

**COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN**  
**Financial Information for the Year Ended December 31, 2011**

**2011: A Year That Fully Validated Michelin's Strategic Vision**

**2012: Higher Operating Income Target and Positive Free Cash Flow in  
More Widely Varying Markets**

- ❑ Sales volumes up 6.7% thanks to a very strong first half.
- ❑ Robust operating income of €1,945 million, or 9.4% of net sales, and a 39% increase in net income.
- ❑ Sustained high margins in the Specialty businesses.
- ❑ Higher raw materials costs effectively offset.
- ❑ Free cash flow at breakeven, given the faster deployment of the capital expenditure plan and despite the impact of higher raw materials costs on working capital.
- ❑ A solid balance sheet.
- ❑ Proposed dividend of €2.10 per share, subject to approval at the Annual Shareholders Meeting of May 11, 2012.

❑ Outlook

In deploying its strategy, Michelin is capitalizing on a number of unique competitive advantages, including forefront positions both in the premium tire segment and in all of its Specialty businesses, as well a balanced global footprint that will be further strengthened in 2012 with the start-up of the new plants in Brazil and China.

As a result, Michelin confirms its ambition to drive at least 25% growth and generate positive free cash flow over the 2011-2015 period, and has raised its 2015 operating income target to €2.5 billion.

As part of this process, Michelin has introduced a new program to improve the competitiveness of its manufacturing operations and services by around €1 billion over five years.

In 2012, Michelin aims to hold volumes steady as global tire markets experience varying degrees of growth, in an environment that will remain favorable in the new markets but be less buoyant in Europe.

Growth in operating income and, given capital expenditure of around €1.9 billion for the year, the generation of free cash flow should both be in line with the Group's 2015 objectives.



(IN € MILLIONS)	2011	2010
NET SALES	<b>20,719</b>	<b>17,891</b>
OPERATING INCOME BEFORE NON-RECURRING INCOME AND EXPENSES	<b>1,945</b>	<b>1,695</b>
OPERATING MARGIN BEFORE NON-RECURRING INCOME AND EXPENSES	<b>9.4%</b>	<b>9.5%</b>
PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION	<b>9.4%</b>	<b>10.4%</b>
TRUCK TIRES AND RELATED DISTRIBUTION	<b>3.5%</b>	<b>4.4%</b>
SPECIALTY BUSINESSES	<b>21.5%</b>	<b>17.8%</b>
OPERATING INCOME AFTER NON-RECURRING INCOME AND EXPENSES	<b>1,945</b>	<b>1,695</b>
NET INCOME	<b>1,462</b>	<b>1,049</b>
CAPITAL EXPENDITURE	<b>1,711</b>	<b>1,100</b>
NET DEBT	<b>1,814</b>	<b>1,629</b>
GEARING	<b>22%</b>	<b>20%</b>
FREE CASH FLOW <sup>1</sup>	<b>(19)</b>	<b>426</b>
ROCE	<b>10.9%</b>	<b>10.5%</b>
EMPLOYEES ON PAYROLL <sup>2</sup>	<b>115,000</b>	<b>111,100</b>

<sup>1</sup>Cash flow from operating activities less cash flow used in investing activities

<sup>2</sup> At period-end

## Market Review

In 2011, worldwide demand for tires generally remained strong in every region. After rising sharply in the first quarter, growth slowed to a pace more in line with long-term trends, with demand for truck tires turning downwards during the summer in a less favorable economic environment. Throughout the year, the market saw ongoing price increases by all tire manufacturers to offset sharply rising raw material costs.

### □ PASSENGER CAR AND LIGHT TRUCK TIRES

2011 % change year-on-year (in number of tires)	EUROPE*	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment	+ 7%	+ 10%	- 2%	+ 4%	+ 10%	+ 4%
Replacement	+ 5%	- 1%	+ 10%	+ 6%	+ 3%	+ 4%

Fourth Quarter 2011 % change year-on-year (in number of tires)	EUROPE*	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment	+ 4%	+ 22%	- 1%	- 1%	+ 9%	+ 4%
Replacement	- 4%	- 4%	+ 4%	+ 6%	+ 3%	- 1%

\*Including Russia and Turkey

#### ▪ ORIGINAL EQUIPMENT

- In Europe, tire demand slowed in the fourth quarter but ended the year up 7%, lifted by vehicle exports and the increased production of premium models.
- Demand in North America rose by 10% for the year, despite the impact on car output of the shortfall in Japan-sourced parts and components in the second quarter.
- In Asia (excluding India), demand retreated by 2% overall. It increased 2% in China but fell 14% in Japan, where the impact of the tsunami offset the relaunch of local automobile assembly plants, whose reramp-up was slowed by the flooding in Thailand in the fourth quarter.
- South American markets ended the year up 4% overall. Although the popularity of imports caused local automobile output to slow in mid-year, demand for cars and light utility vehicles is rebounding.

#### ▪ REPLACEMENT

- The European replacement market rose by 5% over the year, lifted by robust demand and sustained winter tire sales. The beginning of the year saw dealers partly build up inventory ahead of announced price increases. Despite the mild weather, demand for winter tires surged 18%, even though December volumes were down on prior-year levels. The winter segment now accounts for 30% of the European market. Demand remained very vigorous in Russia.
- In North America, demand contracted by 1% overall, dragged down by the decline in average miles driven, due to higher fuel costs, and by the uncertain



economic environment. However, the winter, commercial and premium (V and Z speed rating) segments continued to expand.

- In Asia (excluding India), markets rose by 10% overall during the year. Demand in China rose by 19% despite government policies to manage growth. While slowing in the fourth quarter, the Japanese market ended the year up 7%, as dealers replaced inventory lost during the earthquake and tsunami.
- In South America, replacement markets continued to trend upwards, increasing by 6% during the year. The Brazilian market rose by 3% overall, with faster growth at year-end spurred by the government's autumn initiatives to revitalize the economy and lower interest rates.

## □ TRUCK TIRES

2011 % change year-on-year (in number of tires)	EUROPE**	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment*	+ 35%	+ 56%	- 3%	+ 19%	+ 120%	+ 18%
Replacement*	+ 6%	+ 6%	+ 4%	+ 7%	+ 9%	+ 5%

Fourth Quarter 2011 % change year-on-year (in number of tires)	EUROPE**	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment*	+ 4%	+ 49%	+ 16%	+ 18%	+ 137%	+ 23%
Replacement*	- 9%	- 6%	- 0%	- 1%	+ 5%	- 2%

\*Radial market only

\*\*Including Russia and Turkey

### ▪ ORIGINAL EQUIPMENT

- In Europe, demand surged by 35% compared with 2010, when it was still relatively weak, particularly in the first half. Growth was supported by the production of export trucks but it fell off noticeably in the summer as the economic outlook clouded.
- The North American market enjoyed a robust 56% growth, led by new truck sales and purchases to replace aging units (averaging a historically high nine years old).
- Demand contracted by 3% in Asia (excluding India), primarily due to the 5% decline in China caused by measures to restrict the availability of credit and the slowdown in construction.
- Markets continued to trend upwards in South America, led by Brazil, where demand climbed 21% on new truck purchases ahead of the early 2012 introduction of new technical standards.

### ▪ REPLACEMENT

- In Europe, the market ended the year up 6% overall, but while demand surged 18% in the first half on dealer restocking and buying ahead of price increases, it slowed suddenly in the second as the freight market weakened, dealers drew down excess inventory and the euro crisis clouded the economic



outlook. Demand in Russia remained as vigorous as ever, gaining 35% over the year in a still buoyant economy.

- In North America, the radial market expanded by 6%, while freight tonnage returned to 2007 levels.
- In Asia (excluding India), the market rose 4% overall, but growth varied by country. Demand in China edged up only 3%, held back by the slowdown in construction and government measures to tighten credit controls. In the ASEAN countries, growth held firm at a sustained 11%, despite the impact of flooding in Thailand. The Japanese market climbed 6%, lifted by dealer purchases to replace inventory lost in the natural disaster.
- In South America, demand ended the year up 7% but cooled in the second half, and tire imports rose as local currencies strengthened. While up 5% overall, the Brazilian market slowed in the second half due to measures introduced to combat inflation and imports, as well as to the general worsening of the global economy.

#### □ SPECIALTY TIRES

- **EARTHMOVER TIRES:** The mining segment continued to enjoy sustained, double-digit growth in 2011, led by strong demand for ore, oil and gas in emerging economies. The market remains tight, especially for large tires, but the original equipment segment saw a sharp rebound and is close to its all-time highs. Global demand for tires used in infrastructure projects and quarries continued to trend upwards in both North America and Europe.
- **AGRICULTURAL TIRES:** Global OE demand continued to recover, particularly in Europe and North America, and especially in the high-powered farm machinery segment. The replacement market rose sharply in North America and continued to expand in Europe.
- **TWO-WHEEL TIRES:** The motorized segments expanded during the year, particularly in North America.
- **AIRCRAFT TIRES:** In the commercial aviation segment, the number of passengers carried continued to increase as did aircraft load factors, while the military segment remained stable compared with 2010.

## 2011 Net Sales and Results

#### □ NET SALES

**Consolidated net sales amounted to €20,719 million**, up 15.8% at current exchange rates compared with 2010.

Growth was primarily led by the positive 10.5% impact from the price mix, which was entirely due to the sustained firm pricing policy and contractual price adjustments. The mix effect, which was barely material at -€63 million, reflected the unfavorable impact of the steeper upturn in OE volumes, which was almost entirely offset by the sustained improvement in the segment mix.

The 6.7% increase from volume gains reflected the Group's robust marketing performance, while demand remained generally buoyant throughout the year.

The negative 1.8% currency effect mainly resulted from the euro's appreciation against the dollar.

#### □ EARNINGS

**Operating income before non-recurring income and expenses amounted to €1,945 million or 9.4% of net sales.** There were no non-recurring items recognized for the period.

The €250-million increase compared with reported 2010 operating income mainly reflected the favorable impact of higher volumes (€473 million) and the price mix (€2,012 million), which totally offset the €1,748-million increase in raw material costs. It also included the €207-million increase in expenses to drive volume growth, €62 million in productivity gains and an unfavorable €100-million currency effect.

**In all, net income for the year came to €1,462 million.**

#### □ NET FINANCIAL POSITION

**Free cash flow amounted to a negative €19 million** for the year, after growth investments doubled over the period. By causing a significant increase in the value of inventory and in working capital, higher raw materials costs reduced cash flow by €739 million.

At December 31, 2011, **gearing stood at 22%** while net debt amounted to €1,814 million.

#### □ SEGMENT INFORMATION

€ MILLIONS	NET SALES		OPERATING INCOME BEFORE NON-RECURRING INCOME AND EXPENSES		OPERATING MARGIN BEFORE NON-RECURRING INCOME AND EXPENSES	
	2011	2010	2011	2010	2011	2010
PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION	<b>10,780</b>	<b>9,790</b>	<b>1,018</b>	<b>1,014</b>	<b>9.4%</b>	<b>10.4%</b>
TRUCK TIRES AND RELATED DISTRIBUTION	<b>6,718</b>	<b>5,680</b>	<b>233</b>	<b>249</b>	<b>3.5%</b>	<b>4.4%</b>
SPECIALTY BUSINESSES	<b>3,221</b>	<b>2,421</b>	<b>694</b>	<b>432</b>	<b>21.5%</b>	<b>17.8%</b>
GROUP	<b>20,719</b>	<b>17,891</b>	<b>1,945</b>	<b>1,695</b>	<b>9.4%</b>	<b>9.5%</b>

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

Net sales in the Passenger car and light truck tires and related distribution segment stood at €10,780 million, up 10.1% on 2010 thanks to the 3.9% increase in sales volumes, the robust pricing dynamic maintained throughout the year, and the success of the MICHELIN Pilot Super Sport, MICHELIN Primacy HP and MICHELIN Alpin 4 lines.

The growth in tonnages sold, the positive price-mix which more than offset the increase in raw materials costs and the expenses committed to drive future growth, together fed through to operating income of €1,018 million before non-recurring income and expenses, or 9.4% of segment net sales.

## ▪ TRUCK TIRES AND RELATED DISTRIBUTION

Net sales in the Truck tires and related distribution segment amounted to €6,718 million, a gain of 18.3% on 2010. Sales volumes ended the year up 5.8% after rising 15.6% in the first half thanks to purchases ahead of announced price increases. The new MICHELIN X<sup>®</sup> MultiWay<sup>™</sup> 3D Europe and X<sup>®</sup> MultiWay<sup>™</sup> XZE Brazil lines were successfully introduced during the year while the MICHELIN X One range went from strength to strength.

Despite an unfavorable OE/replacement sales mix and start-up costs in China and India, operating income before non-recurring income and expenses stood at €233 million, or 3.5% of segment net sales, thanks to volume growth and the successive price increases, which over the year offset the increase in raw materials prices.

## ▪ SPECIALTY BUSINESSES

Net sales in the Specialty businesses totaled €3,221 million, a 33.0% increase over 2010 that reflected both a 22.4% surge in volumes and the ability to pass on higher raw materials costs to customers.

Operating income before non-recurring income and expenses remained structurally high, at €694 million or 21.5% of segment net sales. The increase in tonnages sold, the significant contribution from the Earthmover segment and the application of contractual indexing clauses amply offset the unfavorable impact of higher raw materials prices and changes in exchange rates.

## Compagnie Générale des Etablissements Michelin

Compagnie Générale des Etablissements Michelin reported a profit of €360 million in 2011.

The financial statements were presented to the Supervisory Board at its meeting on February 6, 2012. The audit was completed and the auditors' report was issued on the same date.

The Managing Partners will call an Annual Shareholders Meeting on Friday, May 11 at 9:00 am in Clermont-Ferrand.

Shareholders will be asked to approve the payment of a dividend of €2.10 a share, with a dividend reinvestment option.



## 2011 Highlights

- ❑ Michelin continued to raise prices in response to rising raw materials costs
- ❑ Memorandum of understanding signed with Double Coin and Huayi
- ❑ Another \$200 million invested in the Lexington, SC plant to expand Car and Light Truck tire capacity
- ❑ New €1.5-billion multi-currency revolving line of credit arranged
- ❑ Compagnie Générale des Etablissements Michelin successfully completes private placement of its entire stake in Hankook Tire Co., Ltd.
- ❑ Launch of the new MICHELIN Pilot Super Sport tire, engineered for sports sedans
- ❑ New MICHELIN Primacy 3 tire premiered, offering safety to the power of 3
- ❑ Launch in China of the MICHELIN ENERGY™ XM2, especially designed for use in the BRICs
- ❑ New sizes introduced for the MICHELIN X ONE XDA Energy™, the most energy-efficient drive tire for North American long-haul trucks.
- ❑ The MICHELIN X ® MultiWay™3D range of truck tires introduced in Europe
- ❑ Michelin to supply tires for China's first commercial airliner, the COMAC C919
- ❑ The Le Puy, France plant inaugurates 17,000 rooftop solar power panels

A full description of 2011 highlights  
may be found on the Michelin website: [www.michelin.com/corporate/finance](http://www.michelin.com/corporate/finance)



## PRESENTATION AND CONFERENCE CALL

Full-year 2011 results will be reviewed with analysts and investors during a conference call today, Friday February 10, at 11:00 am CET (10:00 am UT). The conference will be in English, with simultaneous interpreting in French. If you wish to participate, please dial-in one of the following numbers from 10:50 pm CET:

- In France 01 70 77 09 21 (French)
- In France 01 70 77 09 37 (English)
- In the UK 0203 367 9454 (English)
- In the United States (866) 907 5925 (English)
- From anywhere else +44 203 367 9454 (English)

Please refer to the [www.michelin.com/corporate](http://www.michelin.com/corporate) website for practical information concerning the conference call.

## INVESTOR CALENDAR

- **Quarterly information for the three months ended March 31, 2012:**  
Monday, April 23, 2012 after close of trading
- **First-half 2012 net sales and results:**  
Friday, July 27, 2012 before start of trading

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