

**COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN**  
**Financial Information for the Six Months Ended June 30, 2011**

**First-half 2011 in line with the Michelin Group road map**  
**Net sales up 21% to €10.1 billion**  
**Operating income of €971 million for a 9.6% operating margin**  
**Net income up 32%**  
**2011 objectives: Sales volumes revised upwards and profitability confirmed**

- ❑ **Sales volumes up 12.6%, reflecting sustained market growth in the first half and the Group's solid sales performance**
- ❑ **A pricing policy that totally offset the increase in raw material prices in the first half**
- ❑ **Operating income up 18% to €971 million**
- ❑ **Investment plan moving forward as scheduled**
- ❑ **Free cash flow reflecting the impact of higher raw material prices and seasonal trends**
  
- ❑ **Outlook for full-year 2011**

**The second-half business environment should see ongoing market growth at a pace closer to long-term trends.**

**Against this backdrop, the Group is aiming for growth in sales volumes of approximately 8% for the full year.**

**Michelin is diligently pursuing its pricing policy, which is intended to pass on the increase in raw material prices. Together, the price increases announced or implemented to date are expected to offset estimated additional full-year costs of around €1,800 million.**

**Given the impact of raw materials costs on working capital requirement (amounting to approximately €400-500 million for the full year) and the faster deployment of capital expenditure programs, free cash flow is expected to be temporarily negative in 2011.**

**Michelin reaffirms its objective of reporting higher operating income in 2011.**



(IN € MILLIONS)	First-Half 2011	First-Half 2010
NET SALES	<b>10,105</b>	<b>8,349</b>
OPERATING INCOME BEFORE NON-RECURRING INCOME AND EXPENSES	<b>971</b>	<b>822</b>
OPERATING MARGIN BEFORE NON-RECURRING INCOME AND EXPENSES	<b>9.6%</b>	<b>9.8%</b>
PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION	<b>10.2%</b>	<b>10.8%</b>
TRUCK TIRES AND RELATED DISTRIBUTION	<b>3.5%</b>	<b>4.9%</b>
SPECIALTY BUSINESSES	<b>20.2%</b>	<b>17.1%</b>
OPERATING INCOME AFTER NON-RECURRING INCOME AND EXPENSES	<b>971</b>	<b>822</b>
NET INCOME	<b>667</b>	<b>504</b>
CAPITAL EXPENDITURE	<b>554</b>	<b>251</b>
NET DEBT	<b>2,319</b>	<b>3,428</b>
GEARING	<b>27%</b>	<b>53%</b>
FREE CASH FLOW <sup>1</sup>	<b>(634)</b>	<b>(30)</b>
EMPLOYEES ON PAYROLL <sup>2</sup>	<b>114,200</b>	<b>110,100</b>

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

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

## Market Review

In first-half 2011, worldwide demand for tires rose substantially in all regions. Following a sharp increase in the first quarter, growth slowed to a pace closer to long-term trends. During the first half, the market saw ongoing price increases by all tire manufacturers in an environment shaped by sharply higher raw material prices and high capacity utilization rates.

### □ PASSENGER CAR AND LIGHT TRUCK TIRES

2011/2010 % change YoY	EUROPE*	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment	<b>+8%</b>	<b>+5%</b>	<b>-5%</b>	<b>+8%</b>	<b>+13%</b>	<b>+2%</b>
Replacement	<b>+9%</b>	<b>+1%</b>	<b>+14%</b>	<b>+10%</b>	<b>+3%</b>	<b>+7%</b>

\*Including Russia and Turkey

#### ▪ ORIGINAL EQUIPMENT

- In Western Europe, the market was impacted in the second quarter by the consequences of the natural disaster in Japan, while demand in Eastern Europe continued to rise sharply.
- Demand in North America, which returned to growth in the first quarter in line with the upswing in new vehicle sales, was adversely affected in the second quarter by the impact of a lack of parts and components from Japan for carmakers.
- In Asia (excluding India), demand contracted by 5% overall. In China, the market remained buoyant, expanding by 3%, despite the impact of the Japanese tsunami and the termination of government-sponsored carbuying incentives.
- In South America, the OE tire market increased by 8%, lifted by a record number of car registrations.

#### ▪ REPLACEMENT

- In Europe, demand was up 9% in the first half. It was supported by partial dealer inventory rebuilding ahead of the announced early-year price increases and by very strong demand for winter tires.
- In North America, demand was up 1% for the half, following a record number of tire sales in the first quarter. Higher fuel prices in the second quarter and the resulting decrease in distances driven by US motorists weighed on demand at the end of the half. Market growth was driven by the recreational and commercial segments as well as by the high-performance tire segment (V and Z speed rating).
- In Asia (excluding India), markets rose 14% overall during the period. Demand in China increased by 20% for the half, although more slowly late in the period due to i) the fact that early-year demand was lifted by dealer purchases ahead of price increases and ii) a slowdown in the economy and in consumer spending. The Japanese market expanded by a robust 15%, led by restocking to replace tires lost during the natural disaster.



- In South America, replacement tire markets continued to expand, increasing by 10% overall. The Brazilian market widened further, growing by 7%, despite higher interest rates introduced by the government to combat inflationary trends.

## □ TRUCK TIRES

2011/2010 % change YoY	EUROPE**	NORTH AMERICA	ASIA (EXCLUDING INDIA)	SOUTH AMERICA	AFRICA/INDIA/ MIDDLE EAST	TOTAL
Original Equipment*	<b>+61%</b>	<b>+66%</b>	<b>-10%</b>	<b>+22%</b>	<b>+115%</b>	<b>+17%</b>
Replacement*	<b>+18%</b>	<b>+14%</b>	<b>+9 %</b>	<b>+17%</b>	<b>+11%</b>	<b>+13%</b>

\*Radial market only

\*\*Including Russia and Turkey

Demand for radial truck tires recovered sharply during the year in every region. In mature markets, the gains came off of low prior-period comparatives, particularly in the OE segment (up 17%).

### ▪ ORIGINAL EQUIPMENT

- In Europe, the market expanded by a strong 61%, lifted by favorable prior-period comparatives in the first quarter and sustained exports of new trucks.
- In North America, the market saw robust 66% growth, reflecting new vehicle purchases needed because of the high average age of tractor trucks (nine years).
- In Asia (excluding India), demand fell by 10%, due mainly to a 12% contraction in the Chinese market. The decline in China resulted in particular from a slowdown in construction-related businesses and tighter credit controls.
- In South America, market expansion was driven by rising sales in advance of the introduction of new truck standards and by infrastructure development projects for the 2016 Olympic Games in Brazil.

### ▪ REPLACEMENT

- In Europe, the market grew by 18%, exceeding the increase in freight demand, which rises by approximately 2% a year. Growth was led by dealer inventory rebuilding in an environment shaped by the steady round of tire maker price increases and by emerging shortages that encouraged dealers to restock. Note that while the overall market expanded, demand for freight transport was greater in Northern than in Southern Europe.
- In North America, demand increased by 14% compared with the prior-year period. Freight tonnage returned to 2007 levels, while sales to dealers generally kept pace with sales to end-users.
- In Asia (excluding India), the market continued to grow, expanding by 9%, although performance varied from one country to another. In China, the market widened by 10% in the first half although growth slowed considerably in the second quarter due to a slowdown in construction-related businesses and credit-tightening measures.
- In South America, demand rose by a strong 17% although at a slower pace in the second quarter owing to an increase in Brazilian interest rates and other inflation-control initiatives.



## □ SPECIALTY TIRES

- **EARTHMOVER TIRES:** The mining segment continued to expand, growing by more than 10%, led by renewed work on major projects and healthy demand for ore and energy. Supply chain constrictions are beginning to resurface. The original equipment segment experienced a strong recovery that nonetheless fell short of the exceptional levels seen in 2008. The market for tires used in infrastructure projects and quarries pursued its growth path, in both North America and Europe.
- **AGRICULTURAL TIRES:** Global demand in the original equipment market recovered strongly during the first half in North America and Europe, especially in the high-powered farm machinery segment. Sales in the replacement market increased sharply in North America and continued to rise in Europe.
- **TWO-WHEEL TIRES:** The motorized segments made gains in the first half, especially in North and South America.
- **AIRCRAFT TIRES:** In the commercial aviation segment, the number of passengers carried continued to increase as did aircraft load factors. The general aviation segment saw a sharp upturn while demand in the military segment remained on a par with 2010.

## First-Half 2011 Net Sales and Results

### □ NET SALES

**Consolidated net sales amounted to €10,105 million**, up 21% at current exchange rates compared with first-half 2010.

The 12.6% improvement in sales volumes reflects the Group's market share gains as well as higher year-on-year markets.

The positive 9.0% price mix corresponded almost entirely to the impact of the sustained firm pricing policy and contractual price adjustments. The mix effect, which was not material, combined the unfavorable impact for Truck tires of the stronger recovery in OE volume sales offset by the favorable impact of the improvement in the segment mix, especially in Passenger car and light truck tires.

The 1.5% negative currency effect resulted from increases in the euro against nearly all currencies in the second quarter, especially the US dollar.

### □ EARNINGS

**Operating income before non-recurring income and expenses amounted to €971 million or 9.6% of net sales**, compared with €822 million and 9.8% in first-half 2010. There were no non-recurring items recognized for the period.

The €149-million increase in operating income before non-recurring income and expenses, mainly reflected the favorable impact of higher volumes (€407 million) and the price mix (€829 million), including €842 million from higher prices, which



totally offset at the end of June the increase in raw material prices (€848 million). It also includes the cost of the Group's growth initiatives (€95 million), the increase in manufacturing costs (€87 million) and the positive impact of productivity gains (€78 million).

Given the second-quarter changes in exchange rates and the Group's geographic presence, the currency effect was a negative €41 million in the first half and could amount to around €150 million for the full year at current exchange rates.

**Net income for the period came to €667 million.**

#### □ NET FINANCIAL POSITION

In the first half, **free cash flow was a negative €634 million**. Higher raw materials prices reduced free cash flow by €610 million. Because of the usual seasonal trends in Michelin's operations, related to preparations for winter sales, free cash flow is lower in the first half than in the second.

At June 30, 2011, **gearing stood at 27% while net debt** amounted to €2,319 million.

#### □ SEGMENT INFORMATION

€ millions	NET SALES		OPERATING INCOME BEFORE NON-RECURRING INCOME AND EXPENSES		OPERATING MARGIN BEFORE NON-RECURRING INCOME AND EXPENSES	
	H1 2011	H1 2010	H1 2011	H1 2010	H1 2011	H1 2010
PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION	<b>5,252</b>	<b>4,621</b>	<b>535</b>	<b>497</b>	<b>10.2%</b>	<b>10.8%</b>
TRUCK TIRES AND RELATED DISTRIBUTION	<b>3,266</b>	<b>2,566</b>	<b>115</b>	<b>126</b>	<b>3.5%</b>	<b>4.9%</b>
SPECIALTY BUSINESSES	<b>1,587</b>	<b>1,162</b>	<b>321</b>	<b>199</b>	<b>20.2%</b>	<b>17.1%</b>
CONSOLIDATED TOTAL	<b>10,105</b>	<b>8,349</b>	<b>971</b>	<b>822</b>	<b>9.6%</b>	<b>9.8%</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 €5,252 million, up 13.7% compared with the first six months of 2010. Sales volumes rose 7.2 %, thanks to a solid performance by the MICHELIN brand and the launch of new products, such as the MICHELIN Pilot Super Sport and the BFGoodrich® Rugged Terrain. Net sales in the first half were also lifted by the Group's pricing policy. The slightly positive mix effect reflected the impact of the relative growth in OE and replacement sales and of the sustained improvement in the segment/speed rating mix.



The sharp rise in volumes, supported by growth in all Passenger Car and Light Truck Tire markets and by the strong performance of the MICHELIN brand, the amply positive price-mix in the face of higher raw materials costs and the improvement in manufacturing costs helped to lift operating income before non-recurring income and expenses to €535 million or 10.2% of net sales, compared with €497 million and 10.8% in first-half 2010.

#### ▪ **TRUCK TIRES AND RELATED DISTRIBUTION**

Net sales in the Truck Tires and Related Distribution segment amounted to €3,266 million, up 27.3% from first-half 2010. Sales volumes rose by 15.6%, supported by a strong marketing performance and first-quarter purchases made ahead of price increases. In particular, Michelin benefited from the successful launch of new products and services.

At a time of sharply rising raw materials costs that were not fully offset by price increases during the first half and in the context of adverse currency fluctuations, operating income before non-recurring income and expenses came to €115 million, or 3.5% of net sales thanks to higher volumes, which increased more in the OE segment than the replacement segment.

#### ▪ **SPECIALTY BUSINESSES**

Net sales by the Specialty Businesses rose by 36.6% to €1,587 million in the first six months of 2011. Volume sales increased by 29.1% in an environment shaped by a rapid recovery in markets and high prices for raw materials and farm commodities. Net sales reflected the favorable impact of the application of contractual clauses indexing prices to raw materials costs.

Operating margin before non-recurring items from the Specialty Businesses remained structurally high in the first half, at €321 million or 20.2% of net sales, compared with €199 million and 17.1% in the year-earlier period. The 29.1% increase in tonnage sold, the significant contribution from the Earthmover segment and the contractual clauses indexing prices to raw material prices amply offset the unfavorable currency effect.

### **Compagnie Générale des Etablissements Michelin**

Compagnie Générale des Etablissements Michelin reported a profit of €276 million in first-half 2011.

The financial statements were presented to the Supervisory Board at its meeting on July 25, 2011. The audit was completed and the auditors' report was issued on the same date.

## First-Half 2011 Highlights

- ❑ **Michelin continues to raise prices in response to rising raw materials costs**
- ❑ **The Michelin Group signs a memorandum of understanding with Double Coin and Huayi**
- ❑ **Michelin North America is investing \$200 million in Lexington, South Carolina, to further expand its tire building capacity in Passenger Car and Light Truck**
- ❑ **Launch of the new MICHELIN Pilot Super Sport tire, engineered for sports sedans**
- ❑ **In China, Michelin launches the new MICHELIN ENERGY™ XM2 tire, specially engineered for use in the BRIC countries**
- ❑ **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**

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

## PRESENTATION AND CONFERENCE CALL

First-half 2011 results will be reviewed with analysts and investors during a conference call in English – with simultaneous interpreting in French – today, Friday July 29, at 11:00 am CEST (10:00 am UT). If you wish to participate, please dial-in one of the following numbers from 10:50 am CEST:

- From France: 01 70 77 09 41
- From the UK: 0203 367 9462
- From North America: +1 866 907 5925
- From the rest of the world: +44 203 367 9462

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 nine months ended September 30, 2011:**  
Wednesday, October 26, 2011 after close of trading
- **2011 net sales and results:**  
Friday, February 10, 2012 before start of trading

## 2011 INTERIM FINANCIAL REPORT

The interim financial report for the period ending June 30, 2011 may be downloaded from the [www.michelin.com/corporate](http://www.michelin.com/corporate) website, in the Finance/Regulated Information section.

It has also been filed with the Autorité des Marchés Financiers (AMF).

The report contains:

- The business review for the six months ended June 30, 2011.
- The consolidated financial statements and notes for the period.
- The statutory auditors' review report on the interim financial information for 2011.

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*This press release may contain a number of forward-looking statements. Although the Company believes that these statements are based on reasonable assumptions as at the time of publishing this document, they are by nature subject to risks and contingencies liable to translate into a difference between actual data and the forecasts made or inferred by these statements.*

