##### Appropriation of income for the year ended December 31, 2009 and approval of the recommended cash dividend with a stock dividend alternative

The purpose of the first two resolutions is to review and approve the Company financial statements for the year ended December 31, 2009 and to appropriate income for the period.

Shareholders are invited to approve the transactions reflected in the Company's income statement and balance sheet, as presented, and to appropriate income for the period which amounts to €115,592,031.99.

After (i) allocating €487,786.60 to the legal reserve to increase it to one tenth of the Company's capital and (ii) deducting the €1,039,920.00 attributable to the General Partners in accordance with the bylaws, the balance of €114,064,325.39 plus €418,584,006.75 in retained earnings brought forward from prior years represents a total of €532,648,332.14 available for distribution to shareholders.

We recommend paying a dividend of €1 per share for 2009.

Dividends will be payable to the shareholders of record at the close of business on May 13, 2010 (the record date).

The ex-dividend date will be May 14, 2010.

Shareholders will be offered the option of reinvesting their dividend in new shares.

Shareholders wishing to exercise the reinvestment option must send a duly completed share purchase form to the paying agent for receipt between May 14, 2010 and the close of business on June 1, 2010

Shareholders who have not exercised their option by June 1, 2010 will receive the total dividend in cash.

Shares allocated in payment of dividends will be issued at a price equal to 90% of the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the twenty trading days preceding the meeting at which the dividend is approved (i.e. from April 9, 2010 to

May 6, 2010), less the net dividend (€1.00). The price calculated by this method will be rounded up to the nearest euro cent.

The dividend will be converted into shares on a net basis. Therefore, for individual shareholders domiciled in France for tax purposes, the total recommended dividend (paid in cash or in shares) will be:

- eligible for the 40% allowance provided for under Article 158-3-2 of the French General Tax Code, except when shareholders elect to pay the 18% flat-rate dividend withholding tax (election to be made at the latest on the date when they choose between receiving the dividend in cash or shares);
- subject to the applicable social security and additional contributions withheld at source by the Company at a rate of 12.1%.

Dividends paid to shareholders not domiciled in France for tax purposes are subject to withholding tax at a rate based on the local tax rates and laws applicable in the country in which the shareholder is domiciled.

If the amount of the reinvested dividends does not correspond to a whole number of shares, the shareholder will receive the next lower number of shares and the balance in cash.

The issued shares will carry dividend rights from January 1, 2010 and rank *pari passu* with existing shares. They will be delivered to the paying agents on June 14, 2010.

The cash dividend will be paid as from June 14, 2010.

The following table shows dividend information for the past two years:

| (in € except ratios)       | 2009   | 2008  |
|----------------------------|--------|-------|
| Net assets per share       | 37.2   | 35.2  |
| Basic earnings per share   | 0.71   | 2.46  |
| Diluted earnings per share | 0.71   | 2.46  |
| Price-earnings ratio       | 75.5   | 15.3  |
| Dividend per share         | 1.00   | 1.00  |
| Pay-out rate               | 140.8% | 40.7% |
| Yield                      | 1.9%   | 2.7%  |

## Resolutions:

### First resolution (Approval of the Company financial statements for the year ended December 31, 2009)

Having considered the reports of the Managing Partners, the Statutory Auditors and the Supervisory Board, the Ordinary General Meeting approves the Company financial statements for the year ended December 31, 2009 which show income for the period of €115,592,031.99.

The Ordinary General Meeting also approves the transactions reflected in these financial statements and referred to in these reports, including those relating to the various provision accounts.

### Second resolution (Appropriation of income for the year ended December 31, 2009 and approval of the recommended dividend with a stock dividend alternative)

On the recommendation of the Managing Partners (as approved by the Supervisory Board) and having noted that the total amount available for distribution is as follows:

|   |                 |
|---|-----------------|
| Income for the year   | €115,592,031.99 |
| Amount appropriated to the legal reserve so that it represents one-tenth of the share capital | €487,786.60     |
| Statutory share of profits attributed to the General Partners                                 | €1,039,920.00   |
| Balance   | €114,064,325.39 |
| Plus retained earnings brought forward from prior years                                       | €418,584,006.75 |
| Total amount available for distribution   | €532,648,332.14 |

The Ordinary General Meeting resolves:

- to pay an aggregate dividend of representing €1 per share; €147,436,357.00
- to appropriate the balance of €385,211,975.14 to retained earnings.

Shareholders will be offered the option of reinvesting their dividend in new shares.

The reinvestment option may be exercised from May 14, 2010 until June 1, 2010. Shareholders who have not exercised their option within this period will receive the total dividend in cash.

Cash dividends will be payable and stock dividends will be delivered as from June 14, 2010.

If the amount of the reinvested dividends does not correspond to a whole number of shares, the shareholder will receive the next lower number of shares and the balance in cash.

Shares allocated in payment of dividends will be issued at a price equal to 90% of the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the twenty trading days preceding the meeting at which the dividend payment date is approved, less the net dividend. The price calculated by this method will be rounded up to the nearest euro cent.

The issued shares will carry dividend rights from January 1, 2010 and rank *pari passu* with existing shares.

For individual shareholders domiciled in France for tax purposes, the total dividend (paid in cash or in shares) will be:

- eligible for the 40% allowance provided for under Article 158-3-2 of the French General Tax Code, except when shareholders elect to pay the 18% flat-rate dividend withholding tax provided

for in Article 117 *quater* of said Code (election to be made at the latest on the date when they choose between receiving the dividend in cash or shares);

- subject to the applicable social security and additional contributions withheld at source by the Company at a rate of 12.1%.

In accordance with Article 119 *bis* of the General Tax Code, dividends paid to shareholders not domiciled in France for tax purposes are subject to withholding tax at a rate based on the local tax rates and laws applicable in the country in which the shareholder is domiciled.

The Ordinary General Meeting gives full powers to the Managing Partners, or to any one of them, to use this authorization and carry out all transactions related to the dividend reinvestment option, place on record the ensuing capital increase and amend Article 6 of the Company's bylaws to reflect the new share capital.

As required under Article 243 *bis* of the French General Tax Code, shareholders note that dividends paid for the past three years were as follows:

| Year | Total dividend payout<br>(in €) | Dividend per share<br>(in €) |
|------|---------------------------------|------------------------------|
| 2006 | 208,295,861.11                  | 1.45*                        |
| 2007 | 230,398,670.40                  | 1.60*                        |
| 2008 | 144,997,422.00                  | 1.00*                        |

\* The full amount of the dividend was eligible for the 40% tax allowance.

### 3<sup>rd</sup> resolution

#### Approval of the consolidated financial statements for the year ended December 31, 2009

The purpose of the third resolution is to approve the consolidated financial statements for the year ended December 31, 2009, which show income for the period of €103,992 thousand.

The Registration Document, the Annual and Sustainable Development Report and the Shareholder's Booklet, which can be downloaded from Michelin's website ([www.michelin.com](http://www.michelin.com)) in the section entitled "Discover the Group/Finance", contain an analysis of the consolidated financial statements and year-on-year changes. These documents can also be sent to shareholders on request.

## Resolution:

### Third resolution (Approval of the consolidated financial statements for the year ended December 31, 2009)

Having considered the reports of the Managing Partners, the Statutory Auditors and the Supervisory Board, the Ordinary General Meeting approves the consolidated financial statements for the year ended December 31, 2009 which show income for the period of €103,992 thousand.

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● 4<sup>th</sup> resolution**Approval of a related-party agreement authorized in advance by the Supervisory Board**

In the fourth resolution, shareholders are invited to approve the related-party agreement described in the Report of the Managing Partners as well as in note 2 to the Company's financial statements. This agreement was entered into on May 7, 2009 between the Company and another entity that has a senior executive who is also a member of the Company's senior management team.

**Resolution:****Fourth Resolution (Approval of a related-party agreement authorized in advance by the Supervisory Board)**

Having considered the Managing Partners' report and the Statutory Auditors' special report, the Ordinary General Meeting approves the transfer to the Company of Manufacture Française des Pneumatiques Michelin shares held by Compagnie Financière Michelin, as authorized by the Supervisory Board at its December 5, 2008 meeting.

● 5<sup>th</sup> and 6<sup>th</sup> resolutions**Re-election of Supervisory Board members**

The purpose of the fifth and sixth resolutions is to re-elect Laurence Parisot and Pat Cox, whose terms as Supervisory Board members expire at the Annual Shareholders Meeting called to approve the 2009 financial statements. We propose re-electing them for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the 2013 financial statements.

**Laurence Parisot** is Vice-Chairman of the Management Board of Ifop, a polling institute that she has run since 1990. She is also President of France's Employers Association (MEDEF).

Date and place of birth: August 31, 1959 in Luxeuil-les-Bains (France)

Nationality: French

Number of Michelin shares: 500

Current position and directorships:

*Vice Chairman of the Management Board of Ifop*

*Director of BNP Paribas*

*Director of Coface SA*

*President of MEDEF*

Other positions and directorships held over the last five years:

*Director of Havas*

*Member of the Supervisory Board of Euro Disney SCA*

**Resolution:****Fifth resolution (Re-election of a Supervisory Board member)**

Having considered the reports of the Managing Partners and the Supervisory Board, the Ordinary General Meeting resolves to re-elect Laurence Parisot as a member of the Supervisory Board for a period of four years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2013.

**Pat Cox** is a former member of the Irish Parliament and of the European Parliament, of which he was the President in 2002-2004. He is currently President of European Movement International.

Date and place of birth: November 28, 1952 in Dublin (Ireland)

Nationality: Irish

Number of Michelin shares: 255

Current position and directorships:

*President of European Movement International*

*Member of the Board of Trustees of the International Crisis Group*

*Member of the Board of Trustees of Friends of Europe*

*Director of UCD Michael Smurfit Graduate School of Business*

*Member of the President's Consultative Board, University College Cork*

*Patron of the Blue Box Creative Learning Centre*

*Member of the Microsoft European Advisory Council*

*Member of the Pfizer Europe Advisory Council*

*Director of Tiger Developments Europe*

*Member of the APCO Worldwide International Advisory Council*

Other positions and directorships held over the last five years:

*Chairman and Chief Executive Officer of European Integration Solutions LLC*

*President of European Movement International*

*President of European Movement*

*Member of the Board of Trustees of the International Crisis Group*

*Commissioner General of Europalia*

**Resolution:****Sixth resolution (Re-election of a Supervisory Board member)**

Having considered the reports of the Managing Partners and the Supervisory Board, the Ordinary General Meeting resolves to re-elect Pat Cox as a member of the Supervisory Board for a period of four years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2013.

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● 7<sup>th</sup> to 10<sup>th</sup> resolutions

**Renewal of the appointment of Statutory Auditors and Substitute Auditors**

The purpose of the seventh to tenth resolutions is to re-appoint the Company's Statutory Auditors and their substitutes.

With the current term of CGEM's Statutory Auditors coming up for renewal, during the fall of 2009 the Group invited six accounting firms to submit service proposals, including the two incumbent firms.

In line with the recommendation made by the selection committee, which was supported by the Audit Committee, the Supervisory Board decided to propose to the Annual Shareholders Meeting of May 7, 2010 to:

- renew the appointment for six years of PricewaterhouseCoopers Audit, represented by Christian Marcellin, as Statutory Auditor of CGEM, and of Pierre Coll as substitute Auditor;
- appoint for six years Deloitte & Associés, represented by Dominique Descours, as Statutory Auditor of CGEM, and BEAS as substitute Auditor.

**Resolutions:**

**Seventh resolution (Renewal of the appointment of a Statutory Auditor)**

Having heard the report of the Supervisory Board and noted that the appointment of the Company's Statutory Auditor, PricewaterhouseCoopers Audit, is due to expire, the Ordinary General Meeting resolves to renew the appointment of PricewaterhouseCoopers Audit, 63 rue de Villiers, 92208 Neuilly-sur-Seine, as Statutory Auditor for a period of six years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2015.

**Eighth resolution (Renewal of the appointment of a Substitute Auditor)**

Having heard the report of the Supervisory Board, the Ordinary General Meeting resolves to renew the appointment of Pierre Coll, 63 rue de Villiers, 92208 Neuilly-sur-Seine, as Substitute for PricewaterhouseCoopers Audit for a period of six years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2015.

**Ninth resolution (Appointment of a Statutory Auditor)**

Having heard the report of the Supervisory Board and noted that the appointment of the Company's Statutory Auditor, Corevise, is due to expire, the Ordinary General Meeting resolves to appoint Deloitte & Associés, 185 avenue Charles de Gaulle, 92524 Neuilly-sur-Seine, as Statutory Auditor, for a period of six years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2015.

**Tenth resolution (Appointment of a Substitute Auditor)**

Having heard the report of the Supervisory Board, the Ordinary General Meeting resolves to appoint BEAS, 7-9 Villa Houssay, 92524 Neuilly-sur-Seine, as Substitute for Deloitte & Associés for a period of six years expiring at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ending December 31, 2015.

● 11<sup>th</sup> resolution

**Authorization for the Managing Partners to carry out a share buyback program, based on a maximum purchase price per share of €100**

In the eleventh resolution, shareholders are invited to renew the authorization for the Company to buy back its own shares over a period of eighteen months. The maximum purchase price per share under this authorization would be €100 and the maximum number of shares purchased would represent less than 10% of the total shares outstanding at the time of the transaction(s). This authorization would replace that granted for the same purpose by the Annual Shareholders Meeting of May 15, 2009. Note that this authorization was not used in 2009, that the Company does not currently hold any shares in treasury and that, to date, no liquidity contract has been concluded by the Company with an investment firm.

**Resolution:**

**Eleventh resolution (Authorization for the Managing Partners to carry out a share buyback program, based on a maximum purchase price per share of €100)**

Having considered the reports of the Managing Partners and the Supervisory Board as well as the description of the share buyback program drawn up in accordance with the requirements of the General Regulations of the *Autorité des marchés financiers* (AMF), the Ordinary General Meeting authorizes the Managing Partners to buy back the Company's shares, subject to the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code at a maximum purchase price per share of €100.

In the event of any corporate actions, such as a bonus share issue paid up by capitalizing reserves or a stock split or reverse stock split, the above maximum purchase price will be adjusted accordingly. The number of shares that may be bought back under this authorization may not represent more than 10% of the total shares outstanding at the time of each transaction and the Company may not hold more than 10% of its own share capital at any time. The total number of shares purchased for the purpose of maintaining a liquid market as set out below will be calculated after deducting the number of shares sold over the duration of the share buyback program.

The maximum amount that may be invested in the share buyback program, within the meaning of Article R. 225-151 of the French Commercial Code, is set at €1,473,707,300, corresponding to €14,737,073 shares bought back at the maximum purchase price per share of €100 and representing less than 10% of the Company's share capital at the date of this meeting.

The objectives of the share buyback program, in declining order of priority, are as follows:

- to maintain a liquid market for the Company's shares through a liquidity contract complying with a code of ethics approved by the AMF;
- to purchase shares for allocation to employees of the Group in accordance with the conditions set down by law, including (i) upon exercise of stock options, (ii) under performance share plans and (iii) in connection with employee rights issues;
- to purchase shares for allocation on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company;



- to purchase shares to be held and subsequently sold, exchanged or otherwise transferred in connection with external growth transactions;
- to implement any other market practices that may be authorized in the future by the applicable laws and the AMF;
- to acquire shares for cancellation under a shareholder-approved capital reduction.

The shares may be purchased, sold, exchanged or transferred by any appropriate method allowed under the laws and regulations in force at the transaction date, either on the market, over-the-counter or otherwise. The authorized methods include the use of derivative financial instruments such as options or warrants. The entire buyback program may be implemented through a block trade and the shares may also be used in securities lending transactions.

The Managing Partners, or any one of them, shall have full powers – which may be delegated – to (i) place buy and sell orders, (ii) enter into any and all agreements, (iii) make any and all filings, (iv) carry out all other formalities, (v) allocate the purchased shares to the purposes for which they were acquired and (vi) generally, do everything necessary to carry out the share buyback program.

This authorization shall be valid for a period of eighteen months from the date of this meeting and supersedes the authorization granted for the same purpose in the seventh resolution of the Annual Shareholders Meeting held on May 15, 2009.

### ● 12<sup>th</sup> resolution

#### Authorization for the Managing Partners to issue bonds

The purpose of the twelfth resolution is to authorize the Managing Partners to issue up to €1 billion worth of bonds. This authorization would replace the unused authorization granted for the same purpose and the same amount at the Annual Shareholders Meeting of May 16, 2008.

#### Resolution:

#### Twelfth resolution (Authorization for the Managing Partners to issue bonds)

Having considered the reports of the Managing Partners and the Supervisory Board, the Ordinary General Meeting:

- authorizes the issue(s) of bonds representing a maximum nominal amount of €1,000,000,000 or the foreign currency equivalent;
- grants the Managing Partners – or any one of them – full powers to carry out the issue(s) and to determine the related characteristics, amounts, terms and conditions;
- grants the Managing Partners full powers, which may be delegated, to use this authorization, and notably to determine the characteristics, terms and dates of the issue(s).

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

## 10.1.2. EXTRAORDINARY RESOLUTIONS

### ● 13<sup>th</sup> resolution

#### Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders

In the thirteenth resolution, shareholders are invited to authorize the Managing Partners to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders.

The total nominal amount by which the Company's capital may be increased pursuant to this authorization would not exceed €118 million, or approximately 40% of the Company's current share capital, and the maximum aggregate nominal value of debt securities issued with immediate or deferred rights to the Company's shares would be €1 billion.

This authorization would replace the unused authorization granted for a similar purpose at the Annual Shareholders Meeting of May 16, 2008.

#### Resolution:

#### Thirteenth resolution (Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders)

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Article L.225-129-2 and Articles L. 228-91 *et seq.* – the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to issue, on one or more occasions, shares and/or securities carrying immediate and/or deferred rights to the Company's existing or newly-issued shares. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies;
- resolves that:
  - the aggregate per value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares may not exceed €118,000,000, or approximately 40% of the Company's current share capital. This ceiling shall not include the par value of any additional shares to be issued in accordance with the applicable laws and regulations in order to protect the rights of existing holders of securities carrying rights to shares,
  - the securities carrying rights to shares issued in accordance with this authorization may notably consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, no preference shares or securities carrying rights to preference shares may be issued,

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- the aggregate nominal amount of debt securities issued under this authorization may not exceed €1,000,000,000 or the equivalent at the issue date in the case of securities denominated in a foreign currency or a monetary unit determined by reference to a basket of currencies,
- shareholders will have a pre-emptive right to subscribe the shares and/or debt securities issued under this authorization, *pro rata* to their existing shareholdings. The Managing Partners may also give shareholders a pre-emptive right to subscribe any shares and/or debt securities not taken up by other shareholders. In this case, if the issue is oversubscribed, this secondary pre-emptive right will also be exercisable *pro rata* to the existing shareholdings of the shareholders concerned,
- if the entire issue is not taken up by shareholders exercising their pre-emptive rights, the Managing Partners may take one or more of the following courses of action, in the order of their choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; (ii) freely allocate all or some of the unsubscribed securities among the investors of its choice; or (iii) offer them for subscription by the public in the French market and/or a foreign market and/or the international market,
- equity warrants may be offered for subscription on the above basis or allocated among holders of existing shares without consideration, in which case the Managing Partners shall be authorized to decide that rights to fractions of securities shall be non-transferable and non-tradable and that the corresponding securities shall be sold,
- the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the amount, price, timing and terms and conditions of the issue(s), which may be carried out in France and/or abroad and/or in the international market, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date, subscription period and cum-rights date as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (v) place on record the amount of the capital increase(s) resulting from the subscription of shares, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s); and, at the Managing Partners' discretion, enter into any and all agreements for the purpose of completing the issue(s); charge the share issuance costs against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

#### ● 14<sup>th</sup> resolution

##### Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights for existing shareholders

In the fourteenth resolution, shareholders are invited to authorize the Managing Partners to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares, without pre-emptive subscription rights for existing shareholders. The issue price of the new shares would be at least equal to the average of the opening prices quoted for the Company's shares over the three trading days preceding the issue pricing date, less a maximum discount of 5%.

The total nominal amount by which the Company's capital may be increased pursuant to this authorization would not exceed €44 million, or approximately 14.9% of the Company's current share capital, and the maximum aggregate nominal value of debt securities issued with immediate or deferred rights to the Company's shares would be €700 million.

The ceiling on capital increases is significantly lower than the €57 million ceiling set in the unused authorization for the same purpose granted at the Annual Shareholders Meeting of May 16, 2008, which included a priority subscription right for existing shareholders.

##### Resolution:

##### Fourteenth resolution (Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights for existing shareholders)

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Articles L. 225-135, L.225-136 and L.228-91 *et seq.* – the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to issue, on one or more occasions, shares and/or securities carrying immediate and/or deferred rights to the Company's existing or newly-issued shares. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies;
- resolves:
  - that the aggregate per value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares may not exceed €44,000,000, or approximately 14.9% of the Company's current share capital,
  - that the securities carrying rights to shares issued in accordance with this authorization may notably consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, no preference shares or securities carrying rights to preference shares may be issued,
  - that the aggregate nominal amount of debt securities issued under this authorization may not exceed €700,000,000, or the equivalent in the case of securities denominated in a foreign currency or a monetary unit determined by reference to a basket of currencies,

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- to waive shareholders' pre-emptive rights to subscribe any securities issued pursuant to this authorization, in accordance with the applicable laws and regulations,
- that (i) the issue price of the shares shall be at least equal to the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the three trading days preceding the issue pricing date, less a maximum discount of 5%, as provided for by law, and (ii) the issue price of securities carrying rights to shares shall be set in such a way that the amount received by the Company at the issue date plus the amount to be received on conversion, exchange, redemption or exercise of securities carrying rights to shares shall be, for each share issued, at least equal to the issue price defined in point (i) above,
- that the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the amount, timing, terms and conditions of the issue(s), which may be carried out in France or abroad and/or in the international market, as well as the price in accordance with the provisions set out above, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date, subscription period and cum-rights date as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (v) place on record the amount of the capital increase(s) resulting from the subscription of shares, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s); and, at the Managing Partners' discretion, enter into any and all agreements for the purpose of completing the issue(s); charge the share issuance costs against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

### ● 15<sup>th</sup> resolution

#### **Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights for existing shareholders**

The purpose of the fifteenth resolution is to give the Managing Partners a separate authorization to increase the Company's capital by issuing shares and/or securities carrying rights to shares through private placements, such as those permitted under French Governmental Decree no. 2009-80 dated January 22, 2009.

This authorization would enable the Company to take advantage of the flexibility offered to rapidly raise funds from qualified investors within the meaning of the Decree.

The securities would be placed exclusively with the categories of individuals and entities set out in Article L.411-2-II of the French Monetary and Financial Code, i.e. (i) individuals or entities providing portfolio management services and (ii) qualified investors or a restricted group of investors, provided that they are acting on their own behalf.

Any capital increases carried out pursuant to this authorization would be included in the ceiling for issues without pre-emptive subscription rights for existing shareholders provided for in the fourteenth resolution.

As in the fourteenth resolution, the issue price of the new shares would be at least equal to the average of the opening prices quoted for the Company's shares over the three trading days preceding the issue pricing date, less a maximum discount of 5%.

#### **Resolution:**

#### **Fifteenth resolution (Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights for existing shareholders)**

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Articles L.225-135, L.225-136 and L.228-91 *et seq.* – as well as paragraph II of Article L. 411-2 of the French Monetary and Financial Code, the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to issue, on one or more occasions, shares and/or securities carrying immediate and/or deferred rights to the Company's existing or newly-issued shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies;
- resolves:
  - that the aggregate per value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares may not exceed €44,000,000, or approximately 14.9% of the Company's current share capital,
  - that the securities carrying rights to shares issued in accordance with this authorization may notably consist of debt securities or securities associated with the issue of debt securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, no preference shares or securities carrying rights to preference shares may be issued,
  - that the aggregate nominal amount of debt securities issued under this authorization may not exceed €700,000,000, or the equivalent in the case of securities denominated in a foreign currency or a monetary unit determined by reference to a basket of currencies,
  - any issues of shares and/or securities carrying rights to shares carried out under this authorization shall be included in the ceilings set for such issues in the fourteenth resolution above,
  - to waive shareholders' pre-emptive rights to subscribe any securities issued pursuant to this authorization, in accordance with the applicable laws and regulations,
  - that (i) the issue price of the shares shall be at least equal to the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the three trading days preceding

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the issue pricing date, less a maximum discount of 5%, as provided for by law, and (ii) the issue price of securities carrying rights to shares shall be set in such a way that the amount received by the Company at the issue date plus the amount to be received on conversion, exchange, redemption or exercise of securities carrying rights to shares shall be, for each share issued, at least equal to the issue price defined in point (i) above,

- that the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the amount, timing, terms and conditions of the issue(s), which may be carried out in France or abroad and/or in the international market, as well as the price in accordance with the provisions set out above, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date, subscription period and cum-rights date as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (v) place on record the amount of the capital increase(s) resulting from the subscription of shares, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s); and, at the Managing Partners' discretion, enter into any and all agreements for the purpose of completing the issue(s); charge the share issuance costs against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of twenty-six months from the date of this meeting. The Extraordinary Shareholders Meeting notes that this authorization does not have the same purpose as the preceding resolution, as it exclusively concerns issues of shares and/or securities carrying rights to shares, without pre-emptive subscription rights for existing shareholders, carried out through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code.

#### ● 16<sup>th</sup> resolution

##### **Authorization for the Managing Partners to increase the number of securities to be issued in the event that an issue (with or without pre-emptive subscription rights) is oversubscribed**

In the sixteenth resolution, shareholders are asked to authorize the Managing Partners to increase the number of securities issued in the event that any issues carried out under the thirteenth, fourteenth or fifteenth resolutions are oversubscribed.

The additional securities would not exceed 15% of the original issue amount and would be issued at the same price as for the original issue, subject to the ceilings set in the thirteenth, fourteenth and fifteenth resolutions.

This authorization would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 16, 2008.

#### Resolution:

##### **Sixteenth resolution (Authorization for the Managing Partners to increase the number of securities to be issued in the event that an issue (with or without pre-emptive subscription rights) is oversubscribed)**

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, in accordance with Article L. 225-135-1 of the French Commercial Code, the Extraordinary Shareholders Meeting authorizes the Managing Partners, or any one of them, to increase the number of shares and/or other securities to be issued as part of a capital increase, either with or without pre-emptive subscription rights for existing shareholders. Any such additional shares and/or other securities (i) must be issued within thirty days of the end of the subscription period for the original issue, (ii) may not exceed 15% of the original issue and (iii) must be issued at the same price as for the original issue, subject to the ceilings set in the thirteenth, fourteenth and fifteenth resolutions.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

#### ● 17<sup>th</sup> resolution

##### **Authorization for the Managing Partners to increase the Company's capital by capitalizing reserves**

The purpose of the seventeenth resolution is to authorize the Managing Partners to increase the Company's capital by up to €80 million by capitalizing reserves or share premiums.

This authorization would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 16, 2008.

#### Resolution:

##### **Seventeenth resolution (Authorization for the Managing Partners to increase the Company's capital by capitalizing reserves)**

Having considered the reports of the Managing Partners and the Supervisory Board, and having noted the approval of each of the General Partners, in accordance with Articles L. 225-129 and L.225-130 of the French Commercial Code, the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to increase the Company's capital, on one or more occasions, by a maximum of €80,000 by issuing bonus shares and/or raising the par value of existing shares, to be paid up by capitalizing reserves, income or share premiums;
- resolves that the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) determine the timing and terms and conditions of the capital increase(s), (ii) determine the subscription period and cum-rights date as well as the method and timeframe for paying up

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shares, (iii) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (iv) place on record the amount of the capital increase(s) resulting from the issue of shares, (v) carry out – directly or through a representative – all operations and formalities related to the capital increase(s); and, at the Managing Partners' discretion, charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each capital increase.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

### ● 18<sup>th</sup> resolution

#### **Authorization for the Managing Partners to increase the Company's capital by issuing ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets**

In the eighteenth resolution, shareholders are invited to authorize the Managing Partners to increase the Company's capital by issuing ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets.

The amount of any capital increase(s) carried out using this authorization would be included in the ceiling set in the fourteenth resolution and any shares issued in payment of contributed assets would be subject to an additional ceiling representing 10% of the Company's capital.

This authorization would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 16, 2008.

#### **Resolution:**

#### **Eighteenth resolution (Authorization for the Managing Partners to increase the Company's capital by issuing ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets)**

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to issue ordinary shares:
  - in connection with a stock-for-stock offer carried out in accordance with Article L. 225-148 of the French Commercial Code, or
  - as payment for shares or securities carrying rights to shares of another company contributed to the Company in transactions not governed by Article L. 225-148 of the French Commercial Code. The number of shares issued will be based on the report of the appointed Transaction Appraiser (*Commissaire aux apports*) and may not exceed 10% of the Company's capital.

The amount of any capital increase(s) carried out using this authorization shall be included in the ceiling set in the fourteenth resolution above;

- resolves that the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) determine the timing and terms and conditions of the issue(s), (ii) determine the subscription period and cum-rights date as well as the method and timeframe for paying up shares, (iii) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (iv) place on record the amount of the capital increase(s) resulting from the subscription of shares, (v) carry out – directly or through a representative – all operations and formalities related to the issue(s); and, at the Managing Partners' discretion, charge the share issuance costs against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

### ● 19<sup>th</sup> resolution

#### **Authorization for the Managing Partners to carry out employee rights issues for members of a Group Employee Shareholder Plan**

The purpose of the nineteenth resolution is to authorize the Managing Partners to carry out employee rights issues for members of a Group Employee Shareholder Plan. The aggregate par value of the shares issued would not exceed €5.8 million, or approximately 2% of the Company's current share capital.

This authorization would replace the unused authorization granted for the same purpose at the Annual Shareholders Meeting of May 16, 2008.

#### **Resolution:**

#### **Nineteenth resolution (Authorization for the Managing Partners to carry out employee rights issues for members of a Group Employee Shareholder Plan)**

Having considered the Managing Partners' report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of each of the General Partners, the Extraordinary Shareholders Meeting:

- in accordance with Articles L. 3332-1 *et seq.* of the French Labor Code and Articles L. 225-129-6-1, L.225-138 I and II and L.225-138-1 of the French Commercial Code, authorizes the Managing Partners to issue shares, on one or more occasions, to members of an Employee Shareholder Plan of the Company or of related entities in France or abroad, within the meaning of Article L. 225-180 of the French Commercial Code and Articles L. 3344-1 and L.3344-2 of the French Labor Code;

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- resolves:
  - to waive the pre-emptive rights of existing shareholders to subscribe any shares to be issued under this authorization,
  - that the aggregate per value of the shares issued under this authorization may not exceed €5,800,000, representing approximately 2% of the Company's current share capital,
  - that the issue price of the shares offered under this authorization shall be set by the Managing Partners or one of them in accordance with Article L. 3332-19 of the French Labor Code and shall not reflect a discount of more than 20% on the average of the opening prices quoted for the Company's shares on NYSE Euronext Paris over the twenty trading days preceding the date on which the opening date of the subscription period is decided. The Managing Partners or one of them may reduce or abolish this discount if they deem it appropriate, in order to take into account, *inter alia*, locally applicable tax, labor law or accounting restrictions,
  - that the Managing Partners or one of them may also grant existing or newly-issued shares to employees free of consideration in place of the discount or of employer matching payments, in accordance with Article L. 3332-11 of the French Labor Code,
  - that the Managing Partners shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the amount, price and terms and conditions of the issue(s), (ii) determine whether the issue(s) may be subscribed directly by beneficiaries or through collective investment vehicles, (iii) set the issue date, subscription period and cum-rights date as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the newly-issued shares where deemed appropriate by the Managing Partners, (v) set any length-of-service conditions to be met by beneficiaries, (vi) place on record the amount of the capital increase(s) resulting from the subscription of shares, (vii) carry out – directly or through a representative – all operations and formalities related to the capital increase(s); and, at the Managing Partners' discretion, charge the share issuance costs against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of twenty-six months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

## ● 20<sup>th</sup> resolution

### Authorization for the Managing Partners to reduce the Company's capital by cancelling shares

In the twentieth resolution, shareholders are invited to authorize the Managing Partners to reduce the Company's capital by cancelling treasury shares purchased under shareholder-approved buyback programs. This authorization would be granted for a period of eighteen months.

#### Resolution:

### Twentieth resolution (Authorization for the Managing Partners to reduce the Company's capital by cancelling shares)

Having considered the reports of the Managing Partners and the Supervisory Board and having noted the approval of each of the General Partners, the Extraordinary Shareholders Meeting:

- authorizes the Managing Partners, or any one of them, to:
  - cancel, at their sole discretion, on one or more occasions, all or some of the shares purchased under shareholder-approved buyback programs, provided that the number of shares cancelled does not exceed 10% of the total shares outstanding,
  - charge the difference between the cost of the cancelled shares and their par value against any available premium or reserve account;
- grants the Managing Partners, or any one of them, full powers – which may be delegated in accordance with the law – to (i) carry out the capital reduction(s) following the cancellation(s) of shares authorized under this resolution, (ii) make the corresponding accounting entries, (iii) amend the bylaws to reflect the new capital and (iv) generally, carry out all necessary formalities.

This authorization shall be valid for a period of eighteen months from the date of this meeting and supersedes any authorization previously granted for the same purpose.

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● **21<sup>st</sup> resolution****Blanket ceilings on issues of shares, securities carrying rights to shares or debt securities**

The purpose of the twenty-first resolution is to set a blanket ceiling of €118 million on capital increases to be carried out pursuant to the thirteenth, fourteenth, fifteenth, sixteenth and eighteenth resolutions – an amount that is slightly higher than the €100 million authorized in 2008.

The blanket ceiling for issues of debt securities that may be carried out under the twelfth to sixteenth resolutions would be maintained at €2 billion.

**Resolution:****Twenty-first resolution (Blanket ceilings on issues of shares, securities carrying rights to shares or debt securities)**

Having considered the reports of the Managing Partners and the Supervisory Board and having noted the approval of each of the General Partners, the Extraordinary Shareholders Meeting resolves that:

- the aggregate per value of the shares issued under the thirteenth, fourteenth, fifteenth, sixteenth and eighteenth resolutions, either immediately or on conversion, exchange redemption or exercise of securities carrying rights to shares, may not exceed €118,000,000. However, this ceiling shall not include the par value of any shares to be issued to protect the interests of holders of rights to the allocation or subscription of other debt securities;
- the aggregate nominal amount of debt securities issued under the twelfth, thirteenth, fourteenth, fifteenth and sixteenth resolutions (either with or without rights to shares) may not exceed €2,000,000,000 or the equivalent in the case of securities denominated in a foreign currency or a monetary unit determined by reference to a basket of currencies.

This authorization supersedes any previous authorizations granted for the same purpose.

● **22<sup>nd</sup> resolution****Powers to carry out formalities**

In the twenty-second resolution, shareholders are asked to grant the necessary powers to carry out all the formalities required for the Shareholders Meeting.

**Resolution:****Twenty-second resolution (Powers to carry out formalities)**

The shareholders give full powers to the bearer of an original, copy or extract of the minutes of this Ordinary and Extraordinary Shareholders Meeting to carry out all legal and administrative formalities and to make all filings and publish all notices required by the applicable laws.

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### 10.1.3. SUMMARY OF FINANCIAL AUTHORIZATIONS SUBMITTED FOR SHAREHOLDER APPROVAL

| Corporate action   | Applicable ceilings<br>(nominal amount)  | Duration<br>(expiry date) |
|--|--|---------------------------|
| Share buyback program<br>(eleventh resolution)   | 14,737,073 shares at a maximum purchase price per share of €100  | 18 months (November 2011) |
| Issuance of bonds<br>(twelfth resolution)  | €1 billion   | 26 months (July 2012)     |
| Issuance of shares and/or securities carrying rights to shares, with pre-emptive subscription rights<br>(thirteenth resolution)  | shares: €118 million (approx. 40% of current capital)<br>other securities: €1 billion  | 26 months (July 2012)     |
| Issuance of shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights<br>(fourteenth resolution)                       | shares: €44 million (approx. 14.9% of current capital)<br>other securities: €700 million                                     | 26 months (July 2012)     |
| Issuance of shares and/or securities carrying rights to shares through an offer governed by article L. 411-2 of the French Monetary and Financial Code<br>(fifteenth resolution) | shares: €44 million <sup>(1)</sup><br>other securities: €700 million <sup>(1)</sup>  | 26 months (July 2012)     |
| Increase in the number of securities to be issued under issues with or without pre-emptive subscription rights<br>(sixteenth resolution)   | 15%, within the ceilings applicable for the issues concerned   | 26 months (July 2012)     |
| Increase in the company's capital paid up by capitalizing reserves <sup>(3)</sup><br>(seventeenth resolution)  | €80 million<br>(approx. 27% of current capital)  | 26 months (July 2012)     |
| Issuance of shares for a stock-for-stock offer or in payment of contributed assets<br>(eighteenth resolution)  | €44 million <sup>(1)</sup> for stock-for-stock offers and 10% of the company's capital for other transactions <sup>(1)</sup> | 26 months (July 2012)     |
| Employee rights issue(s)<br>(nineteenth resolution)  | €5.8 million<br>(approx. 2% of current capital)  | 26 months (July 2012)     |
| Share cancellations<br>(twentieth resolution)  | 10% of capital   | 18 months (November 2011) |
| Blanket ceiling <sup>(2)</sup><br>(twenty-first resolution)  | shares: €118 million<br>other securities: €2 billion   |                           |

(1) Included in the ceiling set in the fourteenth resolution.

(2) Excluding share issues carried out under the seventeenth and nineteenth resolutions.

(3) Or capitalizing profits or share premiums.

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## 10.2. SUPERVISORY BOARD REPORT

To the shareholders

The Managing Partners' Report and the accounting and financial information communicated to you present the Group's operations and results for 2009.

We have no comments on the Statutory Auditors' report on the financial statements.

In a recessionary environment, Michelin strengthened its main financial metrics in 2009. Net sales declined by a limited 9.8% over the year to €14.8 billion, while operating margin rose to 5.8% before non recurring items, from 5.6% in 2008.

Free cash flow was a robust €1.4 billion, helping to improve the Group's financial Structure.

Based on these results, the Supervisory Board supports the Managing Partners' recommendation to set the dividend at €1.00 per share.

Concerning the membership of the Supervisory Board, you will be asked to re-elect for a four-year term Laurence Parisot and Pat Cox, whose terms expire at the end of this meeting.

With the current term of CGEM's Statutory Auditors coming up for renewal, during the fall of 2009 the Group invited six accounting firms to submit service proposals, including the two incumbent firms. Many conversations and exchanges of information took place between the candidates and Michelin finance executives, both at Group level and in the various regions.

A selection committee examined in detail the written proposals submitted by the candidate firms which were then asked to make oral presentations.

In line with the recommendation made by the selection committee, which was supported by the Audit Committee, the Supervisory Board decided to propose to the Annual Shareholders Meeting of May 7, 2010 to:

- renew the appointment for six years of PricewaterhouseCoopers Audit, represented by Christian Marcellin, as Statutory Auditor of CGEM, and of Pierre Coll as substitute Auditor;
- appoint for six years Deloitte, represented by Dominique Descours, as Statutory Auditor of CGEM, and BEAS as substitute Auditor.

The Company wishes to renew its share buyback program based on a maximum purchase price of €100 per share, identical to the price set under the current authorization. An authorization to cancel shares bought back under the program is also being sought.

Lastly, you will be asked to renew, on the same or similar terms, the authorizations given to the Managing Partners by the Annual Shareholders Meeting of May 16, 2008, and to grant an

authorization to issue shares or share equivalents through a private placement in accordance with the legal provisions adopted in 2009.

We recommend that shareholders adopt the proposals submitted for their approval by voting in favor of the corresponding resolutions.

February 8, 2010

Éric Bourdais de Charbonnière  
Chairman of the Supervisory Board

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## 10.3. STATUTORY AUDITORS' REPORTS

### STATUTORY AUDITORS' SPECIAL REPORT ON THE ISSUE OF SHARES OR OTHER SECURITIES WITH OR WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS (Thirteenth, Fourteenth, Fifteenth, Sixteenth, Eighteenth and Twenty-First Resolutions)

#### Annual Shareholders Meeting of May 7, 2010

*This is a free translation into English of the Statutory Auditors' special report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

To the shareholders

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin and pursuant to Articles L.225-135, L.225-136 and L.228-92, *inter alia*, of the French Commercial Code (Code de Commerce), we hereby present our report on the shareholder authorizations sought by the Managing Partners to issue shares and other securities.

The Managing Partners are seeking, on the basis described in their report:

- a 26-month authorization to decide on the following securities issues and – directly or through a duly authorized representative – to set the final terms of the issues and, if appropriate, to cancel existing shareholders' pre-emptive subscription rights:
  - issues of ordinary shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders (13th resolution),
  - issues of ordinary shares and/or securities carrying rights to shares and/or to debt securities through a public offer, without pre-emptive subscription rights for existing shareholders (14th resolution),
  - issues of ordinary shares and/or securities carrying rights to shares and/or to debt securities through an offer governed by paragraph II of Article L.411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights for existing shareholders (15th resolution),
  - issues of ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets (18th resolution);
- the necessary powers, for 26 months, to set the terms and conditions of issue of shares and securities carrying rights to shares representing no more than 10% of the Company's capital to be delivered in payment for shares or securities carrying rights to shares of another company contributed to the Company in a transaction not governed by Article L.225-147 of the Commercial Code (18th resolution).

The par value of shares issued immediately or on conversion, exchange redemption or exercise of securities carrying rights to shares may not exceed:

- €118,000,000 for issues carried out under the 13th resolution ;
- €44,000,000 for issues carried out under the 14th, 15th and 18th resolutions, with the amount of any issues carried out under the 15th and 18th resolution being deducted from the total amount available for issues under the 14th resolution.

In addition to the above limits, the aggregate par value of shares issued under all of these resolutions may not exceed €118,000,000 (21st resolution).

The nominal amount of debt securities may not exceed €1,000,000,000 for issues under the 13th resolution and €700,000,000 for issues under the 14th and 15th resolutions. In addition, the aggregate nominal amount of debt securities issued under these resolutions and under the 12th resolution may not exceed €2,000,000,000 (21st resolution).

These ceilings take into account the additional shares and/or other securities to be issued under the 13th, 14th and 15th resolutions in accordance with Article L.225-135-1 of the Commercial Code if shareholders also adopt the 16th resolution.

The Managing Partners are responsible for drawing up a report on the proposed issues in accordance with Articles R.225-113, R.225-114 and R.225-117 of the French Commercial Code. Our responsibility is to express a conclusion on the fairness of accounting information contained in their report, on the proposed waiver of shareholders' pre-emptive subscription rights and on certain other information concerning the issues.

We performed the procedures that we considered necessary in accordance with the professional standards issued by our professional body, Compagnie Nationale des Commissaires aux Comptes, for this type of engagement. Those procedures consisted of reviewing the contents of the Managing Partners' report concerning the proposed issues and the proposed method of determining the issue price of the shares.

Subject to a subsequent examination of the final terms of any issues decided by the Managing Partners, we have nothing to report concerning the proposed method of determining the issue price of the shares under the 14th and 15th resolutions, as described in the Managing Partners' report.

As the Managing Partners' report does not describe the method to be used to determine the issue price of shares under the 13th and 18th resolutions, we do not express a conclusion on the choice of calculation base.

As the issue price of the shares has not yet been set, we do not express a conclusion on the final terms of the issues and, consequently, on the proposed waiver of shareholders' pre-emptive subscription rights under the 14th, 15th and 18th resolutions.

As required by Article R.225-166 of the French Commercial Code, we will issue a further report if and when the Managing Partners decide to use these authorizations to issue shares without pre-emptive subscription rights and securities with rights to shares and/or debt securities.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit  
 Christian Marcellin

Corevise  
 Jean-Yves Lépinay

Statutory Auditors

Members of "Compagnies Régionales" of Versailles and Paris

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**STATUTORY AUDITORS' SPECIAL REPORT ON THE ISSUE OF SHARES TO EMPLOYEES WHO ARE MEMBERS OF A GROUP EMPLOYEE SHAREHOLDER PLAN, WITHOUT PRE-EMPTIVE SUBSCRIPTION RIGHTS FOR EXISTING SHAREHOLDERS (Nineteenth Resolution)**

**Annual Shareholders Meeting of May 7, 2010**

*This is a free translation into English of the Statutory Auditors' special report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

To the shareholders

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin and pursuant to Articles L.225-135 *et seq.* of the French Commercial Code (Code de Commerce), we hereby present our report on the shareholder authorization sought by the Managing Partners to issue up to €5.8 million in shares to members of an Employee Shareholder Plan of the Company or of related entities in France or abroad, within the meaning of Article L.225-180 of the French Commercial Code, without pre-emptive subscription rights for existing shareholders.

Article L.225-129-6 of the French Commercial Code and Articles L.3332-18 *et seq.* of the French Labor Code require this type of employee rights issue to be submitted to shareholders for approval.

The Managing Partners are seeking a 26-month authorization to decide to carry out one or several employee rights issues, on the basis described in their report, and are asking shareholders to waive their pre-emptive right to subscribe for the shares. The Managing Partners would also decide on the final terms of the issue, if appropriate.

The Managing Partners are responsible for drawing up a report on the proposed issue in accordance with Articles R.225-113 and R.225-114 of the French Commercial Code. Our responsibility is to express a conclusion on the fairness of the accounting information contained in their report, on the proposed waiver of shareholders' pre-emptive subscription rights and on certain other information concerning the issue.

We performed the procedures that we considered necessary in accordance with the French professional standards issued by our professional body, Compagnie Nationale des Commissaires aux Comptes, for this type of engagement. Those procedures consisted of reviewing the information contained in the Managing Partners' report concerning the proposed issue and the proposed method of determining the issue price of the shares.

Subject to a subsequent examination of the final terms of any employee rights issue decided by the Managing Partners, we have nothing to report concerning the proposed method of determining the issue price of the shares, as described in the Managing Partners' report.

As the issue price has not yet been set, we do not express a conclusion on the final terms of the employee rights issues and, consequently, on the proposed waiver of shareholders' pre-emptive subscription rights.

As required by Article R.225-116 of the French Commercial Code, we will issue a further report if and when the Managing Partners decide to use this authorization.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit  
Christian Marcellin

Corevise  
Jean-Yves Lépinay

Statutory Auditors

Members of "Compagnies Régionales" of Versailles and Paris

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**STATUTORY AUDITORS' SPECIAL REPORT ON THE CAPITAL REDUCTION  
THROUGH THE CANCELLATION OF BOUGHT-BACK SHARES  
(Twentieth Resolution)**

**Annual Shareholders Meeting of May 7, 2010**

*This is a free translation into English of the Statutory Auditors' special report issued in the French language and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.*

To the shareholders

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin and pursuant to Article L.225-209-7 of the French Commercial Code (Code de Commerce) concerning capital reductions carried out by canceling bought-back shares, we hereby present our report on our assessment of the reasons for and terms of the proposed capital reduction.

We performed the procedures that we considered necessary in accordance with the French professional standards issued by our professional body, Compagnie Nationale des Commissaires aux Comptes, for this type of engagement. Those procedures consisted of examining whether the reasons for and the terms of the proposed capital reduction were reasonable.

The operation would follow on from the buyback, by the Company, of up to 10% of its outstanding shares on the basis provided for in Article L.225-209 of the French Commercial Code. Shareholder approval of the buyback program is being sought in the eleventh resolution, for a period of 18-months.

The Managing Partners are seeking an 18-month authorization to cancel shares acquired under the shareholder-approved buyback program. The number of shares cancelled would not exceed 10% of the total shares outstanding.

We have nothing to report concerning the reasons for and the terms of the proposed capital reduction, the execution of which is dependent on the shareholders authorizing the share buyback program.

Neuilly-sur-Seine and Paris, February 8, 2010

PricewaterhouseCoopers Audit  
Christian Marcellin

Corevise  
Jean-Yves Lépinay

Statutory Auditors

Members of «Compagnies Régionales» of Versailles and Paris

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## 10.4. TABLE OF CONCORDANCE

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