

2006 Results

15 February 2007

2006 FULL-YEAR RESULTS

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PRESS RELEASE

Clermont-Ferrand, February 15, 2007

COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN

2006 RESULTS

**MICHELIN REPORTS 8.2% OPERATING MARGIN BEFORE NON-RECURRING ITEMS,
IN LINE WITH THE OUTLOOK PUBLISHED IN JULY 2006**

IMPROVED FREE CASH FLOW IS CLOSE TO BREAK-EVEN POINT.

THE GROUP MAINTAINS ITS INVESTMENT PROGRAM

- Net sales totaled EUR 16.4 billion, up 5.1% after a 3.6% increase in 2005;
- The price mix effect remained very favorable (+4.7% of net sales); this effect, combined with internal cost reductions, enabled the Group to offset most of the EUR 800 million additional cost burden relative to 2005, which was mainly due to raw material price inflation;
- Net result was down 35.5%, reflecting large non-recurring restructuring and industrial plant closure charges;
- A EUR 1.45 dividend per share, or a 7.4% increase, will be recommended to the Annual Shareholders Meeting on May 11, 2007.

Commenting on the year's results, Mr. Michel Rollier noted: « In 2006, for the fourth year in a row, Michelin had to cope with continued external cost inflation: raw materials, energy and logistics in particular. The Group's pricing policy made it possible to preserve a high level of operating income, a level that we intend to raise further in the future. To this end, it is more necessary than ever to bring the Group's entire cost structure down and to push sales volume growth through increasingly competitive product offerings. In 2007, markets are globally expected to grow while external costs should show more favorable trends than in the past: Michelin's net sales and operating margin should therefore post a tangible increase compared to 2006, in line with the objectives the Group has set for 2010».

(IFRS, in EUR million) ¹	December 31, 2006	2006 / 2005 Change
Sales	16,384	+ 5.1%
At constant scope and exchange rates		+ 5.4%
Sales volumes		+ 0.7%
Operating income before non-recurring income and expenses	1,338	- 2.2%
Operating margin before non-recurring income and expenses	8.2%	- 0.6 pt
Operating income	1,118	- 29.0%
Operating margin	6.8%	- 3.3 pt
Net income	573	- 35.5%
Net income attributable to Shareholders	572	- 35.7%
Net financial debt	4,178	+ 2.3%
Gearing	89%	stable
Free Cash Flow	- 39	+ 85

¹ Consolidated financial statements at December 31, 2006 have been prepared in accordance with the rules and methods of the International Financial Reporting Standard (IFRS).

Evolution of tire markets in 2006

Overall, tire **replacement** markets recorded satisfactory growth, with the exception of North American passenger car and light truck and truck markets, which were particularly hit by high fuel prices. In Europe, a turnaround was noted in the truck tire markets, especially in the Eastern countries. Emerging markets were especially strong.

In **original equipment**, truck tire market growth continued to accelerate worldwide, with the exception of Brazil, where truck manufacturers' exports suffered from a high Brazilian real relative to the US dollar. The performance of passenger car and light truck markets in Europe and North America was disappointing, highlighting the challenging environment faced by most OEMs in these markets.

Consolidated Group net sales rose 5.1% in 2006 compared to the previous year.

The changes are the result of the following factors:

- € (+4.7%) continuing strong positive price-mix effect, further accentuated toward the year end (+ 6.2% in the 4th quarter). This reflects price increases passed across product offerings and regions to compensate for further very substantial raw material cost increases; it also results from the constant enrichment of the Group's product offering, notably on the High-performance and Winter segments;
- € (+ 0.7 %) slightly positive volume due to December volume sales sharply down versus 2005. In 2006, the Group was impacted by a substantial decline in the North American passenger car and light truck markets;
- € (-0.2%) negative scope effect mainly relating to disposal of Michelin's Wheel operations in May 2005.
- € Neutral impact of exchange rates. The euro appreciation relative to the US dollar (+ 0.9%) and the Hungarian forint (+ 6.1%) was offset by the appreciation of the Canadian dollar (+5.6%) the Brazilian real (+10.1%) and the Thai baht + (+5.0%) versus the euro.

At 8.2%, Michelin's operating margin before non-recurring items is in line with the Group's objective. It is down only 0.6 point against 2005. Group operating margin before non-recurring items was down 2.2% at EUR 1,338 million.

The unprecedented rise in external costs translated into an additional EUR 824 million cost burden for the Group compared to 2005, with raw materials alone accounting for EUR 740 million. This additional burden could not be fully offset by the price increases passed across product ranges worldwide. This resulted in a gross margin of 28.9%, down 1.6 point year-on-year.

The Group has been able to leverage the efforts achieved over the past several years in terms of industrial flexibility in order to adjust its production capacity to market fluctuations throughout the year. As a consequence, it avoided a substantial proportion of such additional industrial costs since the end of 2005, when the Group had to curtail production in a number of plants.

Group control over structural costs led to a reduction in their relative weight as a percentage of net sales (20.7% in 2006 versus 21.7% in the prior year).

As a result, the Group's operating margin before non-recurring items is 8.2%, down 0.6 point year-on-year.

At EUR 573 million, net result was down 35.5%, due to large non-recurring restructuring and plant closure charges

The EUR 316 million decline versus 2005 can be explained by the following main factors:

- EUR 30 million decrease of operating income before non-recurring items;
- Non-recurring charges amounting to EUR 220 million compared with an income of EUR 206 million in 2005; this charge corresponds to:
 - the Group's restructuring costs incurred for the closure of its Kitchener plant in Canada, in July 2006;
 - the costs in connection with ending the industrial operations of its Port Harcourt plant in Nigeria, due to occur in the 1st half of 2007.
- The EUR 100 million improvement in financial income chiefly corresponds to capital gains in an amount of EUR 105 million from the sale of the Group's stake in PSA Peugeot-Citroën. The cost of net debt over the period remained stable versus last year;
- The EUR 42 million tax decrease is due to lower taxable income.

Free cash flow posts an EUR 85 million improvement. This resulted from a tangible improvement in working capital requirements, while the Group maintained its investment program.

EBITDA¹ (before non-recurring items) rose slightly to EUR 2,209 million. Cash from operations was also up EUR 160 million due to the following key factors:

- EUR + 107 million increase in account receivables in 2006 versus EUR + 171 million increase in 2005, due to lower sales in December 2006 versus December 2005.
- EUR + 190 million positive contribution from other operating WCR items.
- At the end of 2006, inventory expressed in volume remained stable versus December 2005. In value terms, however, inventory increased more in 2006 than in 2005, reflecting the impact of dramatic raw material cost increases.

As opposed to a negative EUR - 124 million in 2005, free cash flow improved significantly by EUR 85 million at EUR - 39 million. This performance should be viewed relative to a sustained high level of gross investment amounting to EUR 1,414 million.

Shareholders equity and net debt increased in the period. At 89%, the gearing ratio remained stable compared to January 1, 2006

Group Shareholders equity appreciated by EUR 161 million during fiscal 2006, as a result of the following key factors:

- Net income for the year: EUR + 573 million
- Dividend distributions: EUR - 205 million
- Change in the fair value of available-for-sale investments: EUR - 83 million
- Change due to exchange rates: EUR - 142 million

¹ The Group defines EBITDA as operating income before (i) non-recurring income and expenses and (ii) depreciation of property, plant and equipment (PP&E) and amortization of intangible assets, including goodwill, and any related impairment charge.

At the same time, the EUR 95 million increase in net financial debt can be attributed to the following factors:

- EUR + 205 million dividend paid during the year
- EUR - 127 million impact of currency on debt. This is mainly due to the appreciation of approximately 11% of the euro against the US dollar between December 31, 2005 and December 31, 2006;
- EUR + 39 million financing of the negative free cash flow.

The resulting gearing remained stable at 89%.

Segment information

	Net sales			Operating income before non-recurring items		Operating Margin before non-recurring items	
	2006			2006		2006	2005
	(in EUR million)	as a % of total	2006 / 2005	(in EUR million)	as a % of total		
SR1 (Passenger car and Light truck & related distribution)	8,991	55%	+4.3%	736	55%	8.2%	9.1%
SR2 (Truck & related distribution)	5,418	33%	+6.8%	357	27%	6.6%	8.9%
SR3 (Specialty businesses)	1,975	12%	+4.1%	245	18%	12.4%	7.1%
Group	16,384	100%	+5.1%	1,338	100%	8.2%	8.8%

Passenger Car and Light Truck and Related Distribution (Reporting Segment 1): North American market evolution weighed on the segment's operating margin which lost 0.9 point at 8.2%

In Europe, replacement markets showed satisfactory growth of 2.4%, although Eastern countries were far more dynamic (+ 5.7%) than Western countries (+ 1.5%).

The market recorded further overall enrichment driven by the contribution of its three traditional levers: the High-performance tire segment achieved nearly 5% growth and Four-wheel drive vehicle tires more than 14% growth. Finally, the Winter segment grew about 13%.

Sales volumes continued an upward trend, especially in the higher value-added segments, enabling the Group to gain market shares. This was particularly true in the Winter segment where the success of the Michelin Alpin A3 tire, which topped ADAC's (German Automobile Club) ranking, was boosted by a supportive regulatory environment promoting Winter tires in Germany.

In **Original Equipment**, in a slightly declining market, down 0.5% versus 2005, Michelin's sales volume also trended downward as a result of an unfavorable OEM mix. Nevertheless, unit sales prices benefited from product mix improvements (with the relative share of 16 – 18-inch tires rising further).

The Group was able to adjust its pricing in order to mitigate the impact of massive raw material cost increases.

In North America, the replacement market dropped a significant 3.7% compared to 2005 (- 3.8% in the United States, - 6.3% in Canada and + 0.7% in Mexico). A positive development, however, was the sharp rise in the High-performance segments induced by strong original equipment sales in prior years. The Group's Michelin and BFGoodrich brands continued to gain market share, notably in the

VZ segment where sales were particularly robust. Sales of private and associate brands recorded a further marked decline.

Unit sales prices posted substantial growth, driven by favorable brand and segment mixes and by the year's price increases.

In original equipment, the market dropped sharply, reflecting the challenges faced by the US automotive industry. Group sales were down.

As was the case in Europe, the Group was able to lessen the impact of very substantial raw material cost increases through price adjustments.

In Asia, replacement markets rose 3%, with mature countries (Japan, Australia, Taiwan and South Korea) rather difficult, while emerging countries (China, India and ASEAN countries excluding Thailand) were strong. China, in particular, recorded a 20% year-on-year growth in 2006.

Michelin's sales volumes outperformed the market, particularly in China, where the Group, especially the Michelin brand, gained new market shares.

In Original Equipment, sales volume growth was in line with markets, enabling the Group to stabilize its footprint.

In South America, the **replacement** market was up about 2%, and Michelin maintained its positions due to good performance in Argentina and in Chile. However, it experienced a slight erosion in Brazil, due to the significant increase in Asian imports into the country.

In Africa and the Middle-East, in a market up 3%, the Group's growth policy targeted on the High Performance segments together with a favorable market mix between original equipment and replacement improved its profitability despite of a sharp increase in raw material costs.

The 0.9 point decrease to 8.2% in the segment's operating margin is accounted for as follows:

□ Positive factors:

- satisfactory volume sales growth in Europe and Asia;
- further segment and brand-mix enrichment.

□ Negative factors:

- volumes down in a declining North American market;
- price increases that could eventually not absorb the full impact of the hike in external costs.

Truck and Related Distribution (Reporting Segment 2): at 6.6%, the segment's operating margin was hit by the unprecedented increase in raw material prices, particularly pronounced in the case of natural rubber.

In Europe, original equipment markets grew by nearly 9%, boosted by implementation of Euro IV environmental standards on October 1, 2006. The Group's sales volumes were slightly below market levels.

In **replacement**, the market rose + 2.4% in spite of a depressed month of December, owing, in particular, to fewer working days than in December 2005. In 2006, growth was driven by Eastern Europe, up 11%, versus mere 0.5% growth in Western Europe. Such a sharp difference reflects in particular the health of Eastern Europe's long-haul industry, which is now poised to benefit from the enlargement of the European Union. Moreover, a number of players transferred either in whole or in part their operations to the new Member Countries of the European Union.

In this context, Michelin's sales outpaced the market and the Group gained market shares in both the Western and Eastern regions of Europe. The price increases passed during the year stuck.

In North America, original equipment markets were up as expected, and for the same reasons as in Europe. Growth even tended to accelerate towards the end of the year. In these circumstances, the Group experienced a slight decline in its market share.

In **replacement**, the market fell a sharp 5% across the region: the drop was a substantial – 10.7% in Canada and – 6.6% in the United States while Mexican markets continued to expand at + 3.1%. Markets were plagued by high fuel prices for most of the year, slower growth in North America and the indirect effect of the very solid growth in original equipment.

In this environment, Michelin's sales performance was better than the market, translating into market share gains in all three countries for the third consecutive year.

The average unit price rose remarkably: price increases implemented in 2006 only partly offset raw material cost hikes.

Retreading business was brisk while the market slowed down slightly. Michelin's offering continued to win market shares. Nine (9) new facilities were opened in 2006.

In Asia, the radial **replacement** market was up 10%, mainly driven by China. Group sales volumes grew faster than the market.

In South-America, the **replacement** market grew 10.3% overall (imports included). In Brazil, the significant increase in Asian imports was a primary growth factor that weighed on Michelin's performance. On the other hand, the Group performed well in the Spanish-speaking countries where it further strengthened its positions.

In Africa and the Middle-East, despite growing tire imports from Asia, Michelin benefited from the ongoing switch to radial tire architecture. The Group is expanding especially in Turkey, Saudi Arabia and the Gulf Kingdoms.

The 2.3-point drop year-on-year in the segment's operating margin has the following causes:

- ☐ significantly higher raw material costs due to the high proportion of natural rubber content in truck tires; such a high cost inflation could only be partially offset by price increases that were introduced;
- ☐ a still unfavorable original equipment / replacement mix in 2006;
- ☐ the unfavorable country mix, as high sales growth areas were not the most profitable ones.

Specialty businesses (Reporting Segment 3): at 12.4%, the operating margin is up again year-on-year. With its highly technical content, it is now the Group's most profitable segment. The Agricultural, Two-wheel and Aircraft businesses continued their recovery.

On the **earthmover** tire market, all segments (Mines, Quarries, Ports, etc) posted strong growth. Tire manufacturers were not able to fully satisfy demand. The most serious imbalance between supply and demand is found in the Mines segment. Michelin was able to meet part of the increase in demand with marginal capacity increases. The Group succeeded in passing on the raw material price increases. Operating margin posted further remarkable growth. The Group's global commercial presence was extended to cover all markets.

Overall, **agricultural** original equipment and replacement tire markets declined, especially in North America. In this environment, competition stiffened. In spite of a mixed performance in North America, Michelin Group has significantly increased its sales volumes due to its performance in Europe, where its partnership policy with distribution players was successful. In value terms, sales increased as a result of product and brand mix enrichment, driven by the Michelin brand and by growth in the lead tractor segment.

The key **two wheel** tire markets were particularly strong in 2006. On the motorcycle tire replacement markets, Michelin recorded healthy volume growth supported by strong demand for its latest radial products. In value terms, sales were somewhat behind sales volume growth, because of unfavorable geographic mix and the impact of currency fluctuations.

Accelerating demand for radial **aircraft** tires has been confirmed. Despite strong capacity constraints, Michelin achieved further sales volume growth. With the value delivered to its customers gaining wider recognition, the Group's product offering is gradually gaining better pricing. Michelin continues to develop new products, especially on the general, regional and military aviation markets where the share of radial technology remains modest.

The **Maps and Guides**, **ViaMichelin** and **Michelin Lifestyle** operations continued to develop.

The impressive growth of this segment **profitability** is the result on one hand from intense market pressures, especially for earthmover and radial aircraft tires, and on the other hand from the success of highly innovative services that enable optimum valorization of the Group's products.

Outlook for 2007

In 2007, tire market growth should be positive worldwide, with the exception of North America's truck tire markets which should trend downward due to purchasing prior to implementation of new anti-pollution standards and from a somewhat more subdued economic environment. With approximately 3% expected growth, replacement markets in Europe should benefit from a more supportive economic context. The developed countries' passenger car and light truck original equipment markets should remain stable. Emerging countries in Asia, South America, Africa and the Middle-East should continue on their dynamic growth trends.

Following unprecedented inflationary trends in 2006, raw material prices are expected to stabilize at a high level in 2007, with a limited impact on the Group's income statement.

In this context, Michelin's net sales and operating margin should post a tangible increase compared to 2006, in line with the Group's 2010 objectives.

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COMPAGNIE GENERALE DES ETABLISSEMENTS MICHELIN

La Compagnie Générale des Etablissements Michelin (CGEM) posted EUR 225 million profits for 2006.

The financial statements were presented to the Supervisory Board on February 12, 2007.

The Group's Managing Partner will convene the Annual Shareholders Meeting on Friday May 11, 2007 at 9 am in Clermont-Ferrand.

The Managing Partner will recommend a 7.4% dividend increase at EUR 1.45 per share.

A more detailed report on Michelin's 2006 financial statements (including in particular the notes annexed to the consolidated financial statements) is available on written request from the Investor Relations Department, or by e-mail to « investor-relations@fr.michelin.com, from www.michelin.com, or by calling the hotline on 0 800 000 222.

The first quarter report (ending March 31, 2007) will be published on April 24, 2007 after closing of Paris Euronext.

For more information on Michelin's tire markets, please download Michelin's Factbook from our website:

<http://www.michelin.com/corporate/front/templates/affich.jsp?codeRubrique=20060413172341&lang=EN>

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CONSOLIDATED INCOME STATEMENT

(in EUR million, except per share data)	Year ended 31 December 2006	Year ended 31 December 2005
Sales	16,384	15,590
Cost of sales	(11,653)	(10,835)
Gross income	4,731	4,755
Sales and marketing expenses	(1,799)	(1,775)
Research and development expenses	(591)	(565)
General and administrative expenses	(965)	(999)
Other operating income and expenses	(38)	(48)
Operating income before non-recurring income and expenses	1,338	1,368
Non-recurring income	-	256
Non-recurring expenses	(220)	(50)
Operating income	1,118	1,574
Cost of net debt	(315)	(310)
Other financial income and expenses	135	30
Share of profit/(loss) from associates	4	6
Income before taxes	942	1,300
Income tax	(369)	(411)
Net income	573	889
▪ Attributable to Shareholders	572	889
▪ Attributable to non-controlling interests	1	-
Earnings per share attributable to Shareholders (in euros)		
▪ Basic	3.95	6.13
▪ Diluted	3.94	6.12


CONSOLIDATED BALANCE SHEET

(in EUR million)	31 December 2006	31 December 2005
Goodwill	438	444
Other intangible assets	181	192
Property, plant and equipment (PP&E)	6,848	6,577
Non-current financial assets and other assets	449	435
Investments in associates and joint ventures	71	50
Deferred tax assets	1,005	1,227
Non-current assets	8,992	8,925
Inventories	3,342	3,225
Trade receivables	3,237	3,273
Current financial assets	79	229
Other current assets	544	618
Cash and cash equivalents	680	611
Current assets	7,882	7,956
TOTAL ASSETS	16,874	16,881
Share capital	287	287
Share premiums	1,863	1,845
Reserves	2,527	2,379
Non-controlling interests	11	16
Total equity	4,688	4,527
Non-current financial liabilities	2,736	3,092
Employee benefits	2,730	3,049
Provisions and other non-current liabilities	818	801
Deferred tax liabilities	58	71
Non-current liabilities	6,342	7,013
Current financial liabilities	2,157	1,647
Trade payables	1,776	1,792
Other current liabilities	1,911	1,902
Current liabilities	5,844	5,341
TOTAL LIABILITIES AND EQUITY	16,874	16,881

CONSOLIDATED CASH FLOW STATEMENT




(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Net income	573	889
EBITDA adjustments		
▪ Cost of net debt	315	310
▪ Other financial income and expenses	(135)	(30)
▪ Income tax	369	411
▪ Amortization, depreciation and impairment of intangible assets and PP&E	871	803
▪ Non-recurring income and expenses	220	(206)
▪ Share of loss/(profit) from associates	(4)	(6)
EBITDA before non-recurring income and expenses	2,209	2,171
Non-cash other income and expenses	(75)	(22)
Change in provisions, including employee benefits	(229)	(147)
Net finance costs paid	(311)	(284)
Income tax paid	(182)	(261)
Change in value of working capital, net of impairments	(221)	(426)
Cash flows from operating activities	1,191	1,031
Purchases of intangible assets and PP&E	(1,379)	(1,292)
Proceeds from sale of intangible assets and PP&E	102	84
Acquisitions of consolidated shareholdings, net of cash acquired	(41)	(41)
Proceeds from sale of consolidated shareholdings, net of cash disposed	(3)	(3)
Purchases of available-for-sale investments	(60)	(17)
Proceeds from sale of available-for-sale investments	146	2
Change in value of other financial assets	5	112
Cash flows from investing activities	(1,230)	(1,155)
Proceeds from issuance of shares	11	-
Proceeds from increase of non-controlling interests in the share capital of subsidiaries	-	14
Dividends paid to Shareholders	(193)	(179)
Dividends paid to non-controlling interests of subsidiaries	(1)	(35)
Distribution and other withholding taxes	(11)	(7)
Other allocations		
Change in value of financial liabilities	311	(739)
Other	5	(8)
Cash flows from financing activities	122	(954)
Effect of the change of currency rates	(14)	34
Increase or (decrease) of cash and cash equivalents	69	(1,044)
Cash and cash equivalents as at 1 January	611	1,655
Cash and cash equivalents as at 31 December	680	611

PNEU HIVER KLEBER KRISALP HP
Il n'y a plus de mauvaise saison.



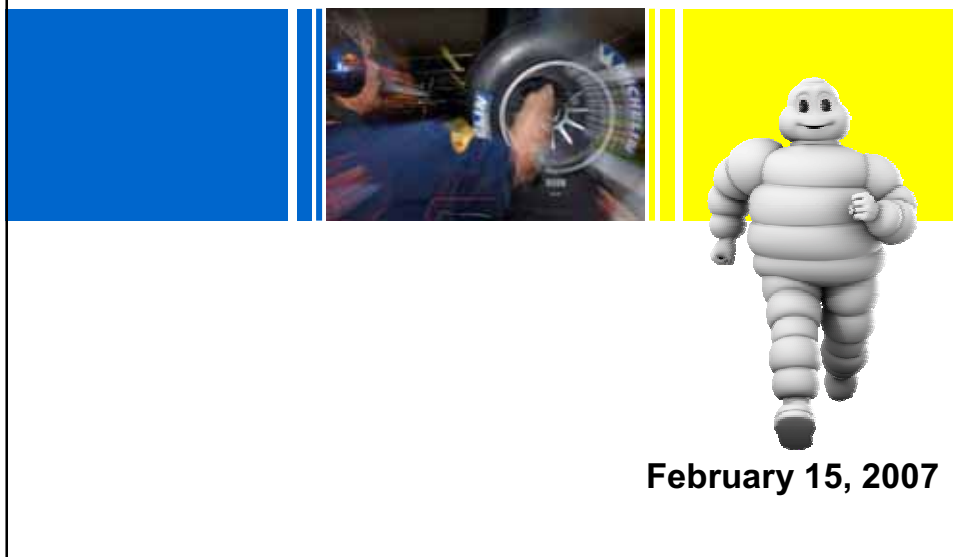
Les dures conditions hivernales : froid, pluie, neige, verglas, ne perturbent plus la route de vos clients.
Les pneus hiver KLEBER leur assurent sécurité et confort. Ils sont conçus pour répondre aux exigences
des routes les plus rudes et aux températures inférieures à 7°C.

Proposez à vos clients les pneus hiver KLEBER et offrez-leur la tranquillité d'esprit par tous les temps.

Offrez KLEBER Assistance à vos clients
pour qu'ils bénéficient de 3 ans d'assistance pneumatique gratuite, 24h/24, 7j/7, partout en Europe.

2006 Results



2006 Key Figures

Net sales	EUR 16,384m	+5.1%
Operating income before non-recurring items	EUR 1,338 m	-2.2%
Operating margin before non-recurring items	8.2%	down 0.6 point
Net income	EUR 573 m	-35.5%
Gearing	89%	Stable
Free Cash Flow	EUR -39 m	Improvement: + EUR 85 m



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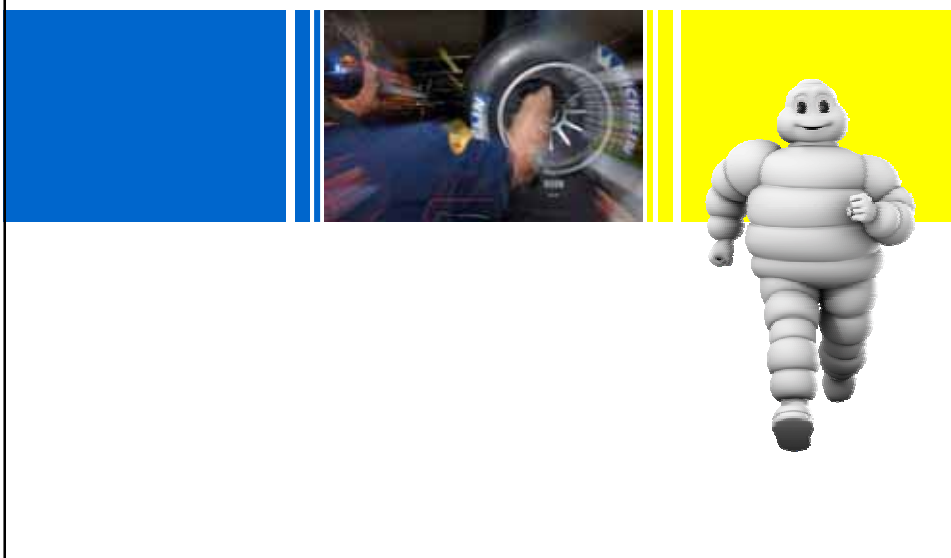
2006 Operating Environment

- Fourth year of continued raw material cost increases
- World markets up except for North American Passenger Car and Truck replacement markets
- A challenged automotive industry



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2006 Operating Performance



2006 markets trending up except for North American replacement markets

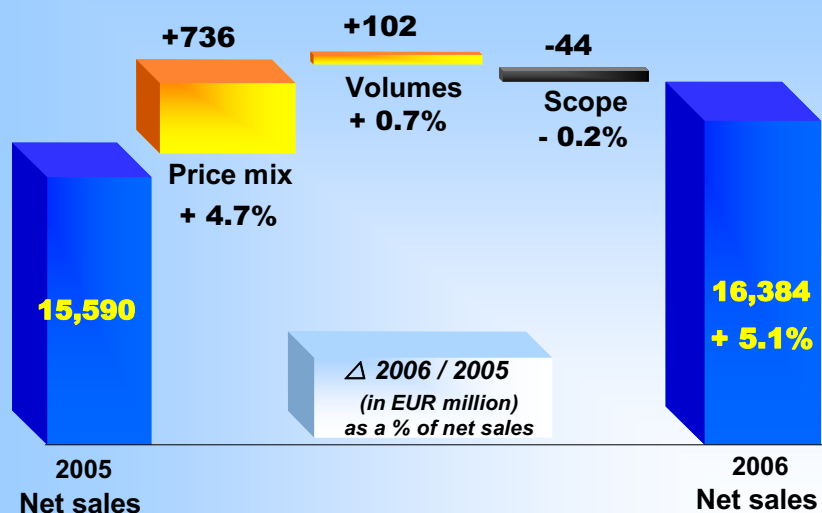
		Europe *	North America	Asia	South America	Africa Middle East
Passenger Car	OE	-0.5%	-2.5%	+9.2%	+7.3%	+3.8%
	RT	+2.4%	-3.7%	+3.0%	+1.7%	+3.0%
Truck	OE	+8.8%	+7.9%	+14.0%	-3.7%	+10.2%
	RT	+2.4%	-5.4%	+10.0%	+10.3%	+2.1%

* Western Europe + Eastern Europe

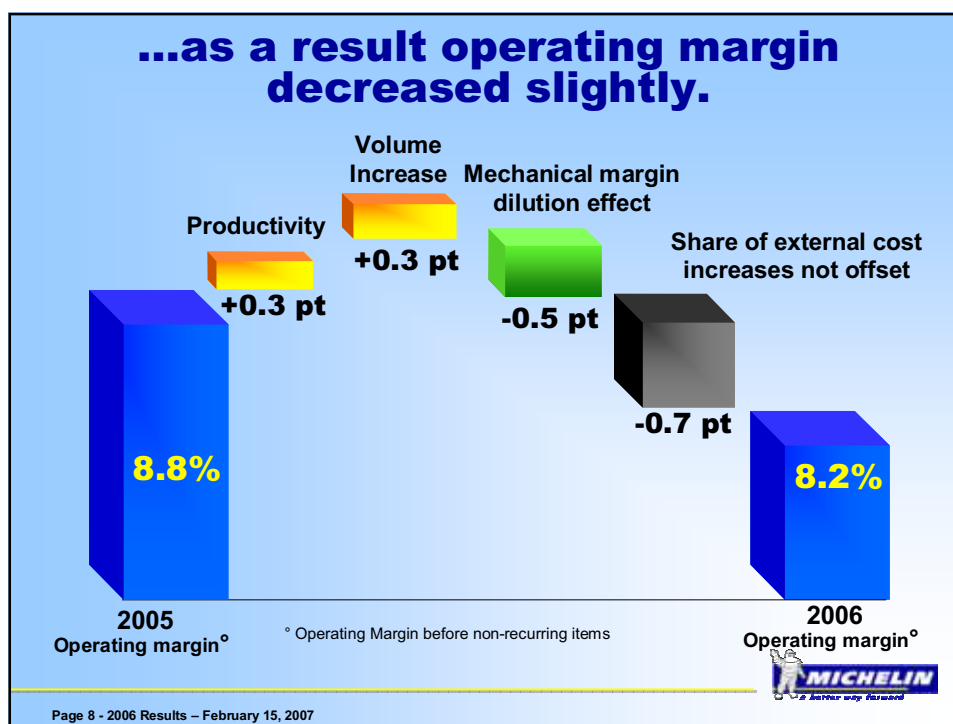
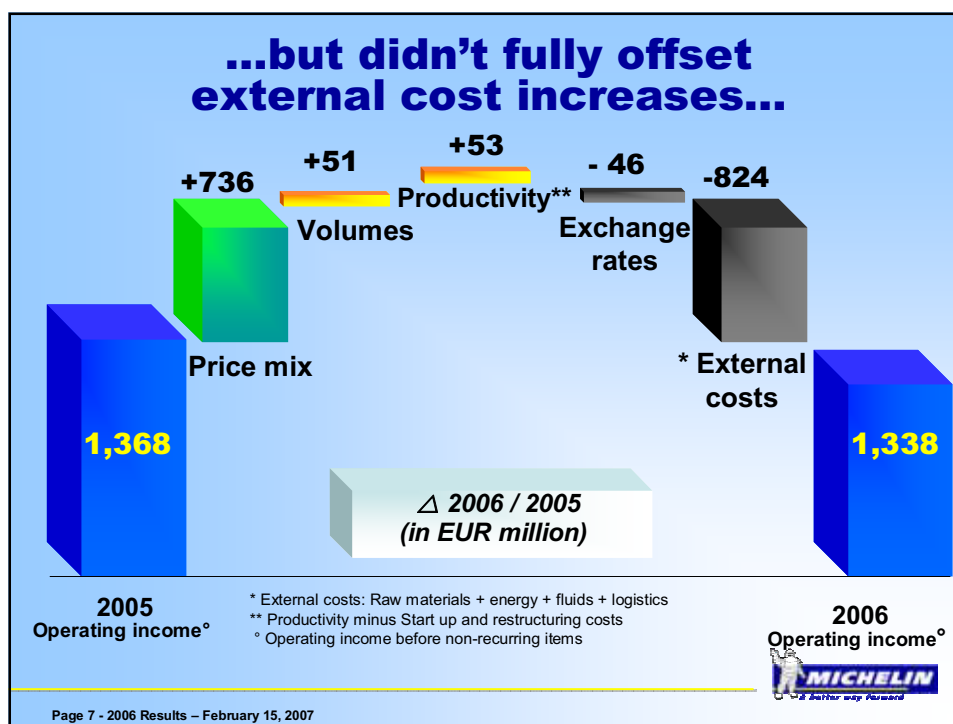


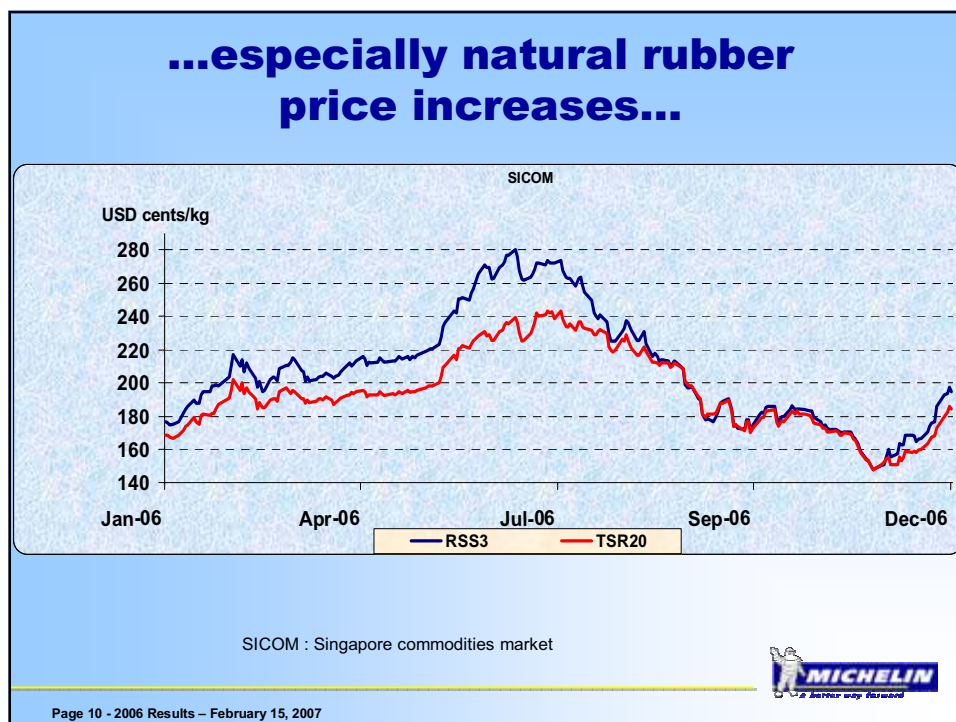
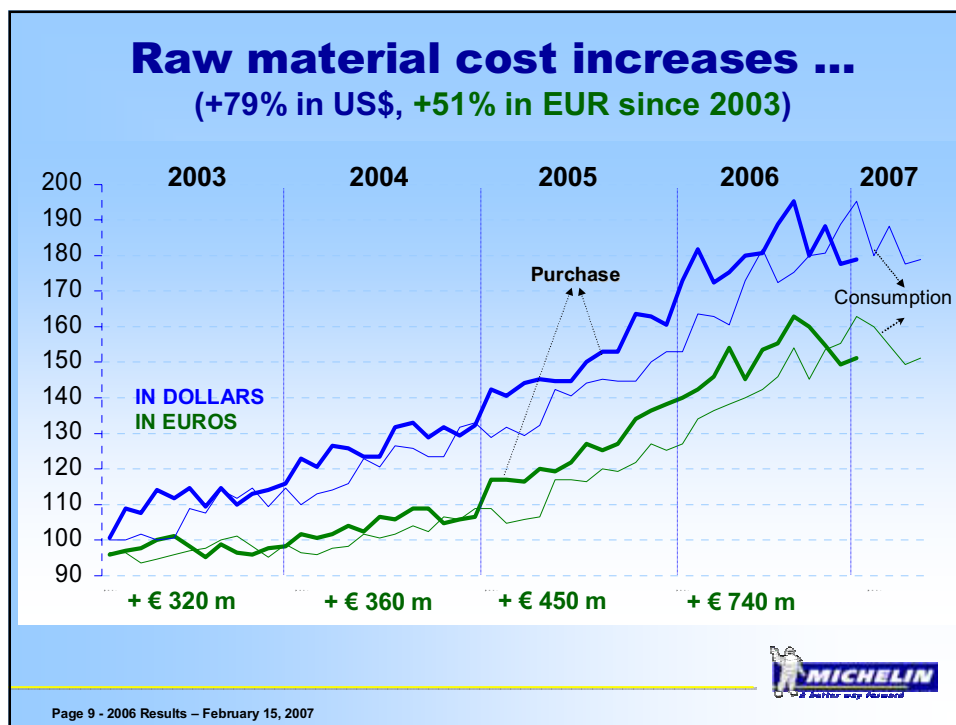
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Michelin 2006 Net Sales: Price/mix effect remained strong...

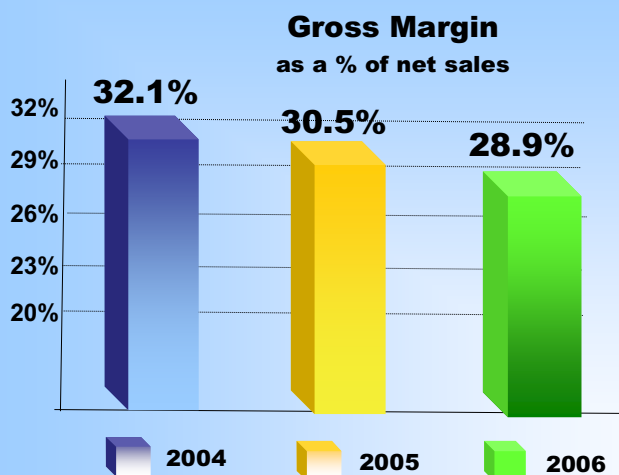


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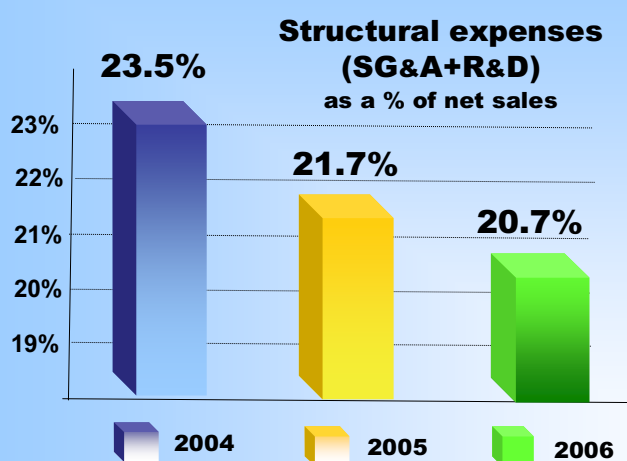


...impacted gross margin.



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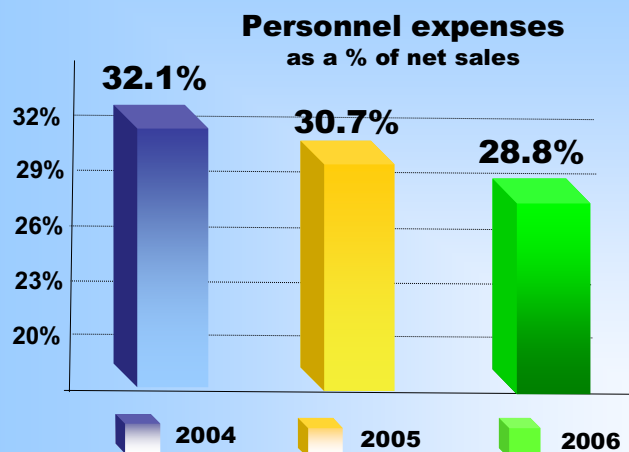
The reduction of structural expenses ...



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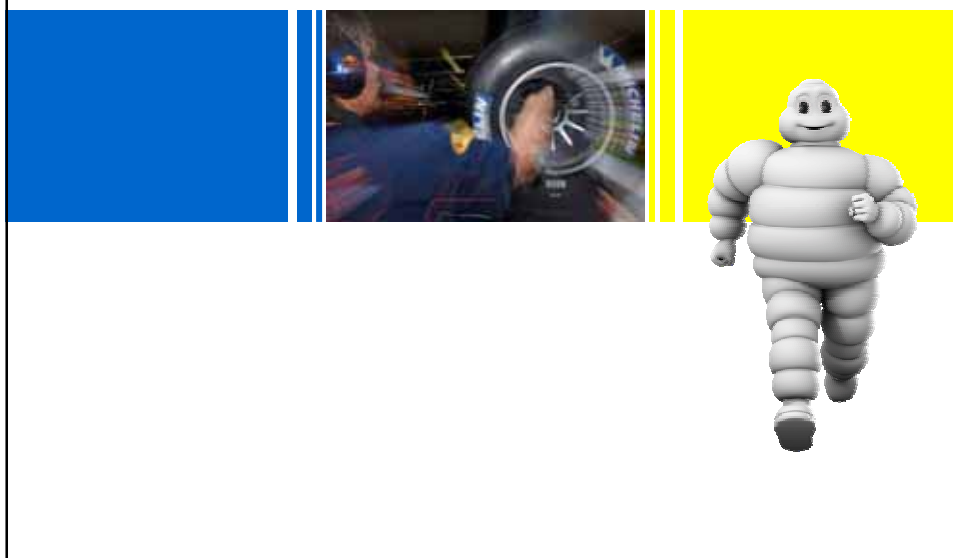


...and productivity gains are accelerating.

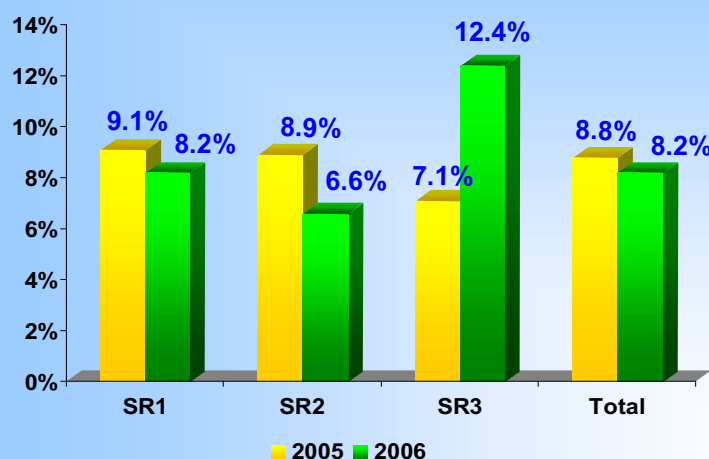


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2006 Performance by Reporting Segment



Further improvement of Specialty businesses Truck performance down



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



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Passenger Car/Light Truck & Related Distribution


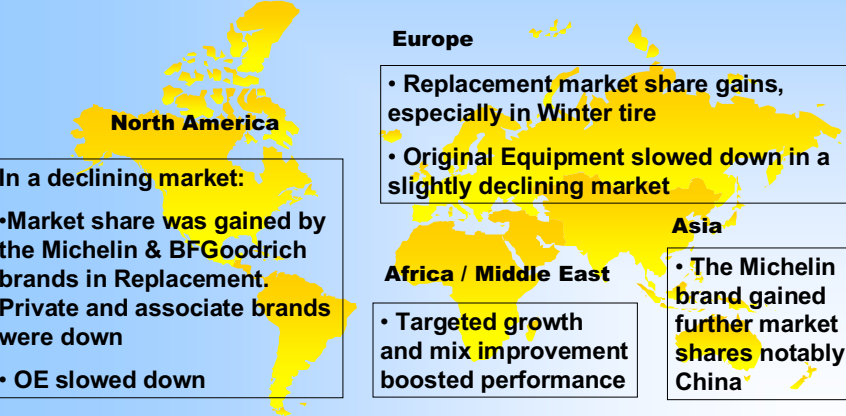


	EUR m	2006 / 2005	Group %
Net sales	8,991	+ 4.3%	55%
Operating income before non-recurring items	736	- 5.9%	55%
Operating margin before non-recurring items	8.2%	- 0.9 pt	



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Passenger car/Light truck & Related Distribution

North America

In a declining market:

- Market share was gained by the Michelin & BFGoodrich brands in Replacement. Private and associate brands were down
- OE slowed down

Europe


- Replacement market share gains, especially in Winter tire
- Original Equipment slowed down in a slightly declining market

Africa / Middle East

- Targeted growth and mix improvement boosted performance

Asia


- The Michelin brand gained further market shares notably in China

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Truck & Related Distribution

Satisfactory volume growth

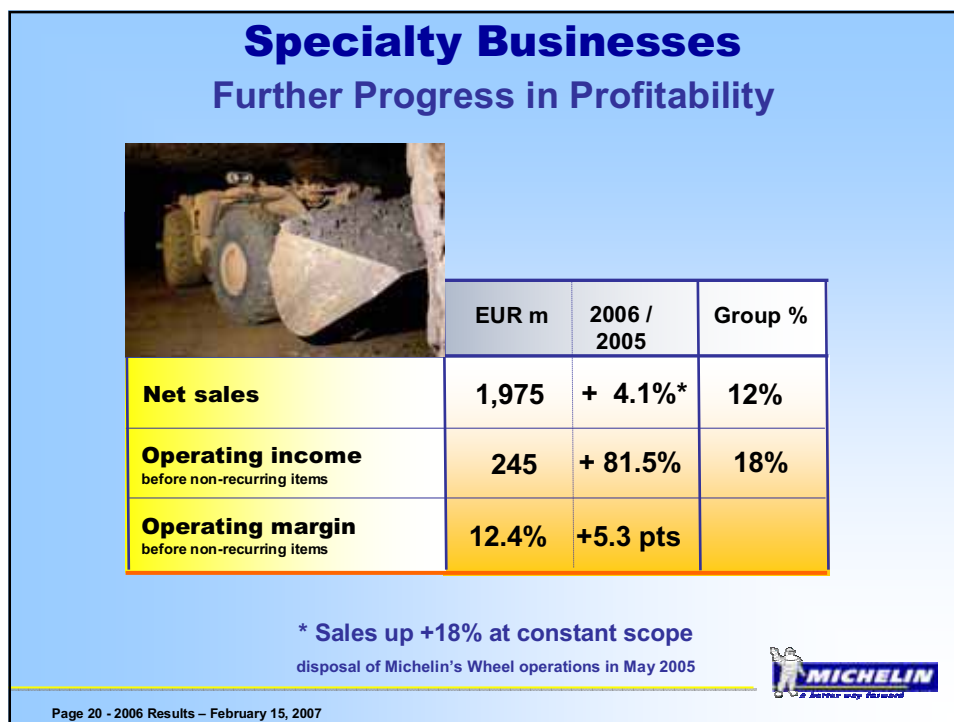
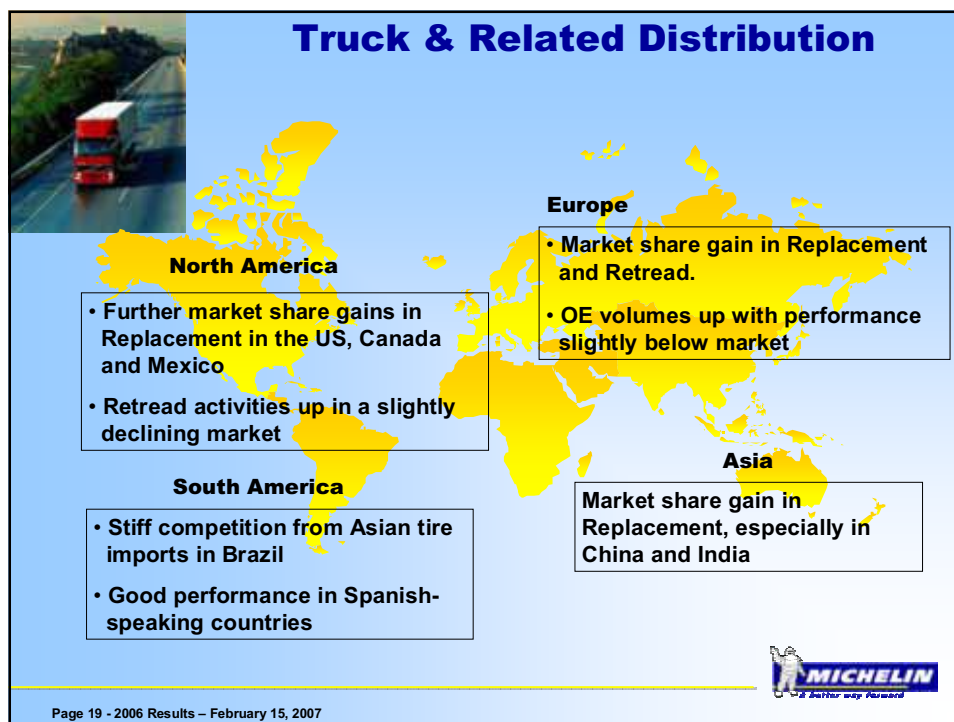


	EUR m	2006 / 2005	Group %
Net sales	5,418	+ 6.8%	33%
Operating income <small>before non-recurring items</small>	357	- 20.8%	27%
Operating margin <small>before non-recurring items</small>	6.6%	-2.3 pts	

Profitability impacted by natural rubber price increases

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Specialty Businesses

Good Earthmover performance
Other businesses continued their recovery

Aircraft

Worldwide radial capacity shortage
Michelin radial tire technology was in high demand.

Agricultural

Brand and product mix further enriched in globally declining markets

2-wheel

Replacement motorcycle tire volume sales boomed in a world market experiencing remarkable growth.

Earthmover

Marginal capacity increased in an environment marked by a strong imbalance between supply and demand.









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2006 Net Income & Balance Sheet





Port Harcourt (Nigeria) and Kitchener (Canada) plant closures impacted net result

In EUR million	2006	2005	2006 / 2005
Net sales	16,384	15,590	+5.1%
Operating income before non non-recurring items	1,338	1,368	-2.2%
<i>% of Net Sales</i>	<i>8.2%</i>	<i>8.8%</i>	<i>-0.6 point</i>
Non-recurring items	-220	206	-
Operating income	1,118	1,574	-29.0%
Net interest charges	-180	-280	-
Tax	-369	-411	-
Net income from associated companies	4	6	-
Net income	573	889	-35.5%



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...but EBITDA* and free cash flow improved.

in EUR million	2006	2005	2006 / 2005
EBITDA* (before non-recurring items)	2,209	2,171	+38
Change in provisions + other items	-304	-169	-135
Change in Inventory	-252	-203	-49
Change in Account Receivables	-61	-155	+94
Change in Account Payables & others	+106	-9	+115
Change in WCR Interest charges	-311	-284	-27
Change in tax dues & credits	-196	-320	+124
INCOME FROM OPERATIONS	1,191	1,031	+160
Gross Investment	-1,414	-1,337	-77
Asset Disposals & Fin. Investments	+184	+182	+2
FREE CASH FLOW **	-39	-124	+85

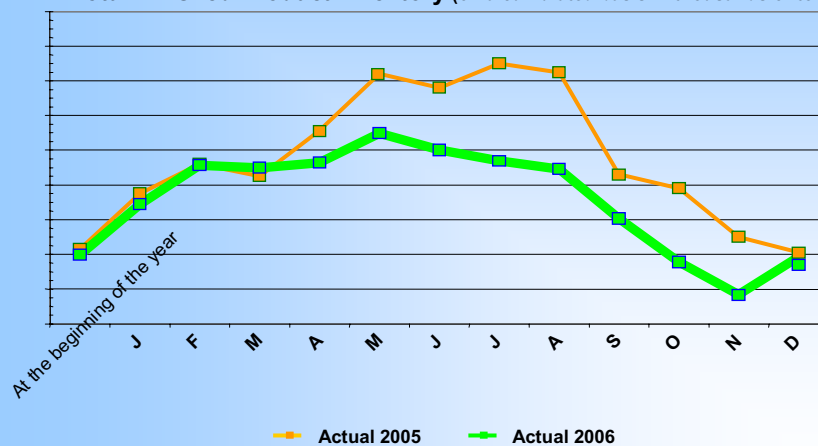
* EBITDA before non-recurring items: Operating income excluding depreciation and PP&E value impairment
 ** Free Cash Flow: Cash from operations - investment expenses



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Continued drive to reduce inventory volumes

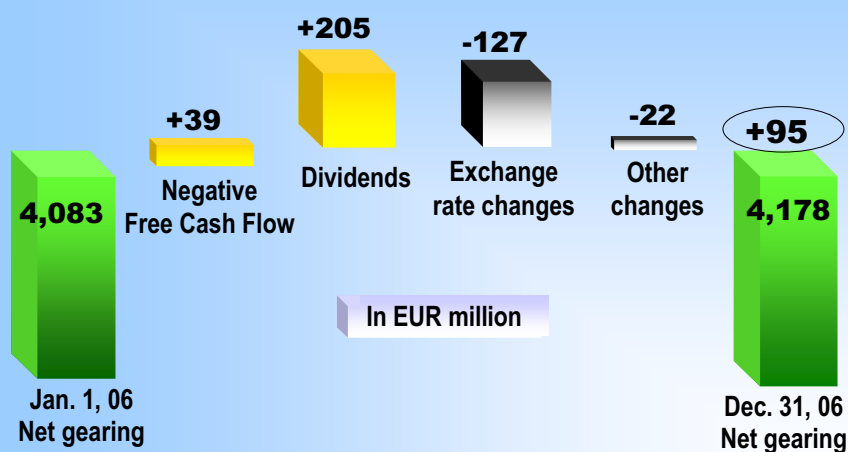
Total Finished Product Inventory (on a cumulated basis in thousands of tons)



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Limited increase of debt...



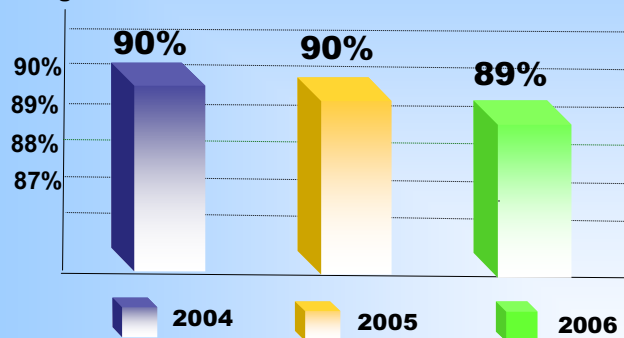
Free Cash Flow: Cash from operations – investment expenses

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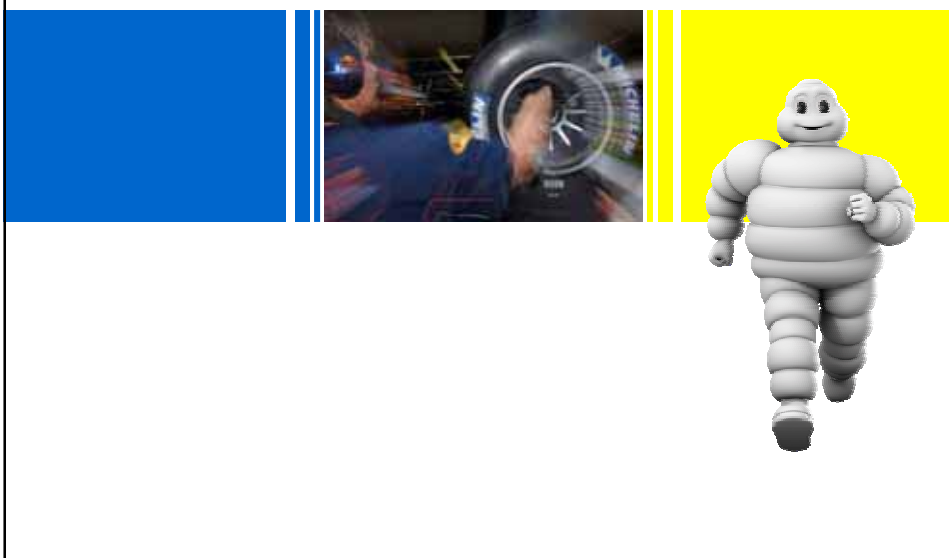
...helped stabilize net debt/equity ratio

Gearing



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Outlook for 2007



2007 Market Outlook: Recovery in Europe, healthy emerging markets Decline of U.S. truck tire markets

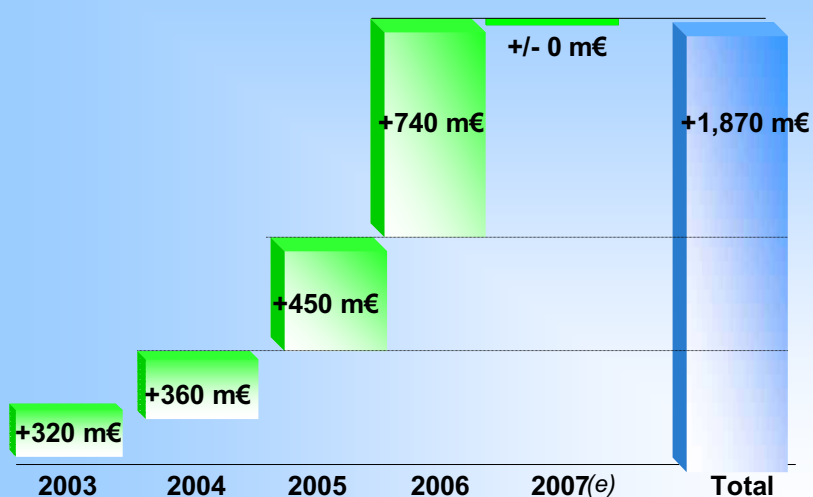
		Europe*	North America	Asia	South America	Africa Middle East
Passenger Car	OE	+0.5%	+0.3%	+8%	+10%	+6%
	RT	+3.0%	+0.8%	+6%	+4%	+3%
Truck	OE	+4%	-28%	+8.9%	+4%	+4.4%
	RT	+2.7%	-2.0%	+7.5%	+6%	+5.5%

* Western and Eastern Europe



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Stable raw material costs expected in 2007



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Outlook for 2007

**Markets
generally
well oriented**

**Further
internal
progress**

**More favorable
external cost
trend**

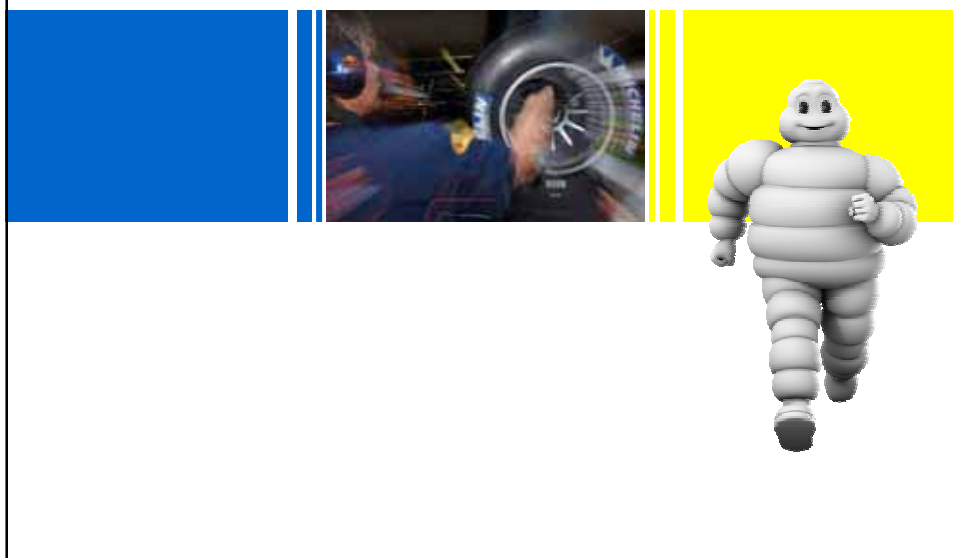
**Tangible increase of net sales
& operating margin**

**In line with 2010
Group objectives**



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Horizon 2010



In the context of

Stronger worldwide competition

Emerging entrants developing technological know-how

Sustained global growth with substantial contribution from Asia



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Horizon 2010

Speed up Group strategy implementation to make it more competitive in all markets through...

Product differentiation strategy,

Expansion in high-growth markets,

Further competitive edge



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Horizon 2010

...to achieve its 2010 objectives:

- ➡ Achieving 3.5% + annual volume growth, stronger on the higher value-added segments
- ➡ Targeting 10% + Operating Margin
- ➡ Reducing Inventory to below 16% of Net Sales
- ➡ Recording 10% + ROCE (return on capital employed)
- ➡ Generating significant positive free cash flow



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Product Differentiation Strategy

Earthmover: 59/80 R63 Michelin XDR



Truck:



X One Michelin
Durable Technologies

Agricultural: ULTRAFLEX



Passenger car & Light truck: Winter Range: Alpin 3 Very Low Rolling Resistance Range

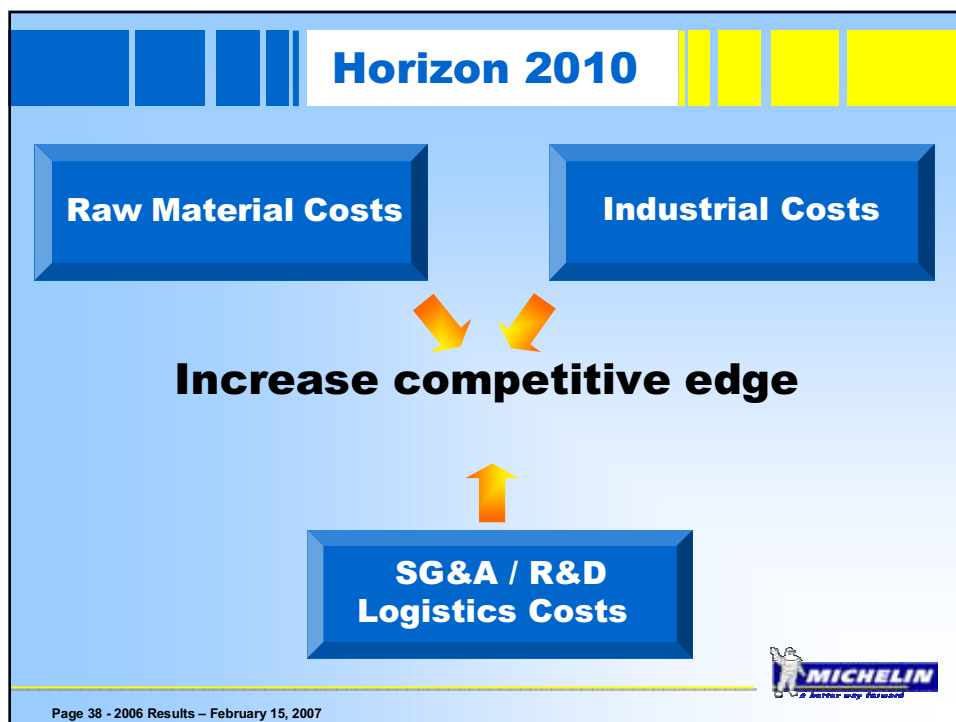
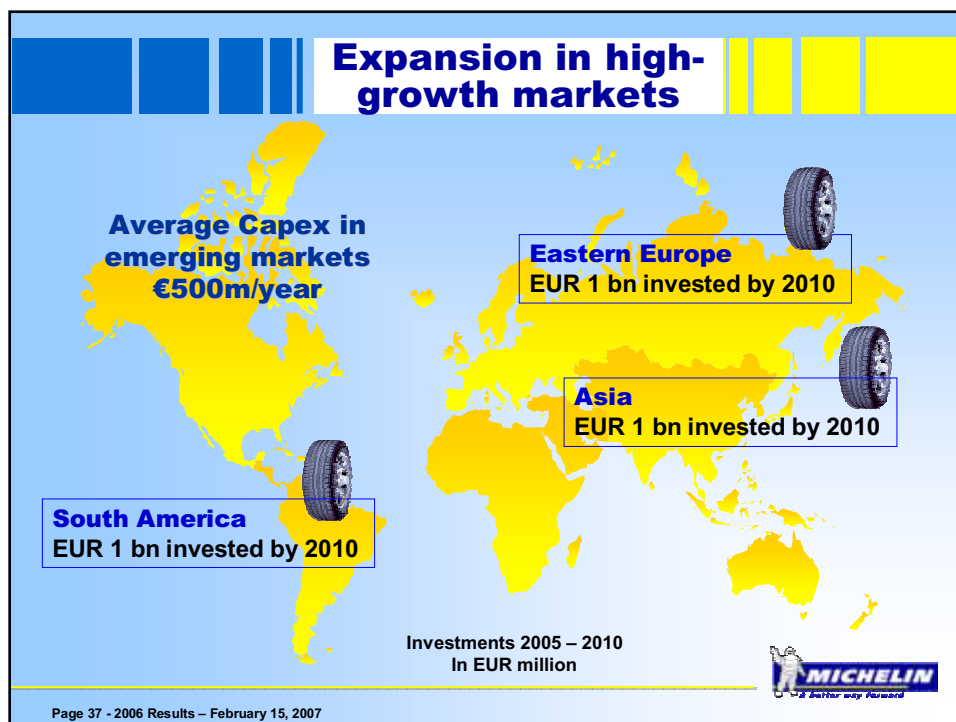


Aircraft: AirX



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Horizon 2010

Raw Material Costs → **Savings target***

2010 costs = 2006 costs - €500/550 m

→ **Purchasing Cost Reduction Program**

→ **« Value-to-cost » Approach**

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Page 39 - 2006 Results – February 15, 2007 * Targeted gain at constant scope & constant euro

Horizon 2010

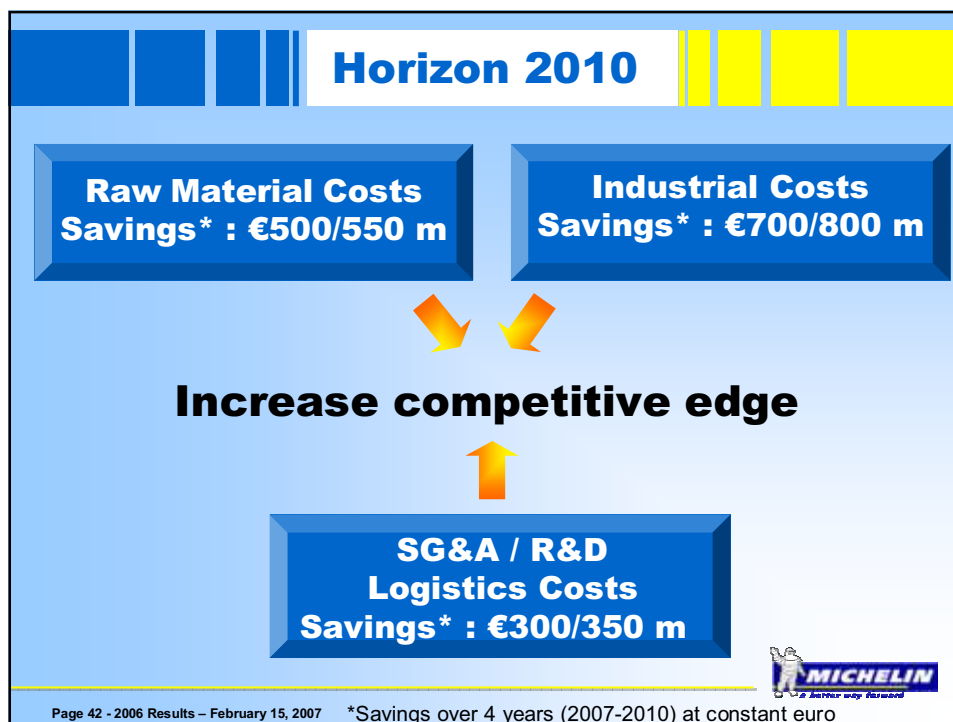
Industrial Costs → **Savings target***

2010 costs = 2006 costs - €700/800 m

- **Through general adoption of best practices,**
 - Michelin Manufacturing Way
- **Productivity improvement,**
 - Leverage a favorable age pyramid
 - Optimize industrial facilities
- **Reduced operating expenses,**
 - Energy, Fluids, ...
- **Streamlined industrial processes,**
 - Standardize
 - « Value-to-cost ».


 **MICHELIN**
A better way forward

Page 40 - 2006 Results – February 15, 2007 * Targeted gain at constant scope & constant euro





Agenda



- March 6, 2007:**
Geneva Conference
- April 24, 2007:**
1Q07 Financial Report
(at March 31, 2007)
- May 11, 2007:**
Annual Shareholders Meeting

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A better way forward

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2006 TIRE MARKETS

The EUR100 billion world tire market is evenly distributed among North America, Europe and Asia¹, with passenger car and light truck tires accounting for half of the market and truck tires for one quarter². In terms of units sold, there are 1.1 billion passenger car tires and nearly 170 million truck and bus tires.

The tire industry is highly concentrated as the three largest manufacturers, who occupy all segments, account for nearly 55% of global sales¹.

The industry enjoys bright growth prospects as the mobility of goods and people goes hand-in-hand with economic development. The global automotive fleet should expand by more than 500 million cars by 2030 to 1.3 billion light vehicles. The distance driven in cars should increase 65% and heavy hauling should increase by 85%³.

As emerging countries experience vigorous growth, the increase in tire demand in volume is likely to be distributed fairly evenly between developed and developing countries. Moreover, growing environmental concerns worldwide and the trend for top-of-the-range vehicles generate value-added opportunities for tire makers. These include driver expectations for more safety and comfort, and expectations by heavy hauling firms for increased performance.

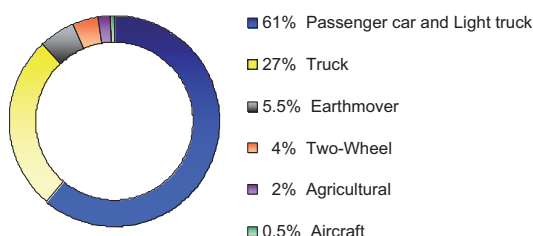
Since the replacement market is three-fourths of the total value, the tire market is less cyclical than the automotive sector. Michelin has more than 70% of its sales in the replacement markets, which are growing by 2% to 3% a year.

¹ Source: Tire Business, August 2006

² Source: Michelin

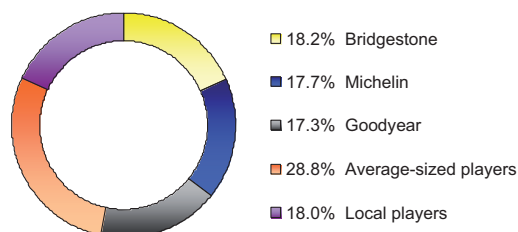
³ Source: Source International Energy Agency, Michelin estimates

Breakdown of world market by product type (in value)



Source: 2006 market estimated by Michelin

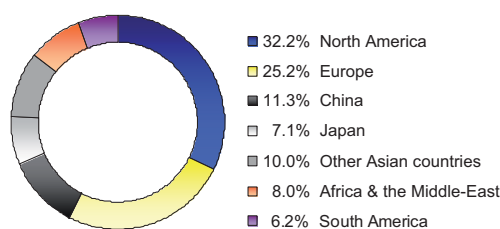
Breakdown of world market by manufacturer



Source: 2005 market share figures
(Tire Business, 28 August 2006)

Regional breakdown of world market in volume

Metric ton equivalent

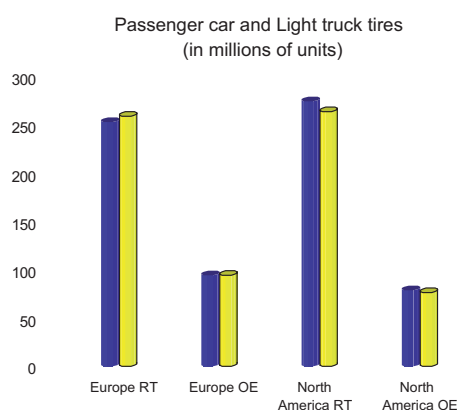


Source: 2005 market estimated by Michelin
based on the LMC 2006 Report

Please refer to the detailed presentation of Group markets and ranking in Michelin's Factbook 2007, downloadable from www.michelin.com.

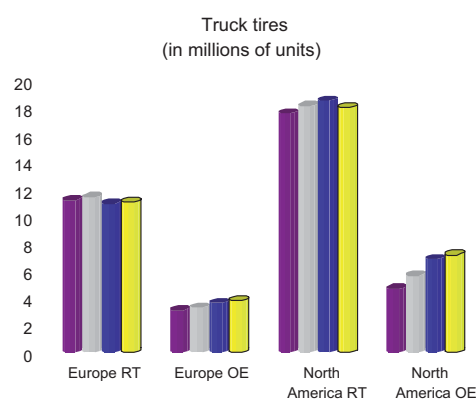
In 2006, markets recorded satisfactory overall growth other than the notable exception of:

- North American passenger car and light truck and truck tire replacement markets, particularly impacted by high fuel prices;
- Passenger car and light truck original equipment markets, which slowed down in Europe and North America, reflecting a challenging environment for the automotive industry;
- South America's original equipment truck tire markets, where truck manufacturers' exports were adversely affected by a high Brazilian real relative to the US dollar.



Source : Michelin estimates

(Due to a change in the method for evaluating the Passenger car and Light truck tire market, comparison with years prior to 2005 is irrelevant)



Source: Western and Central Europe pool
US + CA + MX Pool

COMMENTS

REPLACEMENT MARKETS

In the more developed regions, replacement markets in Europe posted performances in line with long-term trends, while North American markets recorded a substantial decline, against the background of a slow-down in economic growth and very high fuel price increases through September 2006. In Europe, a significant development was the turnaround in the truck tire markets.

In other regions, all markets are trending up, with very significant growth in Asia's and South America's truck tire operations, the result in part to dynamic Chinese markets and in part to a stronger foothold of Asian players in South America.



Passenger car and Light truck

Passenger car and Light truck markets	2006 Replacement market	H1 2006 Replacement market	H2 2006 Replacement market
Europe	+2.4%	+2.8%	+2.0%
North America ¹	-3.7%	-4.7%	-2.7%
Asia	+3.0%	+4.6%	+1.4%
South America	+1.7%	+4.0%	-0.6%
Africa Middle-East	+3.0%	+4.4%	+1.6%

¹ United States, Canada and Mexico

In Europe, markets posted a satisfactory +2.4% growth and did clearly better than in fiscal 2005. Eastern Europe experienced much higher growth than Western Europe (+ 5.7% versus + 1.5%). In the Western countries, the Netherlands, Germany and Greece, all posted performance up 5% and more; at the other end of the spectrum, Austria, Switzerland and Denmark declined more than - 3%. The French market was down 1%. The market recorded further overall enrichment driven by the contribution of its three traditional levers: the High-performance tire segment achieved nearly 5% growth and four-wheel drive vehicle tires grew more than 14%. Finally, the winter segment expanded by a further 13%. At the same time, low-speed rated segments (S, T & H) shrank - 5.5%.

In North America, after a first half down almost 5%, the second half was better orientated although down -2.7%. The strong drop in fuel prices recorded in the United States from September 2006 has so far only had a limited impact on market trends. In addition, December 2006 included two fewer invoicing days than December 2005.

The United States (- 3.8%) and Canadian (- 6.3%) markets posted sharp drops, while the Mexican market was slightly up (+ 0.7%). All market segments contracted with the notable exception of high-performance (VZ) segments which jumped close to 12%, as a result of strong original equipment sales in prior years.

In South America, market trends were affected by further growth in imports from Asia, at the expense of second-hand tire imports from Europe. The overall market posted close to 2% growth, with a better performance in the Spanish-speaking countries.

In Asia, overall 3% growth masks strong differences: China continues vigorous growth with a market up 19%, while the Japanese market declined 3% primarily due to a winter season down compared to 2005. India together with ASEAN countries (excluding Thailand) grew while markets were less robust in Australia, Taiwan, South Korea and Thailand.

Truck

Truck markets	2006 Replacement market	H1 2006 Replacement market	H2 2006 Replacement market
Europe ¹	+2.4%	+2.3%	+2.5%
North America ²	-5.4%	-3.0%	-7.8%
Asia ³	+10.0%	+8.0%	+12.0%
South America ³	+10.3%	+3.0%	+13.6%
Africa Middle-East	+2.1%	+2.2%	+2.1%

¹ Western & Eastern Europe

² United States, Canada and Mexico

³ Radial only

In Europe, the replacement market experienced growth again (+2.4% of which +0.5% was in the West and +11.5% in the East) despite a particularly depressed December (-7.3%). Weak December markets can be explained by fewer working days. Over the full year, all European countries, especially in Eastern Europe, recorded a return to vigorous growth. In Eastern Europe, +11.5% growth is the result in particular from the rationalization of the long-haul industry, which is now poised to benefit from the enlargement of the European Union. In addition, a number of players transferred either in whole or in part their operations to the new Member Countries of the European Union.

Change in Western and Central Europe's Truck replacement market

In millions of tires

European pool - 12-month sliding



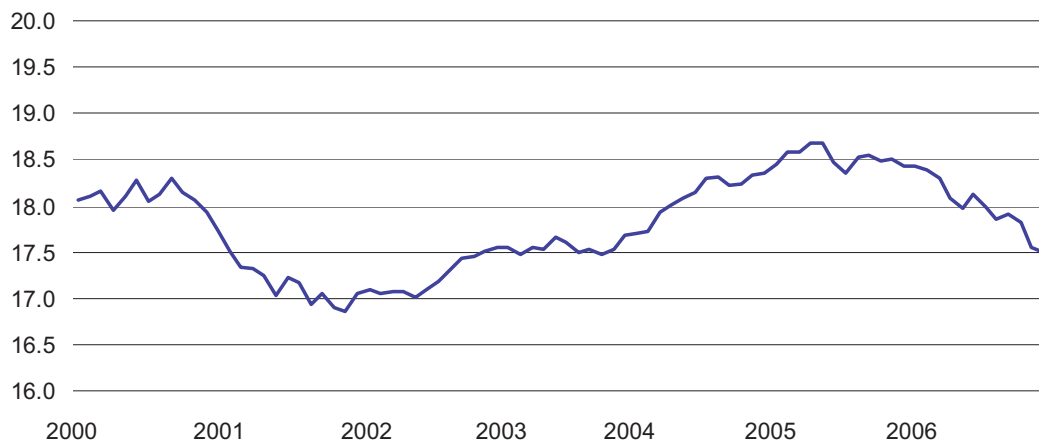
In North America, the replacement market contracted some -5.4% with strong variations from country to country: -10.7% in Canada, -6.6% in the United States, contrasted with +3.1% in Mexico.

Markets were plagued by high fuel prices for most of the year, slower growth in North America and the indirect effect of very strong original equipment market growth. The contraction observed in Canada as compared with the US market, is the result of a widespread underground market originating in the United States due to the effect of the Canadian dollar's appreciation on local truck tire prices. The growth of the Mexican radial tire market should be viewed in light of bias tire market contraction.

Change in North American Truck replacement market

In millions of tires

US + CA + MX Pool (radial + bias) - 12-month sliding



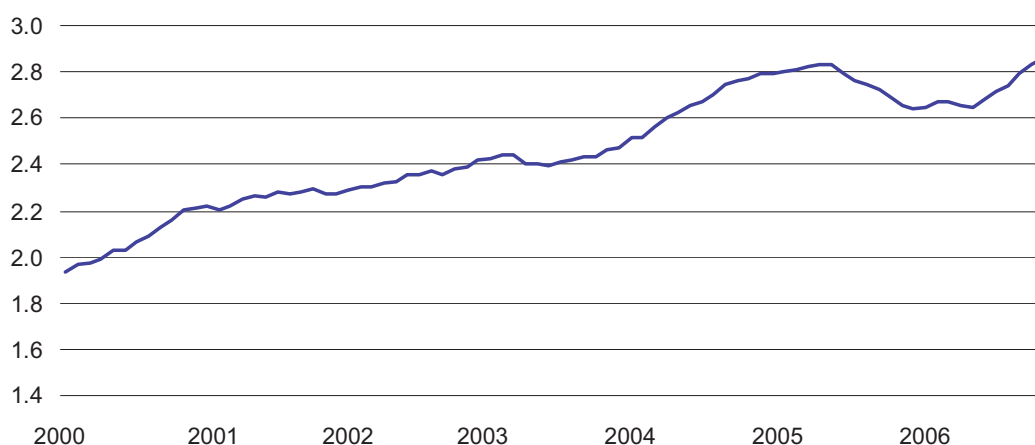
In South America, the radial replacement market grew +10.3%, the Spanish-speaking country market posted strong growth, but the Brazilian market was down.

- The Brazilian market is quickly converting to radial tires (54% radial) driven by imports of low-cost radial tires from Asia. Indeed the Brazilian real's appreciation makes Asian tire imports extremely attractive.
- South America's Spanish-speaking market, which is roughly the same size as Brazil's, is boosted by dynamic growth in those countries. Those markets are also quickly switching to radial tires.

Change in Brazilian Truck radial replacement market

In millions of tires

Pool data - 12-month sliding



In Asia, in replacement, the radial market posted strong (+10%) growth. Mainly driven by China (+11%), the growth occurred across the region except for Japan, Taiwan and Australia, where markets were down slightly. The current market share of radial tires in China is close to 30%. China's retread market is beginning to grow.

In Africa and the Middle East, markets are quickly switching to radial tire technology, especially in Turkey, Saudi Arabia and South Africa.



ORIGINAL EQUIPMENT MARKETS

In the developed countries, a substantial difference was observed between the truck tire markets, which experienced another year of strong growth as implementation of new environmental standards approached, and passenger car and light truck markets, which were down even more sharply in North America than in Europe, reflecting the difficulties faced by the regions' automotive industries.

Emerging countries generally experienced vibrant growth except for Brazil's truck tire market, hit by a strong real.

Passenger car and Light truck

Passenger car and Light truck markets	2006 Original Equipment market	H1 2006 Original Equipment market	H2 2006 Original Equipment market
Europe	-0.5%	+0.3%	-1.3%
North America ¹	-2.5%	+0.2%	-5.2%
Asia	+9.2%	+9.6%	+8.9%
South America	+7.3%	+7.5%	+7.1%
Africa Middle-East	+3.8%	+10.4%	-2.8%

¹ United States, Canada and Mexico

2006 markets behaved differently according to the region: down in Europe and North America, still strong in Asia, South America, Africa and the Middle-East. In Europe, the downward trend was mitigated by the good performance of some car makers. In North America, the market dropped sharply as a result of the difficulties faced by the domestic automotive industry. In Asia, emerging country markets such as China and Thailand experienced strong growth.

Truck

Truck markets	2006 Original Equipment market	H1 2006 Original Equipment market	H2 2006 Original Equipment market
Europe	+8.8%	+4.7%	+12.9%
North America ¹	+7.9%	+4.1%	+12.2%
Asia ²	+14.0%	+20.0%	+12.0%
South America ²	-3.7%	-7.0%	+3.5%
Africa Middle-East	+10.2%	+9.4%	+10.2%

¹ United States, Canada and Mexico

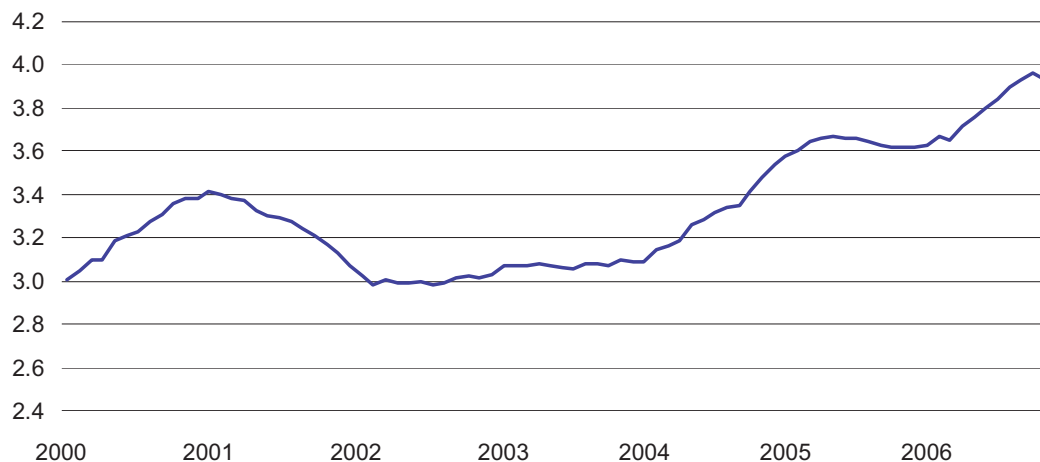
² Radial only

In Europe, the growth of the original equipment market accelerated further in the 4th quarter. Over the full year, this market grew +8.8%. Growth was driven by exports especially from Eastern Europe and by implementation of new European anti-pollution standards.

Change in Western Europe's Truck Original Equipment market

In millions of tires

15-country Europool - 12-month sliding

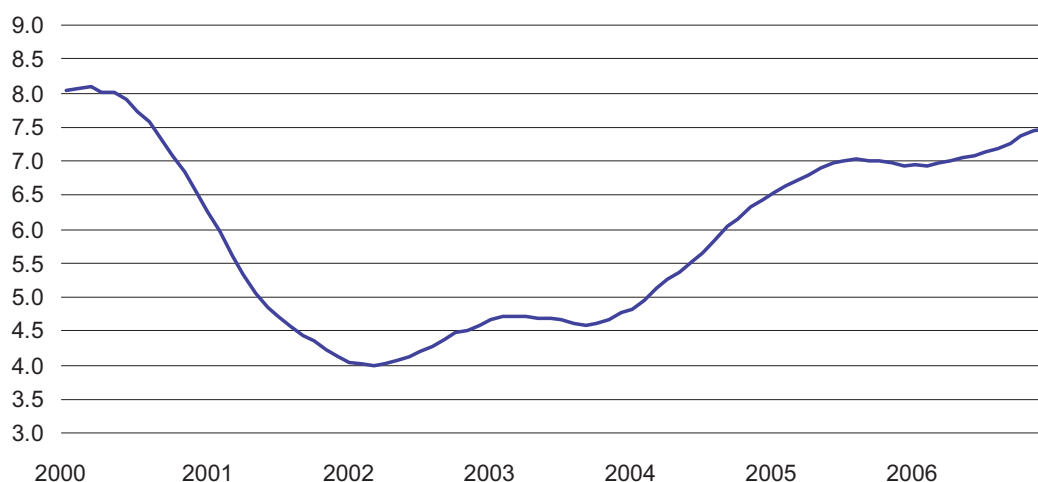


In North America, the original equipment market grew +7.9%. The growth was still driven by early purchases of power units, stimulated by implementation of new EPA 2007 environmental standards. The growth of this market has accelerated in the fourth quarter and should remain at a high level until mid-March 2007.

Change in North American Truck Original Equipment market

In millions of tires

US + CA + MX Pool (radial + bias) - 12-month sliding



In Asia, the radial market posted +14% growth, pulled by China's 40% growth. Original equipment markets should remain strong in 2007, with an estimated +8.9% growth versus 2006.

In South America, Brazil's market plunged. The export market was hit by a competitive disadvantage due to appreciation of the real. Another consequence of real appreciation is the agrifood sector crisis in general and that of soja bean in particular. Economic activity was dampened by high interest rates which remained high.

OUTLOOK FOR 2007

In 2007, tire market growth should be positive worldwide, with the exception of North America's truck tire markets which should trend downward due to purchasing prior to implementation of new anti-pollution standards and from a somewhat more subdued economic environment. With approximately 3% expected growth, replacement markets in Europe should benefit from a more supportive economic context. The developed countries' passenger car and light truck original equipment markets should remain stable. Emerging countries in Asia, South America, Africa and the Middle-East should continue on their dynamic growth trends.

PASSENGER CAR AND LIGHT TRUCK MARKETS	Europe*	North America**	Asia	South America	Africa Middle-East
Original Equipment	+0.5%	+0.3%	+8%	+10%	+6%
Replacement	+3.0%	+0.8%	+6%	+4%	+3%
TRUCK MARKETS	Europe*	North America**	Asia	South America	Africa Middle-East
Original Equipment	+4%	-28%	+8.9%	+4%	+4.4%
Replacement	+2.7%	-2.0%	+7.5%	+6%	+5.5%

* Western and Eastern Europe

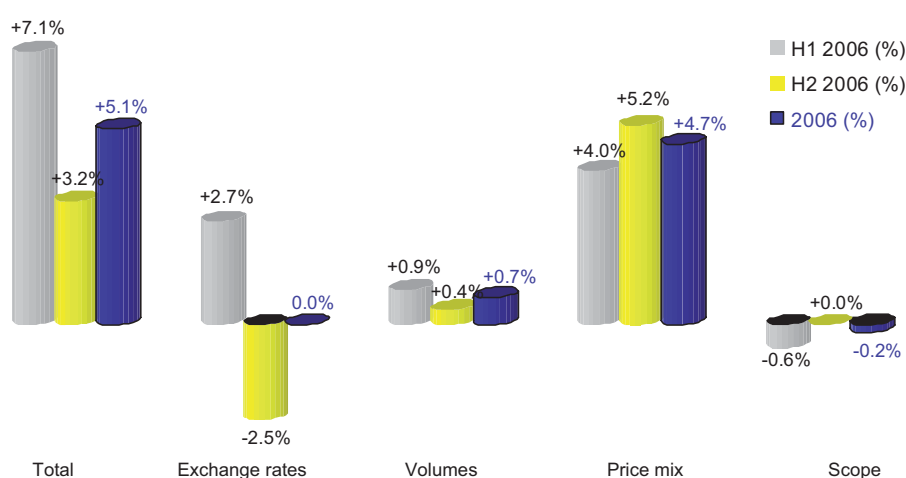
** United States, Canada and Mexico

MICHELIN SALES

EUR million	2006	2005	% change
Sales	16,384	15,590	+5.1%

Net sales were up 5.1% to EUR 16,384 million. At constant scope and exchange rates, they rose 5.4%.

ANALYSIS OF IMPACT ON SALES



The change results from the following factors:

- **Neutral impact of exchange rates:** the euro appreciation relative to the US dollar (+ 0.9%) and the Hungarian forint (+ 6.1%) was offset by the relative appreciation of the Canadian dollar (+5.6%), the Brazilian real (+10.1%) and the Thai bath + (+5.0%) versus the euro.
- **+0.7% positive volume effect** due to December 2006 volume sales sharply down versus 2005. In 2006, the Group was impacted by a substantial decline in the North American passenger car and light truck markets;
- **+4.7% continued strong positive price-mix effect**, further accentuated toward the year end (+6.2% in the 4th quarter). This reflects price increases passed across product ranges and regions to offset further very substantial raw material cost increases (+ EUR 740 million), and also arises from the constant enrichment of the Group's product offering, notably in the High-performance and Winter segments;
- **-0.2% negative scope effect** due to transfer of the Wheel business in May 2005, partly offset by integration of Serbia-based Tigar, on March 1, 2005.

SEMESTER ON SEMESTER CHANGES

Michelin semester on semester net sales change versus 2005:

	2006 / 2005 (€m)	2006 / 2005 (%)	H1 06 / H1 05 (€m)	H1 06 / H1 05 (%)	H2 06 / H2 05 (€m)	H2 06 / H2 05 (%)
Total change	+794	+5.1%	+533	+7.1%	+261	+3.2%
Exchange rates	-	-	+200	+2.7%	-200	-2.5%
Volumes	+102	+0.7%	+70	+0.9%	+32	+0.4%
Price mix	+736	+4.7%	+307	+4.0%	+429	+5.2%
Scope	-44	-0.2%	-44	-0.6%	+0	+0.0%

The exchange rate variation was negative in the second half as a result of depreciation of the dollar and the Hungarian forint.

CHANGE IN SALES BY BUSINESS SEGMENT

Michelin net sales change by reporting segment, in line with the reporting adopted on January 1, 2005.

- SR1:** Passenger car and Light truck tires and related distribution operations
SR2: Truck tires and related distribution operations
SR3: Specialty Operations : Specialty tires (Agricultural, Aircraft, Two-wheel, Earthmover), Maps and Guides, ViaMichelin and Michelin Lifestyle

EUR million	2006	2006 / 2005	H1 2006	H1 06 / H1 05	H2 2006	H2 06 / H2 05
Group	16,384	+5.1%	8,023	+7.1%	8,361	+3.2%
SR1	8,991	+4.3%	4,367	+7.5%	4,624	+1.5%
SR2	5,418	+6.8%	2,627	+8.8%	2,791	+5.1%
SR3	1,975	+4.1%	1,029	+1.8%	946	+6.7%

Reporting Segment 1 (SR1) - Sales analysis

In Europe, Group **Replacement** volume sales globally outperformed the market. This was clearly the case in Austria, the Benelux, Germany and Italy, where the Group's market share increased substantially. Michelin continued to revise its pricing structure in most Eastern countries in order to curtail parallel imports: this has weighed on sales performance relative to the market. The new Winter tire Michelin Alpin A3 enjoyed a successful launch and topped ADAC's (Germany Automobile Club Association) ranking, which raised Michelin's market share particularly in Germany, which is Europe's largest winter market. The Michelin, Kleber and BFGoodrich brands won market share at the expense of private and associate brands that lost further ground.

Michelin's **Original Equipment** sales declined as a result of an unfavorable OEM and vehicle mix.



In North America, Replacement volume sales were substantially lower in the United States and Canada and slightly up in Mexico. The Group's "premium" brands (Michelin, BFGoodrich) and Uniroyal performed well, each strengthening its position in the region. Conversely, private and associate brand sales fell further behind, against the background of a declining mass market. The Group's performance on the VZ High-performance segment, on the other hand, was particularly robust.

Unit sales were boosted after 3 price increases passed during the year and as a result of a notable brand and segment mix improvement.

In **Original equipment**, the market was down sharply and Group sales declined as well.

In South America, the Group's performance was mixed: Michelin was able to maintain its market share in most Spanish-speaking countries; but in Brazil its sales lagged the market slightly in context of stiff competition from Asian imports.

In Asia, Replacement volume sales increased significantly in China, South Korea and the ASEAN¹ countries (excluding Thailand) and in India. Overall, Michelin enhanced its positions in the regions, in China especially, where the Michelin brand further consolidated its leadership on the passenger car and light truck market. In **Original equipment**, sales posted strong growth. In China, the Group posted further market share gains, especially for Michelin-branded tires.

¹ Association of South-East Asian Nations

In Africa and the Middle-East, Michelin's net sales evolved satisfactorily as a result of favorable market (original equipment / replacement) and segment mixes.

Reporting Segment 2 (SR2) - Sales analysis

In Europe, in **Replacement**, the Group won additional market share in Western and Eastern Europe on both new and retreaded tire markets. The price increases initiated during the year stuck. The Group's price-premium advantage has been maintained. In **Original Equipment**, Group sales grew slightly slower than the market. Market share is stabilizing at the level considered appropriate by the Group.

In North America, Michelin's **Replacement** sales outperformed the market. The Group continued to gain market share in all three countries for the third year in a row. The price increases initiated at the beginning of the year stuck and led to a significant increase in the average sales price. The Michelin Durable Technologies products confirmed their potential with volume sales up significantly versus 2005. Retread operations continued to expand with new facilities being opened during the year, driving significant growth and market share gains.

In **Original Equipment** Group sales grew a little slower than the market.

In South America, the Group's performance was mixed: in Brazil, the significant increase in Asian imports was a primary growth factor that weighed on Michelin's performance. On the other hand, the Group performed well in the Spanish-speaking countries, where it further strengthened its positions.

In Asia, Michelin's **Replacement** sales grew significantly, especially in China and India where the Group is gaining market shares.

In **Original Equipment**, the Group continued to grow dynamically and gain market shares.

In Africa and the Middle-East, despite growing tire imports from Asia, Michelin benefited from the ongoing switch to radial tire architecture. The Group is developing especially in Turkey, Saudi Arabia and the Gulf Kingdoms.

Reporting Segment 3 (SR3) - Sales analysis

- The **Earthmover** markets experienced strong growth and demand continued to exceed supply. This situation was even more acute than in the past, especially in the mining sector, as inventories were fully used up both at customer and retailer warehouses. The scale of the bull cycle, both from the point of view of sheer duration and imbalance between supply and demand, is a result of the combined effect of very strong raw material and energy demand. No trend inversion is expected in the mid term.

Factors to explain this significant increase of net sales include an increase in volume sales as a result of a number of marginal capacity increases, and on the other hand by implementation of price increases designed to offset massive raw material cost increases.

- **Agricultural** tire markets were globally bearish in 2006, down 2%. North America's replacement tire market, where radial technology accounts for 25%, suffered mainly from poor weather that interfered with seeding and reduced harvest yield. In original equipment, after a difficult year in 2005, Michelin won back market share; in replacement, the season was not fully up to expectations in North America but sales volumes in Europe were clearly boosted by a successful partnership policy with distribution players. Net sales rose, due to an increasingly richer brand mix (driven by the good performance of the Michelin brand) as well as product mix (as lead tractor tires accounted for a greater share of the market).

- 2006 also saw globally dynamic growth in the **Two-wheel** markets. Group replacement sales volumes were up in the scooter and motorcycle segments, driving market share gains; market share was stable on the bicycle segment. In value terms, sales growth was behind volume, as the market (original equipment / replacement) and geographic mixes were not very favorable.

The recent selection of Michelin as a replacement tire supplier for Harley Davidson motorcycles in North America comes as a fresh recognition of the Group's product quality and performance on the "moto cruiser" segment.

- **Aircraft** tire markets remained strong in 2006, benefiting from an acceleration of the trend toward radial tire technology. Indeed all the new commercial aircraft, whose commercial success is partly due to a lower kerosene consumption, are fitted with radial tires. A certain amount of tension is beginning to be felt reflecting production capacity constraints. However, Michelin volume sales increased, while income was pushed up by a richer product mix. On the strength of its success with radial tire products, Michelin continues to develop new products, especially on the general, regional and military aviation markets where the share of radial tire technology remains fairly modest.

- In a declining **Maps and Guides** market, the Group consolidated its positions in cartography; it successfully launched the San Francisco & The Bay Area Red Guide as well as Chinese language Green Guides.

- In the European personal navigation market, which doubled in just one year, **ViaMichelin** repositioned its offering on the all-in-one GPS device segment with a full range of five products. Web-based business was brisk owing to the ongoing renewal of ViaMichelin's offering. Traffic information attracted many carmakers and key players in the personal navigation sector.

MAIN CURRENCY CHANGES

The impact of **exchange rates** on sales growth was neutral. The euro's appreciation relative to the US dollar was offset by the relative appreciation of the Canadian dollar, the Brazilian real and the Thai bath.



	2006 average exchange rate	2005 average exchange rate	Change
Euro / USD	1.257	1.245	+0.9%
Euro / CAD	1.425	1.509	-5.6%
Euro / MXN	13.707	13.572	+1.0%
Euro / BRL	2.734	3.040	-10.1%
Euro / GBP	0.682	0.684	-0.3%
Euro / JPY	146.111	136.913	+6.7%
Euro / THB	47.613	50.097	-5.0%

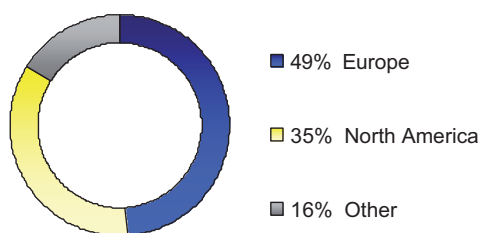
SALES BY REGION

EUR million	2006	2006 / 2005	H1 2006	H1 06 / H1 05	H2 2006	H2 06 / H2 05
Group	16,384	+5.1%	8,023	+7.1%	8,361	+3.2%
Europe	8,017	+4.6%	3,914	+1.6%	4,103	+7.7%
North America (incl. Mexico)	5,738	+3.6%	2,803	+11.6%	2,935	-3.1%
Other	2,629	+10.1%	1,306	+16.0%	1,323	+4.8%

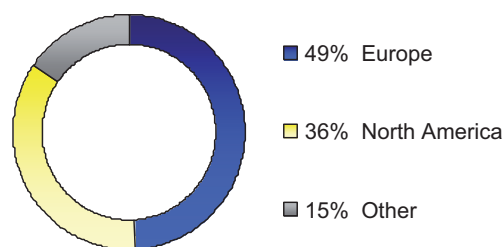
EUR million	2006	% of total	2005	% of total
Groupe	16,384		15,590	
Europe	8,017	48.9%	7,664	49.2%
North America (incl. Mexico)	5,738	35.0%	5,538	35.5%
Other	2,629	16.0%	2,388	15.3%

Europe accounted for 49% of sales in 2006, as was the case in 2005. **North America's** share was 35% versus 36% in 2005. **Asia's** share rose to 10% versus 9% in 2005. As was the case last year, **South America** accounted for 5% of the total.

Breakdown of sales at 31 December 2006



Breakdown of sales at 31 December 2005



CONSOLIDATED INCOME STATEMENT

EUR million, except per share data	2006	2005
Sales	16,384	15,590
Cost of sales	(11,653)	(10,835)
Gross income	4,731	4,755
Sales and marketing expenses	(1,799)	(1,775)
Research and development expenses	(591)	(565)
General and administrative expenses	(965)	(999)
Other operating income and expenses	(38)	(48)
Operating income before non-recurring income and expenses	1,338	1,368
Non-recurring income	-	256
Non-recurring expenses	(220)	(50)
Operating income	1,118	1,574
Cost of net debt	(315)	(310)
Other financial income and expenses	135	30
Share of profit / (loss) from associates	4	6
Income before taxes	942	1,300
Income tax	(369)	(411)
Net income	573	889
Attributable to Shareholders	572	889
Attributable to non-controlling interests	1	-
Earnings per share attributable to Shareholders (in euros)		
Basic	3.95	6.13
Diluted	3.94	6.12

COMMENTS

The consolidated financial statements have been prepared in accordance with IFRS.

INCOME STATEMENT BY FUNCTION

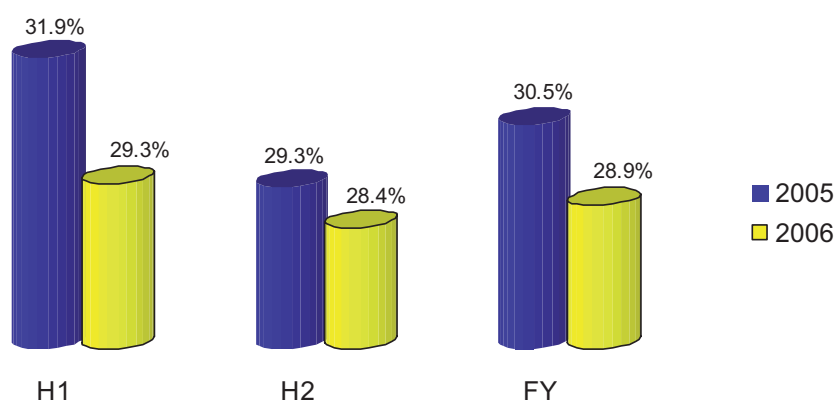
Gross income

EUR million	2006	2005	% change
Gross income	4,731	4,755	-0.5%

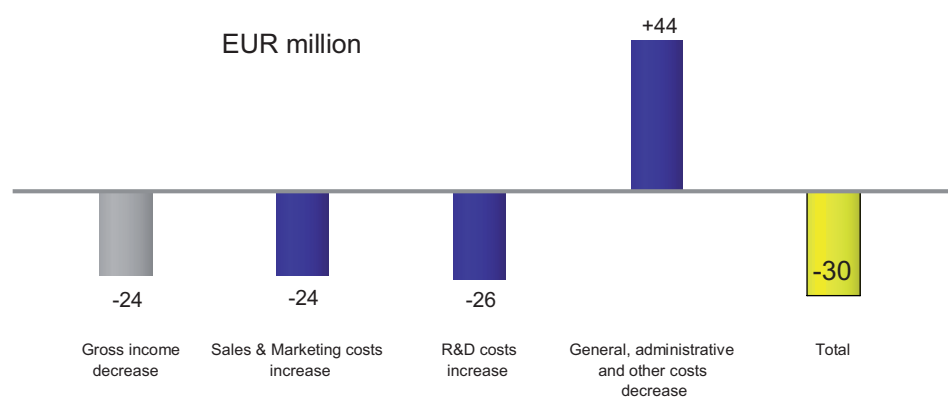
Gross margin was down EUR -24 million in 2006 to EUR 4,731 million versus EUR 4,755 in 2005. Raw material price increases account for the bulk of this decline, as these were only partly offset by sales price increases. The price mix resulted in a EUR +736 million gain to be compared with a EUR 824 million additional cost burden for raw materials, logistics and energy.

As a percentage of sales, gross margin amounted to 28.9% versus 30.5% in 2005.

Group gross margin
in % of net sales



From gross income to operating income



Operating expenses accounted for 20.7% of net sales in 2006, versus 21.7% in 2005 and 23.5% in 2004. The 1.6 point margin drop was partly offset by this 1 point reduction in SG&A costs .

Sales and Marketing expenses

EUR million	2006	2005	% change
Sales and marketing expenses	1,799	1,775	+1.4%

Sales and Marketing expenses increased +1.4% to EUR 1,799 million versus EUR 1,775 million in 2005. As a percentage of net sales, they declined from 12.6% in 2004 to 11.4% in 2005 and 11.0% in 2006.

Research and Development expenses

EUR million	2006	2005	% change
Research and development expenses	591	565	+4.5%

Research & development expenses increased 4.5% to EUR 591 million as compared with EUR 565 million in 2005. As a percentage of net sales, R&D expenses amounted to 3.6%, as in 2005.



General and Administrative Expenses

EUR million	2006	2005	% change
General and administrative expenses	965	999	-3.4%

General administrative expenses in absolute value were cut by EUR -34 million, from EUR 999 million in 2005 to EUR 965 million in 2006, or -3.4%. As a percentage of net sales, they were reduced from 6.4% to 5.9%.

Other Operating Income and Expenses

EUR million	2006	2005	% change
Other operating expenses	38	48	-20.5%

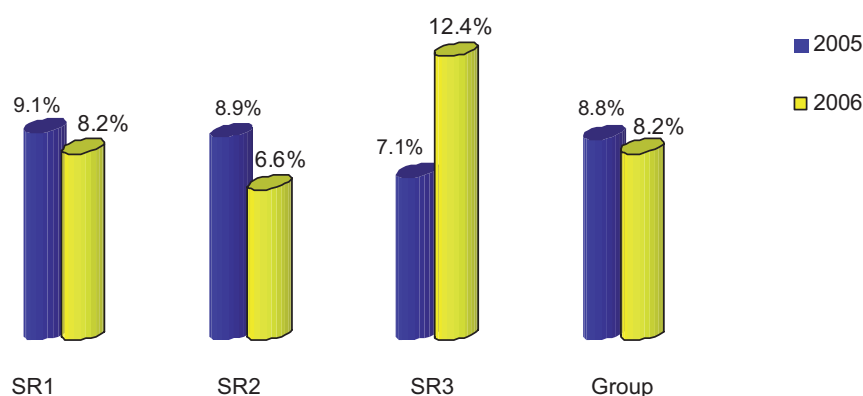
Other operating expenses declined -20.5%, from EUR 48 million to EUR 38 million. This is mainly related to retiree benefit costs.

Operating income before non-recurring items

EUR million	2006	2005	% change
Operating income before non-recurring income and expenses	1,338	1,368	-2.2%

OPERATING INCOME BY BUSINESS SEGMENT

Operating Margin by Business Segment*



* In line with segment reporting adopted on January 1, 2005:

SR1: Passenger car and Light truck tires and related distribution operations

SR2: Truck tires and related distribution operations

SR3: Specialty Operations : Specialty tires (Agricultural, Aircraft, Two-wheel, Earthmover), Maps and Guides, ViaMichelin and Michelin Lifestyle

Reporting Segment 1 - Analysis of operating income

SR1 EUR million	2006	2005	2006 / 2005	2006 % of Group total	2005 % of Group total
Sales	8,991	8,621	+4.3%	55%	55%
Operating income before non-recurring items	736	782	-5.9%	55%	57%
Operating margin before non-recurring items	8.2%	9.1%	-0.9pt		

At 8.2%, the segment's **operating margin** was down 0.9 point as a result of the following factors:

- a global decline of volume sales in replacement in North America and in Original Equipment;
- price increases which did not fully compensate strong external cost inflation;

Despite the following factors:

- satisfactory replacement volume sales growth in Europe and Asia enabled Michelin to strengthen its positions on those markets;
- further segment and brand mix enrichment in all regions.

Reporting Segment 2 - Analysis of operating income

SR2 EUR million	2006	2005	2006 / 2005	2006 % of Group total	2005 % of Group total
Sales	5,418	5,072	+6.8%	33%	33%
Operating income before non-recurring items	357	451	-20.8%	27%	33%
Operating margin before non-recurring items	6.6%	8.9%	-2.3pt		

The **operating income** of Truck and related distribution operations was down at EUR 357 million compared with EUR 451 million in 2005. Operating margin thus declined from 8.9% in 2005 to 6.6%. The price effect only partly offset raw material price increases, especially natural rubber, as the natural rubber content of truck tires is significantly greater than in passenger cars and light truck tires.

It is worth noting that there is a four-month lag between raw material purchases and their consumption and a further lag for their integration in the P&L when they are sold as a finished product. As a result, the decline in natural rubber prices recorded in the second half will impact the segment's accounts in the 1st half 2007.

In order to help offset such negative impact, the following further replacement tire price increases were announced:

- 3 - 5% in Europe, during the first half 2007
- In Japan, 8% increase effective April 1, 2007

Reporting Segment 3 - Analysis of operating income

SR3 EUR million	2006	2005	2006 / 2005	2006 % of Group total	2005 % of Group total
Sales	1,975	1,897	+4.1%	12%	12%
Operating income before non-recurring items	245	135	+81.5%	18%	10%
Operating margin before non-recurring items	12.4%	7.1%	+5.3pt		

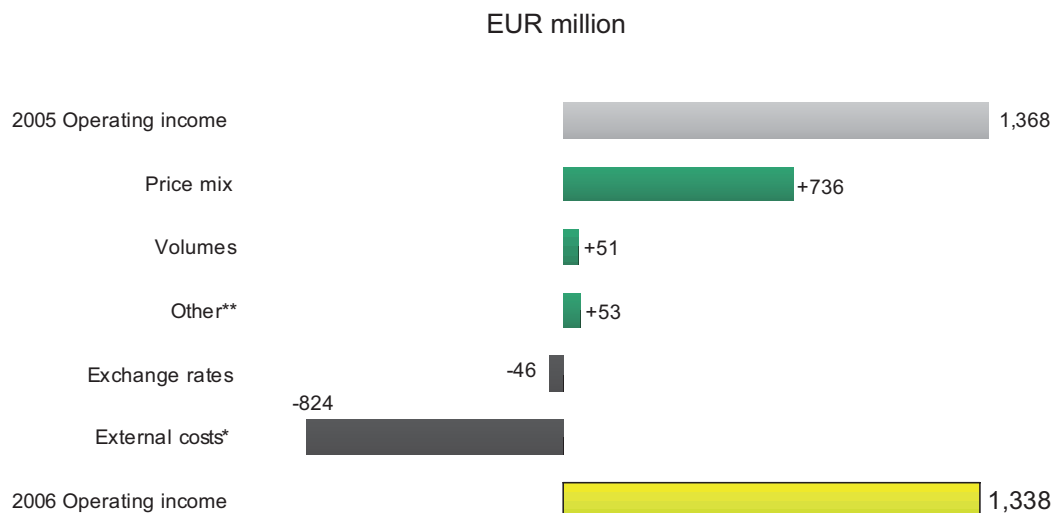
The segment's **Operating result** posted a very substantial increase of more than 80%. Similarly, operating margin, up more than 5 points, showed a strong improvement. The improved returns on this business segment, which has now become the Group's most profitable, are the result on one hand from tension on the relevant markets, especially earthmover and radial aircraft, and on the other from the success of highly innovative services underpinning optimum valorization of Group products in negotiating with experienced operators that are fully aware of the added benefits delivered by Michelin's products.

INCOME STATEMENT BY NATURE

Although Michelin is not required to present accounting information by category under IFRS, the Company has decided to report some nature-based P&L data.

Factors contributing to changes in operating margin

(before non-recurring items)



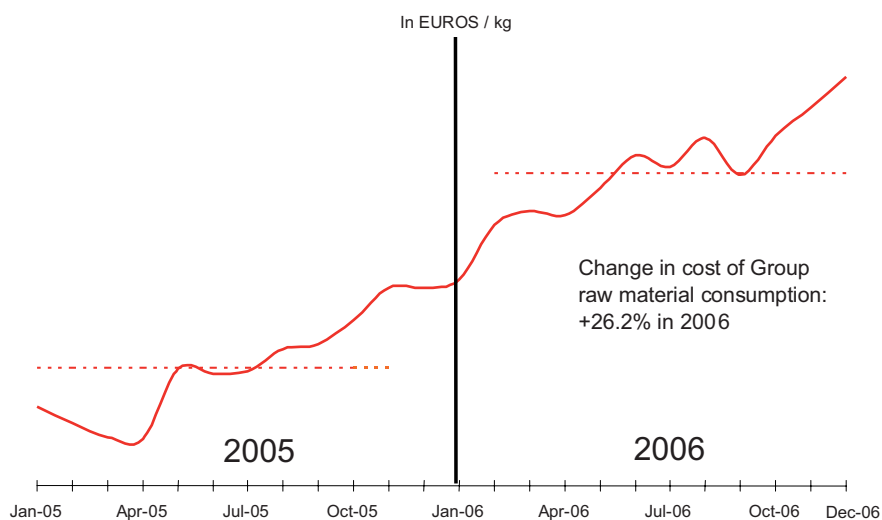
* External costs = raw materials + energy + logistics

** Other = productivity gains, overheads, start-up and restructuring expenses

External costs (raw materials + logistics + energy) increased EUR 824 million, with logistics and energy accounting for EUR 84 million.

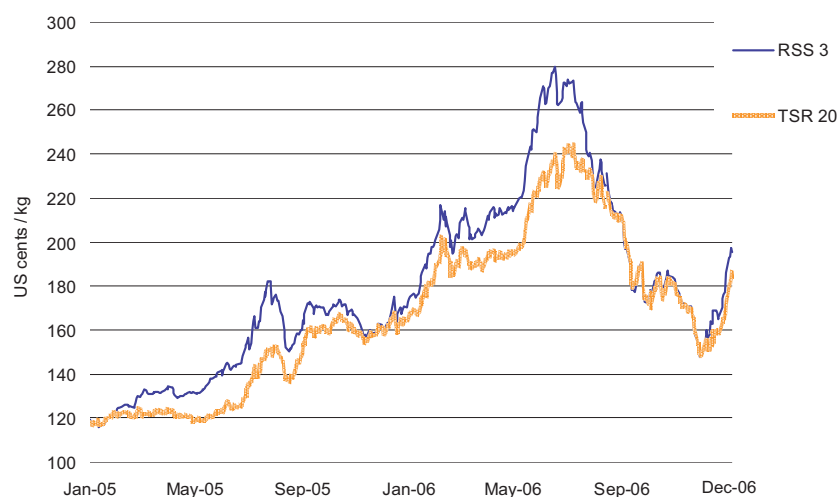
Raw materials

The cost of Group raw material consumption rose +26.2% in 2006 year-on-year. The extra cost burden is estimated to be approximately EUR 740 million in 2006.

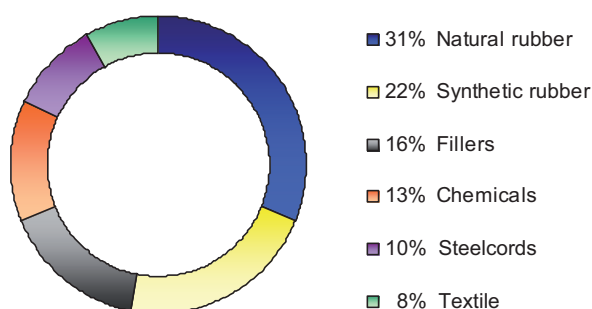


Natural rubber accounted for 31% of Group raw material purchases in value. Of the additional raw material cost burden experienced between 2005 and 2006, natural rubber, up +42%, accounted for 50% of the increase in absolute value.

Change in Natural Rubber prices in 2005-2006



Breakdown of raw material needs for 2006 (in value)



Employee benefits costs and number of employees

EUR million	2006	2005	% change
Total employee benefits costs	4,718	4,780	-1.3%
Number of employees at December 31 (full-time equivalent)	115,755	119,030	-2.8%

The average number of employees changed from 127,319 to 126,673. In full-time equivalent, headcount declined -2.8%.

As a percentage of net sales, payroll and benefits costs amounted to 28.8% in 2006 versus 30.7% in 2005.

Depreciation and amortization

EUR million	2006	2005	2006 / 2005 in value	2006 as a % of sales	2005 as a % of sales
Depreciation and amortization	851	806	+45	5.2%	5.2%

At EUR 851 million, **depreciation and amortization** rose 5.6%, accounting for 5.2% of sales. As a percentage of net sales, net capital expenditure accounted for 7.8%. The spread between investments and amortization should be bridged gradually.

Financial income and expenses

EUR million	2006	2005	% change
Cost of net debt	-315	-310	
Other financial income and expenses	135	30	
Total financial income and expenses	-180	-280	-35.7%

The increase in the **cost of net debt** was chiefly due to the increase in average gross debt and the interest rate increase, partly offset by the reduction in available cash and, therefore, of available cash-related costs. The increase in other financial income is mainly accounted for by the sale of PSA Peugeot Citroen equity in February 2006. Michelin Group sold the balance of its Peugeot SA holdings, held through its Pardevi subsidiary. The transaction, which amounted to EUR 139 million, involved 2,826,000 shares accounting for 1.20% of PSA Peugeot Citroen's capital. The net capital gains after tax recorded in 2006 accounts amounted to EUR 114 million.

Income tax

EUR million	2006	2005	% change
Total tax	369	411	-10.2%
Current tax	198	205	-3.4%
Withholding tax	23	25	-8.0%
Deferred tax	148	181	-18.2%

Group tax amounted to EUR 369 million versus EUR 411 million in 2005. The effective tax rate was 39.2% against 31.6% in 2005. This unfavorable change results from a degradation of the balance between profit-making and loss-making operations.

Consolidated net income and earnings per share

EUR million	2006	2005	% change
Net income	573	889	-35.6%
Attributable to Shareholders	572	889	-35.7%
Earnings per share attributable to Shareholders (in euros)			
Basic	3.95	6.13	-35.6%
Diluted	3.94	6.12	-35.6%

The consolidated **net income** amounted to EUR 573 million, down -35.6% compared to last year. The change resulted from:

- EUR 30 million decrease of operating income before non-recurring items;
- EUR 157 million provision (before tax) in connection with closing of the Kitchener plant and EUR 63 million provision in connection with stoppage of industrial operations of the Port Harcourt Nigerian plant (making up the total of non-recurring items);
- The provision was only partly offset by proceeds from the sale of Peugeot equity in February 2006 (EUR114 million before tax)

Basic earnings per share declined -35.6% to EUR 3.95.



OUTLOOK FOR THE YEAR 2007

In 2007, tire market growth should be positive worldwide, with the exception of North America's truck tire markets which should trend downward due to purchasing prior to implementation of new anti-pollution standards and from a somewhat more subdued economic environment. With approximately 3% expected growth, replacement markets in Europe should benefit from a more supportive economic context. The developed countries' passenger car and light truck original equipment markets should remain stable. Emerging countries in Asia, South America, Africa and the Middle-East should continue on their dynamic growth trends.

Following unprecedented inflationary trends in 2006, raw material prices are expected to stabilize at a high level in 2007, with a limited impact on the Group's income statement.

In this context, Michelin's net sales and operating margin should post a tangible increase compared to 2006, in line with the Group's 2010 objectives.

CONSOLIDATED BALANCE SHEET

ASSETS

EUR million	31 December 2006	31 December 2005
Goodwill	438	444
Other intangible assets	181	192
Property, plant and equipment (PP&E)	6,848	6,577
Non-current financial assets and other assets	449	435
Investments in associates and joint ventures	71	50
Deferred tax assets	1,005	1,227
Non-current assets	8,992	8,925
Inventories	3,342	3,225
Trade receivables	3,237	3,273
Current financial assets	79	229
Other current assets	544	618
Cash and cash equivalents	680	611
Current assets	7,882	7,956
TOTAL ASSETS	16,874	16,881

LIABILITIES AND EQUITY

EUR million	31 December 2006	31 December 2005
Share capital	287	287
Share premiums	1,863	1,845
Reserves	2,527	2,379
Non-controlling interests	11	16
Total equity	4,688	4,527
Non-current financial liabilities	2,736	3,092
Employee benefits	2,730	3,049
Provisions and other non-current liabilities	818	801
Deferred tax liabilities	58	71
Non-current liabilities	6,342	7,013
Current financial liabilities	2,157	1,647
Trade payables	1,776	1,792
Other current liabilities	1,911	1,902
Current liabilities	5,844	5,341
TOTAL LIABILITIES AND EQUITY	16,874	16,881

COMMENTS

Goodwill

EUR million	31 December 2006	31 December 2005	31 dec 06 / 31 dec 05
Goodwill	438	444	-6

Goodwill accounts for the excess of the purchase price over the fair value of the assets, less the liabilities of the acquired companies, as at the date when the acquisition commitment enters into effect. No significant change was recorded on this item in 2006.

Intangible assets and property, plant and equipment

EUR million	31 December 2006	31 December 2005	% change
Other intangible assets	181	192	-5.8%
Property, plant and equipment (PP&E)	6,848	6,577	+4.1%
Intangible assets and PP&E	7,029	6,769	+3.8%

Intangible assets and PP&E rose 3.8% versus 2005. Despite the importance of capex, the property, plant and equipment item was slightly down as a percentage of sales (42.9% of sales vs. 43.4% in 2005).

Capital expenditure

EUR million	2006	2005	2006 / 2005 in value	2006 as a % of sales	2005 as a % of sales
Capital expenditure	1,414	1,336	+78	8.6%	8.6%
Investment grants received	(14)	(5)	-9	(0.1%)	(0.0%)
Change in capital expenditures payables	(21)	(39)	+18	(0.1%)	(0.3%)
Purchases of intangible assets and PP&E	1,379	1,292	+87	8.4%	8.3%
Proceeds from sale of intangible assets and PP&E	(102)	(84)	-18	(0.6%)	(0.5%)
Purchases of intangible assets and PP&E, net of disposals	1,277	1,208	+69	7.8%	7.7%

Gross capital expenditure amounted to EUR 1,414 million, up EUR 78 million year-on-year. At EUR 1,277 million, net investments rose +69 million.

As a percentage of net sales, net capital expenditure accounted for 7.8%, on par with 2005.

The main capital investments were as follows:

Passenger car / Light truck

- Further capacity conversion in North America and Western Europe to support growth in the Group's top-of-the-range production.
- Capacity raised at Nyiregyhaza (Hungary), Olsztyn (Poland), Victoria (Romania) and Resende (Brazil) and capacity conversion to switch to the Michelin brand (China).

Truck

- Capacity increased and converted in support of Michelin Durable Technologies deployment on the wide tire applications such as X-One.
- Tread pressing capacity raised in Brazil and Mexico.

Earthmover

- Capacity increased in the United States and Spanish large diameter Earthmover tire manufacturing facilities and construction of a new site in Brazil for mid-sized diameters.

Semi-Finished Products

- Investment in semi-finished production capacity (especially mixing and metal reinforcements) to support finished product capacity increases (Brazil, Poland, Thailand, China, USA).

Investments aimed at cutting costs and improving ergonomics, safety and environmental protection

- Such investments were made in all Product lines, particularly in the more mature sites of Western Europe and North America.

Operating working capital requirement

EUR million	31 December 2006	31 December 2005	Change
Inventories	3,342	3,225	+117
Trade receivables	3,237	3,273	-36
Trade payables	(1,776)	(1,792)	+16
Operating working capital requirement	4,803	4,706	+97

Operating working capital requirement represented an average of 95 trading days in 2006, as opposed to 102 days in 2005 and 107 in 2004. As a percentage of sales, they accounted for 29.3% at December 31, 2006 versus 30.2% one year before. However, operating WCR was up +EUR 97 million year-on-year, making a negative cash contribution

As a % of sales	31 December 2006	31 December 2005
Inventories	20.4%	20.7%
Trade receivables	19.8%	21.0%
Trade payables	(10.8%)	(11.5%)
Operating working capital requirement	29.3%	30.2%

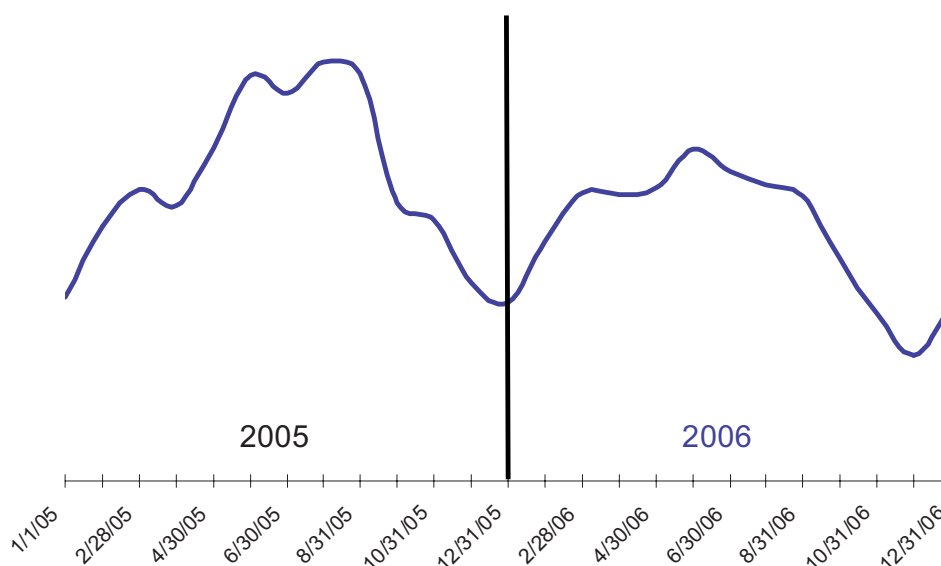
Inventory accounted for 20.4% of net sales. The Group's objective is to reduce this ratio to 16% of net sales by 2010.

Inventories

EUR million	31 December 2006	31 December 2005	Change
Raw materials and supplies	863	853	+10
Work in progress	275	262	+13
Finished goods	2,303	2,191	+112
Less write-downs	(99)	(81)	-18
Net inventory	3,342	3,225	+117

In tons, Inventory of Finished Products at the end of June were down sharply versus 2005. The absolute value increase of inventory, therefore, mainly resulted from the increase in the hike of raw material prices.

Total Finished Product Inventory (in thousands of tonnes)



Trade receivables

EUR million	31 December 2006	31 December 2005	Change
Gross trade receivables	3,362	3,392	-30
Impairment	-125	-119	-6
Trade receivables, net	3,237	3,273	-36

At EUR 3,237 million, **trade receivables** were down EUR 36 million compared with fiscal 2005. The item accounted for 19.8% of net sales versus 21.0% for the prior year.

Pursuant to IFRS, all of the receivables covered by the transfer and securitization programs, which are part of Michelin's routine financing transactions, were fully consolidated in the balance sheet.

At December 31, 2006, the net balance of trade receivables for the ten largest customers, each accounting for more than 0.7% of the total balance, amounted to EUR 571 million (EUR 600 million in 2005). Five of them were based in North America and five in Europe.

At that date, 40 customers (47 in 2005) enjoyed credit ceilings in excess of EUR 10 million. Of this number, 20 are in Europe, 18 in North America and 2 in Asia.

No substantial collateral had been paid to limit credit risk. Credit-related loss amounted to EUR 19.1 million in 2006, or 0.12% of net sales as compared with 0.15% over the last 3 years.

Equity

Change in consolidated equity:

	Share capital	Share premiums	Treasury shares	Reserves	Non-controlling interest	Total equity
Total as at 1 January 2005	287	1,842	-	1,449	69	3,647
Change in fair value of available-for-sale investments (net of income tax):						
- unrealised gain / (loss)	-	-	-	51	-	51
Employees share option schemes:						
- cost of service rendered	-	3	-	-	-	3
- proceeds from shares issued	-	-	-	-	-	-
Dividend payments	-	-	-	(186)	(35)	(221)
Net income	-	-	-	889	-	889
Currency translation differences and other	-	-	-	176	(18)	158
Total as at 31 December 2005	287	1,845	-	2,379	16	4,527
Change in fair value of available-for-sale investments (net of income tax):						
- unrealised gain / (loss)	-	-	-	26	-	26
- (gain) / loss recognized in income statement	-	-	-	(109)	-	(109)
Employees share option schemes:						
- cost of service rendered	-	7	-	-	-	7
- proceeds from shares issued	-	11	-	-	-	11
Dividend payments	-	-	-	(204)	(1)	(205)
Net income	-	-	-	572	1	573
Currency translation differences and other	-	-	-	(137)	(5)	(142)
Total as at 31 December 2006	287	1,863	-	2,527	11	4,688

Shareholders' equity rose EUR 161 million versus December 31, 2005.

The following main factors contributed to their increase:

- Income for the period: EUR +573 million

while the negative factors were the following:

- Currency exchanges: EUR -138 million.
- Dividend pay outs: EUR -205 million.
- Other items: EUR -69 million

Financial debt

Net debt at end December amounted to EUR 4,178 million. Debt rose EUR 95 million versus January 1, 2006:

EUR million	31 December 2006	31 December 2005
Long-term	2,736	3,092
Bonds	1,465	1,472
Loans from financial institutions and other	1,027	1,348
Obligations under finance leases	244	272
Short-term	2,157	1,647
Bonds and commercial papers	684	305
Loans from financial institutions and other	1,087	820
Obligations under finance leases	40	35
Derivative instruments	21	19
Bank overdrafts and other short-term financial liabilities	325	468
TOTAL FINANCIAL LIABILITIES	4,893	4,739
EUR million		
Financial liabilities	4,893	4,739
Derivative assets	(35)	(45)
Cash and cash equivalents	(680)	(611)
NET DEBT	4,178	4,083

The breakdown for this EUR 95 million increase is as follows:

- Cash EUR + 228 million (of which EUR + 205 m dividend pay out)
- Non-cash EUR -133 million
 - Of which currency EUR -127 million

Change in net debt from January 1, 2006 to December 31, 2006

EUR million	2006	2005
Debt to January 1	4,083	3,292
Exchange rates	(127)	+321
Free cash flow	+39	+124
Distributions	+205	+221
Other change in equity	(16)	(6)
Addition to investment commitments	(31)	+151
New obligations under finance leases	+34	+1
Scope and miscellaneous	(9)	(21)
Debt to December 31	4,178	4,083
Change	+95	+791

Gearing

EUR million	31 December 2006	31 December 2005
Net debt	4,178	4,083
Total equity	4,688	4,527
Net debt / Equity	0.89	0.90
Net debt / EBITDA	1.89	1.88

Gearing (debt/equity ratio) amounted to 89% versus 90% at January 1, 2006. The net debt/EBITDA ratio was stable at 1.89.

Ratings

In the course of fiscal 2006, Standard and Poor's and Moody's lowered their ratings which were as follows:

		CGEM	CFM
Short-term	Standard & Poor's	A-3	A-3
	Moody's	P-3	P-2
Long-term	Standard & Poor's	BBB	BBB
	Moody's	Baa3	Baa2
Outlook	Standard & Poor's	Negative	Negative
	Moody's	Stable	Stable

Benefits

In 2006 the Group continued its drive to rationalize and control its benefit commitments.

In France a new retirement indemnities plan was introduced for production workers and a former "house" regime was discontinued. Moreover, the Group aligned its practices to the new Social Security Financing act, *loi de financement de la sécurité sociale*.

In North America the company announced that effective January 1, 2017, all NA employees will begin participating in the defined contribution plan and, as a result, no employee will accrue additional pension benefits in the defined benefit plan beyond December 31, 2016. As a result, a new window will be opened to enable employees to benefit from coverage under the defined contribution pension plan as early as 2007.

In Brazil, introduction of a new defined benefit plan was very well received by employees. Under a new Brazilian law, the Group is bound to subscribe an insurance for retiree medical care.

In the Netherlands, a new law has made it possible to liquidate a defined benefit plan and replace it with a defined contribution plan.

All of these measures had an EUR 94 million positive impact on 2006 recorded liabilities in connection with employee benefits.

CONSOLIDATED CASH FLOW STATEMENT

EUR million	2006	2005
Net income	573	889
EBITDA adjustments		
Cost of net debt	315	310
Other financial income and expenses	(135)	(30)
Income tax	369	411
Amortization, depreciation and impairment of intangible assets and PP&E	871	803
Non-recurring income and expenses	220	(206)
Share of loss / (profit) from associates	(4)	(6)
EBITDA before non-recurring income and expenses	2,209	2,171
Non-cash other income and expenses	(75)	(22)
Change in provisions, including employee benefits	(229)	(147)
Net finance costs paid	(311)	(284)
Income tax paid	(182)	(261)
Change in value of working capital, net of impairments	(221)	(426)
Cash flows from operating activities	1,191	1,031
Purchases of intangible assets and PP&E	(1,379)	(1,292)
Proceeds from sale of intangible assets and PP&E	102	84
Acquisitions of consolidated shareholdings, net of cash acquired	(41)	(41)
Proceeds from sale of consolidated shareholdings, net of cash disposed	(3)	(3)
Purchases of available-for-sale investments	(60)	(17)
Proceeds from sale of available-for-sale investments	146	2
Change in value of other financial assets	5	112
Cash flows from investing activities	(1,230)	(1,155)
Proceeds from issuance of shares	11	-
Proceeds from increase of non-controlling interests in the share capital of subsidiaries	-	14
Dividends paid to Shareholders	(193)	(179)
Dividends paid to non-controlling interests of subsidiaries	(1)	(35)
Other allocations	(11)	(7)
Change in value of financial liabilities	311	(739)
Other	5	(8)
Cash flows from financing activities	122	(954)
Effect of the change of currency rates	(14)	34
Increase or (decrease) of cash and cash equivalents	69	(1,044)
Cash and cash equivalents as at 1 January	611	1,655
Cash and cash equivalents as at 31 December	680	611

Cash flows from operating activities

EUR million Average exchange rates	2006	2005	Value change
EBITDA before non-recurring income and expenses	2,209	2,171	+38
Non-cash other income and expenses	(75)	(22)	-53
Change in provisions, including employee benefits	(229)	(147)	-82
Net finance costs paid	(311)	(284)	-27
Income tax paid	(182)	(261)	+79
Change in value of working capital, net of impairments	(221)	(426)	+205
<i>Change in inventory</i>	<i>(252)</i>	<i>(203)</i>	<i>-49</i>
<i>Change in trade receivables</i>	<i>(107)</i>	<i>(171)</i>	<i>+64</i>
<i>Change in other receivables and payables</i>	<i>138</i>	<i>(52)</i>	<i>+190</i>
Cash flows from operating activities	1,191	1,031	+160

EBITDA was up EUR +38 million at EUR 2,209 million against EUR 2,171 million in 2005.

Operating cash flow rose EUR +160 million to EUR 1,191 million compared with EUR 1,031 million in 2005.

Free cash flow

EUR million Average exchange rates	2006	2005	Value change
Cash flows from operating activities	1,191	1,031	+160
Purchases of intangible assets and PP&E, net of disposals	(1,277)	(1,208)	-69
Investments in shareholdings and other financial assets	47	53	-6
Cash flows from investing activities	(1,230)	(1,155)	-75
Free cash flow	(39)	(124)	+85

Free cash flow after investments and before dividend distribution amounted to EUR -39 million versus EUR -124 million in 2005. A number of positive non-recurring items (proceeds from the sale of PSA equity...) in an amount of EUR +161 million were partly offset by negative non-recurring items (acquisition of an additional stake in Hankook in particular)

CONSOLIDATED KEY FIGURES AND RATIOS

IFRS GAAP

EUR million	2006	2005	2004
Sales	16,384	15,590	15,048
% change	+5.1%	+3.6%	N. App.
Total employee benefits costs	4,718	4,780	4,837
as a % of sales	28.8%	30.7%	32.1%
Number of employees (full-time equivalents)	115,755	119,030	120,456
Research and development expenses ⁽¹⁾	591	565	576
as a % of sales	3.6%	3.6%	3.8%
EBITDA ⁽²⁾ before non-recurring income and expenses	2,209	2,171	2,030
Operating income before non-recurring income and expenses	1,338	1,368	1,303
Operating margin before non-recurring income and expenses	8.2%	8.8%	8.7%
Operating income	1,118	1,574	1,239
Operating margin	6.8%	10.1%	8.2%
Cost of net debt	(315)	(310)	N. App.
Total financial income and expenses	(180)	(280)	(235)
Income before taxes	942	1,300	985
Income tax	(369)	(411)	(331)
Effective tax rate	39.2%	31.6%	33.6%
Net income	573	889	654
as a % of sales	3.5%	5.7%	4.3%
Dividend distributions ⁽³⁾	205	221	185
Cash flows from operating activities	1,191	1,031	1,322
as a % of sales	7.3%	6.6%	8.8%
Gross purchases of intangible assets and PP&E	1,414	1,336	1,107
as a % of sales	8.6%	8.6%	7.4%
Purchases of intangible assets and PP&E, net of disposals	1,277	1,208	951
Cash flows from investing activities	(1,230)	(1,155)	(1,056)
as a % of sales	(7.5%)	(7.4%)	(7.0%)
Net debt ⁽⁴⁾	4,178	4,083	3,292
Total equity ⁽⁵⁾	4,688	4,527	3,647
Gearing ⁽⁶⁾	89%	90%	90%
Net debt / EBITDA	1.89	1.88	1.62
Cash flows from operating activities / Net debt	28.5%	25.3%	40.2%
Net interest charge ⁽⁷⁾	6.3%	6.9%	N. App.
Operating income before non-recurring items / Net interest charge	4.2	4.4	N. App.
Free cash flow ⁽⁸⁾	(39)	(124)	266
ROE ⁽⁹⁾	12.2%	19.7%	18.5%
Per share data (in euros)			
Net assets per share ⁽¹⁰⁾	32.6	31.5	24.2
Basic earnings per share ⁽¹¹⁾	3.95	6.13	4.46
Diluted earnings per share ⁽¹²⁾	3.94	6.12	4.46
P/E ⁽¹³⁾	18.4	7.7	10.6
Dividend per share	1.45*	1.35	1.25
Distribution rate ⁽¹⁴⁾	36.7%	22.0%	28.0%
Dividend yield ⁽¹⁵⁾	2.0%	2.8%	2.6%
Share turnover rate ⁽¹⁶⁾	212%	151%	134%

(1) Pursuant to switch to IFRS, part of the Group's research and development expenses are now 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) Aggregate dividends distributed to Group Shareholders in the period

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

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

(6) As of December 31, 2004, the gearing ratio in IFRS was 93%.

Following implementation of IAS 32 and 39, effective since January 1, 2005, the ratio was 90%

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

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

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

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

(11) Basic earnings per share: net income attributable to Shareholders / (weighted average number of shares outstanding during the period + own shares - shares cancelled during the period)

(12) Diluted earnings per share: earnings per share adjusted for the effect on net income and on the number of shares of the exercise of outstanding dilutive instruments

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

(14) Distribution rate: dividend per share / basic earnings per share

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

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

* Dividend proposed to the Shareholders at the 11 May 2007 Annual General Meeting
N. App.: Non applicable

FRENCH GAAP

EUR million	2004	2003	2002	2001	2000	1999 proforma
Net sales	15,689	15,370	15,645	15,775	15,396	13,763
% change	+2.1%	-1.8%	-0.8%	+2.5%	+11.9%	+10.2%
Payroll costs	4,872	4,997	5,152	5,242	5,137	4,756
as a % of sales	31.1%	32.5%	32.9%	33.2%	33.4%	34.6%
Average number of employees	126,474	127,210	126,285	127,467	128,122	130,434
Research and development costs	674	710	704	702	645	589
as a % of sales	4.3%	4.6%	4.5%	4.4%	4.2%	4.3%
EBITDA ⁽¹⁾	2,043	1,992	1,978	2,091	2,170	2,127
Operating income	1,299	1,143	1,225	1,040	1,162	1,207
Operating margin	8.3%	7.4%	7.8%	6.6%	7.6%	8.8%
Net interest expense	(213)	(225)	(260)	(321)	(314)	(238)
Net non-recurring income and expense	(206)	19	75	(29)	(76)	(353)
of which restructuring costs	(55)	(192)	(17)	(340)	(67)	(388)
Income before tax	843	590	997	644	729	538
Income taxes	(316)	(261)	(382)	(330)	(290)	(213)
Effective tax rate	37.5%	44.3%	38.4%	51.2%	39.9%	39.7%
Net income before minority interests	527	329	614	314	438	325
as a % of sales	3.4%	2.1%	3.9%	2.0%	2.8%	2.4%
Dividends ⁽²⁾	133	131	113	105	93	87
Net cash provided by operating activities ⁽³⁾	1,337	1,542	1,534	1,263	1,017	1,014
Cash flow ⁽⁴⁾	1,353	1,407	1,225	1,323	1,416	1,547
as a % of sales	8.6%	9.2%	7.8%	8.4%	9.2%	11.2%
Capital expenditure ⁽⁵⁾	1,117	1,118	967	1,150	1,201	1,252
as a % of sales	7.1%	7.3%	6.2%	7.3%	7.8%	9.1%
Capital expenditure, net of disposals ⁽⁵⁾	1,025	1,017	809	1,089	1,091	1,003
Acquisition of investments, net of disposals	106	229	62	(184)	166	255
Net debt ⁽⁶⁾	3,223	3,440	3,818	4,881	4,926	4,329
Shareholders' equity including minority interests ⁽⁷⁾	4,677	4,409	4,502	4,326	4,155	3,838
Debt-to-equity ratio	69%	78%	85%	113%	119%	113%
Average borrowing costs	5.9%	5.8%	6.2%	6.1%	6.5%	9.4%
EBITDA / Net debt	63.4%	57.9%	51.8%	42.8%	44.1%	49.1%
Net cash provided by operating activities / Net debt	41.5%	44.8%	40.2%	25.9%	20.7%	23.4%
Interest expense ⁽⁸⁾	209	219	273	311	324	419
Interest cover (operating income / interest expense)	6.2	5.2	4.5	3.3	3.6	2.9
Free cash flow ⁽⁹⁾	226	299	637	309	(241)	(300)
ROE ⁽¹⁰⁾	11.2%	7.3%	13.4%	7.4%	10.4%	8.0%
Per share data (in euros)						
Net assets per share ⁽¹¹⁾	32.1	30.2	30.5	29.7	28.5	26.2
Basic earnings per share ⁽¹²⁾	3.59	2.23	4.28	2.20	2.96	2.10
Diluted earnings per share ⁽¹³⁾	3.59	2.23	4.28	2.20	2.96	2.10
P/E ⁽¹⁴⁾	13.1	16.3	7.7	16.8	13.0	18.6
Net dividend per share	1.25	0.93	0.93	0.85	0.80	0.71
Pay-out rate ⁽¹⁵⁾	34.8%	41.7%	21.7%	38.6%	27.0%	33.8%
Net dividend yield ⁽¹⁶⁾	2.6%	2.6%	2.8%	2.3%	2.1%	1.8%
Capital turnover rate ⁽¹⁷⁾	134%	144%	145%	108%	97%	105%

(1) EBITDA = Earnings Before Interest, Tax, Depreciation and Amortization

(2) Dividends paid to parent company Shareholders

(3) Net cash provided by operating activities: cash flow + change in working capital

(4) Cash flow: net income before minority interests + depreciation, amortization and charges to allowances for impairment in value of fixed assets - changes in provisions +/- net gains/losses on disposal of assets

(5) In 2001, excluding external growth transactions (SMW, EUR 167m)

(6) Net debt: long and short-term debt (including securitization) - cash and cash equivalents

(7) Shareholders' equity including minority interests: common stock + paid-in capital in excess of par + retained earnings + net income + minority interests

(8) Interest expense: borrowing costs for the year

(9) Free cash flow: cash flow - change in working capital - net investments

(10) ROE: net income attributable to the Group / Shareholders' equity excluding minority interest

(11) Net assets per share: net assets / number of shares outstanding at December 31

(12) Basic earnings per share: net income / (weighted average number of shares outstanding during the year + own shares - shares cancelled during the year)

(13) Diluted earnings per share: earnings per share adjusted for the effect on net income and on the number of shares of the exercise of outstanding dilutive instruments

(14) P/E: Share price at December 31 / earnings per share

(15) Pay-out rate: net dividend / earnings per share

(16) Net dividend yield: net dividend / share price at December 31

(17) Capital turnover: number of shares traded during the year / average number of shares outstanding during the year

STOCK MARKET DATA

The Michelin Share is listed on the Euronext Paris index

- Eurolist Compartment A
- Deferred Settlement Market
- ISIN Code: FR 0000121261
- Par value: EUR 2
- Transaction unit: 1

Market capitalization

- EUR 10.41 billion, as at December 31, 2006

Average trading volume

- 1,191,679 in 2006

Indices

Michelin features in two important Stock Exchange performance indices:

- CAC 40: 0.99% of the index
- Euronext 100: 0.47% of the index

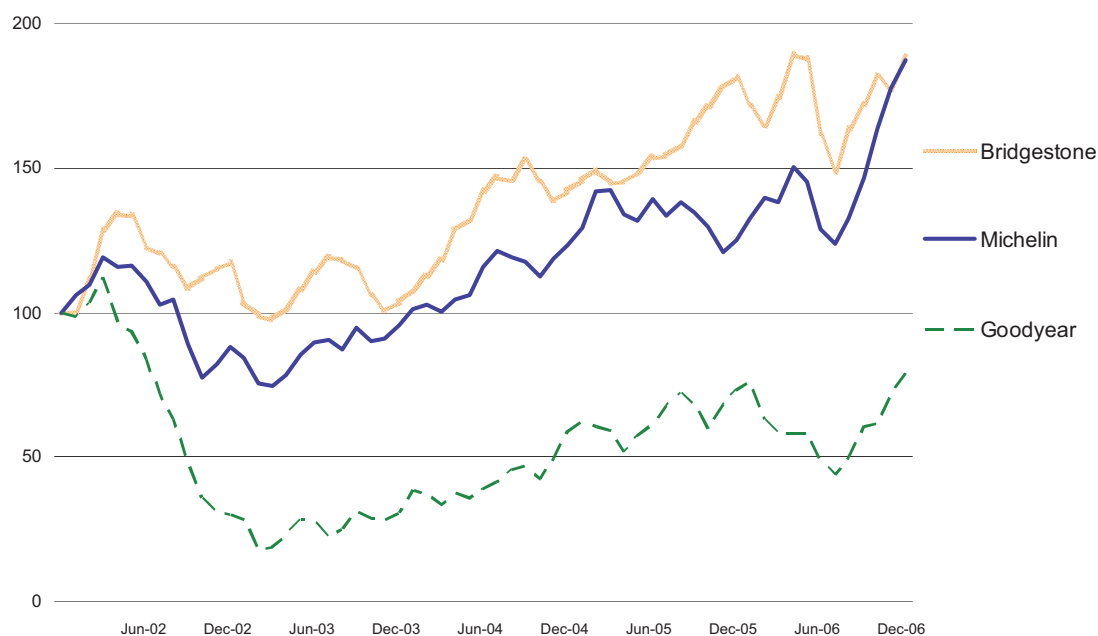
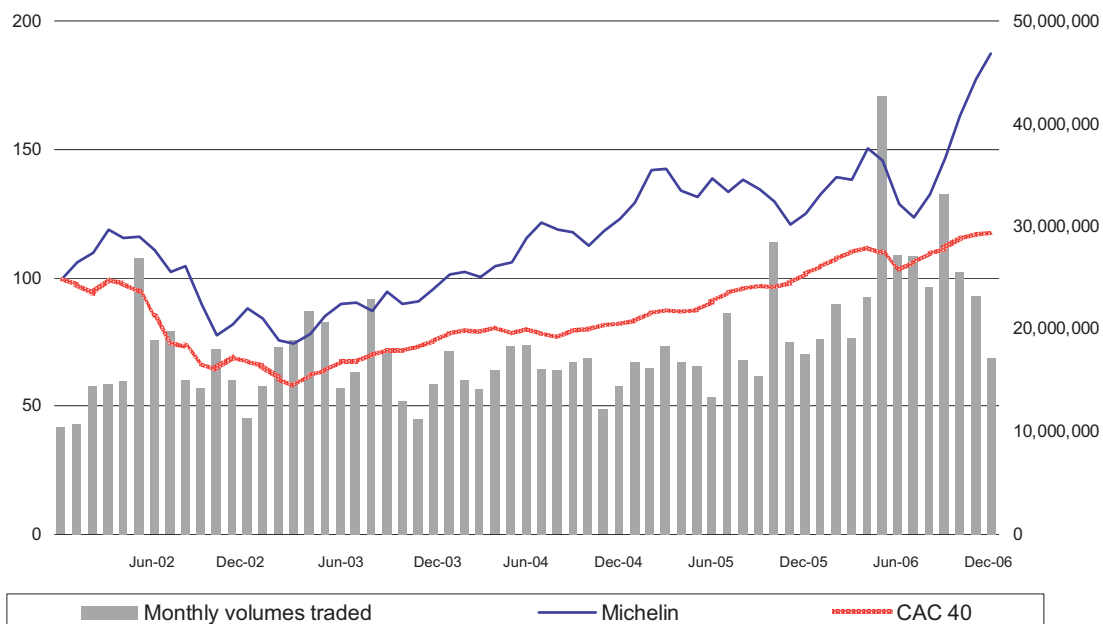
Michelin also features in the main sustainability indices:

- DJSI (Dow Jones Sustainability Index) Stoxx for Europe and DJSI World
- ESI (Ethibel Sustainability Index)
- ASPI (Advanced Sustainability Index)



Michelin Share Performance

(As at December 31, 2006, base 100: December 31, 2001)



COMMENTS

Stock Market Data

Share price (in euros)	2006	2005	2004	2003	2002
Highest	73.30	56.20	47.80	38.11	45.05
Lowest	43.21	43.75	34.82	25.02	24.50
Highest / lowest ratio	1.70	1.28	1.37	1.52	1.84
Last quotation	72.50	47.48	47.19	36.38	32.86
Change over the period	+52.7%	+0.6%	+29.7%	+10.7%	-11.3%
CAC index variation	+18%	+23%	+7%	+16%	-34%
Market capitalisation (end of period, EUR billion)	10.41	6.81	6.77	5.22	4.66
Average trading volume over the period	1,191,679	842,053	742,311	797,844	760,143
Average number of shares making up the capital	143,390,450	143,387,025	143,250,487	141,488,047	133,430,884
Number of shares traded over the period	303,878,126	216,407,691	192,258,470	203,450,155	193,836,344
Share turnover rate	212%	151%	134%	144%	145%

Data per Share

in euros except for ratios	2006	2005	2004	2004 **	2003 **	2002 **
Net assets	32.6	31.5	24.2	32.1	30.2	30.5
Basic earnings	3.95	6.13	4.46	3.59	2.23	4.28
Diluted earnings ⁽¹⁾	3.94	6.12	4.46	3.59	2.23	4.28
P/E	18.4	7.7	10.6	13.1	16.3	7.7
Dividend	1.45*	1.35	1.25	1.25	0.93	0.93
Distribution rate	36.7%	22.0%	28.0%	34.8%	41.7%	21.7%
Yield ⁽²⁾	2.0%	2.8%	2.6%	2.6%	2.6%	2.8%

* Dividend proposed to the Shareholders at the 11 May 2007 Annual General Meeting

** French GAAP

(1) Earnings per share adjusted for the effect on net income and on the number of shares of the exercise of outstanding dilutive instruments

(2) Dividend / Share price at December 31

N. App.: Non applicable

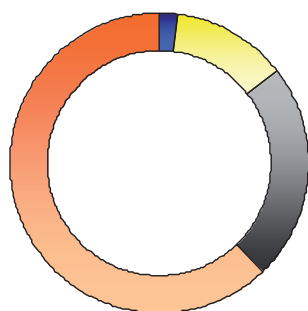
Group Capital and Shareholding

As at December 31, 2006

- Group equity : EUR 287,304,636
- Number of shares : 143,652,318
- Total number of voting rights : 185,376,936

Breakdown of capital

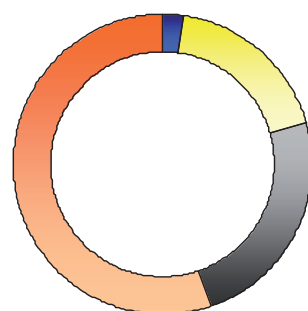
As at December 31, 2006



- 2.0% Employee Shareholder Plan
- 12.5% Individual Shareholders
- 23.2% French Institutional Investors
- 62.3% Foreign Institutional Investors

Breakdown of voting rights

As at December 31, 2006



- 2.3% Employee Shareholder Plan
- 18.2% Individual Shareholders
- 24.3% French Institutional Investors
- 55.2% Foreign Institutional Investors

Double voting rights are attached to shares held for more than 4 years.

COMMENTS



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"Reinforced"

@reinforced

Inventée par Michelin, encore une fois Champion du Monde de Cross Country en 2006, la toute nouvelle gamme Mountain Enduro mettra votre VTT à rude épreuve. Son secret ? La technologie Michelin Reinforced, un renfort supplémentaire de pas moins de 4 épaisseurs sur la bande de roulement et 3 sur les flancs, mais aussi un design de sculpture dérivé du savoir-faire de Michelin en Motocross. Elle fait du Mountain un peu intolérable, d'une robustesse inégalable face aux chocs et agressions, quel que soit le terrain. Malheureusement, cette technologie n'est pas encore disponible pour nos amis motards enduristes...

Mountain X'Case Mountain A/T Mountain Dry




MICHELIN GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

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CONSOLIDATED INCOME STATEMENT

(in EUR million, except per share data)	Note	Year ended 31 December 2006	Year ended 31 December 2005
Sales	5	16,384	15,590
Cost of sales		(11,653)	(10,835)
Gross income		4,731	4,755
Sales and marketing expenses		(1,799)	(1,775)
Research and development expenses		(591)	(565)
General and administrative expenses		(965)	(999)
Other operating income and expenses	8	(38)	(48)
Operating income before non-recurring income and expenses	5	1,338	1,368
Non-recurring income	9	-	256
Non-recurring expenses	9	(220)	(50)
Operating income		1,118	1,574
Cost of net debt	10	(315)	(310)
Other financial income and expenses	10	135	30
Share of profit/(loss) from associates		4	6
Income before taxes		942	1,300
Income tax	11	(369)	(411)
Net income		573	889
▪ Attributable to Shareholders		572	889
▪ Attributable to non-controlling interests		1	-
Earnings per share attributable to Shareholders (in euros)	12		
▪ Basic		3.95	6.13
▪ Diluted		3.94	6.12

The notes 1 to 35 are an integral part of these consolidated financial statements

CONSOLIDATED BALANCE SHEET

(in EUR million)	Note	31 December 2006	31 December 2005
Goodwill	13	438	444
Other intangible assets	13	181	192
Property, plant and equipment (PP&E)	14	6,848	6,577
Non-current financial assets and other assets	15	449	435
Investments in associates and joint ventures	17	71	50
Deferred tax assets	18	1,005	1,227
Non-current assets		8,992	8,925
Inventories	19	3,342	3,225
Trade receivables	20	3,237	3,273
Current financial assets	21	79	229
Other current assets	22	544	618
Cash and cash equivalents	23	680	611
Current assets		7,882	7,956
TOTAL ASSETS		16,874	16,881
Share capital	24	287	287
Share premiums	24	1,863	1,845
Reserves		2,527	2,379
Non-controlling interests		11	16
Total equity		4,688	4,527
Non-current financial liabilities	25	2,736	3,092
Employee benefits	26	2,730	3,049
Provisions and other non-current liabilities	28	818	801
Deferred tax liabilities	18	58	71
Non-current liabilities		6,342	7,013
Current financial liabilities	25	2,157	1,647
Trade payables		1,776	1,792
Other current liabilities	29	1,911	1,902
Current liabilities		5,844	5,341
TOTAL LIABILITIES AND EQUITY		16,874	16,881

The notes 1 to 35 are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premiums	Treasury shares	Translation differences	Reserves Fair value and other reserves	Retained earnings	Non-controlling interest	TOTAL EQUITY
(in EUR million)								
Total as at 1 January 2005	287	1,842	-	(5)	111	1,343	69	3,647
Change in fair value of available-for-sale investments (net of income tax)								
- unrealised gain/(loss)	-	-	-	-	51	-	-	51
Employees share option schemes								
- cost of service rendered	-	3	-	-	-	-	-	3
- proceeds from shares issued	-	-	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	(186)	(35)	(221)
Net income	-	-	-	-	-	889	-	889
Currency translation differences and other	-	-	-	175	-	1	(18)	158
Total as at 31 December 2005	287	1,845	-	170	162	2,047	16	4,527
Change in fair value of available-for-sale investments (net of income tax)								
- unrealised gain/(loss)	-	-	-	-	26	-	-	26
- (gain)/loss recognized in income statement	-	-	-	-	(109)	-	-	(109)
Employees share option schemes								
- cost of service rendered	-	7	-	-	-	-	-	7
- proceeds from shares issued	-	11	-	-	-	-	-	11
Dividend payments	-	-	-	-	-	(204)	(1)	(205)
Net income	-	-	-	-	-	572	1	573
Currency translation differences and other	-	-	-	(138)	1	-	(5)	(142)
Total as at 31 December 2006	287	1,863	-	32	80	2,415	11	4,688

The notes 1 to 35 are an integral part of these consolidated financial statements

CONSOLIDATED CASH FLOW STATEMENT

(in EUR million)	Note	Year ended 31 December 2006	Year ended 31 December 2005
Net income		573	889
EBITDA adjustments			
▪ Cost of net debt	10	315	310
▪ Other financial income and expenses	10	(135)	(30)
▪ Income tax	11	369	411
▪ Amortization, depreciation and impairment of intangible assets and PP&E		871	803
▪ Non-recurring income and expenses	9	220	(206)
▪ Share of loss/(profit) from associates		(4)	(6)
EBITDA before non-recurring income and expenses		2,209	2,171
Non-cash other income and expenses	30	(75)	(22)
Change in provisions, including employee benefits		(229)	(147)
Net finance costs paid	30	(311)	(284)
Income tax paid		(182)	(261)
Change in value of working capital, net of impairments	30	(221)	(426)
Cash flows from operating activities		1,191	1,031
Purchases of intangible assets and PP&E	30	(1,379)	(1,292)
Proceeds from sale of intangible assets and PP&E		102	84
Acquisitions of consolidated shareholdings, net of cash acquired		(41)	(41)
Proceeds from sale of consolidated shareholdings, net of cash disposed		(3)	(3)
Purchases of available-for-sale investments		(60)	(17)
Proceeds from sale of available-for-sale investments		146	2
Change in value of other financial assets	30	5	112
Cash flows from investing activities		(1,230)	(1,155)
Proceeds from issuance of shares		11	-
Proceeds from increase of non-controlling interests in the share capital of subsidiaries		-	14
Dividends paid to Shareholders		(193)	(179)
Dividends paid to non-controlling interests of subsidiaries		(1)	(35)
Other allocations		(11)	(7)
Change in value of financial liabilities	30	311	(739)
Other		5	(8)
Cash flows from financing activities		122	(954)
Effect of the change of currency rates		(14)	34
Increase or (decrease) of cash and cash equivalents		69	(1,044)
Cash and cash equivalents as at 1 January		611	1,655
Cash and cash equivalents as at 31 December	23	680	611

The notes 1 to 35 are an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Compagnie Générale des Etablissements Michelin (CGEM or the « Company ») and its subsidiaries (together “the Group”) manufactures, distributes and sells tires all around the world.

The Company is a partnership limited by shares (commandite par actions) incorporated in Clermont-Ferrand (France).

The company is listed on the Paris stock exchange.

These consolidated financial statements have been authorized for issue by the Supervisory Board on 12 February 2007.

Except as otherwise stated, all amounts are presented in EUR million.

2. BASIS OF PREPARATION

The principal 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.

International Financial Reporting Standards used

The Group consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) 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.

IAS 19 amendment on actuarial gains and losses, group plans and disclosures had been anticipated in the 2005 consolidated financial statements, and does not have any significant effect on the Group consolidated financial statements.

The Group does not have any significant transactions entering the scope of the following new standards, interpretations or amendments effective in 2006:

- IAS 21 on net investments in a foreign operation,
- IAS 39 amendment on cash flow hedge accounting of forecasted intragroup transactions,
- IAS 39 amendment on the fair value option,
- IAS 39 and IFRS 4 amendments on financial guarantee contracts,
- IFRS 1 and IFRS 6 amendments regarding adoption of IFRS 6 before 1 January 2006,
- IFRS 6 on exploration for and evaluation of mineral resources,
- IFRIC 4 on determining whether an arrangement contains a lease,
- IFRIC 5 on rights to interests arising from decommissioning, restoration and environmental rehabilitation funds.

The following standards, interpretations and amendments issued by the IASB and not yet effective have not been early adopted by the Group and are not expected to have a material impact on the consolidated financial statements:

- IAS 1 amendment on capital disclosures in the presentation of financial statements,
- IFRIC 7 on applying the restatement approach under IAS 29 (financial reporting in hyperinflation economies),
- IFRIC 8 on the scope of IFRS 2,
- IFRIC 9 on reassessment of embedded derivatives,
- IFRIC 10 on interim financial reporting and impairment,
- IFRIC 11 on group and treasury shares transactions,
- IFRIC 12 on service concessions and arrangements.

The following standards, interpretations and amendments issued by the IASB and not yet effective have not been formally early adopted by the Group:

- IFRS 7 on financial instruments disclosures,
- IFRS 8 on operating segments.

At the date of publication, their potential impacts on Group's notes are under review.

Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods described in the accounting principles and makes assumptions that are based on market conditions existing at each balance sheet date.

Critical accounting estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS stipulates 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 final results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgement are the impairment of non-financial assets and the employee benefits.

Impairment of non-financial assets

The cash generating units (CGU) future cash flows used in the calculation of the value in use (note 3 – Impairment of non-financial assets) are derived from the Group rolling five-year strategic orientations. The construction of the strategic orientations is an effort involving the various actors of the CGU's 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 the value in use.

Employee benefits

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, several statistical information and 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 future medical costs. Statistical information is principally related to demographic assumptions such as mortality, employee turnover, disability and early retirement.

Assumptions and statistical information used are determined by the Group management according to internal guidelines in relation with the actuaries.

The actuarial assumptions used may differ significantly from the actual results due to the modification of market, economic and social conditions. The resulting difference is recognized as gains or losses 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

Group consolidated financial statements include all subsidiaries, associates and joint ventures of Compagnie Générale des Etablissements Michelin.

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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Inter-company 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 asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's 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's 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's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Joint ventures

Joint ventures are entities over whose activities the Group has joint control, established by contractual agreement. Investments in joint ventures are accounted for by the equity method of accounting as described in the Associates section above.

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).

Segment reporting

A business segment is a distinguishable component of the Group engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's primary format for segment reporting is business segments and the secondary format is geographical segments, in accordance with the risks and returns profile of the Group's operations.

This is reflected by the Group's divisional management and organizational structure and the Group's internal financial reporting systems.

The primary segments are:

- Reporting Segment 1 (Passenger Car and Light Truck tires and related distribution activities),
- Reporting Segment 2 (Truck tires and related distribution activities),
- Reporting Segment 3 (The other activities including speciality tires, earthmover and agricultural, aircraft tires, 2 wheels, maps and guides, ViaMichelin, Michelin LifeStyle and other sales).

The secondary segments are:

- Europe (Western and Eastern),
- North America (including Mexico),
- Others (Asia, South America, Middle-East and Africa).

Segment assets consist of goodwill and other intangible assets, PP&E, trade receivables and finished products inventories. Corporate intangible assets and PP&E are allocated to each segment in proportion of directly attributed assets. No operating liabilities are allocated to the segments into the Group's internal financial reporting.

Transfer prices between geographic segments are set on an arm's length basis.

Foreign currency translation

Presentation and functional currency

The financial statements of the Group's entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and which 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.

Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transactions. 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 from 1 January 2005.

Translation

The financial statements of Group entities that have a functional currency different from the Group's presentation currency are translated into euro as follows: assets and liabilities are translated at the closing rate at the date of the balance sheet, income and expenses are translated at the average rate of the period, 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 sold, the exchange differences accumulated in equity are recycled in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of an entity are treated as assets and liabilities of the entity and translated at the closing rate.

Exchange rates of major currencies

Against the euro:	Closing rates		Average rates	
	31 December 2006	31 December 2005	Year ended 31 December 2006	Year ended 31 December 2005
US dollar (USD)	1.317	1.188	1.257	1.245
Swiss franc (CHF)	1.607	1.557	1.573	1.548
British pound (GBP)	0.670	0.688	0.682	0.684
Canadian dollar (CAD)	1.528	1.383	1.425	1.509
Polish zloty (PLN)	3.825	3.857	3.896	4.025
Brazilian real (BRL)	2.812	2.764	2.734	3.040
Japanese yen (JPY)	156.6	139.3	146.1	136.9
Chinese yuan (CNY)	10.29	9.589	10.02	10.20

Derivatives

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 recognising the resulting gain or loss depends on whether the derivative is designated as an hedging instrument, and if so, the nature of the item being hedged (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.

MICHELIN GROUP – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Hedging

Some derivative financial instruments are 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.

The Group generally limits the use of hedge accounting to certain significant transactions.

Some derivatives, while providing effective economic hedges under the Group's financial policies, do not qualify or have not been designated for hedge accounting (derivatives policy). For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, 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:

- **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.
- **Cash flow hedges**
The effective portion of changes in the fair value of derivatives is recognized in equity. The gain and loss relating to the ineffective portion 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 forecast transaction that is hedged 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 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.
- **Hedges of net investments in foreign operations**
These hedges are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the hedge is recognized in equity; the gain or loss relating to the ineffective portion 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.

Earnings before interests, tax, depreciation and amortization (EBITDA)

The Group defines EBITDA as operating income before (i) non-recurring income and expenses and (ii) depreciation of property, plant and equipment (PP&E) and amortization of intangible assets, including goodwill, and any related impairment charge.

Revenue recognition

The amount of 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:

- **Sales of goods**
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 to the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, the revenue is usually recognized at invoice date.
- **Sales of services**
Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the balance sheet date, when this stage can be measured reliably and if the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- **Interest income**
Interest income is recognized on a time-proportion basis using the effective interest rate method.

- Dividend income
Dividend income is recognized when the right to receive payment is established.

Cost of sales

Cost of sales comprises the costs of manufacturing products and the costs of goods purchased for resale.

It includes the cost of purchase of material, the cost of production directly related to the manufactured products and all the 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.

Research and development

Research cost cannot be capitalized. Development cost shall be capitalized as intangible assets when the conditions relating to the commercial and technical feasibility, the ability to allocate reliably the costs and the probability to generate future economic benefits are fulfilled.

Development costs are annually reviewed in order to determine whether the criteria of recognition as intangible assets are met.

Non recurring income and expenses

Unusual, abnormal or infrequent significant items of income and expenses are separately disclosed on the face of the income statement. They are fully described in the notes.

Income tax

Income tax expense includes both current and deferred taxes, plus any withholding tax on the royalties and the distribution of retained earnings within the Group, except to the extent that it relates to items recognized directly in equity, in which case it 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 provided, 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.

No deferred tax asset or liability is recognized on initial recognition of transactions that are not business combinations and that do not affect taxable profit.

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 and associates, 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 a foreseeable future.

Intangible assets

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 subject to amortization. It is carried at cost less any accumulated impairment losses.

Adjustments to contingent considerations (estimated exercise prices) are recognized against goodwill.

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 are reliably identified.

They are amortized on a straight-line basis over their useful life which generally does not exceed 7 years.

Property, plant and equipment (PP&E)

Property, plant and equipment are measured at cost less accumulated depreciation and, when necessary, impairment.

The gross carrying amount includes cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction. Borrowing costs are expensed during the period in which they are incurred. Investments grants are initially accounted for as deferred income and are subsequently recognized as income over the useful life of the related asset.

Repair and maintenance 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 the cost of goods sold, selling 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:

▪ Building and general installations of land and buildings	25 years
▪ Industrial and commercial equipment	5-12 years
▪ Computer and telecommunication equipment	5 years
▪ Transport equipment	5 years
▪ Other	2-12 years

The useful lives of the assets and their respective residual value are reviewed annually.

When assets are sold or disposed, 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 the ownership of the leased assets is uncertain.

The payment obligations arising from the 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.

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 an impairment assessment is carried out.

At individual asset level, such indications generally come from a market value decrease, a technical obsolescence or an anticipated change of utilisation. The recoverable amount is usually based on the market value.

At global level, non-financial assets are grouped for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGU). All CGUs are tested annually. The recoverable amount is equal to the future cash flows discounted using the Weighted Average Cost of Capital (WACC). Future cash flows are based on the five years cash flow forecasts and a terminal value, which is equal to the cash flow forecasts divided by the WACC. The WACC is based on the equity rate derived from the market expected return on the Company shares, the debt rate and the country risk where the assets are located. Goodwill is impaired first and any remaining impairment charge is allocated among the other assets, based on their net carrying amounts at the closing date.

Changes in impairment balances are recognized in other operating income and expenses unless classified as non-recurring items.

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.

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 and 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 re-evaluates 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 non-monetary securities designated in this category. 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 and loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if 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's management has the positive intention and ability to hold to maturity.

Purchases and sales of non-derivative financial assets are recognized on 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 and 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 carried 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 carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category 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.

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 labour, 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 completion and the estimated selling expenses.

A write-down is recognized when the net realizable value is lower than the cost and is reversed when it becomes apparent that the circumstances which previously caused inventories to be written down below cost no longer exist.

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 equal to the nominal amount.

An impairment of trade receivables 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 receivables. 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. The impairment charge is recognized as sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Ordinary shares are classified as equity.

Where any Group company purchases the Company's equity share capital, 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.

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 financings are classified as non-derivative financial liabilities when there is a repayment obligation.

Non-derivative financial liabilities are recognized initially at fair value, net of transaction costs incurred, and subsequently at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest rate method.

To the extent that borrowings are hedged under qualifying fair value hedges, the carrying value of the hedged item is adjusted for the fair value movement attributable to the risk being hedged.

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 employees of the Group have rendered the associated services.

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 cost are recognized.

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 circumstances of each country and usually are based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to existing 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 obligations to pay further contributions if the fund does not hold sufficient assets to pay to all employees the corresponding benefits.

The regular contributions are recognized as a periodic expense for the year in which they are due and, as such, are included in the cost of goods sold, selling expenses, research and development expenses or general administration expenses.

As of today most of post-employment benefit plans are defined benefit plans with a distinction to be made between externally funded plans (mainly pension plans) with the assets of the plan held separately in independently administered funds and unfunded plans such as healthcare benefit plans and retirement indemnities.

The measurement of the post-employment benefit liabilities, and the related current service cost, is based upon 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 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 long-term expected rates of return on plan assets are incorporated in the actuarial valuations and annually reviewed.

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 and that have terms of maturity approximating to the term 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.

Actuarial gains or losses arise mainly from changes in actuarial assumptions and differences between assumptions and actual experiences. They are recognized in the income statement as a component of the Group's net periodic 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 on payable benefits 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's net periodic benefit plan cost charged to 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.

Share based payments

Benefits related to share options granted to the Managing Partner and to Group employees are measured, at grant date, using a binomial model.

The benefits are spread over the period during which the services are rendered. They are recognized in other operating income and expenses.

Volatility measurement is based over a period equal to the expected lifetime of the option. Related historical share market values before grant date are used.

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 for the estimated cash outflows.

4. FINANCIAL RISK MANAGEMENT

4.1. Financial risk management policy

4.1.1. Liquidity Risk

The Corporate Finance Department is responsible for ensuring the financing of the Group's liquidity position at the lowest cost. The levels of the confirmed credit lines and available cash in-hand are fixed by taking into account the forecast for treasury requirements including a security margin to cope with economic uncertainties. These long-term backup credit lines are essentially concentrated at the holding company, Compagnie Financière Michelin (CFM). Except in the case of particular obligations related to the specificities of local financial markets, Michelin's operating subsidiaries have access to ample short-term non-confirmed credit lines from banks to meet their day-to-day financing requirements, as well as access to CFM's confirmed credit lines in order to deal with major contingencies.

As a matter of prudent financial policy, the Group has always guarded against the inclusion in its financial contracts of covenants providing for ratios or « material adverse change » that could affect its ability to mobilize loans or affect their term. As at 31 December 2006 no such clause featured in Group borrowings whatsoever. A number of contracts, however, included « negative pledge » and « cross default » clauses, but these were qualified by thresholds and exemptions.

4.1.2. Currency risk

Transaction Currency 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 Corporate Finance Department where 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 holding CFM, or, alternatively, through a bank. CFM in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. Constant monitoring of exchange gains and losses as well as regular audits ensure that the hedging policy is adhered to by all Group entities.

Currency Translation Risk

Equity investments in foreign subsidiaries are booked in the functional currency of the holding company. These investments, which are not included in the holding company foreign exchange position, are financed in the currency of the holding company. 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 investments are not hedged for currency exchange risks.

4.1.3. Interest Rate Risk

The interest rate management policy is coordinated and monitored at Group level with a view to protecting future cash flows and reducing the volatility of the financial costs. Short-term positions are managed at the level of the individual countries. The Group uses several instruments available in the market and in particular interest rate swaps or forward interest rate contracts.

4.1.4. Equity Risk

Equity investments are made with strategic rather than trading approach.

Equities are held for medium and long term prospective, and not for a short term trading portfolio management.

4.1.5. Counterparty Risk

The Group chooses its banks extremely carefully and even more so with respect to cash investments. Indeed, considering it to be inappropriate to add financial risk to the industrial and trade risks that are associated with its operations, Michelin gives priority to the security and the liquidity of all its cash investments. These are invested in the short term (generally less than three months) with blue chip banks and on investment-type (deposit certificate, UCITS) financial instruments.

4.1.6. Credit Risk

The Credit Department, which is part of the Corporate Finance Department, sets the maximum payment terms and customer credit limits to be applied by the operating entities. In 2006, the Credit Department contributed to raise awareness concerning the size of Michelin's account receivable. It also focused on improving systems and processes and enhancing the skills of Michelin's credit managers in the organization.

4.2. Financial risk facts and figures**4.2.1. Liquidity Risk**

The Group's liquidity position can be analyzed as follows:

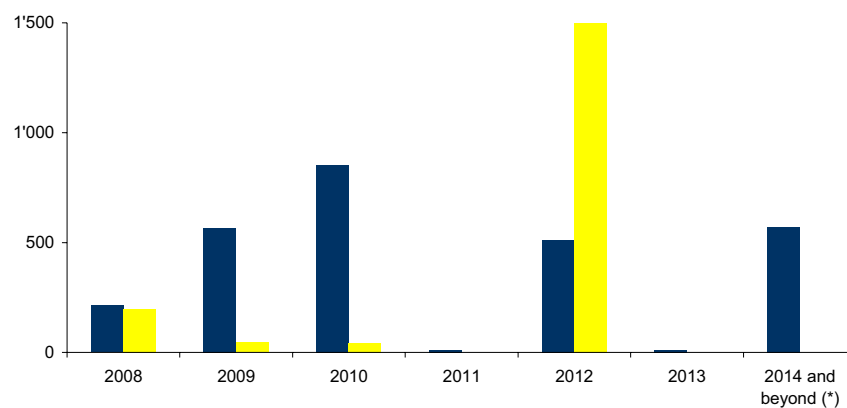
<i>(in EUR million)</i>	31 December 2006	31 December 2005
Financial liabilities (note 25)	4,893	4,739
- less, liability derivative instruments (notes 16 and 25)	(21)	(19)
Financial liabilities excluding derivative instruments	4,872	4,720
- including current debt	2,136	1,628
- including non-current debt	2,736	3,092
Cash and cash equivalents (note 23)	(680)	(611)
Undrawn, confirmed credit lines (1 year +)	1,785	1,922

The difference in cost between carrying a treasury surplus and the present level of commissions on confirmed credit lines is to prefer confirmed credit line-based financing.

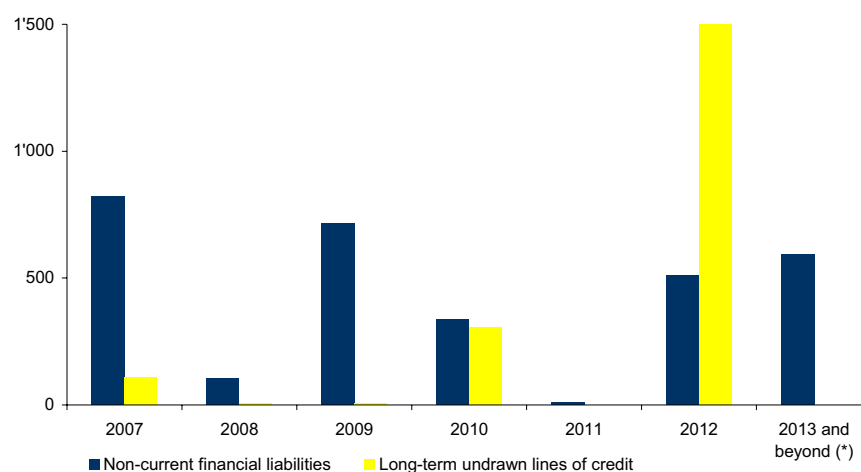
The schedule of long-term financial debt and undrawn credit lines breaks down as follows:

(in EUR million)

At 31 December 2006



At 31 December 2005



(*) Includes the lowest ranking subordinated notes issued by CGEM in 2003 and redeemable in cash (TSDR) for an amount of EUR 500 million, which have a reimbursement date 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 every three months after this date until the maturity date of the notes in December 2033.

4.2.2. Currency Risk

Transaction Currency Risk

The following tables set forth the Group's transactional exchange positions (when a monetary asset or liability is denominated in a currency other than the company's functional currency), before and after hedging.

At 31 December 2006

(in EUR million)	EUR	USD	JPY	CAD	Other
Monetary assets	7,218	3,391	475	397	1,057
Monetary liabilities	(8,046)	(2,485)	(86)	(144)	(686)
Net position before hedging	(828)	906	389	253	371
Hedges	759	(1,003)	(378)	(248)	(335)
Net position after hedging	(69)	(97)	11	5	36

At 31 December 2005

(in EUR million)	EUR	USD	JPY	CAD	Other
Monetary assets	6,089	3,701	485	354	406
Monetary liabilities	(5,656)	(1,623)	(302)	(183)	(280)
Net position before hedging	433	2,078	183	171	126
Hedges	(451)	(2,135)	(164)	(167)	(86)
Net position after hedging	(18)	(57)	19	4	40

An unfavorable change in the value of the Euro against all other currencies would represent an aggregate impact smaller than EUR 2 million (2005: EUR 1 million) in the consolidated income statement, after hedging, for every cent change.

Currency Translation Risk

A breakdown of consolidated equity risk by currency is provided in the following table:

(in EUR million)	2006	2005
EUR	1,751	1,599
CHF	738	775
USD	654	602
PLN	362	361
BRL	282	200
CAD	205	279
GBP	140	108
CNY	139	145
Other	417	458
Total	4,688	4,527

4.2.3. Interest Rate Risk

The interest rate risk net exposure both before and after hedging was the following:

At 31 December 2006

(in EUR million)	Floating rates	Fixed rates		Total
		1 - 5 years	> 5 years	
Liabilities	3,248	634	1,011	4,893
Assets	(819)	(25)	(56)	(900)
Net exposure before hedging	2,429	609	955	3,993
Hedges	220	(220)	-	-
Net exposure after hedging	2,649	389	955	3,993

At 31 December 2005

(in EUR million)	Floating rates	Fixed rates		Total
		1 - 5 years	> 5 years	
Liabilities	2,926	782	1,031	4,739
Assets	(766)	(64)	(39)	(869)
Net exposure before hedging	2,160	718	992	3,870
Hedges	214	(214)	-	-
Net exposure after hedging	2,374	504	992	3,870

A 1 point (1 %) change in short-term interest rates would translate into a EUR 26 million (2005: EUR 24 million) change in the Group's interest income and expenses.

Besides, a 1 point (1 %) parallel shift on the yield curve would translate into a EUR 67 million (2005: EUR 83 million) changes in the fair value of the financial assets (loans and deposits in note 15) and liabilities (financial liabilities in note 25). Most of these changes would not be accounted for since the underlying financial assets and liabilities are essentially measured at amortized costs (except mainly for derivative instruments).

4.2.4. Equity Risk

Equity risk is the risk for a 10 % unfavorable change in the price of the Group's investment portfolio.

(in EUR million)	31 December 2006	31 December 2005
Carrying amount (note 15)	248	306
Impact on income statement	-	-
Impact on equity	(21)	(14)

The impact calculation includes hedging instruments (note 15) but does not include taxes.

4.2.5. Counterparty Risk

More than 80 % of the Group's cash and cash equivalents are concentrated with 15 major international banking groups that are all rated single A or above.

4.2.6. Credit Risk

As at 31 December 2006, net receivable balances from the ten largest customers, each amounting to more than 0.7 % of the total balance, amount to EUR 571 million (2005: EUR 600 million). Five of these customers are located in North America and five in Europe.

At the same date, forty customers (2005: forty seven) have been granted credit limits in excess of EUR 10 million. Out of these, twenty are located in Europe, eighteen in North America and two in Asia.

There was no significant amount of collateral received to limit credit risk.

In 2006, credit losses represent 0.12 % of sales (2005: 0.13 %).

4.2.7. Commodities derivatives

In 2006, the Group did not have any significant derivative hedging purchases of commodities.

5. SEGMENT REPORTING

Business segments (in EUR million)

At 31 December 2006

Profit and loss information	SR 1	SR 2	SR 3	TOTAL
Sales	8,991	5,418	1,975	16,384
Operating income before non-recurring income and expenses	736	357	245	1,338
<i>In percentage of sales</i>	8.2 %	6.6 %	12.4 %	8.2 %
Segment assets	SR 1	SR 2	SR 3	TOTAL
Intangible assets and PP&E	4,121	2,451	895	7,467
Finished products inventories	1,190	705	347	2,242
Trade receivables	1,772	1,008	457	3,237
Total segment assets	7,083	4,164	1,699	12,946
Other information	SR 1	SR 2	SR 3	TOTAL
Depreciation and amortization charge	494	259	98	851
Impairment charge	6	-	14	20
Capital expenditure	747	429	238	1,414

At 31 December 2005

Profit and loss information	SR 1	SR 2	SR 3	TOTAL
Sales	8,621	5,072	1,897	15,590
Operating income before non-recurring income and expenses	782	451	135	1,368
<i>In percentage of sales</i>	9.1 %	8.9 %	7.1 %	8.8 %
Segment assets	SR 1	SR 2	SR 3	TOTAL
Intangible assets and PP&E	4,175	2,347	691	7,213
Finished products inventories	1,120	690	331	2,141
Trade receivables	1,775	1,056	442	3,273
Total segment assets	7,070	4,093	1,464	12,627
Other information	SR 1	SR 2	SR 3	TOTAL
Depreciation and amortization charge	476	251	79	806
Impairment charge	-	-	(3)	(3)
Capital expenditure	709	469	158	1,336

- Reporting Segment 1: Passenger Car and Light Truck tires and related distribution activities.
- Reporting Segment 2: Truck tires and related distribution activities.
- Reporting Segment 3: The other activities including speciality tires, earthmover and agricultural, aircraft tires, 2 wheels, maps and guides, ViaMichelin, Michelin LifeStyle and other sales.

As mentioned in note 3, no operating liabilities are allocated to the segments into the Group's internal financial reporting.

Geographical segments (in EUR million)

At 31 December 2006

	Europe	North America	Other zones	TOTAL
Sales	8,017	5,738	2,629	16,384
Segment assets	7,457	3,487	2,002	12,946
Capital expenditure	888	303	223	1,414

At 31 December 2005

	Europe	North America	Other zones	TOTAL
Sales	7,664	5,538	2,388	15,590
Segment assets	6,837	3,829	1,961	12,627
Capital expenditure	829	247	260	1,336

6. EXPENSES BY NATURE

The following recurring items are allocated in the appropriate headings of expenses by function in the income statement.

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Raw materials and consumables used and changes in finished products inventories	(6,518)	(5,860)
Employee benefit costs (note 7)	(4,718)	(4,780)
Transportation of goods	(901)	(851)
Depreciation, amortization and impairment charges	(871)	(803)
Other expenses	(2,038)	(1,928)
Total expenses by nature	(15,046)	(14,222)

7. EMPLOYEE BENEFITS COSTS

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Wages and salaries	(3,564)	(3,519)
Social security costs	(971)	(964)
Costs related to defined benefit plans	(118)	(246)
Costs related to defined contribution plans	(58)	(48)
Share options costs (note 27)	(7)	(3)
Total employee benefits costs	(4,718)	(4,780)

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement.
The average number of employees in 2006 is 126,673 (2005: 127,319).

8. OTHER OPERATING INCOME AND EXPENSES

The following recurring items are recognized within the other operating income and expenses in the income statement.

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Gain/(loss) on disposal of intangible and PP&E	64	7
Restructuring costs	(32)	(6)
Decrease/(increase) of impairment of intangible and PP&E	(20)	3
Retiree benefit costs	(60)	(64)
Other operating income and (expenses)	10	12
Total other operating income and (expenses)	(38)	(48)

9. NON-RECURRING INCOME AND EXPENSES

2006

Canada:

BFGoodrich Tire Manufacturing, a business of Michelin North America (Canada) Inc., has decided to close its facility located in Kitchener, Ontario. The company shifted production to other BFGoodrich Tire Manufacturing facilities in North America.

The provision of EUR 157 million covers severance costs, medical benefits and other social costs, pension and post retirement costs, plant and equipment impairments.

Nigeria:

Michelin Group has decided to stop tire manufacturing operations of its Nigerian Port-Harcourt plant. Technical unemployment measures, in place since December 2006, have been prolonged till mid-May in order to find and implement support measures for the concerned employees. The Port-Harcourt plant mostly manufactures Truck tires for the local market and the African continent.

A provision of EUR 63 million has been recognized to cover the costs and impairments linked to this decision.

As announced on 18 January 2007, it was agreed with the Nigerian authorities to seek together, as quickly as possible, a buyer back.

2005

Medicare Part D:

In 2005, Michelin North America modified its post-retirement prescription drug plans for non-union employees in the United States. Changes to the U.S. government Medicare program, specifically the introduction of Part D prescription drug coverage, facilitated this plan change. The new plan was effective 1 January 2006 and was fully communicated to affected active employees and retirees in 2005.

The change resulted in a EUR 401 million reduction in the Group's PBO. This reduction was mainly generated by Medicare-eligible retirees and their dependents participating in Medicare Part D from 1 January 2006, and by providing pre-Medicare retirees and their dependents with prescription drug benefits similar to Medicare.

EUR 256 million of the reduction in PBO was recognized as a non-recurring gain before tax in the 2005 consolidated results. This was the portion of the reduction in PBO relating to current retirees and employees eligible for retirement. It was considered Past Service Cost and was recognized in the income statement immediately. The remaining portion of the EUR 401 million reduction in PBO is being amortized into earnings on a straight-line basis over the average period until employees are eligible to retire.

Restructuring:

A restructuring provision of EUR 50 million was recognized in 2005 essentially for the disposal of the Truck manufacturing activities in the plant of Poitiers (France).

10. COST OF NET DEBT AND OTHER FINANCIAL INCOME AND EXPENSES

The cost of net debt and other financial income and expenses are broken down in the table below.

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Cost of net debt		
Gross financing expenses		
Interest financing expenses	(254)	(254)
Currency remeasurement	(59)	(44)
Other financing expenses	(12)	(29)
	(325)	(327)
Interest income from cash and cash equivalents	10	17
	(315)	(310)
Other financial income and expenses		
Net income from financial assets (other than cash and cash equivalents)		
Interest income	7	30
Gains (losses) on disposal of available-for-sale financial investments	119	(4)
Impairment	-	(6)
Dividend income	4	6
	130	26
Expense from unwinding the discount of provisions	(4)	(6)
Other	9	10
	135	30

11. INCOME TAX

The income tax expense is detailed as follows:

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Current tax expense	(221)	(230)
Deferred tax income/(expense) (note 18)	(148)	(181)
Total income tax	(369)	(411)

Current tax includes EUR 23 million of withholding tax on royalties and distribution of retained earnings between Group companies (2005: EUR 25 million).

Reconciliation of Group effective tax expense:

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Income before tax	942	1,300
Tax calculated at domestic tax rates applicable to profits in the respective countries	(316)	(454)
Tax effect from		
- permanent differences	6	(24)
- variances of unrecognized temporary differences	28	1
- variances of unrecognized tax losses	(33)	44
- change in tax rates	(55)	(13)
- other items	24	60
Tax expense (excluding withholding tax)	(346)	(386)

12. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the profit attributable to Shareholders of the Company by the weighted average number of shares outstanding during the year, excluding ordinary shares purchased by the Group and held as treasury shares.

Diluted earnings per share are calculated adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company only has share options (note 27) as dilutive potential shares. 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 share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

Components of the basic and diluted earnings per share calculations are presented in the table below.

	Year ended 31 December 2006	Year ended 31 December 2005
Net income (EUR million), excluding the non-controlling interest	572	889
- less, proposed attributions to General Partners	(6)	(11)
Net income attributable to Shareholders used in the calculation of both basic and diluted earnings per share	566	878
Weighted average number of shares (thousands of shares) outstanding used in the calculation of basic earnings per share	143,390	143,387
- plus, adjustment for share options	305	174
Weighted average number of shares used in the calculation of diluted earnings per share	143,695	143,561
Earnings per share attributable to Shareholders (euros)		
- basic	3.95	6.13
- diluted	3.94	6.12

13. INTANGIBLE ASSETS

Changes in intangible assets are as follows:

(in EUR million)	Goodwill	Other intangibles	Total
Gross carrying amounts			
At 1 January 2005	308	584	892
Exchange differences	21	23	44
Additions (including emission rights)	133	103	236
Disposals	(7)	(14)	(21)
Changes in the scope of consolidation	-	(10)	(10)
Transfers and other	-	11	11
At 31 December 2005	455	697	1,152
Exchange differences	(10)	(16)	(26)
Additions (including emission rights)	5	83	88
Disposals (including emission rights)	(11)	(33)	(44)
Changes in the scope of consolidation	-	2	2
Transfers and other	-	6	6
At 31 December 2006	439	739	1,178
Accumulated amortization and impairment			
At 1 January 2005	(7)	(430)	(437)
Exchange differences	-	(17)	(17)
Amortization	-	(70)	(70)
Net impairment	(11)	(2)	(13)
Disposals	7	13	20
Changes in the scope of consolidation	-	4	4
Transfers and other	-	(3)	(3)
At 31 December 2005	(11)	(505)	(516)
Exchange differences	-	12	12
Amortization	-	(64)	(64)
Net impairment	-	-	-
Disposals	11	8	19
Changes in the scope of consolidation	-	-	-
Transfers and other	-	(9)	(9)
At 31 December 2006	-	(558)	(558)
Net carrying amounts at 31 December 2006	439	181	620
<i>Net carrying amounts at 31 December 2005</i>	<i>444</i>	<i>192</i>	<i>636</i>

Goodwill

No significant change in value for goodwill was recorded in 2006.

At 31 December 2006, the amounts allocated to the CGU are :

- CGU Passenger car and light truck	North America and Mexico	EUR 113 million
- CGU Passenger car and light truck	Asia	EUR 111 million
- CGU Passenger car and light truck	Other zones	EUR 84 million
- Other CGU's		EUR 130 million

Other intangible assets

There are no intangible assets with indefinite useful life.

Software

The net carrying amount at 31 December 2006 relates to software and amounts to EUR 138 million (2005: EUR 140 million).

Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other cost directly attributable to the acquisition or the production.

Emission rights

The annual emission rights of greenhouse gas (CO₂) granted to the Group for its energy fittings in some European countries amounts to 1.3 million of tons from 2005 to 2007. They are slightly higher than the actual CO₂ emissions of these installations.

The allowances granted are recognized as an intangible asset by using the daily rate of their attribution. The counterpart is recognized as a government grant.

Given the global balance between the rights granted and the actual emissions, the expense, the related liability and the income corresponding to the use of the grant are accounted for at the grant rate. Therefore, they do not have any significant impact on the income statement.

The balance of the rights granted at 31 December 2006 is equal to the allowances granted in 2006, adding those granted in 2007 for some countries. It amounts to 1.8 million of tons representing a value of EUR 23 million. The liability linked to the actual emissions in 2006 amounts to 1.3 million of tons representing a value of EUR 20 million. It will be offset by the delivery of the allowances granted.

The global balance between the rights granted and the actual emissions has led the Group to sell on the markets the actual excess rights. So, there is no expectation to buy allowances at the end of 2007.

Development costs

In 2006 and 2005, no development costs were capitalized since the criteria of recognition as intangible assets are not met.

To be recognized as an asset, the development costs incurred within the context of a new product or a significant product renewal project must fulfil six recognition 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 the market is demonstrated only when the Group has obtained the manufacturer 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 the manufacturer approval.

Impairment of assets

The accumulated impairment for intangible assets at 31 December 2006 amounts to EUR 13 million (2005: EUR 14 million).

14. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment were as follows:

(in EUR million)	Land and Buildings	Industrial equipments	Other equipments	Total
Gross carrying amounts				
At 1 January 2005	3,424	9,884	1,333	14,641
Exchange differences	178	695	61	934
Additions (including new finance lease contracts)	232	948	88	1,268
Disposals	(70)	(326)	(106)	(502)
Changes in the scope of consolidation	(7)	(165)	(19)	(191)
Transfers and other	(25)	2	6	(17)
At 31 December 2005	3,732	11,038	1,363	16,133
Exchange differences	(89)	(419)	(29)	(537)
Additions (including new finance lease contracts)	278	1,000	106	1,384
Disposals	(113)	(291)	(68)	(472)
Changes in the scope of consolidation	(2)	(3)	(11)	(16)
Transfers and other	8	(34)	10	(16)
At 31 December 2006	3,814	11,291	1,371	16,476
Accumulated amortization and impairment				
At 1 January 2005	(1,689)	(6,141)	(1,085)	(8,915)
Exchange differences	(96)	(419)	(46)	(561)
Amortization	(91)	(566)	(79)	(736)
Net impairment	1	19	(3)	17
Disposals	42	298	95	435
Changes in the scope of consolidation	14	174	12	200
Transfers and other	-	(118)	122	4
At 31 December 2005	(1,819)	(6,753)	(984)	(9,556)
Exchange differences	54	274	21	349
Amortization	(102)	(608)	(78)	(788)
Net impairment	(4)	(57)	(1)	(62)
Disposals	80	271	60	411
Changes in the scope of consolidation	1	2	3	6
Transfers and other	-	6	6	12
At 31 December 2006	(1,790)	(6,865)	(973)	(9,628)
Net carrying amounts at 31 December 2006	2,024	4,426	398	6,848
<i>Net carrying amounts at 31 December 2005</i>	<i>1,913</i>	<i>4,285</i>	<i>379</i>	<i>6,577</i>

Net property, plant and equipment of EUR 42 million are pledged as security of financial liabilities (2005: EUR 35 million).

Net property, plant and equipment include EUR 1,262 million of assets under construction (2005: EUR 1,148 million).

The accumulated impairment of PPE at 31 December 2006 amounts to EUR 178 million (2005: EUR 125 million).

The WACC used to discount the future cash flows of the CGU ranged between 10 % and 13 %.

Finance leases

Capitalized property, plant and equipment held under finance leases at 31 December 2006 amount to EUR 206 million (2005: EUR 191 million). The gross carrying amounts of these assets total EUR 389 million (2005: EUR 392 million).

The future minimum payments under finance leases by maturity are shown in the following table:

(in EUR million)	31 December 2006		31 December 2005	
	Present Value	Not discounted	Present Value	Not discounted
Within one year	40	41	35	48
Between one and five years	164	205	184	224
More than five years	80	106	88	107
Total of future minimum payments (note 25)	284	352	307	379

Operating leases

Total operating lease rents recognized in the income statement are EUR 231 million (2005: EUR 228 million).

Future minimum payments under non-cancellable lease by maturity are as follows (not discounted):

(in EUR million)	31 December 2006	31 December 2005
Within one year	114	105
Between one and five years	217	213
More than five years	94	91
Total of future minimum payments	425	409

15. NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the long-term financial assets is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Financial assets		
Available-for-sale investments	242	168
Loans and deposits	170	190
Derivative instruments (note 16)	12	22
Other	22	20
	446	400
Other assets		
Benefits – asset portion (note 26)	3	35
Total non-current financial assets and other assets	449	435

Available-for-sale investments

Available-for-sale investments consist essentially of a portfolio of equities, which is intended to be disposed as follows:

(in EUR million)	31 December 2006	31 December 2005
Non-current portion	242	168
Current portion (note 21)	6	138
Total portfolio of available-for-sale investments	248	306

As at 31 December 2005, the current portion of the portfolio was made up of 2,826,000 shares of Peugeot SA. These shares were sold in February 2006 generating an income before taxes of EUR 114 million (classified in other financial income and expenses).

Movements in the portfolio during the year are broken down in the table below.

(in EUR million)	2006	2005
At 1 January	306	260
Exchange differences	(6)	(1)
Additions	60	16
Disposals	(141)	(4)
Fair value changes transferred to equity	29	35
At 31 December	248	306

During 2005 and 2006, no impairment charge was recognized in the income statement.

The portfolio can be broken down by currency as follows:

(in EUR million)	2006	2005
KRW (Korean Won)	117	62
EUR	70	193
INR (Indian Rupee)	33	30
IDR (Indonesian Rupiah)	15	15
Other currencies	13	6
Total	248	306

Loans and deposits

The carrying amount of loans and deposits is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Gross loans and deposits	294	309
- less impairment	(74)	(51)
Net loans and deposits	220	258
- less current portion (note 21)	(50)	(68)
Non-current portion	170	190

Loans and deposits include essentially bank deposits (more than three months) as well as loans to employees and customers. The fair value, which is calculated in accordance with note 2 (Basis of preparation: Fair value of financial instruments), amounts to EUR 205 million (2005: EUR 242 million).

At 31 December 2006 the effective interest rate is 2.36 % (2005: 1.80 %).

The breakdown by currency and maturity is presented in the tables below.

At 31 December 2006

(in EUR million)	Within one year	Between one and five years	More than five years	Total
EUR	24	25	53	102
CHF	15	44	-	59
GBP	5	18	-	23
Other	6	28	2	36
Total	50	115	55	220

At 31 December 2005

(in EUR million)	Within one year	Between one and five years	More than five years	Total
EUR	41	92	37	170
CHF	15	10	-	25
GBP	5	15	-	20
Other	7	36	-	43
Total	68	153	37	258

16. DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3 (hedging policy), some derivatives, while complying with the Group's financial risk management policies, have not been designated as hedging instruments for hedge accounting purposes.

Derivative assets (in EUR million)	31 December 2006		31 December 2005	
	Fair values	Contractual amounts	Fair values	Contractual amounts
Total derivative assets (note 25)				
Hedging instruments in fair value hedges				
- Interest-rate derivatives	12	220	22	220
- Equity derivatives	-	-	6	139
Derivatives not designated as hedging instruments				
- Currency derivatives	19	1,718	10	380
- Other derivatives	4	23	7	21
	35	1,961	45	760
Less long-term portion included in long-term financial assets (notes 15 and 25)				
Interest-rate derivatives in fair value hedges	(12)	(220)	(22)	(220)
	(12)	(220)	(22)	(220)
Short-term portion included in short-term financial assets (note 21)	23	1,741	23	540

Derivative liabilities (in EUR million)	31 December 2006		31 December 2005	
	Fair values	Contractual amounts	Fair values	Contractual amounts
Total derivative liabilities				
Derivatives not designated as hedging instruments				
- Currency derivatives	21	915	19	2,863
- Other derivatives	-	12	-	-
	21	927	19	2,863
Less long-term portion included in long-term financial liabilities (note 25)	-	-	-	-
Short-term portion included in short-term financial liabilities (note 25)	21	927	19	2,863

The contractual amounts of currency derivative financial instruments, essentially forward exchange contracts and cross-currency swaps are set forth by currency in the tables below.

At 31 December 2006

(in EUR million)	Currencies purchased forward					Total
	EUR	USD	CHF	JPY	Other	
Currencies sold forward:						
EUR	-	5	16	1	27	49
USD	482	-	481	13	40	1,016
CHF	-	-	-	-	-	-
JPY	367	-	-	-	1	368
PLN	289	9	-	-	-	298
Other	289	301	-	244	68	902
Total	1,427	315	497	258	136	2,633

At 31 December 2005

(in EUR million)	Currencies purchased forward					Total
	EUR	USD	CHF	JPY	Other	
Currencies sold forward:						
EUR	-	-	157	-	62	219
USD	632	-	720	-	65	1,417
CHF	90	-	-	-	228	318
JPY	343	1	25	-	1	370
PLN	-	-	-	-	-	-
Other	319	258	92	245	5	919
Total	1,384	259	994	245	361	3,243

The contractual amounts of the non currency derivative financial instruments are set forth by currency in the tables below.

At 31 December 2006

(in EUR million)	EUR	USD	Total
Interest-rate swaps	220	-	220
Equity derivatives	-	-	-
Other derivatives	4	31	35
Total	224	31	255

At 31 December 2005

(in EUR million)	EUR	USD	Total
Interest-rate swaps	220	-	220
Equity derivatives	139	-	139
Other derivatives	-	21	21
Total	359	21	380

The contractual amounts of derivative financial instruments are set forth by maturity in the table below.

(in EUR million)	31 December 2006			31 December 2005		
	Within one year	In the 2 nd to the 5 th year inclusive	Total	Within one year	In the 2 nd to the 5 th year inclusive	Total
Interest-rate swaps	-	220	220	-	220	220
Currency derivatives	2,633	-	2,633	3,243	-	3,243
Equity derivatives	-	-	-	139	-	139
Other derivatives	35	-	35	21	-	21
Total	2,668	220	2,888	3,403	220	3,623

17. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The investments in associates and joint ventures of EUR 71 million (2005: EUR 50 million) include essentially Woco Michelin AVS BV in the Netherlands and the SIPH Group in France.

The associates and joint ventures' financial statements include the following amounts:

- Assets: EUR 597 million (2005: EUR 471 million)
- Liabilities: EUR 371 million (2005: EUR 333 million)
- Net sales: EUR 917 million (2005: EUR 504 million)
- Net income: EUR 25 million (2005: EUR 3 million)

18. DEFERRED TAX ASSETS AND LIABILITIES

The amounts of the deferred tax in the balance sheet are:

(in EUR million)	31 December 2006	31 December 2005
Deferred tax assets	1,005	1,227
Deferred tax liabilities	(58)	(71)
Net deferred tax assets	947	1,156

The detail in deferred tax assets and liabilities at the end of the periods, without taking into account the offsetting of balances, is as follows:

(in EUR million)	31 December 2006	31 December 2005
Deferred tax assets by type of temporary difference		
- Intangible assets	27	34
- Financial instruments	125	67
- Inventories	42	28
- Current receivables/payables	187	239
- Employee benefits	784	880
- Provisions	123	132
- Unused tax losses	111	227
- Unused tax credits	(26)	(7)
	1,373	1,600
Deferred tax liabilities by type of temporary difference		
- Property, plant and equipment	(426)	(444)
- Financial instruments	-	-
	(426)	(444)
Net assets	947	1,156

The gross movement on the net deferred tax assets is as follows:

(in EUR million)	2006	2005
At 1 January	1,156	1,250
- Implementation of IAS 32/39	-	(22)
- Exchange differences	(78)	147
- Changes in the scope of consolidation	-	(49)
- Income statement income/(expense) (note 11)	(148)	(181)
- Tax recognized in equity	11	(11)
- Other	6	22
At 31 December	947	1,156

The deferred income tax recognized in equity during the year is as follows:

(in EUR million)	31 December 2006	31 December 2005
Fair value reserves in Shareholders' equity:		
- hedging	-	-
- available for sale investments	11	(11)
Total deferred tax income recognized in equity	11	(11)

(-) 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 detail of unrecognized deferred tax assets is as follows:

(in EUR million)	31 December 2006	31 December 2005
Deductible temporary differences	109	146
Tax losses	169	183
- of which expire in less than one year	4	27
- of which expire between 1 to 5 years	17	39
- of which expire in more than 5 years	17	14
- of which do not expire	131	103
Tax credits	57	72
Total unrecognized deferred tax assets	335	401

19. INVENTORIES

Inventories include the following:

(in EUR million)	31 December 2006	31 December 2005
Raw materials and supplies	863	853
Work in progress	275	262
Finished goods	2,303	2,191
Less write-downs	(99)	(81)
Net inventory	3,342	3,225

Movements in inventory write-downs are as follows:

(in EUR million)	2006	2005
At 1 January	(81)	(104)
Exchange differences and other	2	2
Write-downs of inventories recognized as an expense in the period	(90)	(75)
Reversal of write-downs	70	96
At 31 December	(99)	(81)

20. TRADE RECEIVABLES

The carrying amount of the trade receivables is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Gross trade receivables	3,362	3,392
Impairment	(125)	(119)
Trade receivables, net	3,237	3,273

All trade receivables are due within twelve months.

Movements of the impairment balance are broken down in the table below:

(in EUR million)	2006	2005
At 1 January	(119)	(114)
Exchange difference	(17)	(8)
Impairment charge	(28)	(33)
Reversal of impairment charge	34	36
Other	5	-
At 31 December	(125)	(119)

Reversal of impairment charge includes write-offs of EUR 19 million (2005: EUR 20 million).

Collateralized receivables

The Group runs three separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios.

The characteristics of the programs are as follows:

	Maximum financing	Maturities
Europe	EUR 543 million	2007
United States of America	USD 632 million	2010
Canada	CAD 150 million	2007
	EUR 1,121 million	

The Group anticipates the renewal of its European and Canadian programs for five years.

As at 31 December 2006, the programs provide an overcollateralization of EUR 210 million (2005: EUR 189 million) to the financial institutions. This covers the portfolios' credit losses that are likely to occur.

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 988 million as at 31 December 2006 (2005: EUR 899 million), has been accounted for as collateralized loans (note 25).

21. CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Available-for-sale investments (note 15)	6	138
Loans and deposits (note 15)	50	68
Derivative instruments (note 16)	23	23
Total current financial assets	79	229

22. OTHER CURRENT ASSETS

The carrying amount of the other current assets is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Employees	3	3
Suppliers	75	90
Current tax – Advance payments	70	131
Other tax receivables	260	254
Other	144	146
Impairment	(8)	(6)
Total other current assets	544	618

Other tax receivables mainly relate to VAT.

23. CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Cash at bank and in hand	568	568
Short-term bank deposits (less than three months) and other cash equivalents	112	43
Total cash and cash equivalents	680	611

The effective interest rate on short-term bank deposits was 2.34 % in 2006 (2005: 2.01 %).

Cash and cash equivalents are denominated in the following currencies:

(in EUR million)	31 December 2006	31 December 2005
EUR	387	230
USD	62	108
CAD	42	17
SEK	23	7
BRL	8	21
Other	158	228
Total cash and cash equivalents	680	611

24. SHARE CAPITAL AND PREMIUMS

(in EUR million)	Ordinary shares	Share premiums	Treasury shares	Total
143,387,025 shares outstanding as at 1 January 2005	287	1,842	-	2,129
Employee share option schemes				
- cost of services rendered	-	3	-	3
- proceeds from 600 shares issued	-	-	-	-
143,387,625 shares outstanding as at 31 December 2005	287	1,845	-	2,132
Employee share option schemes				
- cost of services rendered	-	7	-	7
- proceeds from 264,693 shares issued	-	11	-	11
143,652,318 shares outstanding as at 31 December 2006	287	1,863	-	2,150

The total authorized and issued number of ordinary shares is 143,652,318 shares as at 31 December 2006 (2005: 143,387,625 shares) with a par value of 2 EUR per share (2005: 2 EUR per share).

All shares issued are fully paid and registered. Shares held for more than 4 years have a double voting right.

Dividend proposed to the shareholders at the 11 May 2007 Annual General Meeting is EUR 1.45 per share.

25. FINANCIAL LIABILITIES

The carrying amount of the financial liabilities is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Long-term		
Bonds	1,465	1,472
Loans from financial institutions and other	1,027	1,348
Obligations under finance leases (note 14)	244	272
Derivative instruments (note 16)	-	-
	2,736	3,092
Short-term		
Bonds and commercial papers	684	305
Loans from financial institutions and other	1,087	820
Obligations under finance leases (note 14)	40	35
Derivative instruments (note 16)	21	19
Bank overdrafts and other short-term financial liabilities	325	468
	2,157	1,647
Total financial liabilities	4,893	4,739

The Group net debt is presented in the table below.

(in EUR million)	31 December 2006	31 December 2005
Financial liabilities	4,893	4,739
Derivative assets (note 16)	(35)	(45)
Cash and cash equivalents (note 23)	(680)	(611)
Net debt	4,178	4,083

The fair value of long-term financial liabilities which is calculated in accordance with note 2 is presented in the table below.

(in EUR million)	31 December 2006	31 December 2005
Bonds	1,651	1,677
Loans from financial institutions and other	1,005	1,350
Obligations under finance leases	247	264
Derivative instruments	-	-
Total long term financial liabilities	2,903	3,291

Bonds and commercial papers

Bonds and commercial papers issued by the Group have the characteristics mentioned in the table below.

Description	2006 effective interest rates	Carrying amount (in EUR million)			
		31 December 2006		31 December 2005	
		Current	Non-current	Current	Non-current
Subordinated bonds issued by Compagnie Générale des Etablissements Michelin					
▪ nominal value of EUR 500 million (2005: EUR 500 million)					
▪ issued in December 2003 and due in December 2033, unless the Group elects to reimburse earlier between December 2013 and due date	6.60 %	-	494	-	493
▪ nominal interest rate of 6.375 % until December 2013 and at Euribor 3 months +2.95 % thereafter					
▪ deferred coupon payment option when the Company does not distribute dividends					
Bonds issued by Michelin Luxembourg SCS					
▪ nominal value of EUR 500 million (2005: EUR 500 million)	6.63 %	-	497	-	497
▪ issued in April 2002 and due in April 2012					
▪ nominal interest rate of 6.5 %					
Bonds issued by Michelin Luxembourg SCS					
▪ nominal value of EUR 470 million (2005: EUR 470 million)	6.24 %	-	474	-	482
▪ issued in April 2002 and due in April 2009	(5.15 %) ⁽¹⁾				
▪ nominal interest rate of 6.125 %					
▪ partially hedged through a EUR 220 million interest rate swap (2005: EUR 220 million) maturing in April 2009 (fair value hedge) (note 16)					
Bonds issued by Compagnie Générale des Etablissements Michelin					
▪ nominal value of EUR 305 million (2005: EUR 305 million)	6.84 %	-	-	305	-
▪ issued in February 1996 and due in February 2006					
▪ nominal interest rate of 6.7 %					
Commercial papers issued by Compagnie Générale des Etablissements Michelin					
▪ nominal value of EUR 686 million (2005: nil)	3.67 %	684	-	-	-
▪ issued in November and December 2006 and due between January and March 2007					
Weighted average effective interest rate and total carrying amounts	5.60 % (5.36 %) ⁽¹⁾	684	1,465	305	1,472

⁽¹⁾ after hedging.

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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 from purchased minority shares.

Loans from financial institutions and other have the characteristics mentioned in the tables below (before hedge).

At 31 December 2006

(in EUR million)	EUR	USD	THB	CNY	RUB	CAD	Other	Total
Loans from financial institutions and other	1,011	705	127	105	55	16	95	2,114
- of which at fixed rates	29	87	7	-	-	4	-	127
- of which at variable rates	982	618	120	105	55	12	95	1,987
Weighted average effective interest rate	3.17 %	5.97 %	5.10 %	5.24 %	6.03 %	4.18 %	9.69 %	4.85 %

At 31 December 2005

(in EUR million)	EUR	USD	THB	CNY	RUB	CAD	Other	Total
Loans from financial institutions and other	1,076	432	186	124	83	129	138	2,168
- of which at fixed rates	32	-	141	-	-	-	-	173
- of which at variable rates	1,044	432	45	124	83	129	138	1,995
Weighted average effective interest rate	3.14 %	4.98 %	3.42 %	5.11 %	6.11 %	2.90 %	6.12 %	4.13 %

Bank overdrafts

Bank overdrafts have the characteristics mentioned in the tables below (before hedge).

At 31 December 2006

(in EUR million)	EUR	HUF	DZD	CAD	USD	PLN	Other	Total
	140	71	48	19	17	-	30	325
Weighted average effective interest rate	3.13 %	7.14 %	6.00 %	3.92 %	2.87 %	-	9.23 %	5.13 %

At 31 December 2005

(in EUR million)	EUR	HUF	DZD	CAD	USD	PLN	Other	Total
	158	40	41	-	15	102	112	468
Weighted average effective interest rate	2.44 %	7.44 %	6.02 %	-	3.31 %	5.42 %	8.23 %	4.70 %

Rating

During 2006, Standard & Poor's and Moody's lowered Michelin's credit rating. At 31 December 2006, the corporate credit ratings are as follows:

		CGEM	CFM
Short-term	Standard & Poor's	A-3	A-3
	Moody's	P-3	P-2
Long-term	Standard & Poor's	BBB	BBB
	Moody's	Baa3	Baa2
Outlook	Standard & Poor's	Negative	Negative
	Moody's	Stable	Stable

26. EMPLOYEE BENEFITS

According to laws and regulations applicable in each country, the Group contributes to post-retirement benefit, insurance, healthcare plans and retirement bonuses, of which the amount of the benefits paid varies based on a number of factors including seniority, 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, the liabilities correspond to the contributions due.

26.1. Defined Benefit Plans

In addition to mandatory social insurance plans, the Group has introduced a number retirement plans as well as retiree medical care plans.

Summary of the financial situation of the main defined benefit plans.

	Defined benefit pension plans	Other defined benefit plans (including healthcare)	31 December 2006	31 December 2005
(In EUR million)				
Present value of fully or partly funded obligations	5,661	-	5,661	5,931
Fair value of plan assets	(4,858)	-	(4,858)	(4,791)
Funded status	803	-	803	1,140
Present value of unfunded obligations	544	1,754	2,298	2,492
Unrecognized past service cost	-	122	122	256
Unrecognized actuarial gains and losses	(357)	(139)	(496)	(874)
Defined benefit net liabilities	990	1,737	2,727	3,014
Amounts recognized in the balance sheet:				
Prepaid benefit cost (note 15)			(3)	(35)
Accrued benefit cost			2,730	3,049
Net liabilities			2,727	3,014

Unrecognized actuarial gains and losses (corresponding to changes in the present value of the 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.

Past service cost corresponds to the value of rights not yet vested by employees at the time of changing the benefit rights granted.

At 31 December 2006 unrecognized actuarial losses amounted to EUR 496 million (2005: EUR 874 million) and past service cost of non vested benefits amounted to EUR 122 million (2005: EUR 256 million).

Movement of defined benefit net liabilities recognized in the balance sheet:

	Defined benefit pension plans	Other defined benefit plans (including healthcare)	2006	2005
(In EUR million)				
At 1 January	1,039	1,975	3,014	3,157
Exchange differences	(8)	(124)	(132)	227
Expenses recognized in the income statement (recurring items)	75	43	118	249
Contributions paid to the funds	(126)	-	(126)	(154)
Benefits directly paid to the beneficiaries	(20)	(156)	(176)	(160)
Plan changes recognized in the income statement (non recurring items)	30	(1)	29	(256)
Changes in the scope of consolidation	-	-	-	(49)
At 31 December	990	1,737	2,727	3,014

In 2006, the net amount recognized in the consolidated income statement is an expense of EUR 149 million (2005: an income of EUR 7 million), breaking down as follows:

Net amount recorded in the consolidated income statement	Defined benefit pension plans	Other defined benefit plans (including medical care plans)	Year ended 31 December 2006	Year ended 31 December 2005
(in EUR million)				
Cost of service rendered during the year	119	50	169	168
Interest cost	310	90	400	417
Expected return on plan assets	(340)	-	(340)	(320)
Amortization of actuarial gain/loss during the year	6	-	6	5
Past service cost recognized during the year	33	(25)	8	(274)
Effect of reductions or liquidations of benefit plans	(22)	(72)	(94)	(3)
Total recorded in the income statement	106	43	149	(7)

The net expense of EUR 149 million recognized in the consolidated income statement has been shared among recurring expenses for EUR 118 million (see note 7) and non recurring expenses for EUR 31 million.

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 annual discount ("interest cost"),
- income corresponding to estimated return on assets ("expected return on plan assets"),
- income or charge from annual amortization of actuarial gain or loss ("amortization of actuarial gain/loss during the year"),
- gain/loss resulting from changes in plan benefits ("past service cost recognized during the year"),
- gain/loss resulting from any reduction or liquidation of plans (curtailments and settlements).

26.1.1. Pension plans

The Group offers its employees different retirement 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 retirement benefit plans can be funded through payments to external funds specialized in the management of the contributions paid to them. In the case of unfunded plans such as German pension plans, a provision is made in the Group's balance sheet.

Defined post-retirement 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 seniority and average end-of-career salaries. Since 2004, Group defined pension benefits paid to 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.

Under defined contribution plans, the Group's obligation is limited to the payment of established contributions. This does not guaranty the future level of benefits paid. Annual charges correspond to the contributions due during the year.

Currently, Group defined contribution plans mainly relate to the 401 K plans in the United States of America and the RRSP plan in Canada.

Change in the financial situation of defined benefit pension plans is as follows:

(in EUR million)	31 December 2006				31 December 2005			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligation at the beginning of the year	3,225	3,230	35	6,490	2,491	2,903	29	5,423
Exchange differences	(313)	58	-	(255)	391	56	3	450
Changes in the scope of consolidation	-	-	-	-	-	(43)	-	(43)
Current service cost	60	56	-	116	59	52	1	112
Interest cost	157	147	1	305	169	149	2	320
Plan reorganization costs generated during the year:								
- Immediately recognized in the income statement	2	16	(4)	14	-	-	-	-
- Unrecognized costs	1	2	-	3	-	-	-	-
Benefits paid	(162)	(217)	(5)	(384)	(185)	(127)	-	(312)
Other items	4	2	(4)	2	(2)	-	2	-
Unrecognized actuarial (gain)/loss generated during the year	(41)	(46)	1	(86)	302	240	(2)	540
Present value of the obligation at the end of the year	2,933	3,248	24	6,205	3,225	3,230	35	6,490
Fair value of plan assets at the beginning of the year	2,809	1,971	11	4,791	2,307	1,650	8	3,965
Exchange differences	(272)	45	-	(227)	363	41	1	405
Expected return on plan assets	210	122	1	333	219	112	1	332
Contributions paid to the plans	50	87	1	138	35	126	1	162
Administration costs	-	(6)	-	(6)	-	(4)	-	(4)
Benefits paid	(159)	(199)	(6)	(364)	(185)	(110)	-	(295)
Other items	-	-	-	-	-	-	-	-
Unrecognized actuarial gain/(loss) generated during the year	123	69	1	193	70	156	-	226
Fair value of plan assets at the end of the year	2,761	2,089	8	4,858	2,809	1,971	11	4,791
<i>Deficit/(surplus) at the end of the year</i>	<i>172</i>	<i>1,159</i>	<i>16</i>	<i>1,347</i>	<i>416</i>	<i>1,259</i>	<i>24</i>	<i>1,699</i>
Deferred items at the beginning of the year	293	368	(1)	660	54	284	-	338
Exchange differences	(29)	6	-	(23)	8	4	-	12
Changes in scope of consolidation	-	-	-	-	-	(3)	-	(3)
Amortization of actuarial gain/loss during the year	(1)	(4)	-	(5)	-	(2)	-	(2)
Amortization of plan reorganization costs during the year	-	-	-	-	-	-	-	-
Unrecognized actuarial gain/loss generated during the year	(162)	(114)	(1)	(277)	230	85	(1)	314
Unrecognized plan reorganization costs generated during the year	-	2	-	2	1	-	-	1
Deferred items at the end of the year	101	258	(2)	357	293	368	(1)	660
Net liability/(-)asset recognized in the balance sheet at the end of the year	71	901	18	990	123	891	25	1,039

In 2006, the decrease of the present value of the defined benefit pension plans obligation amounts to EUR 285 million. This decrease is mainly due to:

- the effect of the exchange rates between EUR and USD, GBP and CAD EUR 255 million
- the actuarial gains due to the change in actuarial assumptions and to the difference between assumptions and actual experience EUR 86 million
- the difference between the cost (service cost and interest cost) and the benefits paid during the year EUR (37) million
- the changes in plan regulations EUR (17) million

The fair value of plan assets amounts to EUR 4 858 million at 31 December 2006, showing an increase of EUR 67 million compared to 31 December 2005. The major items being the cause of this variation are the following:

- the effect of the exchange rates between EUR and USD, GBP and CAD	EUR	(227) million
- the difference between the contributions paid to the funds and the benefits paid by the funds	EUR	(232) million
- the expected return on plan asset	EUR	333 million
- the actuarial gain due to the difference between the expected and actual return on plan assets	EUR	193 million

The amounts for current annual period and previous two annual periods of 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 follow:

	2006	2005	2004
Defined benefit obligation	(6,205)	(6,490)	(5,423)
Plan assets	4,858	4,791	3,965
Surplus / (deficit)	(1,347)	(1,699)	(1,458)
Experience adjustment on:			
<i>plan liabilities</i>	(2)	(16)	5
<i>plan assets</i>	192	227	80

The main actuarial weighted average assumptions used to measure the obligations for pension plans were as follows:

	31 December 2006			31 December 2005		
	North America	Europe	Other	North America	Europe	Other
Discount rate	5.63 %	4.86 %	11.30 %	5.45 %	4.63 %	11.30 %
Rate of salary increases ⁽¹⁾	3.34 %	3.21 %	7.62 %	3.00 %	3.15 %	7.63 %
Average remaining service lives	12.0 years	11.1 years	12.9 years	12.2 years	14.5 years	13.8 years
Expected return on plan assets	8.36 %	6.58 %	11.30 %	8.36 %	6.31 %	11.30 %

⁽¹⁾ Including all assumptions relating to career development, promotions, seniority and other, over the employee's entire service life.

Group obligations are regularly calculated by independent actuaries using the Projected Unit Credit Method with end of career salary.

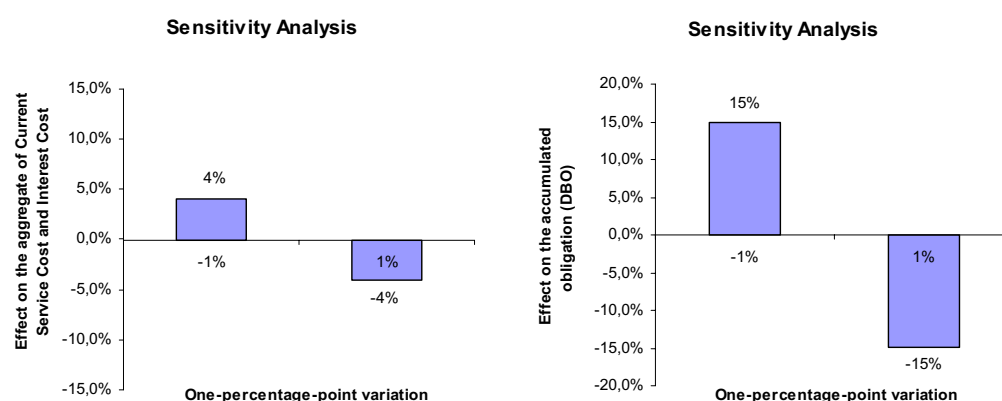
The assumptions used are determined each year by the management based on recommendations from the actuaries.

The discount rates used to calculate the present value of obligations are based on high-quality corporate or Government bonds having a term consistent with the obligations at the calculation date.

The main assumptions (pay increases, retirement age, employee turnover, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The expected return of plan assets is determined for each portfolio on the measurement date taking into account market conditions, portfolio composition as well as long-term returns of each class and sub-class.

A one-percentage-point change in the discount rate compared to those used for 2006 would have the following effects:



Net income and charges recognized in the income statement are as follows:

	North America	Europe	Other	2006	North America	Europe	Other	2005
Cost of service rendered during the year	63	50	6	119	56	50	3	109
Interest cost	164	145	1	310	160	150	1	311
Expected return on plan assets	(219)	(120)	(1)	(340)	(207)	(113)	-	(320)
Amortization of actuarial gain/loss during the year	2	4	-	6	-	2	-	2
Past service cost recognized during the year	17	15	1	33	1	-	-	1
Effect of reductions or liquidations of benefit plans	(18)	1	(5)	(22)	-	(1)	-	(1)
Total defined benefit pension expenses	9	95	2	106	10	88	4	102
Actual return on plan assets	333	191	1	525	289	267	1	557

The asset allocation of fully and partly funded significant pension plans is as follows:

	31 December 2006				31 December 2005			
	Canada	USA	UK	Other	Canada	USA	UK	Other
Equities	67 %	43 %	60 %	6 %	65 %	44 %	61 %	12 %
Alternative investments ⁽¹⁾	0 %	17 %	0 %	5 %	0 %	17 %	0 %	0 %
Real Estate	0 %	7 %	0 %	3 %	0 %	6 %	0 %	1 %
Total fixed income and cash	33 %	33 %	40 %	86 %	35 %	33 %	39 %	87 %
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

(1) Hedge funds and private equity.

Note that in so far as local law gives the Group some flexibility in weighting on investment fund policy, the Group refrains altogether from placing any Group security in the managed funds. With reference to general funds invested with insurance companies as well as other alternative investments, the Group is not in possession of all information on the underlying assets. The Group has no significant amount invested in its own securities.

To our best knowledge Michelin was not occupying nor using any of the real estate assets included in the various portfolios. Each plan's asset allocation is decided periodically by an independent body acting as fiduciary (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 social liabilities and their terms.

As at 31 December 2006 Group contributions and payments made to pension plans are as follows:

(in EUR million)	North America	Europe	Other	Total
Contributions paid/payments made				
2006	50	94	1	145
Estimates of contributions expected to be paid and payments to be made				
2007	32	98	-	130
2008	24	101	1	126
2009	17	108	1	126
2010	88	107	1	196
2011	90	108	1	199

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 the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant management bodies.

The estimates of the future payments for the non financed plans were carried out on the basis of elements included in the calculation of the projected defined benefit obligation based on the leaving dates envisaged each year. The same method was used for the constitutive funds for the partially funded plans paid to insurance companies. For the plans that are financed, the estimations of future contributions have been made taking into account the changes in regulations that are known at the end of 2006. These mainly concern the United States (impact from 2010 onwards) and the United Kingdom (stability of the level of contributions).

26.1.2. Other Defined Benefit Plans

In many countries, Group employees receive other post-retirement benefits and long-term benefits throughout their term of employment. The "other post-retirement benefits" mainly include healthcare insurance and retirement bonuses. The "other defined benefit plans" are mainly found in the United States of America, Canada and France. "Other long-term benefits" also include deferred compensations that are mandatory in the countries where the Group operates or provided for under local company-specific agreements. Such defined benefit plans generally relate to 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's balance sheet liabilities.

Changes in the financial situation of "other defined benefit plans" are as follows:

(in EUR million)	31 December 2006				31 December 2005			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligation at the beginning of the year	1,172	743	18	1,933	1,256	695	18	1,969
Exchange differences	(114)	-	(1)	(115)	191	-	1	192
Changes in scope of consolidation	-	-	-	-	-	(12)	-	(12)
Current service cost	16	31	1	48	24	34	1	59
Interest cost	57	29	1	87	75	33	2	110
Plan reorganization costs generated during the year:								
- Immediately recognized in the income statement	(17)	(59)	3	(73)	(274)	1	-	(273)
- Unrecognized costs	(20)	106	-	86	(139)	-	-	(139)
Benefits paid	(55)	(96)	(1)	(152)	(85)	(52)	(2)	(139)
Other items	(4)	3	-	(1)	(1)	-	-	(1)
Unrecognized actuarial (gain)/loss generated during the year	(36)	(21)	(2)	(59)	125	44	(2)	167
Present value of the obligation at the end of the year	999	736	19	1,754	1,172	743	18	1,933
Fair value of plan assets at the beginning of the year	-	-	-	-	-	-	-	-
Exchange differences	-	-	-	-	-	-	-	-
Expected return on plan assets	-	-	-	-	-	-	-	-
Contributions paid to the plans	-	-	-	-	-	-	-	-
Administration costs	-	-	-	-	-	-	-	-
Benefits paid	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-
Unrecognized actuarial gain/(loss) generated during the year	-	-	-	-	-	-	-	-
Fair value of plan assets at the end of the year	-	-	-	-	-	-	-	-
<i>Deficit/(surplus) at the end of the year</i>	<i>999</i>	<i>736</i>	<i>19</i>	<i>1,754</i>	<i>1,172</i>	<i>743</i>	<i>18</i>	<i>1,933</i>
Deferred items at the beginning of the year	(113)	72	(1)	(42)	(99)	30	1	(68)
Exchange differences	11	-	-	11	(28)	-	-	(28)
Changes in scope of consolidation	-	-	-	-	-	(1)	-	(1)
Amortization of actuarial gain/loss during the year	4	(4)	-	-	(1)	(2)	-	(3)
Amortization of plan reorganization costs during the year	20	1	-	21	16	1	-	17
Unrecognized actuarial gain/loss generated during the year	(44)	(14)	(1)	(59)	125	44	(2)	167
Unrecognized plan reorganization costs generated during the year	(20)	106	-	86	(126)	-	-	(126)
Deferred items at the end of the year	(142)	161	(2)	17	(113)	72	(1)	(42)
Net liability/(-)asset recognized in the balance sheet at the end of the year	1,141	575	21	1,737	1,285	671	19	1,975

In 2006, the decrease of the present value of the other defined benefit plans amounts to EUR 179 million. This decrease is mainly due to:

- the effect of the exchange rates between EUR and USD, GBP and CAD
- the change in plan regulations
- the difference between the cost (service cost and interest cost) and the benefits paid during the year
- the actuarial gains due to the change in actuarial assumptions and to the difference between assumptions and actual experience

EUR 115 million
 EUR (13) million
 EUR 17 million
 EUR 59 million

The amounts for current annual period and previous two annual periods of the present value of the defined benefit obligation and the experience adjustments are as follow:

	2006	2005	2004
Defined benefit obligation	(1,754)	(1,933)	(1,969)
Experience adjustment on plan liabilities	26	69	26

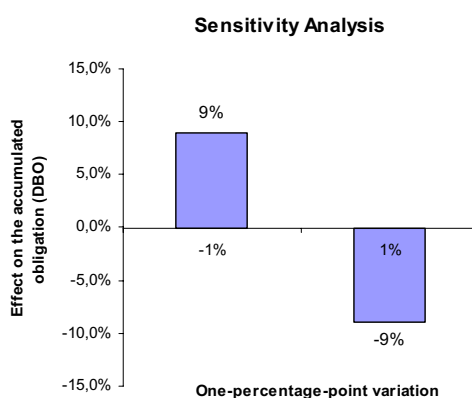
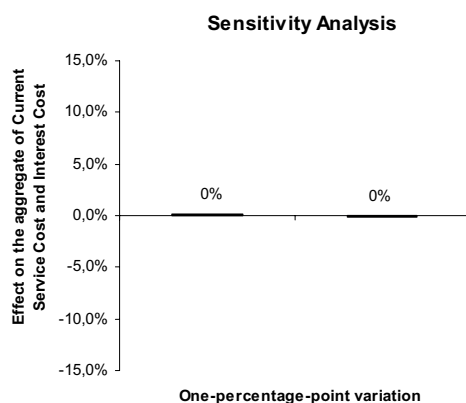
The main actuarial weighted average assumptions used to measure the obligations for other defined benefit plans were as follows:

	31 December 2006			31 December 2005		
	North America	Europe	Other	North America	Europe	Other
Discount rate	5.67 %	4.44 %	11.63 %	5.46 %	3.96 %	9.90 %
Average remaining service lives	13.3 years	13.7 years	17.5 years	14.7 years	11.1 years	18.3 years

The discount rates used to calculate the present value of obligations are based on high-quality corporate or Government bonds having a term consistent with the obligations at the calculation date.

The main assumptions (healthcare cost increase trends, retirement age, employee turnover, mortality, invalidity) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

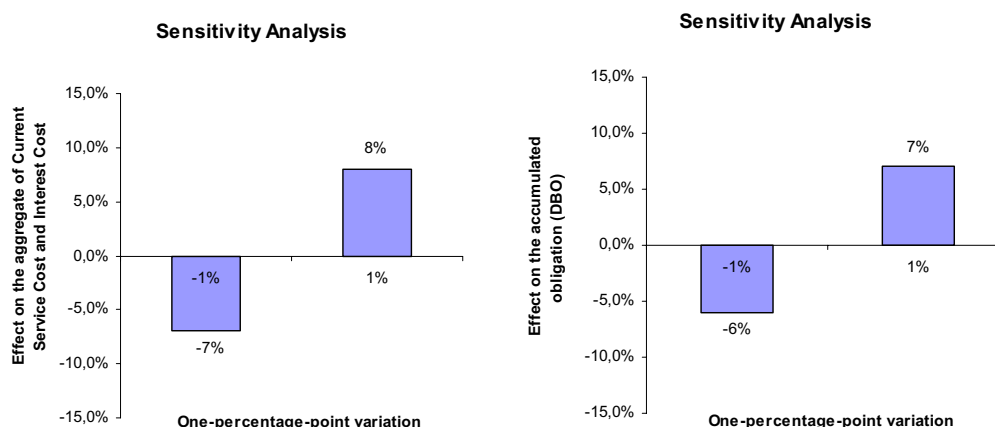
A one-percentage-point change in the discount rate compared to those used for 2006 would have the following effects:



Future assumptions concerning healthcare cost trends are as follows:

	31 December 2006		31 December 2005	
	USA	Canada	USA	Canada
Expected growth of healthcare costs for the first year year	8.41 %	7.91 %	9.03 %	8.90 %
Minimum long-term growth of healthcare costs	5.00 %	5.00 %	4.75 %	5.00 %
Year in which the lowest growth rate will be achieved	2014	2010	2015	2010

A one-percentage-point change in the expected healthcare cost trend compared to those used for 2006 would have the following effects:



Net income and charges recognized in the income statement are as follows:

	North America	Europe	Other	2006	North America	Europe	Other	2005
Cost of service rendered during the year	17	32	1	50	23	35	1	59
Interest cost	59	29	2	90	71	33	2	106
Expected return on plan assets	-	-	-	-	-	-	-	-
Amortization of actuarial gain/loss during the year	4	(4)	-	-	1	2	-	3
Past service cost recognized during the year	(39)	9	5	(25)	(277) ⁽¹⁾	2	-	(275)
Effect of reductions or liquidations of benefit plans	(1)	(69)	(2)	(72)	-	(2)	-	(2)
Total other defined benefit expenses	40	(3)	6	43	(182)	70	3	(109)

(1) of which EUR 256 million due to the introduction of Part D prescription drug coverage.

Group payments to 31 December 2006 under the other defined plans are as follows:

(in EUR million)	North America	Europe	Other	Total
Payments made				
2006	62	95	5	162
Estimates of payments expected to be made				
2007	61	34	0	95
2008	61	42	1	104
2009	63	53	1	117
2010	66	53	0	119
2011	67	66	0	133

Such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant management bodies. Payments made in 2006 are significantly higher than those forecasted for the coming years due to anticipated payments (mostly in France).

26.2. 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-retirement plans. These are mainly found in the United States of America, Canada and the United Kingdom. In 2006, the contributions paid to such defined contribution plans and charged to the consolidated income statement amount to EUR 58 million (2005: EUR 48 million).

27. SHARE OPTION PLANS

Changes in the number of options granted under share option plans and their weighted average exercise price are as follows:

	2006		2005	
	Weighted average exercise price (in euro per option)	Options	Weighted average exercise price (in euro per option)	Options
At 1 January	43.57	2,585,850	40.12	1,472,300
Granted	58.00	136,700	48.00	1,131,850
Forfeited	44.53	(15,800)	39.09	(17,700)
Exercised	43.18	(264,693)	44.00	(600)
Expired	-	-	-	-
At 31 December	44.41	2,442,057	43.57	2,585,850

453,407 of the 2,442,057 options outstanding as at 31 December 2006 are exercisable (2005: none).

Assumptions used to value the share options granted in 2006 are as follows:

Grant date	15 May 2006
Number of options granted	136,700
Spot rate (in euro per share)	57.15
Exercise price (in euro per option)	58.00
Volatility	30.84 %
Risk free interest rate	3.91 %
Market value of the option at grant date (in euro per option)	10.02

Volatility measurement is based over a period equal to the expected lifetime of the option. Seven years of historical share market values before grant date have been used.

The maximum gain allowed is limited to 100 % of the exercise price.

Share purchase option plans have the following exercise prices and expiry dates:

Grant dates	Vesting dates	Expiry dates	Exercise prices (in euro per option)	Options	
				31 December 2006	31 December 2005
May 2002	May 2006	May 2011	44.00	453,407	694,300
May 2003	May 2007	May 2012	32.25	223,800	238,800
November 2003	November 2007	November 2012	34.00	214,500	217,100
May 2004	May 2008	May 2013	40.00	169,900	179,900
July 2004	July 2008	July 2013	44.50	121,300	125,100
May 2005	May 2009	May 2014	48.00	218,500	218,500
November 2005	November 2009	November 2014	48.00	903,950	912,150
May 2006	May 2010	May 2015	58.00	136,700	-
Total outstanding share options				2,442,057	2,585,850

28. PROVISIONS AND OTHER NON-CURRENT LIABILITIES

The carrying amount of the provisions and other long-term liabilities is detailed in the table below:

(in EUR million)	31 December 2006	31 December 2005
Non-current liabilities:		
Deferred income - Government grants	109	134
Debts towards employees and social security authorities	123	133
Provisions:		
Restructuring provisions	250	286
Litigations provisions	113	32
Other provisions	223	216
Total provisions and other non current liabilities	818	801

Movements of provisions during the year:

(in EUR million)	Restructuring	Litigation	Other provisions
At 1 January	286	32	216
Additional provisions	196	32	178
Utilized during the year	(154)	(27)	(40)
Unused amounts reversed	(2)	-	-
Currency translation effects	(5)	(2)	(4)
Change in scope of consolidation	-	-	(1)
Other effects	(71)	78	(126)
At 31 December	250	113	223

As at 31 December 2006,

- the remaining restructuring provisions are mainly located in:
 - Spain for EUR 104 million,
 - Canada for EUR 69 million (note 9),
 - France for EUR 48 million.
- the other provisions mainly include:
 - EUR 62 million coming from the Group decision to stop tire manufacturing operations in Nigeria (note 9),
 - EUR 40 million linked to the specialization of the Bourges and Cholet plants (France).

29. OTHER CURRENT LIABILITIES

The carrying amount of the other current liabilities is detailed in the table below.

(in EUR million)	31 December 2006	31 December 2005
Customers – Deferred rebates	564	543
Employee benefits	360	324
Social security liabilities	291	295
Restructuring liabilities	79	87
Current income tax to pay	120	152
Other taxes	164	163
Other	333	338
Total other current liabilities	1,911	1,902

30. DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flow statement are presented in the table below:

(in EUR million)	Year ended 31 December 2006	Year ended 31 December 2005
Non-cash other income and expenses		
Result on disposal of non-financial assets	(64)	(6)
Other	(11)	(16)
	(75)	(22)
Net finance costs paid		
Interests paid and other financial expenses	(340)	(321)
Interests received and other financial income	24	31
Dividends received	5	6
	(311)	(284)
Change in value of working capital, net of impairments		
Change in inventory	(252)	(203)
Change in trade receivables	(107)	(171)
Change in trade payables	-	60
Change in other receivables and payables	138	(112)
	(221)	(426)
Purchases of intangible assets and PP&E		
Purchase of intangible assets	(63)	(69)
Purchase of PP&E	(1,351)	(1,267)
Investment grants received	14	5
Change in capital expenditures payables	21	39
	(1,379)	(1,292)
Change in value of other financial assets		
Increase of other financial assets	(44)	(50)
Decrease of other financial assets	49	162
	5	112
Change in value of financial liabilities		
Increase of financial liabilities	742	106
Decrease of financial liabilities	(402)	(825)
Finance lease debt repayments	(36)	(119)
Derivatives	7	99
	311	(739)
Detail of the non cash transactions:		
▪ Financial lease	34	1
▪ Non-controlling interest purchase commitments	(31)	151
▪ New emission rights	20	34

31. COMMITMENTS AND CONTINGENCIES

"Wheel" Guarantee: As part of the disposal of its activity "Wheels" to the German group "mefro" on 12 May 2005, the Group was led - as a requirement for the realization of the transaction - to grant a guarantee to this group, exercisable until 12 May 2007, with a maximum amount of EUR 50 million as regards to product liability and of EUR 5 million for all the other matters covered by the guarantee.

Other commitments: the Group has various purchase commitments for materials and services as well as for the acquisition of equipments. These commitments primarily concern the purchases in 2007. They are established under normal market conditions and occur in the course of ordinary activities of the Group.

Canadian pension litigation: in June 2005, a group of Michelin pension fund beneficiaries in Canada started legal action against the Canadian subsidiary of the Group, aimed at forcing the latter to pay a sum of 350 million Canadian dollars to said fund. Michelin Canada believes that it has meritorious defenses to these claims. At this stage in the proceedings, the Group deems it unnecessary to make a provision in this respect.

Other contingencies: in the course of their ordinary activities, the group companies may be involved in administration proceedings, litigations and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, it exists uncertainties on some of administration proceedings, litigation and claims. In the opinion of the Group management, the outcome of these actions will not have material impact on the Group's financial situation or cash flows.

32. ACQUISITIONS AND DIVESTMENTS OF BUSINESSES

There is no significant impact of acquisitions and divestments of businesses on the various components of the Group balance sheet for 2006 and 2005.

33. RELATED PARTY TRANSACTIONS

Subsidiaries and associated companies

A list of the major Group subsidiaries and associates is included in note 35.

Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated on consolidation.

Transactions and balances between the Group and its associates are detailed in the table below.

(in EUR million)	2006	2005
Income statement		
Income from the sale of goods or supply of services	4	2
Interest income	1	-
Expenses for the purchase of goods or supply of services	(29)	(6)
Balance sheet		
Loans receivable	15	15
Financial liabilities	(3)	-
Balance payable	(3)	(1)
Other current receivables and payables	2	-

Key management and Supervisory Board

The Managing Partners received in 2006, in connection with financial year 2005, an aggregate amount of EUR 9.9 million, proportional to and dependent upon Company profit (2005 in connection with 2004 : EUR 6.1 million).

The benefits costs related to the members of the Group Executive Council in 2006 were EUR 5.1 million (2005: EUR 5.1 million).

The following fees were paid in 2006 (for services rendered in 2005) to the Supervisory Board members: EUR 0.1 million (2005 for services rendered in 2004: EUR 0.1 million).

34. EVENTS AFTER THE BALANCE SHEET DATE

The assets and liabilities values at the balance sheet date are adjusted, if needed, up to the date the Supervisory Board has authorized for issue the 2006 consolidated financial statements.

35. LIST OF MAIN GROUP COMPANIES

Countries within the Michelin geographical zones are listed according to the alphabetical order of the French names.

35.1. Fully-consolidated companies

<i>Companies</i>	<i>Registered office</i>	<i>Nature</i>	<i>% of interest</i>
Europe			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KGaA	Karlsruhe	Manufacturing & commercial	100.00
EUROMASTER Holding GmbH	Kaiserslautern	Commercial	99.98
ViaMichelin Deutschland GmbH	Griesheim	Commercial	100.00
Austria			
Euromaster Reifenservice GmbH	Vienna	Commercial	97.56
Michelin Reifenverkaufsgesellschaft m.b.H.	Vienna	Commercial	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Société pour le Traitement de l'Information TRINFOVER	Zellik	Miscellaneous	100.00
Denmark			
Michelin Gummi Compagni A/S	Brøndby	Commercial	100.00
Scanrub Holding A/S	Viborg	Commercial	99.94
Spain			
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
Estonia			
Michelin Rehvide AS	Tallinn	Commercial	100.00
Finland			
Oy Suomen Michelin Ab	Espoo	Commercial	100.00
Suomen Euromaster Oy	Pori	Commercial	99.94
France			
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 Kléber	Toul	Manufacturing & commercial	100.00
Simorep et Cie - Société du Caoutchouc	Bassens	Manufacturing	100.00
Synthétique Michelin	Wattignies	Manufacturing	100.00
Société de Développement Mécanique	Clermont-Ferrand	Manufacturing	100.00
S.O.D.G.	Montbonnot Saint	Commercial	98.36
Euromaster France	Martin		
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Recamic Services	Clermont-Ferrand	Commercial	100.00
Société d'Exportation Michelin	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
ViaMichelin	Boulogne-Billancourt	Commercial	100.00
Michelin Développement	Clermont-Ferrand	Financial	100.00
Michelin Middle East	Clermont-Ferrand	Financial	100.00
Participation et Développement Industriels – PARDEVI	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
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00

MICHELIN GROUP – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<i>Companies</i>	<i>Registered office</i>	<i>Nature</i>	<i>% of interest</i>
Hungary			
Michelin Hungaria Tyre Manufacture Ltd.	Nyiregyháza	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
Ireland			
Oboken Limited	Dublin	Financial	100.00
Mireis Limited	Dublin	Miscellaneous	100.00
Miripro Insurance Company Limited	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
ViaMichelin Italia S.r.l.	Milan	Commercial	100.00
Latvia			
Michelin Riepas SIA	Riga	Commercial	100.00
Lithuania			
UAB Michelin Padangos	Vilnius	Commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
Norway			
Norsk Michelin Gummi AS	Lørenskog	Commercial	100.00
The Netherlands			
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
Michelin Holding (Pays-Bas) B.V.	Amsterdam	Financial	100.00
Fitlog B.V.	's-Hertogenbosch	Miscellaneous	100.00
Poland			
Michelin Polska S.A.	Olštyn	Manufacturing & commercial	100.00
Portugal			
Michelin-Companhia Luso-Pneu, Limitada	Lisbon	Commercial	100.00
Serbia			
TIGAR TYRES Ilc, Piro	Piro	Manufacturing & commercial	100.00
Slovak Republic			
Michelin Slovensko, s.r.o.	Bratislava	Commercial	100.00
Czech Republic			
Michelin Česká republika s.r.o.	Prague	Commercial	100.00
Romania			
Silvania S.A.	Zalau	Manufacturing & commercial	99.94
Victoria S.A.	Floresti	Manufacturing & commercial	99.21
Michelin RomRetreading S.R.L.	Bucharest	Manufacturing	100.00
Michelin Romsteel Cord S.A.	Zalau	Manufacturing	100.00
Michelin Romania S.A.	Bucharest	Commercial	100.00
United Kingdom			
Michelin Tyre Public Limited Company	England and Wales	Manufacturing & commercial	100.00
Associated Tyre Specialists Limited	England and Wales	Commercial	99.94
Michelin Lifestyle Limited	England and Wales	Commercial	100.00
ViaMichelin UK Limited	England and Wales	Commercial	100.00
Michelin Europe (EEIG)	England and Wales	Miscellaneous	99.96
Michelin Services Ltd	England and Wales	Miscellaneous	100.00
XM Services Limited	Scotland	Miscellaneous	100.00

Companies	Registered office	Nature	% of interest
Russia			
LLC "Michelin Russian Tyre Manufacturing Company"	Davydovo village	Manufacturing & commercial	100.00
Michelin Tyres Russian General Agency ZAO	Moscow	Commercial	100.00
Slovenia			
Michelin Slovenija, pnevmatike, d.o.o.	Ljubljana	Commercial	100.00
Sweden			
Euromaster AB	Varberg	Commercial	99.94
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster	Granges-Paccot	Commercial	100.00
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
North America and Mexico			
Canada			
Michelin North America (Canada) Inc.	Laval	Manufacturing & commercial	100.00
Michelin Retread Technologies (Canada) Inc.	New Glasgow	Commercial	100.00
United States of America			
Michelin Aircraft Tire Company, LLC	Wilmington	Manufacturing & commercial	100.00
Michelin North America, Inc.	New York	Manufacturing & commercial	100.00
American Synthetic Rubber Company, LLC	Wilmington	Manufacturing	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
Michelin Americas Research & Development Corp.	Wilmington	Miscellaneous	100.00
Mexico			
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
South America			
Argentina			
Michelin Argentina Sociedad Anónima, Industrial, Comercial y Financiera	Buenos Aires	Commercial	100.00
Brazil			
Sociedade Michelin de Participações, Indústria e Comércio Ltda.	Rio de Janeiro	Manufacturing & commercial	100.00
Michelin Espírito Santo – Comércio, Importações e Exportações Ltda.	Espírito Santo	Commercial	100.00
Plantações E. Michelin Ltda.	Rio de Janeiro	Miscellaneous	100.00
Plantações Michelin da Bahia Ltda.	Rio de Janeiro	Miscellaneous	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Cali	Manufacturing & commercial	99.93
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
Venezuela			
Michelin Venezuela, S.A.	Valencia	Commercial	100.00

MICHELIN GROUP – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Companies	Registered office	Nature	% of interest
<u>Asia and Oceania</u>			
<u>Australia</u>			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
<u>China</u>			
Michelin Shenyang Tire Co., Ltd.	Liaoning Province	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
<u>South Korea</u>			
Michelin Korea Co., Ltd.	Seoul	Commercial	100.00
<u>India</u>			
Michelin India Private Limited	New Delhi	Commercial	100.00
Michelin India Tyres Private Limited	New Delhi	Commercial	100.00
<u>Japan</u>			
Nihon Michelin Tire Co., Ltd.	Tokyo	Manufacturing & commercial	100.00
Michelin Research Asia Co., Ltd.	Chiyoda-Ku Tokyo	Miscellaneous	100.00
<u>Malaysia</u>			
Michelin Malaysia Sdn. Bhd.	Malaysia	Commercial	100.00
<u>New Zealand</u>			
M. Michelin & Company Limited	New Zealand	Commercial	100.00
<u>Singapore</u>			
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
<u>Taiwan</u>			
Michelin Chun Shin Ltd.	Taipei	Commercial	98.26
<u>Thailand</u>			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Siam Steel Cord Co., Ltd.	Rayong	Manufacturing	100.00
Siam Tyre Phra Pradaeng Co., Ltd.	Samutprakarn	Manufacturing	100.00
Thai Tyre Mould Co., Ltd.	Chonburi	Manufacturing	100.00
Michelin Aircraft Tire Asia Limited	Bangkok	Commercial	100.00
Michelin Research Asia (Thailand) Co., Ltd.	Bangkok	Miscellaneous	100.00
Michelin Siam Group Co., Ltd.	Bangkok	Financial	100.00
<u>Africa and the Middle East</u>			
<u>South Africa</u>			
Michelin Tyre Company South Africa (Proprietary) Limited	Johannesburg	Commercial	100.00
<u>Algeria</u>			
Michelin Algérie SPA	Algiers	Manufacturing & commercial	100.00
<u>Cameroon</u>			
Société Moderne du Pneumatique Camerounais	Douala	Commercial	100.00

Companies	Registered office	Nature	% of interest
Nigeria			
Michelin (Nigeria) Limited	Nigeria	Manufacturing	80.00
Michelin Tyre Services Company Ltd.	Nigeria	Commercial	60.28
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00

35.2. Companies consolidated using the equity method

Companies	Registered office	Country	% of interest
Innovations in Safety Systems	Drancy	France	50.00
Société Internationale de Plantations d'Hévéas	Courbevoie	France	20.00
EnTire Solutions, LLC	Wilmington	United States of America	50.00
RubberNetwork.com, LLC	Wilmington	United States of America	27.75
Michelin Tire Chiba HBKK	Chiba	Japan	37.50
Michelin Tire Fukushima HBKK	Fukushima	Japan	39.17
Michelin Tire Shizuoka HBKK	Shizuoka	Japan	35.00
Michelin Tire Yamanashi HBKK	Yamanashi	Japan	35.00
Global Run-Flat Systems Research, Development and Technology B.V.	Amsterdam	The Netherlands	50.00
MC Projects B.V.	Amsterdam	The Netherlands	50.00
Woco Michelin AVS B.V.	Amsterdam	The Netherlands	49.00
Sapphire Energy Recovery Limited	England and Wales	United Kingdom	25.00

BFGoodrich® **CHAMPION DU MONDE !**

1
Champion du Monde
des Constructeurs
WRC 2006

1
Champion du Monde
des Pilotes
WRC 2006

WRC
WORLD RALLY CHAMPIONSHIP

Pour sa première participation en WRC, BFGoodrich a frappé un grand coup. Aux côtés de nos partenaires, nous avons conquis le titre de Champion du Monde des Pilotes avec Sébastien Loeb, Daniel Elena et Kronos Total Citroën et celui des Constructeurs avec le BP Ford World Rally Team. Les pneus BFGoodrich prennent le contrôle sur tous les terrains.

BFGoodrich
TAKE CONTROL

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STRATEGY - ACQUISITIONS - PARTNERSHIPS

North America: BFGoodrich Tire Manufacturing to Optimize Industrial Operations

BFGoodrich Tire Manufacturing announced its decision to close its Kitchener, Ontario (Canada) plant due to over capacity on the "mass market" Passenger car tire segment that BFGoodrich serves in North America.

Production at the Kitchener factory was transferred to BFGoodrich Tire Manufacturing's US sites: Tuscaloosa and Opelika (Alabama) and Fort Wayne (Indiana).

Simultaneously, Michelin North America (Canada) Inc. launched a 6-year Michelin Development Program aimed at promoting job creation in the Waterloo-Kitchener region.



United States: Greenville to Boost Productivity

Michelin is investing USD 26 million to achieve a 20% productivity gain at its Greenville (South Carolina) Passenger car and Light truck tire production facility by 2008. The investment will introduce productivity-enhancing processes and equipment as part of the Group's strategy of "Strengthening the West".

United States: the US Army Awards Michelin Major Contracts

At the end of January 2007, Michelin was awarded a ten-year contract worth USD 1.7 billion by the US Department of Defense to equip its entire ground vehicle fleet worldwide (covering the Ground Forces, the Air Forces, the Navy and the Marines).

The order followed another major ten-year contract worth USD 700 million, previously awarded to Michelin for the US Armed Forces' aircraft tire supplies.

Michelin will also contribute its logistics expertise in order to streamline the supply of military tires to US troops at home and around the globe. Michelin is ready to step up as the one-source stop for all military tire needs.

Canada: Waterville to Increase Truck Tire Production Capacity

Michelin North America is investing CAD 92 million to install X One wide single truck tire (Michelin's alternative to dual mounted tires) production at its Waterville (Nova Scotia) plant. The expansion will double Michelin X One production capacity in North America to meet growing demand. When completed, the project will create 75 jobs and make Waterville Michelin's second largest Truck tire facility worldwide.



Europe: Next Generation Truck Tires in the Offing

By 2011, Michelin will invest EUR 400 million in France, Spain and Germany to deploy "Michelin Durable Technologies" across most of its Truck tire lines and produce more than 4 million new and retreaded tires benefiting from this revolutionary technology.

France: the Cholet and Bourges Plants to Specialize

Michelin will specialize the production at its Cholet and Bourges plants.

The Cholet facility will specialize in Light truck tire operations, boosting its production with the transfer of Light truck production from Bourges and with an additional EUR 23 million investment to raise annual capacity to 4 million tires in the mid-term, two thirds of which will be for foreign export.

The Bourges plant will become the Group's benchmark radial Aircraft tire production center worldwide. Michelin, which has already invested EUR 11 million in the Bourges facilities over the last 4 years, has earmarked an additional EUR 17 million to double its Aircraft tire production capacity. By 2008, Bourges will account for more than half of the Group's radial Aircraft tire production.

Nigeria: Tire Production Discontinued

Michelin Group has decided to discontinue tire production at its Port-Harcourt plant. The strategic decision was notified on January 16, 2007 to the Nigerian government with whom Michelin is looking for a buyer to take it over as soon as possible.

Partial lay-off measures already in place at the plant will be extended until May 2007. The Group intends to quickly introduce appropriate support measures for the employees concerned.

Sales operations and those in connection with the Nigerian plantations will be retained.

PRODUCTS, SERVICES AND INNOVATION

PASSENGER CAR / LIGHT TRUCK AND RELATED DISTRIBUTION

Michelin Alpin A3, a New Winter Tire Benchmark



The Michelin Alpin A3, a new winter tire, enjoyed a timely launch just before the season. Alpin A3 was designed with driver expectations for winter tires in mind, introducing two innovative winter tire technologies: "Helio Rubber Compound" which enhances braking and grip on wet pavement and "StabiliGrip" sipe bidirectional architecture to deliver even more traction and stability - which provides greater mobility and safety on snow. The Michelin Alpin A3 tire will deliver on average 40% longer tread life than main competitor tires and also features enhanced fuel efficiency. Michelin's new Alpin A3 tire was awarded "Highly recommended" rating by Germany's ADAC (Allgemeiner Deutscher Automobil Club) based on ADAC's comparative tests. The tests covered 19 different winter tire brands (185/60 R 14 size). ADAC testers' commented on the tire: "The new Michelin Alpin is flawless".

Michelin Primacy HP performed well in comparative tests.

In its latest comparative test, TÜV Süd, a German technical certification body, stated that Michelin Primacy HP (size 225/55R 16) truly sets new high performance standards: the new tire improves by at least 25% the mileage longevity of its closest competitor while delivering outstanding road handling. Primacy HP is available in 21 sizes from 16 to 18 inches, with speed ratings of up to 300km/h (Y). Three "runflat" versions marked ZP for zero pressure, are proposed. These versions will run up to 80 kilometers at 80km/h in the event of a puncture.



Michelin Rewarded by PSA Peugeot Citroën

PSA Peugeot Citroën awarded Michelin its Innovation Prize for its new Very Low Rolling Resistance tire.

The result of a 3-year partnership with the carmaker, the tire is more energy-efficient and helps to reduce CO2 emissions while maintaining the high longevity that is a well-known quality of the Michelin brand. In light of the commitment by the European Union Member States to reduce greenhouse gas emissions between 2008 and 2012 versus 1990 levels, the tire's fuel efficiency truly meets OEMs' expectations. In addition, it delivers 5% to 10% improved braking performance.



France: One Million Road Users Michelin OnWay Subscribers

One million of France's drivers have chosen Michelin's OnWay offering since the program's launch in 2003. Three services -- tire assistance, tire damage coverage and SOS directions -- are delivered to subscribers for a period of two years. Anyone purchasing at least two Michelin tires is eligible. Michelin OnWay subscribers anywhere in Europe can call Michelin's support team 24/7 and receive relevant information and assistance through the coverage.



China: Tire Repair Service in the Event of a Flat



After Europe, Michelin is planning to roll out a tire repair program in China over the next 2 years, under the "Sui Ni Xing" breakdown program. This features a 24/7 support service, free tire repair, towing and a quality guarantee. Since July 1st 2006, the Michelin Sui Ni Xing service has been available in 160 Chinese towns through more than 1,100 Michelin-certified dealers. In November 2006, the service won the Annual Marketing Innovation Award by South Urban News Magazine, which organizes an annual automotive industry Oscars event. The "Sui Ni Xing" communication campaign was also rewarded for its effectiveness, receiving the Effie Silver Award. Moreover, the Michelin brand was elected brand of the year by Auto Magazine, China's leading automotive newspaper.

Michelin Received Three New "J.D. Power and Associates Awards" in the United States

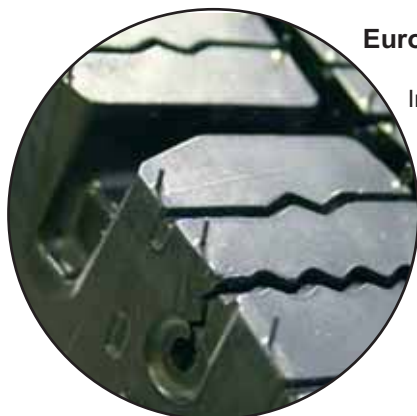
Michelin scored highest in the three segments of J.D. Power and Associates' customer satisfaction study for original equipment tires in the United States. Michelin's luxury/sport, pick-up/full-size van and SUV vehicle-based original equipment tires were all ranked first.

The total number of "J.D. Power Awards" won by Michelin in the United States now reaches 48 (75 worldwide), or four times as many as all the other tiremakers together.

TRUCK AND RELATED DISTRIBUTION

Europe: New Truck Tire Generation in the Offing

In summer 2006, Michelin unveiled a new generation of Truck tires featuring a tread design and Infinicoil architecture cluster of innovations. Thanks to self-regenerating treads, tires retain high grip capability even when worn. Benefits of "Michelin Durable Technologies" are therefore huge in terms of increased mileage, sustained tire performance, and, above all, safety and return on investment.





Michelin X One XDN 2 Grip tire was the very first application of "Michelin Durable Technologies". The new offering is designed for truck power axles. By enabling the replacement of dual tires by a single one, Michelin X One XDN 2 Grip tires substantially improve fuel efficiency and payload. They are available in the 495/45 R 22.5 dimension. The tire's revolutionary tread pattern achieved through "Michelin Durable Technologies" delivers top mileage and excellent grip in any weather.

In September 2006, five new "Michelin Durable Technologies" applications were showcased at the Hanover (Germany) International Motorshow (IAA):



- **Michelin X One MaxiTrailer**, specifically designed for trailers
- **Michelin X Energy 315/60 R 22.5 XF** (7.5 tonnes), the first "Michelin Durable Technologies" steer axle application in the Energy range
- **Michelin X Coach**, designed for bus power axles for use all year-round
- **Michelin X InCity** for enhanced safety and productivity of urban transportation
- **Michelin Remix XDN 2 Grip** following the introduction of the Michelin Remix retread offering for Michelin Durable Technology tire generations.

Michelin Renews International Contract with Volvo Group



On January 26, 2007, Michelin renewed a long-term global contract with the Volvo Group.

The initial global contract was signed in December 2003. Under the new contract, Michelin will offer truck tires as original equipment for vehicles assembled by Volvo in Europe, North America and South America under the tradenames Volvo Trucks, Volvo Buses, Renault Trucks and Mack Trucks.

Volvo's customers within the main long-haul and other truck ranges will be offered tires that benefit from Michelin Durable Technologies, making them safer and more cost effective for trucking companies.

Europe: Michelin Euro Assist Goes Further

Michelin Euro Assist now delivers breakdown services within 2 hours of a truck driver's call for help. And it will even refund the EUR 70 bill should the breakdown service arrive even one minute late. Drivers can call the **00 800 79 79 79 79** toll-free number in more than 20 European countries. Trucking fleets also have real-time access to relevant repair information on the **www.michelineuroassist.com** breakdown assistance website. Michelin Euro Assist is Europe's leading tire service, handling some 20,000 truck breakdown situations each year across Europe.

Michelin A2 Energy rises to the fuel efficiency challenge.

About 28.89 liters of fuel saved with Michelin A2 Energy truck tires over a 777-mile journey: this was the winning answer of the "riddle" competition organized by Michelin. Two Hanover-bound identical trucks started from Clermont-Ferrand (France) on September 25 to arrive on the following day. They had the same amount of fuel, the same load and were limited to 90km/h. Their only distinction was their tire fitments: one vehicle was fitted with Michelin E2+ and the other with Michelin A2 Energy low rolling resistance tires. Half-way down the road, the tires were switched between the two vehicles. Using the fuel flow meters installed on both trucks, the testers observed a 28.89-liter difference between the two tire types. The winner of the challenge received EUR 31,000 worth of fuel, the equivalent of a 40-ton truck's average annual fuel consumption.



SPECIALTY OPERATIONS

Earthmover

New Products Unveiled at the Intermat Show

Michelin showcased its new Earthmover tire products at Intermat (International civil engineering show) held in Paris in April 2006, including:

- **Michelin 445/95 R 25 X-Crane AT**, the first ever asymmetrical crane tire. Designed for self-propelled cranes, the tire combines all-terrain and road performance. With optimized carcass and tread pattern design, it establishes gradual ground contact that reduces vibrations while traveling on the road. It offers a 20% longevity improvement over Michelin's previous generation.



- **Michelin 23.5 R 25 X-Super Terrain AD**, designed for articulated dumpers operating on very rugged ground. The innovative rubber compound, new tread pattern, very sophisticated shoulder areas and tire sidewalls all contribute to dramatically improved resistance to damage and abrasions (up to +10%). With greater wear resistance and longevity, the tire posts productivity gains versus prior product generations.



Michelin Tweel, Intermat 2006 Innovation Gold Medallist



Intermat's board of experts awarded Michelin Tweel the Innovation gold medal for 2006. The award is in recognition of Michelin's contribution to improving productivity and safety in the civil engineering sector.

Michelin Tweel received two awards in 2005: Time Magazine had called it "One of the Most Amazing Inventions of 2005" and Science magazine gave it the "Best of What's New Award" in the Automotive Technology Category.

Agricultural

2006 New Product Launches

Michelin MultiBib, the new wide tire for 80 - 200 hp tractors piles up performance records.

In the fields, it improves productivity owing to enhanced traction efficiency, especially on damp soil.

The new tire can be inflated to a lower pressure than other 65-series tires (about 0.2 bar less) and so delivers **better soil protection** thus reducing rutting and improving agronomic yield and fuel efficiency.

With a general trend to on-road driving, MultiBib also delivers **35% longer service life** than the previous tire generation, thanks to a new lug shape and rubber compound.

Last but not least, MultiBib is the most **comfortable** tire in its category while **enhancing safety** due to flawless road holding.



Michelin XMCL, a new tire specially designed for "Compact Line" loaders such as backhoes for civil engineering applications, telescopic handlers for construction and agricultural applications delivers significant productivity gains.

Its key benefit versus the previous tire generation is up to 46% longer service life and perforation resistance up to 10%. In construction applications, other key benefits are increased load bearing capacity and more precise maneuvers. In farming applications, its new architecture lends it exceptional traction affording efficiency gains and excellent stability to guarantee safety.

The new **Taurus POINT 70** tires, specially designed for mid-range power units used in the field and breeding applications deliver multiple benefits to farmers.

They deliver improved wet traction thanks to a 10% wider footprint versus the standard series range. Such maximized contact area reduces rutting and, as a result, helps preserve soil and agricultural yield potential. Taurus POINT 70's robustness and load-bearing capacity enable it to bear heavier loads than the standard range.

Two-wheel

Launch of Michelin Pilot Power 2CT Motorcycle Tire

In February 2006, Michelin presented Pilot Power 2CT to an international group of 45 journalists during the trial laps of the Moto GP circuit at Sepang in Malaysia. World Champions Valentino Rossi and Colin Edwards were in attendance.

This followed the introduction in 2005 of the Michelin Power Race, the first pavement application of dual-rubber technology, designed for racing circuits. With Michelin Pilot Power 2CT sports, road motorcycle fans will be able to mount dual rubber tires on their bikes.

The tread of the Michelin Power 2CT features two types of rubber: stiff in the middle to take extreme stress due to speed, acceleration and braking; soft at the edges to deliver optimum grip when cornering.

Pilot Power 2CT is now available in Europe, Japan, South America and the United States.

Michelin Pilot Power 2CT was elected Product of the Year by MCN, the UK's leading motorcycle magazine.



Michelin selected by Harley-Davidson as certified supplier



Michelin was selected by Harley-Davidson as a certified supplier of replacement tires for its motorcycles. Beginning mid-year 2007, Michelin motorcycle tires will be available at Harley-Davidson dealerships in North America.

Bicycle:

Michelin Pro2 Race Service Course Available to both Professionals and the Public

World First: Michelin decided to distribute a limited edition (30,000 tires) of its latest Michelin Pro2 Race Service Course bicycle competition tire from the first UCI Pro Tour races of the 2006 season. The limited series tires were manufactured only once and available for competition and commercial applications alike. Michelin Pro2 Race Service Course delivers market-leading performance features through a combination of wet grip, low rolling resistance, puncture protection and mere 205g mass!

In 2007, Michelin Speedium2 and Michelin Erilium2, two new road tires, are being added to the range.

Aircraft

2006: Michelin AIR X®, the aircraft radial tire celebrates its 25th anniversary year.

Michelin developed the first radial aircraft for the Dassault Mirage III fighter aircraft in 1981, and the first commercial application for Airbus A300 in 1983. Convinced by its cost-effectiveness (fuel efficiency, more landings per tread, low direct maintenance costs) and reliability (overload capability, improved cut resistance), Boeing in turn adopted the radial technology for its Boeing 777 in 1995. Found today in all markets (commercial and military, general and regional), Michelin's radial aircraft tire range includes 65 sizes. Future prospects for radial tires are bright for new aircraft development.

Michelin receives Cessna's Leading Edge Award

Cessna Aircraft Company recently gave its Leading Edge Award to Michelin. The award is in recognition for the close collaboration between both companies, especially Michelin's support in finding a solution to a problem which arose during the testing phase of a new aircraft. The result was that Michelin Aircraft Tire Company produced substantial savings for Cessna by avoiding tire waste during aircraft flight tests.



MICHELIN Maps and Guides

Michelin's Green Guide Collection Rejuvenated

Celebrating its 80th anniversary in 2006, the Green Guide collection was expanded and rejuvenated to remain the clear benchmark guide for each destination. In addition to traditional information-rich content, such as colourful tourist maps, a hotel address book, B&B, inns, etc., the overall layout was revamped to enhance clarity with new icons and useful information including tips for every member of the family. The cover was also redesigned and enriched with attractive visuals and summary contents information.

The collection has been extended with 5 new titles: Pays Basque (The Basque country), *Moscow-Saint Petersburg*, *Poland*, *The most beautiful islands off the French coast*, and *France sauvage* (pristine landscapes of France).

In 2006, the MICHELIN Green Guide Brittany celebrated its 80th anniversary and the Green Guide Paris, Michelin's first guide dedicated to a city, celebrated its 60th anniversary.

The First Tourist Guides in Chinese

On April 6 in Beijing, Michelin announced the launch of its first travel guide to Europe in Chinese. The Guide was produced by a Franco-Chinese team in partnership with Guangxi Normal University Press. The guide features the Chinese tourists' 12 favorite European countries: Austria, Belgium, France, Germany, Italy, Luxemburg, Monaco, Spain, Switzerland, the Netherlands, the United Kingdom and the Vatican.



In October, Michelin launched the first Green Guide France in Chinese, a selection of 42 of France's most visited towns and tourist spots. Intended for a broad public and tailored to Chinese tourists' needs, the Guide is packed with cultural information and useful tips.

Michelin's short-term aim is to propose a quality catalogue of outstanding tourist guides targeted to a wide Chinese-speaking public. In 2007, guides dedicated respectively to Italy, Spain, Germany and the United Kingdom will be added to the guides published in Chinese.

In Poland, under a copyright transfer agreement with publisher Bezdroza, six Green Guides were launched in Polish.

MICHELIN Hotel and Restaurant Guides Booming

For its 25th edition, the **MICHELIN Guide Main Cities of Europe** was revamped. Written in English, the Guide is chiefly designed for traveling professionals and tourists visiting Europe's largest towns. The Guide features 1,520 hotels and 1,300 restaurants in the 37 largest towns across 20 countries (some like the Czech Republic, Hungary and Finland are not covered by a dedicated guide). The Main Cities of Europe Guide includes new sections and a host of practical information, and for each town, a map that pinpoints the selected restaurants.

The *MICHELIN Guide New York City 2006* was awarded the "World's Best" award of the Gourmand World Cookbook Awards in the "Restaurant Guide" category. The *MICHELIN Guide New York City*, which was Michelin's first guide for the United States, features some 500 restaurants (39 of which are star-rated) across New York's five boroughs and 50 hotels in Manhattan. As demonstrated by hundreds of press articles referring to it worldwide, Americans and foreign tourists alike appreciated the Guide. In October 2006 the second edition of the Michelin Guide New York City was released.



The first Michelin guide dedicated to a West Coast city, the *MICHELIN Guide San Francisco, Bay Area & Wine Country 2007* was launched in the United States on October 2, 2006. It features a selection of 60 hotels and 356 restaurants in San Francisco, Oakland, San Jose, Berkeley, Sausalito and the wine growing regions of Napa and Sonoma. Using the same format as the *MICHELIN Guide New York City*, restaurants are listed in alphabetic order and by type of cuisine.

In 2006 the *Michelin Guide Italy* celebrated its fiftieth anniversary. To mark the event, the Barilla Academy hosted 226 star-rated chefs at its Parma head office on March 20, 2006. The Academy, Michelin and the starred chefs all signed a charter reiterating their commitment to promoting fine Italian cuisine.

ViaMichelin

ViaMichelin Enriches its Portable Navigation Offering in Europe



In 2006, ViaMichelin expanded its GPS portable navigation range to deliver tailor-made solutions for all types of user needs. Following the ViaMichelin Navigation X-950 and X-950T series, ViaMichelin launched in October its new ViaMichelin Navigation X-980T Europe model. Fitted with a wide screen, this portable GPS provides a hands free car kit enabling call reception by clicking the screen and "text-to-speech" announcement of street names. The model includes maps for 20 European countries, real-time traffic information, Michelin guide hotels and restaurants plus tourist information from the Michelin Green Guides.

ViaMichelin: Europe's Leading Travel Website

The www.ViaMichelin.com website keeps beating records, with more than 1 million daily hits. According to a study by the Nielsen NetRatings* institute, the site is Europe's most popular travel website. In addition to the route calculation service, the site's core offering, on-line hotel reservations and the magazine, are also widely used.

* Source: Nielsen/Net Ratings, Mediametrie/NetRatings - Category: Travel - Home&Work panel for Italy, France, Germany and the UK - Home panel for Spain - Include Internet Applications.

Michelin Lifestyle

Europe: Expansion of Michelin's Car Care Range in Europe

A new range of Michelin car care products was launched in Europe as part of Michelin Lifestyle's automotive accessories collection. The extensive range features products that promote safety, simplicity and efficiency. The car care products, which offer the additional benefit of being totally safe for the environment include: cleaners for tires and wheels (tire shine and brake dust repellent), bodywork (shampoo and polish), the interior (plastic and fabric cleaner), glass and windscreen (better visibility while driving), and a fine hand cleaner product.

In the fall of 2006, a new range of snow chains was launched, distributed under license by Impex. This features two chain types: "Extreme Grip Automatic" steel chains and "Easy Grip" composite chains. Both are quick and easy to fit: respectively requiring 3 and 2 minutes for installation.

RACING

The Michelin brand garners more World Champion titles.

2006 was once again highly successful for Michelin which won World Championship titles in all the main disciplines it embraced: Formula 1 with Renault F1 Team and Fernando Alonso for the second year in a row; MotoGP with Repsol Honda Team RC211V and Nicky Hayden; Le Mans 24 hours race for the fifteenth time (with Audi); American Le Mans Series; Le Mans Series and VTT World Championship, to name but a few.

On November 20, 2006 Michelin launched an advertising campaign in ten countries to celebrate its World Championship titles. A website was created for this event: <http://www.michelin.com/worldchampion>



BFGoodrich Wins All

For its first World Rally Championship season, the BFGoodrich brand won all 16 victories in 16 rallies plus the Drivers' World Champion title with Sébastien Loeb and Carmakers' title with BP-Ford WRT.

COMMUNICATION

Bibendum at the Heart of Michelin's European Advertising



After several years' absence, Bibendum returned to the central place in Michelin's advertising through a multimedia campaign launched at the end of January 2006 that lasted throughout the year. Graphic art design now represents Bibendum in 3D with a more human shape. He has become the Group's ideal spokesman who explains the individual benefits of Michelin tires and services as well as the collective benefits for society at large.

The campaign underpins the Group's corporate baseline "Michelin, a better way forward", launched in May 2004. It highlights Michelin's commitment to better mobility and efficient, responsible development of its operations.

MICHELIN PERFORMANCE AND RESPONSIBILITY

2005 Michelin Performance and Responsibility Report Update

Following the 2003 - 2004 Michelin Performance and Responsibility Report, Michelin published the 2005 Michelin Performance and Responsibility Report Update* in May 2006.

In 2005, particular progress was noted in Michelin's contribution to sustainable mobility, responsible performance of products and services, quality of work life, diversity, community relations, company risk management, environmental management, environmental impact of tire use and use and recycling of end-of-life tires.

* This document can be downloaded from: www.michelin.com, go to "Sustainable Mobility" or "Finance".

Climate Leadership Index: Michelin recognized for its management of the greenhouse gas effect issue.

On October 3, 2006, Michelin was selected for the Climate Leadership Index for its management of risks and opportunities in relation to greenhouse gas effect. The index was established by the Carbon Disclosure Project, bringing together 225 institutional investors that represent USD 31 trillion worth of funds under management.

The Climate Leadership Index recognizes companies deemed to have offered the most pertinent and thorough responses based on the following criteria:

- corporate strategic vision and risk and/or opportunity perception,
- management commitment and organization,
- greenhouse gas emission reporting,
- greenhouse gas effect emission reduction programs in place.

OUR CONTRIBUTION TO MORE SUSTAINABLE MOBILITY

Challenge Bibendum 2006

As a prelude to the eighth Challenge Bibendum, Michelin published the results of a study on sustainable road mobility* which was carried out in partnership with the opinion survey institute LH2 in 5 countries: China, France, Germany, Japan and the United States:

- fewer than 20% of people interviewed had heard about sustainable road mobility,
- for 1 person out of 2 interviewed, sustainable road mobility is above all more respectful of the environment.

* The full study is available on request from Michelin's Press Department, tel: +33 1 45 66 22 22

Challenge Bibendum 2006 was held in Paris from June 8 to June 12. It was dedicated to Edouard Michelin, who since 1998, had supported this unique event entirely devoted to sustainable road mobility. More than 2,500 participants representing about 100 organizations (industry, institutions, NGOs ...) were present and were able to test the 150 vehicles that came for the Challenge. Additionally, participants attended demonstrations, visited the technical exhibition center and fuel/energy stations and attended the presentations of the conclusions of round tables held on the three main sustainable mobility themes: the energy challenge for tomorrow's road transport, advanced technologies at the service of increasingly urban road mobility, and the role played by technology in the field of road safety.



Paris Auto Show: Michelin and Correct Tire Pressure

The highly successful Paris Auto Show which was held from September 30 to October 15, 2006 was a great opportunity for Michelin to raise public awareness of the need to monitor correct tire pressure. Because correct tire pressure is key to both road user safety and fuel efficiency, the stakes of the campaign are high. Michelin installed a driving simulator on its booth and used a Citroën C2 articulated under hydraulic jacks. The demonstration allowed participants to experience the under-inflation hazard in highly realistic driving accident situations.

Correct tire pressure is a priority focus for Michelin's communications and actions.

MICHELIN AND ITS SHAREHOLDERS

Shareholders Meeting of May 12, 2006: Retirement of René Zingraff

The Joint Shareholders Meeting was held on May 12, 2006 at Clermont-Ferrand on first call with 1,650 Shareholders attending under the chairmanship of Edouard Michelin, who subsequently died accidentally on May 26. The retirement of René Zingraff was emotionally charged after his forty years of dedicated service to Michelin, of which twenty years were in his capacity as Joint Managing Partner. Mr Edouard Michelin described his career within the Group and paid a warm tribute to his closest colleague.



First Edition of the *Shareholder's Guide*

Michelin Group is committed to ever closer Shareholder relations. 2006 saw the publication of Michelin's first Shareholder's Guide, which was distributed at the Annual Shareholders Meeting. Featuring an original format, it was designed to meet individual Shareholders' needs for straightforward and practical content. The Guide provides information on Group operations, basic values and financial performance, the Individual Shareholder Relations Department, the Michelin share and the role played by Shareholders.

Michelin's Shareholder Services Rewarded by *Journal des Finances*

In June 2006, Michelin was awarded Journal des Finances' 3rd prize based on the newspaper's 2006 annual survey of CAC 40 index companies for quality of shareholder service.

A number of survey criteria were used to measure the relative usefulness of services offered to individual shareholders, including: portfolio management costs, brokerage fees, efficiency and reactivity of shareholder-dedicated hotlines, website user-friendliness, quality and availability of information, etc.

Michelin's Website Rewarded by Boursoscan

Michelin's website came second in the Financial Communication category of the sixth Boursoscan Grand Prix, whose results were published in June 2006. This year, the Online Financial Communication evaluation criteria for listed companies were more stringent. In all, 96 websites were rated this year with 7,000 Boursorama net surfers participating.

FINANCE

France: Michelin sold its stake in Peugeot SA.

Michelin Group sold the balance of its Peugeot SA holdings, held through its Pardevi subsidiary. The transaction, which amounted to EUR 139 million, involved 2,826,000 shares accounting for 1.20% of Peugeot SA's (PSA) capital. The net capital gain after tax, recorded in 2006 accounts, amounted to EUR 105 million.

Price increases

In order to offset continued raw material price increases, since November 2005, Michelin announced a number of price increases for 2006 and early 2007:

Passenger Car and Light Truck	Truck	Specialty Tires
<ul style="list-style-type: none"> • Up to 8% for RT from Feb 1, 2006 in the USA and March 1 in Canada • + 5% on average in Japan for Michelin and BFGoodrich brands, effective Feb 1, 2006 • Up to 3.5% in Europe, effective 1st half 2006 • Up to 5% in the United States (RT) from Aug 1, 2006 • + 3% in the United States effective Oct 2, 2006 • + 6 - 8% on average in Original equipment, effective Oct 1, 2006 • + 5.5% on average in Japan for summer tires, effective Feb 1, 2007 • + 5.5% in Japan for winter tires (Rt) effective Apr. 1, 2007 	<ul style="list-style-type: none"> • + 4-7% in the United States (RT), effective Feb 1, 2006 • + 7% on average in Japan for the Michelin brand, effective Feb 1, 2006 • up to 4% in Europe, effective 1st half 2006 • Up to 5% in the United States (RT), effective Aug 1, 2006 for the Michelin and BFGoodrich brands • 4% for retreaded products sold by Michelin Retread Technologies in the United States, effective June 1 2006 • 3 - 5% for new and retreaded products, in Europe, effective as of summer 2006 • +8% on average in Japan for summer tires, effective April 1, 2007 • +8% in Japan for winter tires (Rt) effective Apr.1, 2007 • from 3% to 5% in Europe (Rt) during the first quarter of 2007 	<ul style="list-style-type: none"> • + 8% on average for Michelin-branded RT Earthmover in NA, effective Jan 1, 2006 • + 10% for Earthmover in Japan, effective Feb 1, 2006 • Up to 6% for Earthmover in Europe, effective as of end December 2005 • + 3 - 7% on average for Agricultural (RT) in NA effective Jan 1, 2006 and up to 4% in Europe effective first-half 2006 • + 6% for Aircraft, effective Jan 1, 2006 • 4% for Earthmover tires (RT) in the United States, Canada and Mexico, effective July 2006 • 2.5% on average (RT) in Canada and the United States, effective July 1, 2006 • Between 3% and 5% for Earthmover tires in Europe, effective as of Summer 2006 • + 4% - 6% on average for Michelin 2-wheel tires in the United States and Canada, effective Sept 1, 2006 • Up to 6% for Earthmover and mining tires (RT) North America, effective Dec 1, 2006 • +10% on average for Earthmover tires in Japan, effective Jan 1, 2007 • +3% on average for Agricultural tires in Japan, effective Jan 1, 2007 • +3,5% - 6% for Agricultural tires in the United States and Canada, effective Jan 1, 2007 • + 2 to 4% in Europe, for motorcycle tires during the first half 2007

Standard & Poor's and Moody's revised Michelin's rating downwards

On August 3, 2006, Standard & Poor's lowered Compagnie Générale des Etablissements Michelin's and Compagnie Financière Michelin's long and short-term ratings to BBB (LT) and A-3 (ST) respectively, with a "negative outlook".

On October 6, 2006, Moody's in turned revised its Michelin ratings downwards. Compagnie Générale des Etablissements Michelin's rating was changed to Baa3 (LT) and P-3 (ST), while Compagnie Financière Michelin's rating was moved from Baa2 (LT) to P-2 (ST), both with a "stable outlook".

United States: Michelin announced changes to its Retirement Plan

To help manage its long-term obligations, strengthen its position in an increasingly competitive business environment and continue to deliver excellent retirement benefits to its employees, on October 30, 2006, Michelin announced that it will make the following changes to its retirement plans for all active, union-free employees in the United States:

- On January 1, 2017, all Michelin employees will participate in a defined contribution plan. As a result, no Michelin employee will accrue additional pension benefits in the current defined benefit plan beyond December 31, 2016.
- The company will open a retirement choice window in the second quarter of 2007 to provide eligible employees the opportunity to evaluate whether to begin participation in 2007 in the defined contribution plan (which was opened in 2004 and currently enlists 50% of active employees) instead of waiting until they are automatically enrolled in the DC plan on January 1, 2017.