2017 REGISTRATION DOCUMENT

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

2017 REGISTRATION DOCUMENT

The original French version of this Registration Document was filed with the Autorité des marchés financiers (AMF) on March 9, 2018, in accordance with the provisions of Article 212-13 of the General Regulation of the AMF. It may be used in connection with an Information Memorandum approved by the Autorité des marchés financiers. It was prepared by the issuer and is the responsibility of the person whose signature appears therein.

Jean-Dominique Senard

Chief Executive Officer

HOW WOULD YOU DESCRIBE 2017?

We delivered a robust performance, in line with our 2020 objectives, in a more challenging environment shaped by the impact of raw materials prices and aggressive competition, particularly in Europe. This underscores our ability to meet customer demand more effectively, thanks to our more responsive sales and production processes. I would like to thank all of our teams for making this possible.

Volumes rose by 2.6% over the year, with gains in all our business lines, starting with MICHELIN brand 18-inch and larger tires, whose sales rose 19% in a market up 13%, and the specialty businesses, where volumes increased by 16%. Operating margin on recurring activities came to 12.5% of net sales. It proved highly resilient in the face of rising raw materials prices, whose €738 million impact was almost entirely offset by efficient pricing management.

Our competitiveness plans also delivered their benefits during the year. We are targeting €1.2 billion by 2020 and realized savings of €315 million in 2017, which more than offset the increase in overheads and production costs.

We generated very strong available cash flow, with structural free cash flow totaling €1.5 billion. This meant that we could invest in growth, flexibility and competitiveness, while maintaining a very robust balance sheet, with net debt representing 6% of equity compared with 9% a year earlier.

Net income rose to a historic high of €1.69 billion, enabling us to recommend that shareholders at the Annual Meeting on May 18, 2018 approve the payment of a dividend of €3.55 per share, compared with €3.25 last year. This would represent a payout of 36% of our net income excluding non-recurring items.

In 2017, the Group pursued its strategic acquisitions, particularly in such areas as services, with the purchase of NexTraq, experiences, with the partnership with Robert Parker Wine Advocate, and materials, with the acquisition of Lehigh Technologies.

In line with the commitments made to shareholders, we bought back €101 million worth of Michelin shares in 2017 and canceled 0.5% of the Company's capital stock. In 2018, we plan to carry out a new employee share issue and a €75 million share buyback program to offset the dilutive impact of share-based compensation.

"NOT ONLY DO OUR CUSTOMERS TRUST THE MICHELIN BRAND, WE ALSO ENJOY THE BENEFITS OF A HIGH-QUALITY, CONSTANTLY ENRICHED PRODUCT LINE-UP, MORE AGILE PRODUCTION CAPABILITIES AND A GLOBAL FOOTPRINT WITH BROAD MARKET ACCESS"

HOW DO YOU EXPLAIN SUCH HISTORIC EARNINGS IN AN AGGRESSIVELY COMPETITIVE, HIGHLY VOLATILE MARKETPLACE?

Not only do our customers trust the MICHELIN brand, we also enjoy the benefits of a high-quality, constantly enriched product line-up, more agile production capabilities and a global footprint with broad market access that we are enlarging every chance we get. You can see this in a transaction announced in early 2018. In North America, we joined with Sumitomo to create the second largest tire wholesaler in the United States and Mexico by folding our wholesale and retail operations into a 50/50 joint venture called TBC Corporation[(1)].

Michelin's strength is to be present in every tire market around the world, so that we can capture growth wherever it may be.

Last but far from least, technological innovation has been a fantastic engine driving faster growth. In every business line, we successfully introduced new, best-selling products, such as the MICHELIN Cross Climate +, the MICHELIN Pilot Sport 4S and the MICHELIN Defender car tires, the MICHELIN X Multi, the MICHELIN XGuard and the BFGoodrich truck tire lines, and the MICHELIN XDR3 mining tires. We also developed solutions that were eagerly embraced by customers, notably Tire Care and the services offered by Michelin solutions.

Technological innovation is the best way to shield our margins from the threat of rising raw materials costs. Customers will accept higher prices as long as our tires and solutions deliver more benefits.

As we envision a world of scarcer resources and tighter environmental standards, technological innovation gives us the resources we need to meet these challenges with peace of mind.

YOU HAVE DEPLOYED A NEW ORGANIZATION. WHAT ARE THE EXPECTED BENEFITS?

We expect it to drive faster growth and make us more agile and competitive by aligning our operating procedures with the emerging expectations of our customers and employees. The goal is to improve customer satisfaction, increase team empowerment, simplify operating procedures and speed up the Group's digitalization. Our new organization is bringing us closer to our customers and getting our employees more engaged in our decision-making processes.

Fourteen Business Lines have been tasked with preparing solutions for carefully defined customer segments. Ten new Regions are responsible for increasing sales and managing customer relationships. Eight Operating Departments are providing expertise and support.

The Corporate Unit has been streamlined, with a leaner management structure and corporate departments refocused on their strategic missions.

This organization is going to free up our energies, stimulate our collective intelligence and give us the ability to take initiative and the room to maneuver that are so critical in our volatile, uncertain, complex business environment.

(1) TBC Corporation represents more than 100 wholesale distribution centers, 2,400 retail locations, 31 million tires sold and $3.2 billion in net sales in 2016.

YOU HAVE ALSO ANNOUNCED THAT YOU ARE PREPARING YOUR SUCCESSION, EVEN THOUGH YOUR TERM RUNS UNTIL 2019. ISN'T THAT PREMATURE?

I've been leading the Group since 2012, and my term as Chief Executive Officer will end after the 2019 Annual Meeting. It is my duty to prepare for the future, calmly and peacefully, with Michelin's governance. A year of transition is not too long for a smooth hand-off. That's what I had from Michel Rollier, so I know how useful and important it is.

After several months of a demanding, in-depth selection process, Michelin's governance unanimously chose Florent Menegaux, who is perfectly qualified to take over from me.

Florent has been working for the Group for more than twenty years. He has held a wide variety of positions in several geographies and business lines, so he knows Michelin inside and out. Since he was appointed Chief Operating Officer in 2016, we've been working closely together and I've been able to appreciate both his strategic vision and his personal qualities.

"AFTER SEVERAL MONTHS OF A DEMANDING, IN-DEPTH SELECTION PROCESS, MICHELIN'S GOVERNANCE UNANIMOUSLY CHOSE FLORENT MENEGAUX."

At the next Annual Meeting, shareholders will be asked to elect Florent Menegaux as General Managing Partner and Yves Chapot as Managing Partner to assist him. Of course, I'll still lead the Group, exercising all of my responsibilities until the end of the 2019 Annual Meeting.

WHAT IS THE GROUP'S OUTLOOK FOR 2018?

We have now confidently begun a new year of further gains in line with our 2020 targets of structural free cash flow of more than €1.4 billion and an after-tax ROCE before goodwill of at least 15%.

We expect to see moderate growth in demand for car, light truck and truck tires and robust growth in the mining tire and original equipment agricultural and earthmover tire markets.

The increase in raw materials costs should ease, to an impact of between €50 million and €100 million, but the currency effect will worsen, to an impact of around €300 million based on January 2018 exchange rates.

In this environment, we expect to see sales volumes grow in line with global market trends, an increase in operating income from recurring activities excluding the currency effect, and the generation of more than €1.1 billion in structural free cash flow.

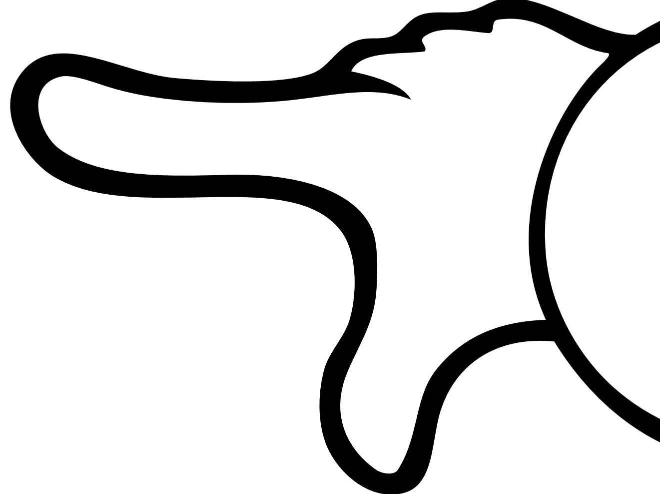
The strength of our strategy is to serve a meaningful corporate mission, which is to lead the way in sustainable mobility, with a commitment to driving growth and value creation in four areas: tires, services, experiences and technological materials.

We will continue to seize acquisition opportunities capable of fulfilling our growth and value creation objectives, and we will remain actively committed to enabling safe, high-performance mobility that is also resource, energy and carbon efficient.

IN MAY 2018, IN MONTREAL, YOU'RE ORGANIZING THE SECOND EDITION OF MOVIN'ON, THE GLOBAL SUMMIT FOR SUSTAINABLE MOBILITY. WHAT IS THE THEME THIS YEAR?

The transportation industry is one of the biggest sources of carbon emissions. Crumbling infrastructure, urban sprawl and the resulting traffic congestion are all challenges in an increasingly urbanized world. The theme for 2018 is how to bring global, smart, sustainable and multimodal mobility to life.

More than 4,000 leaders from academia, politics, business, cities and start-ups will collaborate to devise real-world solutions to bring sustainable mobility to life and transform ambition into action.



1

MICHELIN AT A GLANCE

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OFFERING EVERYONE A BETTER WAY FORWARD

Because we believe that mobility is essential for human development, we are innovating passionately to make it safer, more efficient and more environmentally friendly. Our priority and firm commitment is to offer our customers uncompromising quality.

Because we believe that all of us deserve personal fulfillment, we want to enable everyone to do his or her best, and to make our differences a valuable asset.

Proud of our values of respect for customers, people, shareholders, the environment and facts, we are all sharing the adventure of better mobility for everyone.

Today, Michelin is setting the standard across every tire and travel-related services market, while leading a global strategy to drive sustainable, profitable growth.

In 2017, it once again demonstrated its ability to structurally generate cash flow and create value.

- 114,100 employees (107,800 full-time equivalents).
- Net sales: €21.9 billion; operating income from recurring activities: €2.7 billion.
- 70 production facilities in 17 countries.
- Marketing operations in 170 countries, 14.0% of the global tire market[(1)].

During the year, the Group also continued to work toward achieving its ambitions for 2020, which combine performance and responsibility.

1.1 AMBITIONS FOR 2020

Michelin is stepping up the pace of expansion to harness the vibrant growth in new markets and the expected increase in demand for more environmentally friendly tires – an area in which it is the world leader[(2)].

It is melding performance and responsibility to embark on a new phase of dynamic growth while helping to foster sustainable road mobility.

1.1.1 MEETING TOMORROW'S MOBILITY CHALLENGES

In today's increasingly open world, freight transport is constantly on the rise, while people want to travel more often and more safely. The number of vehicles on the road could double by 2030, to more than 1.5 billion. At the same time, the automotive industry is undergoing a profound mutation to address the challenges of dwindling fossil fuels, climate change, environmental protection and urbanization (more than 60% of the projected 8.2 billion people on the planet in 2030 will live in cities). The challenge is to develop safer, cleaner, more fuel-efficient and more sustainable road mobility solutions that make the most of information technologies.

1.1.1 a) Safer mobility

Every year, 1.3 million people are killed and 50 million are injured in traffic accidents, which are the leading cause of mortality among young people. The statistics are particularly dramatic in developing nations.

1.1.1 b) Cleaner mobility

Road transportation accounts for 18% of all fossil-based CO_2 emissions caused by human activity, with tires representing 4% from the fuel burned to overcome their rolling resistance. This is roughly the equivalent of one full tank out of every five for a car and one out of three for a truck. To limit the average increase in global temperatures to 2°C by 2100[(3)], CO_2 emissions must be halved by 2050[(4)], even though the number of vehicles on the road and total distances driven are expected to double by that time.

Congestion, noise and pollution also pose a threat to quality of life in big cities around the world.

1.1.1 c) More fuel-efficient, cost-effective mobility

More than 60% of the world's oil output is used in transportation. Increasingly rare, oil is a major geo-strategic challenge, as are other non-renewable energy sources and raw materials. In 2017, the cost of raw materials used in production represented 24% of Michelin's net sales. Optimizing their use is essential to conserve these resources over the long term and keep tires affordable. The challenge is to do so while offering users the highest performance on the market today.

(1) Source: Tire Business, August 2017.

(2) Source: Group estimate.

(3) Compared with the pre-industrial era.

(4) Compared with 2008.

1.1.1 d) Connected mobility

Mobility today is a way of connecting people and goods. It not only includes locating and organizing their movement and transmitting technical data to anticipate maintenance but also connecting users with services and leisure facilities.

1.1.1 e) More sustainable mobility

At a time when urban areas are expanding rapidly and demand is rising for easier, healthier and more accessible forms of mobility, particularly in cities, where the greatest economic, social and environmental challenges lie, the issue is to move beyond day-to-day management and invent real, positive mobility experiences for people and goods.

1.1.2 BEING BOTH A LEADER IN SUSTAINABLE MOBILITY AND ONE OF THE WORLD'S MOST INNOVATIVE, RESPONSIBLE AND HIGH-PERFORMANCE COMPANIES

In its drive to be both a high-performance and responsible company, in 2013, Michelin defined six ambitions for 2020, backed by quantifiable targets. These ambitions for 2020 have been expressed by commitments in the areas of financial performance, social responsibility and environmental stewardship. Each one is firmly focused on measurable performance and aligned with the Group's strategy. Deployed across the organization, these six ambitions for 2020 are designed to make Michelin a global leader in sustainable mobility and one of the world's most innovative, responsible and high-performance companies in fulfilling its financial, environmental and social responsibility commitments.

As a signatory of the United Nations (UN) Global Compact and an official partner of the COP21 climate conference held in Paris in November 2015, Michelin has taken advantage of the opportunity to reaffirm its commitment to sustainable development. The Group is working to reduce its carbon footprint, including its tires' footprint in use, by 20% before 2030, while also halving the CO_2 emissions from its plants by 2050 by shifting to renewable energies. In addition, Michelin has also undertaken ambitious programs to plant rubber trees in designated areas, while also restoring the equivalent amount of native forest.

1. Continuously improve customer satisfaction
- Ensure that by 2020, all of the targeted customer groups deliver Net Promoter Scores (NPSs) in line with the Group's objective.

2. Demonstrate our commitment to the well-being and development of our employees
- Achieve and maintain an 85% employee engagement rate for the entire Group.
- Further improve safety performance and achieve a Total Case Incident Rate (TCIR) of less than 2 for the entire Group.
- Ensure that 75% of all management positions are held by employees who come from within the Company, reflecting our ever-increasing diversity.
- Increase the percentage of women in all management[(1)] positions to 30%.
- Increase the percentage of local top managers in growth regions to 80%.

3. Secure robust financial performance
- Deliver €1.4 billion in structural free cash flow per year as from 2020.
- Achieve, as from 2020, at least a 15% return on capital employed (ROCE) after tax and at constant scope of consolidation, excluding goodwill.

4. Innovate to widen our lead in product and service performance
- Improve the overall performance of our products by at least 10% compared with 2010, while using less raw materials in their production.
- Save 3 billion liters of fuel over the lifespan of our tires and avoid releasing 8 million tonnes of CO_2 compared with 2010 thanks to product improvements.
- Contribute to the development of a circular economy by increasing the percentage of renewable or recycled materials in our tires to 30%.

5. Set the industry standard for responsible manufacturing
- Reduce the environmental impact of our sites, as measured by the Michelin Environmental Footprint (MEF) indicator, by 50%, notably by improving our energy efficiency by 38% in relation to 2005.
- Develop a responsible supply chain and reduce its CO_2 emissions by 10%.
- Assess the sustainable development performance of the Group's top 400 suppliers and provide encouragement and support so that 70% of them are confirmed as compliant with Michelin standards.

6. Contribute to the development of our host communities and support sustainable mobility
- Deploy a local community engagement program in every plant, in line with the 2013 guidelines.
- Encourage employee involvement in initiatives that support the local community by donating 30,000 working days per year.
- Contribute to local employment through Michelin Development, with the creation of 2,000 jobs per year.
- Reinforce our advocacy of road safety, with a strong focus on driver education in emerging countries.
- Promote energy-efficient, low-emissions mobility, particularly in cities.

Integrated into every project and cascaded to every team, these ambitions for 2020 express Michelin's commitment to building growth over the long term and helping to address societal challenges by putting its values of respect into practice.

(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.

1.1.3 CREATING VALUE IN FOUR AREAS

At Michelin, our corporate mission – "offering everyone a better way forward" – is what brings us all together, by making what we do every day meaningful and important. It also informs our strategic vision, which focuses on sustainably enhancing the mobility of our customers and fulfilling the ambitions of our Michelin Performance and Responsibility process. It is being deployed in four areas.

1.1.3 a) Offering customers the right tire for every need

Our innovation capabilities and deeper understanding of usage practices have enabled us to bring to market products that are increasingly aligned with customer expectations. Among the many outstanding examples are the MICHELIN Pilot Sport 4S, MICHELIN CrossClimate+, MICHELIN X Line Energy, MICHELIN X Guard and MICHELIN XDR 3 tires. We have done this across every product line, by substantially shortening time-to-market, a key factor driving our growth.

In all, the goal is to increase revenue from tire sales by 20% between 2015 and 2020.

1.1.3 b) Making mobility more efficient with tire-related services and solutions

Services have been part of Michelin's corporate DNA for 125 years, and we intend to take advantage of the new opportunities offered by the digital revolution. The Effitire™, Effifuel™, and now Effitrailer™ programs deployed by MICHELIN® solutions, as well as the MICHELIN TIRE CARE truck fleet service program, are offering our business customers tools to optimize their tire management and thereby improve safety performance, raise productivity and lower costs, all while shrinking their environmental footprint.

Here too, we have to leverage digital technology's ability to process enormous amounts of data to offer customers new opportunities to create value that we can share with them. Since the acquisition of Sascar in Brazil, we have made great strides, particularly in successfully deploying the technological platform underpinning its business. Our 2017 acquisition of leading US telematics provider NexTraq will enable us to develop these solutions faster in North America.

In all, the goal is to double revenue from the services and solutions business between 2015 and 2020.

1.1.3 c) Enabling customers to enjoy an outstanding mobility experience

The Michelin mobility experience is shaped by the exceptional capital and heritage of its maps and guides, which were created more than a century ago by the Michelin brothers to make travel easier for their customers.

In addition to enhancing MICHELIN brand awareness, this experience offers a fantastic opportunity to engage in a full array of businesses that support customers before, during and after their journey.

It is now up to us to take the mobility experience a step further by expanding our range, which is why we acquired 40% stakes in Robert Parker Wine Advocate and the Fooding guide, and by leveraging all the benefits of digital technology, which is why we acquired BookaTable and Restaurantes.com and are expanding ViaMichelin. At the same time, we are carefully integrating digital solutions into the broader mobility ecosystems that will enable our offerings to be profitable.

We intend to triple our revenue from these operations between 2015 and 2020.

1.1.3 d) Providing expertise in elastomer-based and other high-tech materials

Today, our materials expertise is primarily focused on ensuring the differentiation of our tire products.

By becoming a customer-focused enterprise, we have helped to stimulate and accelerate our innovative capabilities, as seen in the fundamental developments in the areas of synthetic and natural rubber, molds, cords and fabrics. This is also evidenced in our biomaterials research and our proficiency in high-tech production processes, such as metal 3D printing and tire recycling.

We will be proactive in this area and affirm our technological leadership.

To support the deployment of its strategy, Michelin is continuing to transform its operating procedures with the four progress initiatives launched in 2015:

- focus all our concerns on the customer;
- capitalize on the digital revolution;
- simplify organizational structures and processes;
- empower every employee.

These progress initiatives form the core of our new Group organization, which we prepared all throughout 2017 and implemented on January 1, 2018 (see section 1.2.3).

1.1.4 LEVERAGING OUR CORE STRENGTHS

To meet the challenges of sustainable mobility, while embarking on a new phase of dynamic growth in every geography and strengthening its presence in the global marketplace, Michelin can count on its core strengths: the powerful MICHELIN brand, a global footprint, technological leadership, the market's broadest offering and a solid balance sheet.

1.1.4 a) The MICHELIN brand

With its promise of balanced performance and extraordinary capital of trust and affinity, MICHELIN ranks among the world's greatest brands. For the public, the brand is associated with safety, reliability, durability, technology and innovation, expertise and services. This confidence stimulates the buy decision and nurtures customer loyalty, as seen in the brand's performance in every geography.

The MICHELIN brand has already demonstrated its power in Europe and North America, where the Group holds forefront positions, and its influence is growing in emerging markets, especially China. In North America, the MICHELIN brand has earned more than five times the number of J.D. Power Awards won by all of its competitors combined since 1989. In Europe, the brand's Net Promoter Score (NPS) is twice as high as the average competitor's, reflecting the exceptional loyalty of its customers. In China, according to the 2017 BCM report, MICHELIN enjoys a strong position, with 90% brand recognition from its customers.

In all, the MICHELIN brand accounted for some 75% of volumes sold in the Passenger car and Light truck tire segment in 2017, around 85% in Truck tires and roughly 95% in Specialty tires.

1.1.4 b) Solid technological leadership

Throughout its history, Michelin's growth has been led by technical innovation. As a source of pioneering technological breakthroughs, both in tires (the radial tire, the fuel-efficient tire and the summer tire approved for winter use) and in materials, the Group has been a key driver of progress in its industry and today holds a recognized lead in the most demanding technical segments.

Thanks to its technical leadership, its ability to develop the technologies carmakers want and the performance of its tires (which is widely recognized by specifiers around the world), Michelin sets the standard in the global premium tire market[1], with particularly strong positions in high-performance Passenger car and Light truck tires.

1.1.4 c) A truly global footprint

Very early on, Michelin developed an exceptionally broad geographic presence, to the extent that today, it manufactures tires in 17 countries and sells them in more than 170.

As one of the few global tire manufacturers, the Group enjoys critical mass and synergies that help to foster innovation, productivity and fair, balanced relations with global original equipment manufacturers and tire dealers. The geographic breakdown of net sales attests that this global presence is well balanced between Western Europe, North America and the other markets. To fully leverage these strengths, extensive programs are in place to standardize processes and share best practices across the global organization.

1.1.4 d) A comprehensive range of tires and services

In 2017, Michelin's organization consisted of three product lines, marketing the world's broadest portfolio of products and services: Passenger car and Light truck tires, Truck tires and Specialty businesses.

The Group holds forefront positions in each segment, including passenger cars, vans, trucks, farm, mining and handling equipment, earthmovers, two-wheeled vehicles and aircraft. Because it partners original equipment manufacturers, pays close attention to every user, and operates in a wide array of distribution channels, Michelin is particularly well positioned to understand customer expectations. In addition, the Group is bringing the power of digital solutions to the trucking industry with a suite of services that simplify maintenance, improve reliability and uptime, manage fleets, safeguard cargo and lower operating costs. As part of this commitment, Michelin acquired Sascar, Brazil's leading digital fleet management company, in 2014 and NexTraq, a major US fleet services company, in 2017.

This comprehensive offering, combined with the Group's global market leadership, means that Michelin can seize every possible growth opportunity, regardless of business segment or host geography.

1.1.4 e) A solid balance sheet

In 2017, operating income rose during the year, value was created for more than the fifth year in a row and free cash flow helped to keep consolidated net debt low. This solid underpinning is crucial for the future, in order to guarantee the Group's independence and support its ambitious growth objectives.

By 2020, Michelin is committed to reporting a 15% return on capital employed at constant perimeter, excluding goodwill, more than €1.4 billion in structural free cash flow a year and more than €3.5 billion in operating income from recurring activities at constant exchange rates. In particular, ambitious targets have been set for operating margin on recurring activities, of between 11% and 15% in the Passenger car and Light truck tire segment, 9% and 13% in the Truck tire segment and 17% and 24% in the Specialty segment.

(1) Source: Group estimate.

1.1.5 SERVING CUSTOMERS WITH POWERFUL INNOVATION CAPABILITIES

Customer-focused innovation has long been a Michelin growth driver and a powerful vector of differentiation. The MICHELIN brand promise, as expressed in MICHELIN Total Performance, is to constantly innovate and deploy advanced technologies to deliver more performance in each of our solutions, instead of asking customers to choose between different areas of tire performance that may at first seem incompatible.

1.1.5 a) Innovation and differentiation

One of the main thrusts of Michelin's strategy is to leverage technology and innovation to differentiate its products and services, so as to consolidate its leadership and effectively meet the needs of tire users. For more than 20 years, the Group's innovation programs have focused on delivering sustainable mobility solutions. Today, it is the world's leading manufacturer of fuel-efficient tires[(1)] and a pioneering champion of the functional economy, which consists in selling a service or the use of a product rather than the product itself. For example, trucking companies and airlines can choose to be billed based on the number of kilometers traveled, the number of tonnes transported or the number of landings carried out using tires supplied and maintained by Michelin. The Group is committed to maintaining its solid lead in this new services-based economy by delivering targeted solutions combining product innovation and service innovation.

With an annual research and development (R&D) budget of around €700 million, some 6,000 employees and a patent portfolio that has tripled in ten years, Michelin's innovation priorities are to:

- bring new product lines to market more quickly for the MICHELIN and other Group brands;
- continuously improve performance so that each new range outperforms the previous generation;
- develop breakthrough innovations to develop totally new solutions to mobility challenges.

The inauguration of the new Urbalad building kicked off the project to upgrade the worldwide research center in Ladoux, France, which celebrated its 50th anniversary in 2015. By 2018, some €270 million will have been invested to boost the center's innovation potential.

To shape tomorrow's mobility, Michelin is exploring three pathways forward: (i) the vehicle of the future, with fuel-cell and autonomous car projects; (ii) the mobility of the future, with the integration of tire solutions into tomorrow's intelligent transportation systems (ITS) and support for emerging usage trends like ride- and car-sharing; and (iii) the reinvention of urban mobility, which is a major concern given that 60% of the world's population is projected to live in cities by 2030.

Michelin is taking a leadership role in this process with Movin'on (formerly Michelin Challenge Bibendum), which brings together the major transportation stakeholders to explore the mobility of the future.

1.1.5 b) Environmentally sensitive innovation

Because mobility is essential for human development, we feel duty-bound to make it cleaner, safer, more affordable – in a word, more sustainable. This is the corporate mission that prompted us to partner the United Nations Climate Change Conferences in Paris in 2015 (COP21), Marrakech in 2016 (COP22) and Bonn in 2017 (COP23).

We are committed to steadily increasing our tires' impact on fuel efficiency while improving all of its other performance factors. By leveraging our research and development capabilities, particularly in high-tech materials, we aim by 2030 to reduce the amount of fuel burned to move the tires by 20% compared with 2010, thereby avoiding the emission of 30 million tonnes of CO_2.

1.1.5 c) The innovation governance system

An innovation governance system engaging and empowering all of Michelin's leadership teams was set up in 2012 with the creation of the Group Innovation Committee, which can include people from outside the Group. The system ensures that our research units are extremely open to the outside world and to new technologies, in particular by working with academic institutions. Marketing and research teams cooperate seamlessly so that the products and services they create are value creators and can be brought to market more quickly and efficiently without ever sacrificing quality.

1.1.5 d) Bringing customer-focused innovation to market more quickly

In 2015, the MICHELIN CrossClimate, a summer tire certified for driving on snowy roads, was introduced after just three years in development. The technology-packed tire features a new rubber compound, a tread pattern that guarantees grip and safety on dry, wet or snow-covered roads and EverGrip self-regenerating tread technology. Recognized as the best all-season tire, in new or used condition[(2)], the MICHELIN CrossClimate was an immediate hit, with stronger-than-expected sales.

The new MICHELIN X® GUARD™ line has been specially designed to cater to the expectations of the Chinese and Indian truck tire markets, providing customers with safe, long-lasting and fuel-efficient tires. Featuring the best of Michelin technology, the new tire makes the MICHELIN brand accessible to a wide array of new customers and positions the Group at the center of the Chinese and Indian markets. For mining companies, the new MICHELIN XDR 250 and XDR 3 tires increase load capacity by 25%, while the recently introduced MEMS[(3)] Evolution 4 system constantly monitors mining tire temperature and pressure and alerts operators in real-time online or via email or text message.

At the same time, the renewal of the KO2 and COMP-2 lines will enable the BFGoodrich brand to win back market share, while the new intermediate truck tire ranges introduced in North America, South America, the Africa/Middle East region and Southeast Asia are getting off to a favorable start.

The excellence of these innovations has been recognized by the tire and auto industries. In 2017, Michelin wins the Trophy for the Innovation Awards in the category Automotive supplier-Tire manufacturer thanks to its Michelin Vision Concept project.

(1) Source: Michelin estimates.

(2) Source: Autobild – November 24, 2017.

(3) Michelin Earthmover Management System.

To support the needs of business customers, MICHELIN solutions as well as Sascar in Brazil and NexTraq in North America rely on onboard telematics, electronics and cloud computing to gather vehicle data in real time, analyze the performance of vehicles and drivers, and devise solutions that enhance mobility, increase productivity, reduce fuel consumption and improve both road safety and the bottom line for customers. To this end, they build a genuine ecosystem in cooperation with selected partners and commit to performance-based multi-year contracts to reduce vehicle downtime, CO_2 emissions and fuel consumption.

1.1.6 GROWTH STRATEGY

In a structurally expanding mobility market, Michelin is leveraging its global geographic footprint to drive strong, diversified growth by capturing the full value of its products and services and by expanding more quickly in new markets and segments.

1.1.6 a) Customer-focused growth

Providing customer service that meets the same high standards as Group products has the potential to drive significant growth. Michelin is meeting this challenge by rolling out every aspect of the OPE business process management system, overhauling the supply chain, using new tools to offer increasingly personalized customer service and fostering employee engagement in new empowering organizations.

Another avenue to growth is to make production facilities more flexible and responsive to shifts in demand. Introduced in 2015, Industrial Service Level (ISL) agreements now serve as a key management indicator by measuring a plant's ability to meet customer needs in a timely manner. In the same way, the Net Promoter Score (NPS), which measures end-customer satisfaction with the quality of MICHELIN brand products and services, is tracked at the highest levels of management to drive steady progress in this area.

1.1.6 b) Driving faster growth in the tire business

Michelin is investing more than ever in the MICHELIN brand, which expresses its commitment to quality and innovation.

MICHELIN brand sales are underpinning the growth strategy across every product line (Passenger car and Light truck tires, Truck tires and Specialty tires) and in every market. While MICHELIN is the benchmark premium brand, widely recognized for the quality of its products and services, it is being supported by a multi-brand portfolio that is also designed to help the Group reach its profitability targets. This portfolio is therefore being initially focused on the fast-growing segment for competitively priced, high-performance tires, with the BFGoodrich®, KLEBER, UNIROYAL, TIGAR, KORMORAN, RIKEN, TAURUS and SIAMTYRE brands.

The multi-brand portfolio also makes it possible to serve retail networks that want to offer each customer just the right tire without leaving the Michelin Group brand universe.

Another growth driver is the steady improvement in market access. Michelin is strengthening its networks both through acquisitions and the deployment of franchising programs around the world, with the target of having more than 5,000 dealerships by 2020. In addition, it is acquiring online dealers and wholesalers. In 2015, for example, the European sales network was broadened with the acquisition of e-tailers in France (40% of Allopneu.com) and the United Kingdom (100% of Blackcircles.com), and the purchase of wholesalers in Germany (Meyer Lissendorf and Ihle).

In January 2018, Michelin North America Inc. and Sumitomo Corporation of Americas announced a definitive agreement to combine their respective North American replacement tire distribution and related service operations in a 50-50 joint venture, forming the second largest player in the wholesale tire market in the United States.

1.1.6 c) Expanding the portfolio of services and solutions

Michelin's services portfolio originated from a determination to enable customers to get the most out of their tires, use them longer and save more fuel. Proof of this commitment can be seen in the installation of roadside air pumps and the development of service centers and specialized networks, mobile tire-fitting vans and on-site maintenance services.

For years now, the Group has been supplying and managing tires for its trucking, airline and mining company customers, and invoicing them based on the distance covered, number of landings made or weight transported.

The solutions also use onboard pressure monitoring systems to optimize preventive maintenance and reduce vehicle downtime.

Today, Michelin Fleet Solutions manages the tires of 300,000 trucks and light trucks in 24 countries. The Group takes care of every aspect of tire management, including selection, mounting, maintenance, assistance, retreading and end-of-life recycling, and invoices customers on a per-kilometer basis.

The digital revolution, connected vehicles and big data are opportunities to expand the Group's business and create value, by gradually shifting the focus from product to service and from service to solutions and the customer experience.

These opportunities are being seized through the development of strategically related businesses, such as with Sascar, Brazil's leading digital fleet management firm, which joined the Group in 2014, and with NexTraq, a major US provider of telematics solutions for small and medium fleets, which was acquired in 2017. Today, Michelin is working with these subsidiaries to develop solutions that leverage its knowledge of the needs of fleets of all sizes.

1.1.6 d) Enhancing the customer's mobility experience

Motorists change their tires every 2.5 years on average. The MICHELIN Maps, Guides and Digital Services businesses, which are grouped together within Michelin Travel Partner, are tasked with nurturing customer relations and developing and enriching the MICHELIN brand experience to make it the first choice of consumers.

Since the early 1900s, Michelin has never stopped developing products and services that make the traveling experience simpler, more enjoyable and more rewarding, before, during and after the journey. Today, Michelin is expanding these high-potential businesses by incorporating them into digital systems that add value to the Group's full range of offerings.

These businesses also provide outstanding media visibility for the MICHELIN brand. As the world leader in restaurant guides, the European leader in maps and a major player in travel guides, Michelin leverages its travel services assistance activities to significantly boost the brand's digital presence through a suite of applications. These include MICHELIN MyCar for safe driving; ViaMichelin, which celebrated its 15th anniversary in 2016; the free, community-based MICHELIN Navigation GPS; MICHELIN Restaurants; MICHELIN Hotels; and MICHELIN Travel, which lists more than 30,000 points of interest in 80 countries worldwide.

Motorists can also benefit from Michelin's own traffic information, travel tips and dining recommendations directly through their vehicle's onboard system. The Group is expanding initiatives to uncover innovative ideas both internally and externally as well as exploring new connected mobility services in Europe, the United States, China and Africa.

Start-ups currently supported by the Group's incubators include Révisersavoiture.com, which connects motorists with maintenance networks, and eDaiBo.com, which provides valet and maintenance services in China's main airports. In addition, the WOOM mobile application has reinvented the concept of "word-of-mouth" by proposing crowd-sourced suggestions for local leisure activities.

In 2017, we acquired 40% stakes in Robert Parker Wine Advocate, the world's most widely read wine tasting and rating guide, and the Fooding guide, a website specialized in discovering hot new restaurants and trendy bars. With the combined strength of these two industry heavyweights and the MICHELIN guide, our customers will enjoy more comprehensive and better value offerings and services worldwide.

1.1.6 e) Capitalizing on our expertise in high-performance materials

Proficiency in high-tech materials and leading-edge industrial processes is an integral part of Michelin's tire differentiation strategy. It enables the Group to efficiently combine typically contradictory performance characteristics, such as robustness and lightness, to the highest degree possible. It also sustains the unfailing superiority of MICHELIN tires in terms of fuel economy and durability, to the greater benefit of customers, the climate and the environment. Michelin has built up extraordinary expertise in such diverse areas as elastomers, cords, molds, high-tech fabrics, biomaterials and metal 3D printing. Its portfolio of material patents has doubled since 2011.

The Group harnesses its polymer expertise to develop new products and applications, such as the Tweel ultra-resistant airless tire now equipping industrial loaders and mowers, and technical soles for Babolat tennis shoes and Millet hiking shoes.

Michelin is also honing its tire recycling expertise. In 2017, the Group acquired Lehigh Technologies, which designs and produces innovative materials from recycled end-of-life tires and other rubber-based industrial goods.

Michelin is also capitalizing on its lead in metal 3D printing technology – which is key to ensuring the performance of its new products – as part of AddUp. Created with Fives in 2016, this joint venture proved its potential through a number of remarkable achievements in the space of just a few months.

1.1.6 f) Taking full advantage of digital technology

By enabling Michelin to broaden and deepen its understanding of markets and customer needs, digital technology represents a tremendous opportunity to engage in direct dialogue with users and quickly develop new solutions. As new competitors skilled in the use of big data emerge, Michelin's expertise will nurture the special relationship it enjoys with its customers. This expertise is being enhanced by the progress made with the acquisition of Sascar and NexTraq and the new understanding of retail channels with AlloPneus and Blackcircles.

1.1.6 g) Maintaining capital expenditure

With €1.77 billion invested in 2017, Michelin is pursuing a sustained capital expenditure program that, when combined with a targeted acquisition strategy, is designed to meet the following objectives:

- increase production capacity in fast growing markets, such as the premium Passenger car and Light truck tire segment, North America and Asia;
- continue to align plants in mature markets to keep pace with product developments and make them more competitive;
- optimize supply chain information systems and logistics hubs to improve customer service;
- develop digital services;
- expand distribution channels to strengthen market access;
- pursue projects in raw materials and high-tech semi-finished products.

Three new high-capacity plants ramped up production: Itatiaia, Brazil for Passenger car and Light truck tires; Chennai, India for Truck tires; and Shenyang 2, which is designed to significantly increase automobile and truck tire production capacity in China. By 2020, these plants are expected to be producing an aggregate 400,000 tonnes a year.

1.1.7 CONSTANTLY IMPROVING COMPETITIVENESS

Since 2005, Michelin has been steadily progressing on the path to operational excellence, with the goal of improving its customer service, reducing its costs and becoming more competitive.

1.1.7 a) Competitive production plants in mature markets

The strategy pursued before the recession to strengthen manufacturing operations in mature markets has paid off. Thanks to the deployment of the Michelin Manufacturing Way (MMW), the commitment of capital expenditure to increase productivity and the consolidation of manufacturing operations at larger, more specialized facilities, Michelin has assertively improved its ability to manage abrupt changes in market conditions.

In 2017, for example, it continued to deploy the plan undertaken in 2015 to reorganize operations in the United Kingdom and Italy – supported by €265 million in capital projects to upgrade their manufacturing facilities and supply chains – and in Germany, where the Pneu Laurent plant in Oranienburg will cease operations.

Activities in Clermont-Ferrand are also being adjusted with the reorganization of engineering operations and the closure of a retreading unit, supported by €90 million in capital expenditure to finance the installation of advanced equipment and processes at the Cataroux, La Combaude and Gravanches facilities.

Michelin is continuing to deploy the agreement initiated in 2015 to secure the future of the Roanne plant in France by making it more competitive and has rolled out the same model at the Vannes plant.

Lastly, to improve production flexibility and customer service, the Michelin Manufacturing Way (MMW) approach has been enhanced since 2015 by optimizing the manufacturing supply chain and setting ambitious service level targets for each plant.

By 2018, this competitiveness strategy, combined with the productivity of the plants in emerging markets and the ramp-up of the new mega-plants, is expected to increase average capacity of the leading Passenger car and Truck tire facilities to 96,000 tonnes.

In addition, Michelin is actively committed to digitalizing operations at its plants to enhance their competitiveness, deploying often complex digital technologies that teams can operate autonomously. The goal is to speed the decision-making process by empowering teams to work efficiently in cooperative human-machine environments where collaborative robots and connected systems play a supporting role to production operators.

1.1.7 b) Becoming more agile and competitive with business process management

In an increasingly complex world, Michelin is constantly seeking new ways to simplify its practices and procedures, not only to drive greater business performance but also to make the entire organization more agile.

At the same time, it is introducing new standardized, horizontal operating procedures and information systems capable of increasing sales volumes by offering customers competitively differentiated services, enhancing the efficiency of its administrative processes and sharply improving the responsiveness of its supply chain.

With the top-to-bottom overhaul of our logistics operations and the reconfiguration of the supply chain, the deployment of the OPE business process management system will shortly (i) give the production plants more responsibility in serving customers by enabling them to respond, in real time, to fluctuations in demand and needs; (ii) improve the ability to fulfill our commitments; and (iii) open up new possibilities of personalizing our relationship with each individual customer.

At an annual cost of around €100 million over the next two years, this program will, by 2019, drive at least a €250 million reduction in inventories and at least a €200 million reduction in annual costs.

1.1.7 c) Improving competitiveness worldwide to drive growth

In 2016, Michelin completed the competitiveness plan launched in 2012, whose objective was raised in 2014 from €1 billion in gains to €1.2 billion.

In 2017, the plan was renewed with a stepped-up implementation schedule designed to deliver another €1.2 billion in savings over four years.

To lower production and transportation costs by a targeted €450 million to €500 million over the period, the new plan will pursue the improvement programs underway for the past six years to (i) increase production capacity in the growth regions; (ii) improve capacity utilization, with plants that produce over 100,000 tonnes a year accounting for a growing proportion of total output; (iii) sign contracts in Europe to lock in progress, responsiveness and productivity; and (iv) empower manufacturing teams and improve customer service at the plants, a fundamental driver of business growth.

At the same time, to reduce overheads by a targeted €500 million to €550 million over the period 2017-2020, the quality and efficiency of support functions are being closely tracked by continuing to deploy (i) new operating procedures and standard information systems; (ii) training and jobs planning programs in response to the number of employees nearing retirement, some of whom will not be replaced; and (iii) the simplification initiative launched in late 2015, particularly the extension of the shared services centers' responsibilities.

Lastly, the cost of raw materials used in production each year is expected to decline by €150 million to €200 million over the period thanks to the ongoing optimization of raw material content and reduction in tire weight as part of the design-to-cost program.

1.1.7 d) An efficient manufacturing base

Europe	North America	Asia (excluding India)
15 Passenger car and Light truck tire plants 13 Truck tire plants 9 Specialty tire plants 8 component and semi-finished product plants	11 Passenger car and Light truck tire plants* 4 Truck tire plants 2 Specialty tire plants 2 component and semi-finished product plants	4 Passenger car and Light truck tire plants 3 Truck tire plants 2 Specialty tire plants 3 component and semi-finished product plants
	South America	**Africa/India/Middle East**
	1 Passenger car and Light truck tire plant 2 Truck tire plants 3 Specialty tire plants	1 Truck tire plant

* *Including the León Passenger car and Light truck tire plant in Mexico, which will begin production in 2018.*

We also want our plants to be cleaner and more cost-effective, while reducing their greenhouse gas emissions by 50% over the period 2010-2050, not only by using new, more energy-efficient equipment, but also by increasing renewable energies to around two-thirds of our energy mix.

1.1.8 MOVING FORWARD TOGETHER

The Michelin corporate community is made up of more than 114,000 people, representing 120 nationalities. Their diversity is a valuable asset and source of creativity, while their professionalism and commitment are instrumental in driving the performance and development of a Group whose employee relationships are rooted in dialogue and mutual respect.

1.1.8 a) A mutual commitment

Michelin firmly believes that business performance and the professional success of its employees go hand in hand. The "Moving Forward Together" program reaffirms the values that guide the Group every day and expresses the mutual commitments that it has undertaken and that employees are expected to demonstrate. Michelin wants every employee to be able to find fulfillment in his or her job. That's why performance and potential are assessed with a view to the long term, and training policies allow each employee to continue to grow throughout his or her career, while helping to drive the Group's development. At the same time, career management focuses on promoting from within and offering mobility opportunities.

Diversity is actively encouraged, to build teams that look like the Group's host societies, and a structured equal opportunity process is in place to combat all forms of discrimination.

A large number of employees receive performance-based compensation, with different bonus systems adapted to each country and job function. The Group has also set up a stock option plan open to many employees and regularly carries out worldwide employee share issues.

1.1.8 b) Embracing empowerment

In resonance with simplification, employee empowerment is a major driver of improvement.

Every day, Michelin is capitalizing on the benefits of deploying Empowering Organizations in the production operations and support functions. As the key to encouraging employees to demonstrate the expected attitudes and behaviors, this process has to be constantly broadened and deepened in every aspect of the business. It is already enhancing everyone's ability to innovate and respond agilely to change, while profoundly transforming quality of worklife, workplace relationships and human resources management for each and every employee around the world.

1.1.8 c) Respect for people, the foundation of social cohesion

By making workplace safety a priority and a reality, Michelin has become one of the world's safest manufacturers. Major programs are also in place to attenuate risks and improve outcomes in the areas of occupational health and quality of worklife.

When production has to be scaled back due to a falloff in demand, a wide range of solutions are deployed to limit short-time work, such as conducting preventive maintenance, bringing forward vacation or organizing training. Implementation of these measures is facilitated by initiatives to develop a sense of mutual responsibility and co-destiny, in a commitment to improving corporate performance and protecting jobs.

Whenever industrial reorganization measures have been necessary, the employees concerned have been offered opportunities within the Group and individual support if external solutions were preferred or inevitable.

1.1.8 d) A motivating corporate culture

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

Its sustainable development approach, embodied in the Development and Sustainable Mobility (DSM) process, structures this corporate culture and coordinates the Group's commitment to the principles of sustainable, balanced, responsible growth.

In 2013, the governance system for the process was modified for the first time to make it more efficient and to integrate it more effectively at every level and in every skills-set. The new ambitions for 2020 are included in all of the strategic plans and targets and deployed in every host country, plant and unit. They are quantified, tracked and measured.

On January 1, 2018, the Michelin Performance and Responsibility Council was replaced by the Development and Sustainable Mobility Committee, which is made up of all of the members of the Group Executive Committee as well as the Heads of Purchasing, Legal Affairs and Development and Sustainable Mobility. The committee oversees three governance bodies: Environment, Ethics and Human Rights, and Sustainable Mobility. In line with Michelin's commitments

for 2020, 2030 and 2050, these three bodies are tasked with approving the goals and initiatives falling within their scope by defining priorities and the relevant necessary resources. Each region has a correspondent responsible for promoting development and sustainable mobility initiatives on a day-to-day basis and for reporting on the implementation of objectives defined by the Development and Sustainable Mobility Committee, as well as actions initiated locally. Action plan progress and outcomes are regularly measured.

The changes to the Development and Sustainable Mobility governance system are intended to enable the Group to more effectively deploy its approach in this area, both in terms of internal progress initiatives and in relations with partners and host communities. The engagement of Michelin employees and their ability to work together to drive fast improvement has been recognized by several corporate sustainable development rating agencies, whose issued opinions have encouraged employees to take the process even further.

1.1.9 PROGRESS ON AMBITIONS FOR 2020

	2020 ambition	Key performance indicator (KPI)	Progress made in 2017
1. Continuously improve **customer** satisfaction	Ensure that by 2020, all of the targeted customer groups deliver Net Promoter Scores (NPSs) in line with the Group's objective	Percentage of targeted customer groups delivering NPSs in line with the Group's objective	72% in 2017
2. Demonstrate our commitment to the **well-being and development of our employees**	Further improve safety performance and achieve a Total Case Incident Rate (TCIR) of less than 2 for the entire Group	TCIR	2.1% in 2017* (2.5 in 2016 and 2.7 in 2015)
	Achieve and maintain an 85% employee engagement rate	The Group-wide employee engagement rate as measured by the annual "Moving Forward Together: Your Voice for Action" survey	80% in 2017 (80% in 2016 and 77% in 2015)
	Ensure that 75% of all management positions are held by employees who come from within the Company, reflecting our ever-increasing diversity	Percentage of management positions held by employees promoted from within	76% in 2017 (76% in 2016 and 75% in 2015)
	Increase the percentage of women in management and supervisory positions to 30%	Percentage of women among managers and supervisors (level of individual responsibility of A to N, according to the Hay method used by the Group)	25.7% in 2017 (24.8% in 2016 and 24.2% in 2015)
	Increase the percentage of local top managers in growth regions to 80%	Percentage of managers from growth regions	74% in 2017 (72% in 2016 and 68% in 2015)
3. Secure robust **financial performance**	Deliver €1.4 billion in structural free cash flow per year as from 2020	Free cash flow (cash flows from operating activities less cash flows used in investing activities) adjusted for the impact of raw materials and end-of-year volumes on working capital and for non-recurring items	€1,509 million in 2017 (€961 million in 2016 and €833 million in 2015)
	Achieve at least a 15% return on capital employed (ROCE) at constant scope of perimeter	ROCE	11.9% in 2017 (12.1% in 2016 and 12.2% in 2015)

* *Information reviewed in detail and subject to a report by an independent third party in accordance with France's Grenelle II Act (for more details, see section 6 below).*

	2020 ambition	Key performance indicator (KPI)	Progress made in 2017
4. Innovate to widen our lead in **product and service performance**	Improve the overall performance of our products by at least 10% compared with 2010, while using less raw materials in their production	Percent improvement in the composite performance indicator compared with 2010	7.6% improvement
	Save 3 billion liters of fuel over the lifespan of our tires, thereby reducing CO_2 emissions by more than 8 million tonnes compared with 2010	Total improvement in the rolling resistance of Passenger car, Light truck and Truck tires compared with 2010	The energy performance of Passenger car, Light truck and Truck tires in 2016 was in line with the 2020 objectives
	Contribute to the development of a circular economy by increasing the percentage of renewable or recycled materials in our tires to 30%	Percentage of renewable or recycled tire materials in the tires we produce	At the end of 2017, the average rate of renewable materials or materials made from Group tire recycling is estimated at 29%, in line with the 2020 target of 30%
5. Set the industry standard for **responsible manufacturing**	Reduce the environmental impact of our sites, as measured by the Michelin Environmental Footprint (MEF) indicator, by 50%, notably by improving our energy efficiency by 38% in relation to 2005	1) MEF Index 2) Energy consumption per tonne of tires produced	1) 47.3% improvement in the MEF compared with 2005* 2) 30.4% improvement compared with 2005*
	Develop a responsible supply chain and reduce its CO_2 emissions by 10% compared with 2010	CO_2 emissions per tonne of tires sold outside the Group	The method used to monitor the indicator is being revised in order to make the published results more meaningful
	Assess the sustainable development performance of the Group's top 400 suppliers	Number of suppliers assessed by EcoVadis	547 in 2017 (419 in 2016 and 263 in 2015)
	Provide encouragement and support so that 70% of these suppliers are confirmed as compliant with Michelin standards	Percentage of the 400 suppliers assessed by EcoVadis that are confirmed as compliant	77% in 2017 (74% as of end-2016 and 66% as of end-2015)
6. Contribute to the development of **host communities** and support sustainable mobility	Deploy a local community engagement program in every plant, in line with the 2013 guidelines	Number of facilities effectively implementing the new guidelines	110 plants and offices moved their programs into compliance with the guidelines in 2017
	Encourage employee involvement in initiatives that support the local community by donating 30,000 working days per year	Number of days that employees dedicate to local community involvement	33,800 in 2017 (private and professional time, 25,700 or professional time only) (31,612 in 2016 and 27,733 in 2015)
	Contribute to local employment through Michelin Development, with the creation of 2,000 jobs per year	Number of jobs created with the help of Michelin Development	1,918 in 2017 (1,695 in 2016 and 1,665 in 2015)
	Reinforce our advocacy of road safety, with a strong focus on driver education in emerging countries	Number of awareness-raising programs deployed and number of people reached	China: 190,000 people attended the online live performance Road Safety Theater (5 million via social networks) United States: 35 million people sensitized to the role of tires regarding security during the "Beyond the Driving Test" campaign Thailand: 2,000 helmets for two motorized wheels distributed to Chaingmain South Africa: 20 young people Road Safety Ambassadors trained

* *Information reviewed in detail and subject to a report by an independent third party in accordance with France's Grenelle II Act (for more details, see section 6 below).*

1.2 COMPANY PROFILE

1.2.1 A COMPREHENSIVE BRAND PORTFOLIO

- A global premium brand: MICHELIN.
- A global brand dedicated to sports cars and SUVs: BFGoodrich®.
- Strong regional brands: UNIROYAL in North America and KLEBER in Europe.
- Market-leading national brands.

MICHELIN			
BFGoodrich®	KLEBER	UNIROYAL	
KORMORAN	RIKEN	TAURUS	TIGAR
SIAMTYRE			

1.2.2 PRODUCTS AND SERVICES YOU CAN TRUST

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

  Around 190 million tires produced in 2017.
- **Dealerships and service centers:** the integrated Euromaster (Europe) and TCi (United States) dealership networks; TyrePlus franchises or brand partnerships for car tires in Asia, the Middle East, Russia, Australia and Mexico; Michelin Commercial Service Network franchises for truck tires in the United States; Michelin Truck Service Center partnerships in Asia, the Middle East and Algeria, and exclusive truck service networks in Brazil, Mexico and Argentina, which all set the market standard for expert advice and quality service; online tire retailers in France (40% of Allopneus.com) and the United Kingdom (Blackcircles.com).

  In January 2018, Michelin North America Inc. and Sumitomo Corporation of Americas announced a definitive agreement to combine their respective North American replacement tire distribution and related service operations in a 50-50 joint venture, forming the second largest player in the wholesale tire market in the United States.
- More than 4,000 proprietary and franchised outlets in 29 countries. Truck driver **assistance** services with Michelin Euro Assist.
- **Fleet tire advice, maintenance and management services** with Michelin Fleet Solutions in Europe and Michelin Business Solutions in North America.
- **Michelin Travel Partner:** MICHELIN maps and guides and ViaMichelin mobility assistance services:
  - more than 8 million maps and guides published in 2017;
  - 187 billion kilometers calculated by ViaMichelin in 2017;
  - 40 million covers booked via the BookaTable (including Michelin Restaurant) app.
- **Michelin Lifestyle products developed in partnership with licensees:** car and bike accessories, work, sports and leisure gear, and collectibles.

1.2.3 AN EFFICIENT ORGANIZATION

- **8 Product Lines,** each with its own marketing, development, production and sales resources: Passenger car and Light truck, Truck, Specialty (Aircraft, Earthmover, Agricultural, Two-Wheel), Materials and Other businesses with Michelin Travel Partner and Michelin Lifestyle Limited.
- **A Technology Center** in charge of research, development and process engineering, with operations in Europe, North America, South America and Asia.
- **6 Geographic Zones** that ensure the regional deployment of the Group's strategic vision and provide the resources needed to support the Product Lines: North America, South America, Europe, East Asia/Australia, China and Africa/India/Middle East.
- **Comprehensive dealership networks:** integrated (Euromaster, TCi), franchised (TyrePlus) and online (Allopneus and Blackcircles) retail networks; wholesale networks (Euromaster, Meyer Lissendorf and Ihle).
- **11 Corporate Departments** that ensure the consistency of the Group's policies.
- **A Progress and Geographic Zones Department** responsible for ensuring that improvement initiatives are aligned with the Group's strategy.

To ensure the development and success of its customer-focused growth strategy, the Group implemented a new organization on January 1, 2018, structured as follows:

- **10 Regions:** Africa/India/Middle East; Central America; North America; South America; East Asia/Australia; China; Central Europe; Northern Europe; Southern Europe; and Eastern Europe.

  These regions are our direct points of contact with our customers. Leveraging their close proximity to local markets and consumers, they identify key needs and market our products and services. They represent the Group in the region and are responsible for our customers' satisfaction. Their results are managed in terms of growth and operating income.
- **14 Business Lines:** Automotive B2C Global Brands, Automotive B2C Regional Brands, Automotive Original Equipment, Long Distance Transportation, Urban Transportation, Mining, Off Highway Transportation, Two-Wheel, Aircraft, High-Tech Materials, Mobility Experiences, Distribution, Services & Solutions and Motorsport.

  Based on the needs identified by the regions, these business lines define the strategy to design market-leading products and services while factoring in the competitive environment. Their results are managed in terms of market share and operating income.

  As a consequence, Business Lines remain the strategic axis of the Group steering. Their financial results (in particular operating income, free cash flow, ROCE ...) directly fuel the Group's consolidated financial statements that remain based on the following three reporting segments: Tourism (SR1), Transportation (SR2) and Specialty Activities (SR3).
- **8 Operating Departments for operational support,** overseeing cost-effective design, manufacturing and organization of product and service flows to meet our customers' expectations:
  - Research & Development Department.
  - Development of Service Technologies Department.
  - Manufacturing Department.
  - Supply Chain Department.
  - Marketing & Sales Support Department.
  - Purchasing Department.
  - Operations Quality Guarantee Department.
  - Global Business Services (GBS) Department.
- **Support functions,** broken down into:
  - Local services integrated into the organization of the regions.
  - Globalized platforms providing the best service to business and operating units in terms of cost, quality and lead times.
- **A streamlined Corporate Unit:** responsible for spearheading design and overall strategy as well as regulating interactions between the various entities and ensuring local initiatives are in line with the Group's project, the Corporate Unit focuses on the areas of Strategy, Organization, Digital, External Relations, Communication & Brands, Sustainable Development, Quality, Risk Management, Audit, Legal, Human Resources, Finance and IT.

1.3 FINANCIAL HIGHLIGHTS

1.3.1 FINANCIAL PERFORMANCE

(in € millions)	2017	2016	2015	2014	2013
Net sales	21,960	20,907	21,199	19,553	20,247
% change	+5.0%	-1.4%	+8.4%	-3.4%	-5.7%
Total employee benefit costs	5,871	5,542	5,785	5,292	5,292
As a % of net sales	26.7%	26.5%	27.3%	27.1%	26.1%
Number of full-time equivalent employees at period-end	107,800	105,700	105,800	106,700	105,700
Research and development expenses	642	718	689	656	643
As a % of net sales	2.9%	3.4%	3.3%	3.4%	3.2%
EBITDA before non-recurring income and expenses(1)	4,087	4,084	3,934	3,286	3,285
Operating income from recurring activities	2,742	2,692	2,577	2,170	2,234
Operating margin on recurring activities	12.5%	12.9%	12.2%	11.1%	11.0%
Operating income	2,631	2,791	2,207	1,991	1,974
Operating margin	12.0%	13.3%	10.4%	10.2%	9.7%
Cost of net debt	176	203	184	130	94
Other financial income and expenses	(0)	20	(30)	(43)	(15)
Income before taxes	2,354	2,464	1,869	1,651	1,702
Income tax	661	797	706	620	575
Effective tax rate	28.1%	32.3%	37.8%	37.5%	33.8%
Net income	1,693	1,667	1,163	1,031	1,127
As a % of net sales	7.7%	8.0%	5.5%	5.3%	5.6%
Dividends(2)	585	522	463	464	438
Cash flows from operating activities	**2,741**	**2,764**	**2,695**	**2,522**	**3,089**
As a % of net sales	12.5%	13.2%	12.7%	12.9%	15.3%
Gross purchases of intangible assets and PP&E	1,771	1,811	1,804	1,883	1,980
As a % of net sales	8.1%	8.7%	8.5%	9.6%	9.8%
Net debt(3)	716	944	1,008	707	142
Equity	11,261	10,646	9,542	9,523	9,256
Net debt(3)/Equity	6%	9%	11%	7%	2%
Net debt(3)/EBITDA(1)	0.18	0.23	0.26	0.22	0.04
Cash flows from operating activities/Net debt(3)	N/M	N/M	N/M	N/M	N/M
Operating income from recurring activities/Net interest expense(4)	15.9	13.3	12.8	16.0	15.7
Free cash flow(5)	662	1,024	653	322	1,154
ROE(6)	15.0%	15.7%	12.2%	10.8%	12.2%
ROCE(7)	11.9%	12.1%	12.2%	11.1%	11.9%
Per-share data *(in €)*					
Net assets per share(8)	62.7	59.1	52.5	51.3	49.8
Basic earnings per share	9.39	9.21	6.28	5.52	6.08
Diluted earnings per share	9.34	9.03	6.19	5.45	5.98
Price-earnings ratio(9)	12.7	11.5	14.0	13.6	12.7
Dividend per share(10)	3.55	3.25	2.85	2.50	2.50
Payout ratio(11)	36.0%	36.5%	37.0%	40.6%	35.0%
Yield per share(12)	3.0%	3.1%	3.2%	3.3%	3.2%
Share turnover rate(13)	71%	78%	99%	91%	99%

(1) As defined in note 3.7.2 to the consolidated financial statements.
(2) Including the dividends reinvested in new shares.
(3) Net debt: financial liabilities less cash and cash equivalents (excluding cash flows from cash management financial assets and borrowing collaterals) plus/less derivative assets, as defined in note 26 to the consolidated financial statements.
(4) Net interest expense: interest expense less interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities less cash flows used in investing activities (excluding net cash flows used in cash management instruments and loan guarantees), as defined in section 2.5.3.
(6) ROE: net income attributable to shareholders divided by shareholders' equity excluding non-controlling interests.
(7) ROCE: net operating profit after tax (NOPAT) divided by capital employed (intangible assets and PP&E plus non-current financial assets plus working capital requirement), as defined in section 2.6.
(8) Net assets per share: net assets divided by number of shares outstanding at the end of the period.
(9) Price-earnings ratio: share price at the end of the period divided by basic earnings per share.
(10) Subject to approval at the Annual Shareholders Meeting on May 18, 2018.
(11) Payout ratio: dividend divided by net income excluding non-recurring items (adjusted with respect to the nominal tax rate).
(12) Yield: dividend per share divided by share price at December 31.
(13) Share turnover rate: number of shares traded during the year divided by average number of shares outstanding during the year.

1.3.2 CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

1.3.2 a) Summary table of 2017 employee data for the Group and MFPM

	2017	2016	2015	2014	2013	GRI Indicators
Workforce at December 31 *(full-time equivalent employees of consolidated companies, excluding interns, apprentices, work-study trainees and temp agency workers)*	**107,807**	**105,654**	**105,798**	**106,696**	**105,724**	**GRI 102-07**
Employees on payroll at December 31 *(consolidated companies, under any form of work contract, excluding temp agency workers)*	114,069	111,708	111,681	112,306	111,190	
Europe	66,598	65,859	65,885	65,569	66,147	
MFPM	*19,301*	*19,349*	*19,658*	*19,712*	*19,979*	GRI 102-7
North America	22,649	22,841	22,598	22,741	22,274	
South America	7,999	6,475	6,544	6,752	5,518	
Asia (excluding India)	15,078	14,835	14,977	15,431	15,458	
Africa/India/Middle East	1,745	1,698	1,677	1,813	1,793	
Employees by gender* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						
Men	82.5%	82.9%	83.2%	83.7%	84.0%	GRI 102-08
MFPM	*82.9%*	*83.1%*	*83.5%*	*83.9%*	*84.4%*	
Women	17.5%	17.1%	16.8%	16.3%	16.0%	
MFPM	*17.1%*	*16.9%*	*16.5%*	*16.1%*	*15.6%*	
Employees by category* *(full-time equivalent employees, as a %)*						
Production operators	62.2%	61.9%	62.1%	62.4%	61.4%	
MFPM	*44.8%*	*45.1%*	*46.9%*	*47.4%*	*48.4%*	
Administrative employees, technicians and supervisors	29.4%	29.9%	30.0%	30.0%	30.9%	GRI 102-08
MFPM	*39.4%*	*39.6%*	*38.6%*	*38.7%*	*38.1%*	
Managers**	8.4%	8.2%	7.9%	7.6%	7.7%	
MFPM	*15.8%*	*15.3%*	*14.4%*	*13.9%*	*13.5%*	
Employees by age* *(full-time equivalent employees, as a %)*						
24 and under	5.8%	5.3%	5.3%	5.5%	5.5%	
MFPM	*6.5%*	*5.7%*	*5.8%*	*5.3%*	*5.2%*	
25-34	26.3%	26.6%	27.2%	27.3%	27.2%	
MFPM	*22.6%*	*22.7%*	*22.8%*	*22.4%*	*21.8%*	
35-44	29.4%	29.1%	28.6%	27.9%	27.4%	
MFPM	*26.9%*	*26.2%*	*25.1%*	*24.5%*	*23.3%*	
45-54	23.0%	22.6%	22.3%	22.5%	23.1%	
MFPM	*21.4%*	*20.2%*	*20.2%*	*21.7%*	*24.4%*	
55-64	15.1%	15.9%	16.2%	16.5%	16.4%	
MFPM	*22.5%*	*25.1%*	*26.2%*	*26.0%*	*25.3%*	
Over 65	0.4%	0.5%	0.4%	0.4%	0.4%	
MFPM	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	
Employees by length of service* *(full-time equivalent employees, as a %)*						
Less than 2 years	15.2%	21.5%	18.7%	18.3%	19.7%	
MFPM	*13.9%*	*16.7%*	*14.4%*	*13.1%*	*15.4%*	
2-5 years	13.8%	14.4%	15.4%	14.1%	11.8%	
MFPM	*10.0%*	*13.0%*	*13.6%*	*12.3%*	*8.5%*	
5-10 years	17.9%	15.1%	14.8%	16.6%	16.5%	
MFPM	*16.7%*	*12.4%*	*12.1%*	*13.1%*	*13.1%*	
10-15 years	13.8%	13.6%	13.5%	13.1%	14.8%	
MFPM	*12.4%*	*13.5%*	*13.1%*	*13.1%*	*13.3%*	
15-20 years	13.1%	10.8%	11.6%	10.7%	7.8%	
MFPM	*13.1%*	*9.6%*	*9.5%*	*8.1%*	*5.6%*	
More than 20 years	26.1%	24.5%	25.9%	27.1%	29.3%	
MFPM	*33.8%*	*34.7%*	*37.4%*	*40.3%*	*44.0%*	

	2017	2015	2015	2014	2013	GRI Indicators
Employee movements* *(permanent work contracts)*						
New hires	7,553	6,456	6,057	6,948	5,869	
MFPM	*1,144*	*871*	*750*	*606*	*588*	
Resignations	2,682	2,185	2,390	2,514	2,452	
MFPM	*160*	*129*	*100*	*119*	*112*	
Dismissals and terminations by mutual agreement	2,524	2,364	2,843	2,400	2,658	
MFPM	*262*	*244*	*250*	*255*	*185*	
Retirement	2,077	1,871	2,115	1,976	2,332	
MFPM	*842*	*794*	*710*	*827*	*1,070*	
Death	120	99	116	128	116	
MFPM	*29*	*26*	*27*	*30*	*33*	
Contract employees *(excluding temp agency workers, as a %)*	5.2%	4.4%	4.4%	4.0%	3.9%	
MFPM	*6.2%*	*5.9%*	*5.9%*	*4.6%*	*3.3%*	
Part-time employees*	**4.4%**	**3.6%**	**3.1%**	**2.8%**	**3.3%**	
Training hours* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						
Percentage of training hours per total hours worked	3.2%	3.3%	3.5%	4.1%	4.4%	
MFPM	*2.5%*	*2.0%*	*2.7%*	*3.0%*	*2.9%*	
Percentage of employees who received training	85%	93%	93%	96%	94%	
Number of training hours per employee per year	54	56	59	70	76	GRI 404-1
Training hours *(excluding temp agency workers and the dealership networks)*	5,107,806	5,300,000	5,635,657	6,628,184	7,167,926	
MFPM	*835,966*	*795,956*	*923,174*	*951,707*	*987,773*	
Production operator absenteeism* *(excluding dealership networks and Russia)* **Europe**	**5.5%**	**5.3%**	**5.4%**	**5.3%**	**5.4%**	
Occupational accidents *(including the dealership networks and Tigar; excluding recently acquired companies, excluding temp agency workers)*						
Number of lost-time incidents, Group-wide	725	796	740	671	659	
Lost-time incident frequency rate	3.8	4.1	3.9	3.6	3.5	GRI 403-2
Lost-time incident severity rate	0.19	0.25	0.24	0.21	0.23	
Number of plants with zero recordable incidents	19	22	27	25	20	
TCIR, Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired over the past two years	1.5	1.6	1.7	1.7	N/A	GRI 403-2
TCIR, entire Group	2.1	2.5	2.7	2.8	N/A	
Number of Progress Ideas*	59,082	59,601	58,980	56,372	50,462	
Diversity* *(employees on payroll, under any form of work contract, excluding temp agency workers)*						
Percentage of women in extended management[1] *(%)*	25.7%	24.8%	24.2%	23.5%	22.5%	
MFPM	*26.8%*	*26.1%*	*24.9%*	*24.3%*	*23.3%*	
Percentage of women among top managers[2] *(%)*	18.1%	17.3%	16.4%	15.7%	14.9%	GRI 405-1
MFPM	*18.3%*	*17.3%*	*15.7%*	*14.7%*	*13.8%*	
Percentage of women among executives[3] *(%)*	11.6%	11.1%	9.9%	9.1%	8.6%	
MFPM	*12.7%*	*11.3%*	*10.2%*	*9.2%*	*8.2%*	
Percentage of local top managers in growth-region countries*	**74%**	**72%**	**68%**	**65%**	**62%**	**GRI 202-2**
Percentage of management positions held by employees promoted from within*	**76%**	**76%**	**75%**	**73%**	**72%**	
Employee engagement rate*	**80%**	**80%**	**77%**	**74%**	**72%**	

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding the dealership networks, Tigar and recently acquired companies.*
** *Management defined as employees with a level of individual responsibility of A to K, according to the Hay method used by the Group.*
(1) *Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.*
(2) *Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.*
(3) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

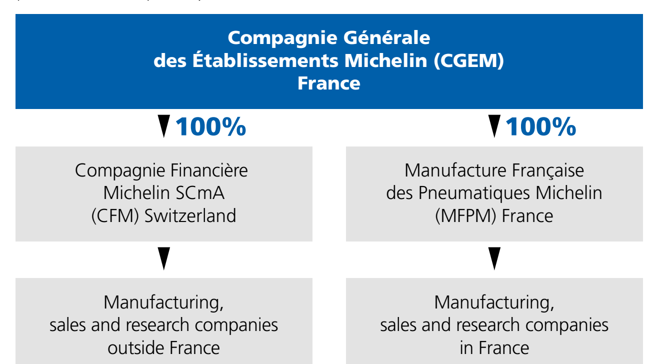
1.3.2 b) Summary table of 2017 environmental data for the Group

Consolidated environmental data	2017	2016	% change vs. 2016	2010	GRI indicator
Water consumption *(m^3/t FP)*	8.60	9.25	-7.0%	11.8	
Energy consumption *(GJ/t FP)*	12.11	12.46	-2.8%	14.4	GRI 302-3 GRI 302-4
Michelin point sources	6.27	6.50	-3.5%	8.0	
Steam purchased, net	0.97	1.02	-5.2%	1.2	
Electricity purchased, net	4.87	4.97	-2.0%	5.2	
CO_2 emissions *(t/t FP)*	0.89	0.99	-10.7%	1.28	GRI 305-4 GRI 305-5
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.44	0.46	-4.2%	0.58	
indirect emissions, steam generation (Scope 2*)	0.04	0.05	-12.5%	0.12	
indirect emissions, electricity generation (Scope 2)	0.41	0.49	-16.4%	0.58	
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	44,750	41,650	+7.4%	24,000	GRI 305-5
Sulfur dioxide emissions *(kg/t FP)*	0.38	0.28	+35%	0.96	GRI 305-7
Nitrogen dioxide emissions *(kg/t FP)*	0.37	0.48	-23%	0.83	GRI 305-7
VOC emissions *(kg/t FP)*	2.07	2.31	-10.4%	2.89	GRI 305-7
Waste generated *(kg/t FP)*	102.2	106.0	-3.6%	109.5	
Waste landfilled *(kg/t FP)*	4.20	4.95	-15.2%	10	
Hazardous waste generated *(kg/t FP)*	7.55	7.74	-2.4%		GRI 306-2
Number and total surface area of facilities located less than one kilometer from a protected area	27 sites totaling 6,400 ha	27 sites totaling 6,400 ha	-		GRI 304-1

* *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, World Business Council for Sustainable Development and World Resources Institute, revised edition.*

1.4 SUMMARY ORGANIZATION CHART

(at December 31, 2017)



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

- manufacture Française des Pneumatiques Michelin (MFPM), a wholly-owned subsidiary that coordinates all of the Group's manufacturing, sales and research operations in France;
- Compagnie Financière Michelin SCmA (CFM), a wholly-owned subsidiary that owns most of the Group's manufacturing, sales and research companies outside of France and coordinates their operations.

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

They are delivered by MFPM, which bills the operating companies on a cost-plus basis.

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

1.5 HISTORY AND DEVELOPMENT OF THE COMPANY

Compagnie Générale des Établissements Michelin traces its origins to Barbier, Daubrée et Cie, a partnership limited by shares set up on July 15, 1863 in Clermont-Ferrand, in the Puy-de-Dôme region of France. Michelin's history closely parallels the history of the pneumatic tire.

1832	Aristide Barbier and Édouard Daubrée open a factory to make farm equipment and rubber balls in Clermont-Ferrand.
July 15, 1863	Barbier, Daubrée et Cie is incorporated as a partnership limited by shares in Clermont-Ferrand, in the Puy-de-Dôme region of France.
1889	The Company is renamed Michelin et Cie. A patent is filed for the first pneumatic tire.
1891	Michelin develops the first removable bicycle tire.
1895	Michelin introduces Éclair, the first car to be fitted with pneumatic tires.
1898	Birth of Bibendum, the Michelin Man.
1900	The first Michelin Red Guide is published.
1906	Michelin opens its first plant outside France, in Turin, Italy.
1927	The first plant opens in the United Kingdom.
1929	Michelin invents the Micheline locomotive and the pneumatic tire for railway cars.
1931	The first plant opens in Germany.
1934	The first plant opens in Spain.
1935	Michelin acquires a controlling interest in French carmaker Citroën, which it will hold until 1975.
1940	Michelin et Cie is renamed Manufacture de Caoutchouc Michelin.
1946	Michelin files a patent for the revolutionary radial tire.
October 15, 1951	Manufacture de Caoutchouc Michelin transfers its manufacturing assets in France to the newly created Manufacture Française des Pneumatiques Michelin and changes its name to Compagnie Générale des Établissements Michelin (CGEM), which has no industrial operations of its own.
1952	Michelin adapts its radial technology to truck tires.
1959	Michelin introduces the first radial tire for earthmovers.
1960	The Group's foreign assets are transferred to a single holding, Compagnie Financière Michelin SCmA (CFM), with its head office at Granges-Paccot, Canton of Fribourg (Switzerland). CFM is an intermediate holding company that also manages the Group's financing, sourced from banks and the financial markets.
1965	Inauguration of the Ladoux Testing and Research Center, north of Clermont-Ferrand.
1960s and 1970s	The Group's expansion gains new momentum with the construction of a large number of plants, first in France, then in other countries, and particularly in the Americas, beginning in the 1970s.
1980	The world's tenth largest tire manufacturer in 1960 and sixth largest in 1970, Michelin becomes the second largest, behind Goodyear, in 1980.
1981	Development of the Michelin X Air, the first radial aircraft tire. Start-up of operations in Brazil with two plants.
1984	1984 Michelin develops the first radial motorcycle tire, which will be brought to market in 1987.
Beginning in 1985	Start-up of manufacturing operations in Asia through joint ventures.
1990	Acquisition of US tire manufacturer Uniroyal Goodrich, following Bridgestone's acquisition of Firestone in 1988.
1993	Michelin invents the new C3M tire manufacturing process.
1994	Launch of the fuel-efficient Energy tire lineup.
Beginning in 1995	Expansion in Eastern Europe.
2001	Positions strengthened in China with the creation of Shanghai Michelin Warrior Tire. Michelin develops the world's largest earthmover tire. Creation of the ViaMichelin travel assistance website.
2003	Introduction of the MICHELIN XeoBib, the first agricultural tire that operates at a constant low pressure.
2004	Michelin presents the Active Wheel.
2005	Michelin supplies tires for the first flight of the Airbus A380, introduces the first dual-compound motorcycle tire, the Michelin Power Race, and launches Michelin Durable Technologies, a package of innovations that revolutionize the performance and longevity of bus and truck tires.
2011	Launch of the "New Phase of Dynamic Growth".
2012	First Passenger car and Light truck tire produced at the Itatiaia plant in Brazil. First Truck tire produced at the new Shenyang 2 plant in China.
2013	First Passenger car and Light truck tire produced at the new Shenyang 2 plant in China. First Truck tire produced at the new Chennai plant in India.
2014	Michelin acquires Sascar, Brazil's leading digital fleet management company.
2015	Launch of the MICHELIN CrossClimate, the world's first summer tire also approved for winter use. Michelin acquires online tire dealers Blackcircles and Allopneus (40%).
2016	The Group outlines four value-creation drivers as part of its ambitious objectives for 2020.
2017	Michelin acquires NexTraq, a leading US provider of telematics solutions for vehicle fleets. The Group develops and expands its Experiences and Mobility lines by partnering with Robert Parker Wine Advocate and the Fooding guide, acquiring a 40% stake in each.

1.6 FACILITIES

Property, plant and equipment are described in note 14 to the consolidated financial statements.

1.6.1 70 PRODUCTION FACILITIES IN 17 COUNTRIES

1.6.1 a) 56 tire production facilities in 17 countries

/ Europe

Country	Location	Products	Number of employees[1] (at December 31, 2017)	Maximum available capacity *(in tonnes/year)*
France	Avallon	Truck tires*	513	20,050
	Bourges	Aircraft tires	600	4,500
	Cataroux[2]	Passenger car – Light truck tires	1,970	9,200
	Cholet	Passenger car – Light truck tires	1,307	58,200
	Gravanches[2]	Passenger car – Light truck tires	732	21,700
	La Roche-sur-Yon	Truck tires	750	62,800
	Le Puy-en-Velay	Earthmover tires	601	45,000
	Montceau-les-Mines	Earthmover tires	1058	27,000
	Roanne	Passenger car – Light truck tires	549	23,700
	Troyes	Agricultural tires	832	54,400
Germany	Bad-Kreuznach	Passenger car – Light truck tires	1,354	82,600
	Bamberg	Passenger car – Light truck tires	816	73,200
	Homburg	Truck tires	1,316	71,400
	Karlsruhe	Truck tires	574	53,200
Spain	Aranda	Truck tires	1,256	158,300
	Lasarte	Two-wheel tires	509	15,100
	Valladolid	Passenger car – Light truck tires – Truck tires* – Agricultural tires	1,590	99,800
	Vitoria	Passenger car – Light truck tires – Earthmover tires	3,072	210,400
Italy	Alessandria	Truck tires	864	89,000
	Cuneo	Passenger car – Light truck tires	2,127	130,900
United Kingdom	Ballymena	Truck tires	430	18,000
	Dundee	Passenger car – Light truck tires	771	52,000
	Stoke on Trent	Truck tires*	362	5,500
Hungary	Budapest	Truck tires	103	0
	Nyiregyhaza	Passenger car – Light truck tires	1056	29,900
Poland	Olsztyn	Passenger car – Light truck tires – Truck tires – Agricultural tires	4,602	204,800
Romania	Victoria	Passenger car – Light truck tires	1,322	43,200
	Zalau	Truck tires	1,190	43,200
Serbia	Pirot	Passenger car – Light truck tires – Two-wheel tires	3,333	127,600
Russia	Davydovo	Passenger car – Light truck tires – Truck tires*	719	18,300

(1) Full-time equivalent.
(2) Plant located in Clermont-Ferrand.
** Retread operations only.*

/ North America

Country	Location	Products	Number of employees[1] (at December 31, 2017)	Maximum available capacity *(in tonnes/year)*
United States	Ardmore	Passenger car – Light truck tires	1,815	133,300
	Asheboro	Truck tires[2]	190	30,600
	Columbia-Lexington-Anderson	Passenger car – Light truck tires – Earthmover tires	3,185	268,200
	Covington	Truck tires	147	30,700
	Dothan	Passenger car – Light truck tires	546	54,000
	Fort Wayne	Passenger car – Light truck tires	1,600	139,600
	Greenville 1	Passenger car – Light truck tires	981	121,500
	Greenville 2	Passenger car – Light truck tires	588	25,400
	Norwood	Aircraft tires	443	5,900
	Spartanburg	Truck tires	1,092	122,300
	Tuscaloosa	Passenger car – Light truck tires	1,344	92,100
Canada	Bridgewater	Passenger car – Light truck tires	1,130	61,200
	Pictou	Passenger car – Light truck tires	615	9,000
	Waterville	Truck tires	1,311	117,500
Mexico	Queretaro	Passenger car – Light truck tires	427	19,000
	Leon	Passenger car – Light truck tires	279	0

(1) Full-time equivalent.
(2) Retread operations only.

/ South America

Country	Location	Products	Number of employees[1] (at December 31, 2017)	Maximum available capacity *(in tonnes/year)*
Brazil	Campo Grande	Truck tires – Earthmover tires	2,855	146,500
	Resende – Itatiaia	Passenger car – Light truck tires – Truck tires[2]	1,302	41,200
	Sao Paulo – Guarulhos	Two-wheel tires	981	34,700
	Manaus	Two-wheel tires	625	24,800

(1) Full-time equivalent.
(2) Retread operations only.

/ Asia (excluding India)

Country	Location	Products	Number of employees[1] (at December 31, 2017)	Maximum available capacity *(in tonnes/year)*
China	Shenyang 1 and 2	Passenger car – Light truck tires – Truck tires	3,015	172,800
	Shanghai	Passenger car – Light truck tires	2,033	83,000
Thailand	Laem Chabang	Passenger car – Light truck tires	1,934	101,500
	Nongkae	Truck tires – Aircraft tires	1,737	59,600
	Phrapadaeng	Passenger car – Light truck tires – Truck tires – Two-wheel tires	1,392	50,900

(1) Full-time equivalent.

/ Africa/India/Middle East

Country	Location	Products	Number of employees[1] (at December 31, 2017)	Maximum available capacity *(in tonnes/year)*
India	Chennai	Truck tires	915	20,300

(1) Full-time equivalent.

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

1.6.1 b) 14 dedicated semi-finished product and component plants in seven countries

Country	Location	Products	Number of employees[1] (at December 31, 2017)
France	Bassens	Synthetic rubber	394
	Combaude[2]	Molds	593
	Golbey	Metal cables	550
	Tours	Membranes	207
	Vannes	Metal cables	435
Germany	Trier	Metal cables	99
Italy	Fossano	Metal cables	25
	Turin	Compounds	334
Romania	Zalau	Metal cables	422
United States	Anderson	Metal cables	283
	Louisville	Synthetic rubber	347
China	Shanghai	Metal cables	258
Thailand	Rayong	Metal cables	515
	Hat Yai	Compounds	279

(1) Full-time equivalent.
(2) Plant located in Clermont-Ferrand.

The above list does not include:

- the natural rubber production units;
- the franchised RECAMIC and Michelin Retread Technologies (MRT) retreading plants.

1.6.2 OTHER MATERIAL PROPERTY ASSETS

1.6.2 a) Headquarters – Offices – Research centers

Country	Location	Products
France	Carmes[1]	Headquarters
	Ladoux[1]	Research center
Japan	Ota	Research center
Spain	Almeria	Testing plant
United States	Greenville – HNA	Offices
	Greenville – MARC	Research center

(1) Facilities located in Clermont-Ferrand.

1.6.2 b) Other material property asset costs

Please refer to note 14 to the consolidated financial statements.

1.7 RISK FACTORS

In today's constantly evolving economic, competitive and technological environment, anticipating and managing risks are central to the success of Michelin's corporate strategy. Its geographic reach and leadership position in the global tire market, as well as the diversity of its business activities, mean that the Group is exposed to a variety of risks, both endogenous and exogenous. Strategic, financial, industrial, commercial, environmental and people-related risks have been clearly identified and are being managed in ways that minimize their occurrence and impact.

For Michelin, a risk corresponds to the possibility of an event occurring whose consequences could impact its objectives, particularly as concerns its financial position and reputation.

To ensure that risks are rigorously managed, a global risk management process is in place that complies with the most exacting international professional standards such as ISO 31000, COSO and the reference framework of the French securities regulator, the AMF. This process is continuously updated to reflect the latest regulatory changes and risk management best practices.

As part of its risk mapping procedure, Michelin has reviewed the risks that could have a material adverse effect on its operations, financial position or earnings. The Group does not currently consider that it is exposed to any significant risks other than those presented herein. However, it is possible that other risks not described below or which have not been identified to date could also have a negative impact on its earnings, objectives, reputation or share price.

As part of this global process, certain procedures are in place to manage cross-functional risks. Two of these are described below as examples.

Insurance coverage

Some risks can be transferred to insurance companies in line with the Group's insurance strategy, with different solutions used depending on the frequency of the risks concerned.

/ High-frequency risks

To cover high-frequency risks, integrated global insurance programs have been arranged, to the extent possible, in the insurance and reinsurance markets. These mainly concern property & casualty/ business interruption and liability insurance.

- The property & casualty/business interruption insurance program provides combined total coverage of €1.5 billion, except for natural disasters, for which the coverage limit may be lower depending on the country.
- The liability insurance program comprises three key coverage areas:
  - product liability for the manufacturing companies;
  - general liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
  - environmental liability coverage for all Group companies.
- The Cyber risk insurance program covers damages (including additional operating costs) as well as damages to third parties, with a combined limit of €150 million per year.

/ Medium-frequency risks

To reduce costs by pooling medium-frequency risks, the Group has set up a captive insurance and reinsurance company to provide coverage primarily in the following areas with limits commensurate with its resources:

- property & casualty risks, with a €50 million limit per claim;
- product liability in the United States and Canada, with limits of US$20 million per claim and US$40 million per year;
- product recall expenses, with limits of US$25 million per claim and US$50 million per year;
- cyber security risks, with a €5 million limit per claim and per year.

Including premiums paid to the captive insurance and reinsurance company, aggregate premiums amounted to €64.7 million in 2017, a decline of €1 million from 2016 despite notable coverage improvements and, in particular, longer limits in some cases.

Crisis management

A second cross-functional process concerns crisis management.

Given its size, the nature of its manufacturing and commercial activities and its environmental and social responsibility, Michelin is exposed in the course of its operations to the risk of crises that could affect its business and, potentially, its reputation. To foresee, anticipate and effectively respond to any such events, the Group has set up a crisis management system, which is overseen by the Group Audit and Risk Management Department. The system's underlying processes are regularly updated to ensure maximum effectiveness and responsiveness. It is deployed among the various management and other teams through appropriate simulation exercises and training seminars.

For more information about risk factors, please refer to section 2.9 below.

1.8 GOVERNANCE

Tire manufacturing is a capital-intensive industry in which the pace of technological innovation is relatively slow. It is therefore essential to be able to devise long-term plans and follow them through.

Throughout its history, Compagnie Générale des Établissements Michelin (CGEM), the Group's parent company, has been organized as a partnership limited by shares (S.C.A.).

This partnership model offers three main advantages:

- it aligns Group management decisions with shareholder interests;
- it guarantees clear segregation of management and supervisory powers;
- it fosters direct ties with each shareholder, as all shares must be registered.

There are two partner categories:

The limited partners or shareholders, who provide capital, elect the members of the Supervisory Board and the Managing Partners and approve the financial statements presented by Management.

Their liability is limited to the amount of their investment. The fact that all of their shares are registered enables the Group to address their expectations more effectively. They receive a return on their investment in the form of a dividend.

The General Partners, who have unlimited personal liability for the Company's debts.

Since May 11, 2012, Michelin has had two General Partners: Jean-Dominique Senard, General Managing Partner (Chief Executive Officer), who was re-elected for a four-year term on October 31, 2014, and Société Auxiliaire de Gestion (SAGES), Non-Managing General Partner.

For more information, please refer to section 4 below.

1.8.1 MANAGEMENT BODIES: THE CHIEF EXECUTIVE OFFICER AND THE GROUP EXECUTIVE COMMITTEE

Assisted by a 12-member Executive Committee, the Chief Executive Officer is responsible for managing and leading the Company. His core responsibilities are to:

- define and implement the Group's strategy;
- lead the Group's business;
- establish internal control and risk management procedures and oversee their implementation;
- approve the separate and consolidated financial statements;
- define financial information policies;
- prepare the various reports to shareholders.

These responsibilities are exercised under the oversight of the Supervisory Board.

1.8.2 SUPERVISORY BODY: THE SUPERVISORY BOARD

The Supervisory Board exercises permanent oversight of the Company's management and assesses its quality on behalf of the shareholders, presenting a report thereon at each Annual Shareholders Meeting.

Its oversight procedures include:

- reviewing the separate and consolidated financial statements approved by the Chief Executive Officer;
- assessing the quality of the Group's financial information;
- assessing the Group's internal control and risk management systems;
- reviewing strategic roadmaps and their implementation;
- ensuring that shareholders' rights are respected.

The Supervisory Board is regularly informed about the Group's strategy and outlook.

In addition, pursuant to the Board's internal rules, the Chief Executive Officer must submit to the Board details of any planned capital projects, proposed new commitments to dispose of assets or possible business acquisitions representing material amounts before any final decision is made.

Lastly, in application of the bylaws, the Board's internal rules and the internal rules of the Compensation and Appointments Committee, the Supervisory Board must express an opinion on or approve (depending on the case) all decisions concerning the Managing Partners (election, re-election and removal from office of a General Managing Partner or the Chief Executive Officer) and the determination of the compensation packages for General Managing Partners and the Chief Executive Officer.

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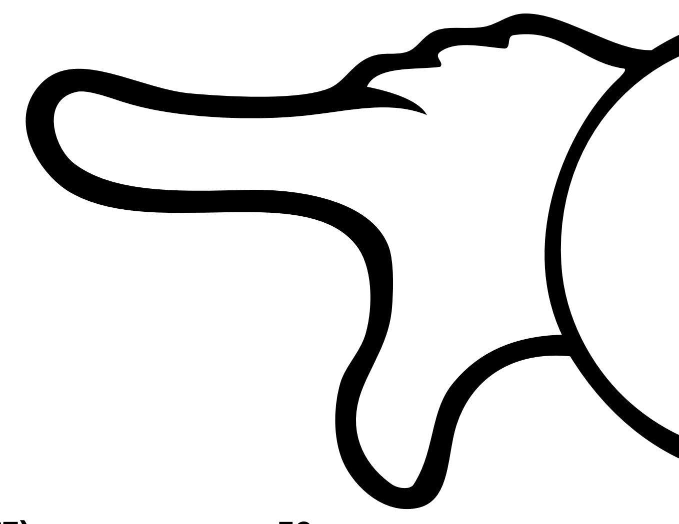

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2.1 TIRE MARKETS

2.1.1 A GLOBAL MARKET WORTH SOME $150 BILLION(1) IN 2016

The global tire market totaled $150 billion in 2016[1], with light-vehicle tires accounting for around 60% of sales and truck tires 30%[2]. By volume, it represented more than 1.5 billion car and light truck tires and a little more than 215 million truck and bus tires[2]. In all, three out of four tires were sold in the replacement market.

Over the 2015-2020 period, Michelin expects new tire demand to grow by an average of 2.5% a year in the Passenger car and Light truck segment and by an average 1.5% a year in the new Truck tire segment. Over the same period, the mining tire market is forecast to expand by an average 6.5% a year and the agricultural tire market by 1.5%.

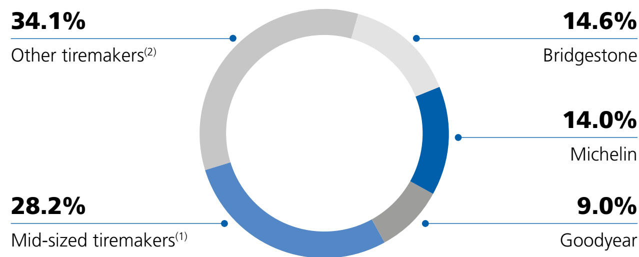
Longer term, tire demand is likely to expand by 1-2% a year in mature markets and by 5-10% a year in the new markets.

New standards

Tire performance ratings displayed on standardized labels have been mandatory across the European Union since November 2012, with stricter standards introduced in November 2016. Similar legislation has been in effect in South Korea since 2012 (labeling) and 2013 (thresholds) for Passenger car tires and since 2014 for Light truck tires, while the standardized labeling introduced in Japan in 2010 is being extended to other parameters, such as rolling noise. Legislation introducing minimum performance standards for rolling resistance and wet traction was passed in the United States in December 2015 and will probably be implemented in 2018, and a new labeling system to help consumers is scheduled for launch in 2018. Regulated tire labeling systems are also under consideration in China and Brazil.

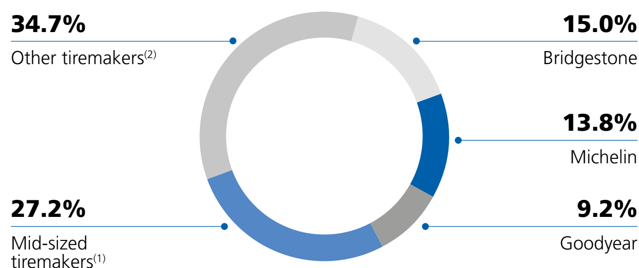
These trends are favorable to low rolling resistance tires, where Michelin sets the market standard. Original equipment sales of these tires are expected to increase by around 200 million units between 2010 and 2020 to a total of nearly 500 million units a year[2].

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2016



Source: 2016 sales in US dollars, published in Tire Business, August 2017.
(1) Tiremakers with a 2-7% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

THE GLOBAL TIRE MARKET BY MANUFACTURER IN 2015



Source: 2015 sales in US dollars, published in Tire Business, August 2016.
(1) Tiremakers with a 2-7% market share according to the Tire Business ranking.
(2) Tiremakers with less than a 2% market share according to the Tire Business ranking.

2.1.2 TIRE MARKETS IN 2017

In 2017, the Passenger car/Light truck and Truck tire markets in Europe, North America and China were shaped by the surge in buying in the first quarter ahead of the price increases announced across the industry and the subsequent easing of demand in the following quarters. The other new markets enjoyed firmer demand over the entire year. The specialty tire markets sustained the rebound that began in the final quarter of 2016, delivering brisk growth led by the mining businesses and the agricultural tire segment.

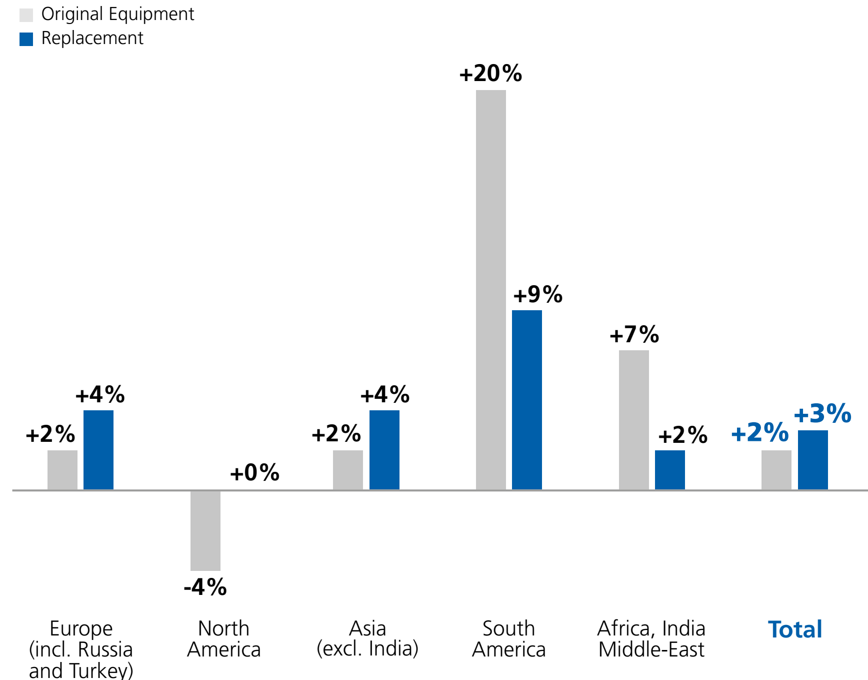
Methodological note: Tire market estimates reflect sell-in data published by local tiremaker associations, plus Michelin's own estimates of sales by tire manufacturers that do not belong to any association. These estimates are based primarily on import-export statistics and are expressed in the number of tires sold. They are regularly adjusted and may be updated following their initial publication.

(1) Source: Tire Business, August 2017.
(2) Michelin estimates.

2.1.3 PASSENGER CAR AND LIGHT TRUCK TIRE MARKETS IN 2017

In 2017, the global original equipment and replacement **Passenger car and Light truck** tire market expanded by 3% in number of tires sold.

THE GLOBAL PASSENGER CAR AND LIGHT TRUCK TIRE MARKET, 2017 *VS.* 2016



Michelin estimates.

2.1.3 a) Original equipment

Worldwide original equipment demand ended the year up 2% in number of tires sold, led by gains in every geography except North America, where annual performance was dragged down by a sharp contraction in the second half.

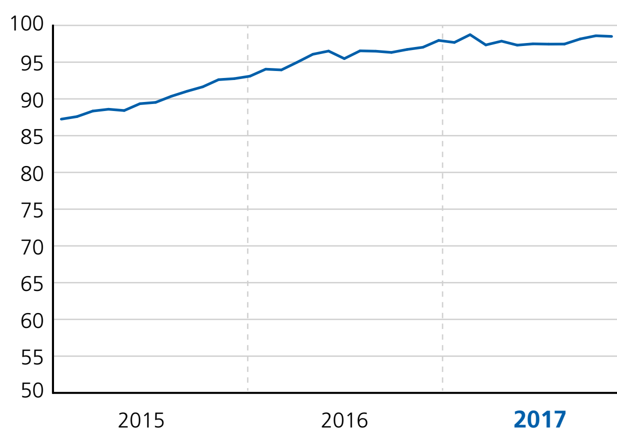
Passenger car and Light truck tire markets Original equipment *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[1]	104.4	102.5	+2%	+4%	+5%	+2%	+0%	-5%	+6%
North America[2]	83.8	87.6	-4%	-8%	-6%	-11%	-0%	-2%	+2%
Asia (excluding India)	215.7	210.9	+2%	+1%	-1%	+5%	+3%	+1%	+5%
South America	16.4	13.7	+20%	+21%	+15%	+27%	+19%	+18%	+21%
Africa/India/Middle East	35.5	33.3	+7%	+4%	+2%	+6%	+10%	+7%	+12%
TOTAL	**455.7**	**447.9**	**+2%**	**+1%**	**-0%**	**+2%**	**+3%**	**-0%**	**+6%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

Demand in **Europe** rose by 2% overall during the year, reflecting the combined impact of a 1% increase in Western Europe (lifted by a 4% gain in the final quarter) and a robust 14% upsurge in the Eastern European countries.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN EUROPE

(in millions of tires – moving 12 months – excluding Russia)

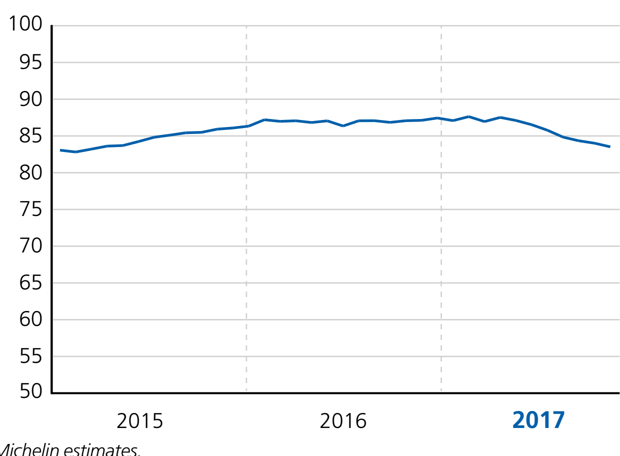


Michelin estimates.

The **North American** market ended the year down 4%, as demand tumbled 8% in the second half after holding firm in the first, in line with the decline in automobile production.

THE OE PASSENGER CAR AND LIGHT TRUCK MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

Demand in **Asia (excluding India)** rose by 2% overall in 2017. Growth in China cooled to 2%, reflecting rising sales of both SUVs and luxury cars, with demand for compact cars declining following a reduction in government incentives. Demand was up 5% in Japan and stable in South Korea.

South American markets delivered a sharp 20% upturn, driven by both domestic and export sales.

In the **Africa/India/Middle East** region, demand climbed 7% on the back of a 7% increase in the Indian market, where vehicle sales rose in an economy that remains strong despite the government's demonetization drive in late 2016.

2.1.3 b) Replacement

The worldwide replacement tire market rose by 3% over the year, primarily due to gains in the new markets, with demand in the European, North American and Chinese markets slowing in the second and third quarters following significant first-quarter buying ahead of price increases. The size mix continued to improve, while entry-level brand sales enjoyed stronger growth in Europe, North America and South America.

Passenger car and Light truck tire markets Replacement *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[(1)]	363.1	350.8	+4%	+3%	+2%	+3%	+4%	+1%	+8%
North America[(2)]	289.0	288.7	+0%	-0%	+1%	-1%	+0%	-2%	+3%
Asia (excluding India)	280.3	270.0	+4%	+2%	+0%	+5%	+5%	+4%	+7%
South America	82.6	76.0	+9%	+10%	+10%	+11%	+7%	+7%	+6%
Africa/India/Middle East	108.2	105.9	+2%	+2%	+2%	+2%	+2%	+2%	+2%
TOTAL	**1,123.2**	**1,091.4**	**+3%**	**+2%**	**+2%**	**+3%**	**+3%**	**+1%**	**+6%**

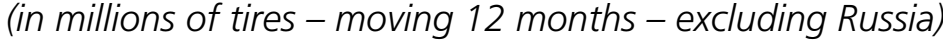
(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

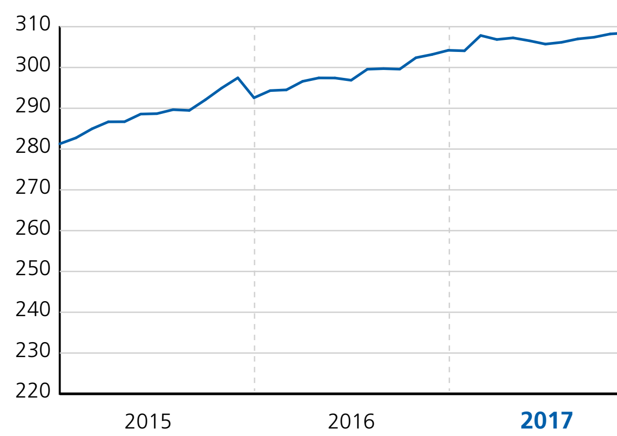
The **European** market saw a 4% overall increase during the year. Demand in Western Europe edged back 1%, as gains in Spain (up 5%), France (up 3%) and Germany (up 1%) were offset by declines in the United Kingdom (down 8%) and, to a lesser extent, the Nordic countries (down 4%). Markets in Central Europe and Eastern Europe reported robust growth, ending the year up 12% and 16% respectively. Sales of all-season tires remained firm throughout the year, with strong growth in Europe. Winter tire demand was boosted by year-end weather conditions.

The following table shows the change in demand by major country, with growth varying in the non-euro geographies depending on export sales.

Passenger car and Light truck tires – Replacement	Year-on-year change
WESTERN EUROPE	**+2%**
▶ France	+3%
▶ Spain	+5%
▶ Italy	-2%
▶ United Kingdom	-8%
▶ Germany	+1%
▶ Poland	+15%
▶ Turkey	+12%
EASTERN EUROPE	**+16%**
▶ Russia	+22%

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN EUROPE

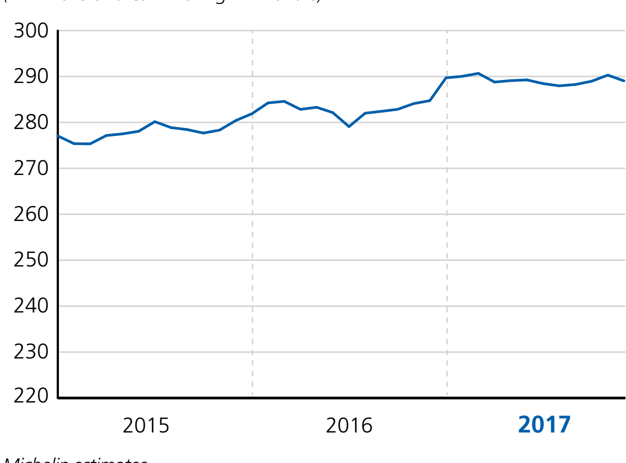

(in millions of tires – moving 12 months – excluding Russia)



Michelin estimates.

THE REPLACEMENT PASSENGER CAR AND LIGHT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of tires – moving 12 months)



Michelin estimates.

The **North American** market was flat for the year, although after two straight quarters of decline, demand picked up 1% in the final three months. The 5% contraction in Mexico was offset by a 7% gain in Canada, while in the United States, the favorable economic environment failed to move the market off of last year's levels.

Demand **in Asia (excluding India)** rose by 4%, as sustained growth in China (up 7%) made up for the tepid 1% increase in Japan.

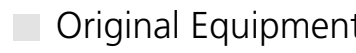
The **South American** market rebounded 9%, with a 15% gain in Brazil led by a significant, exchange rate-driven increase in Asian imports.

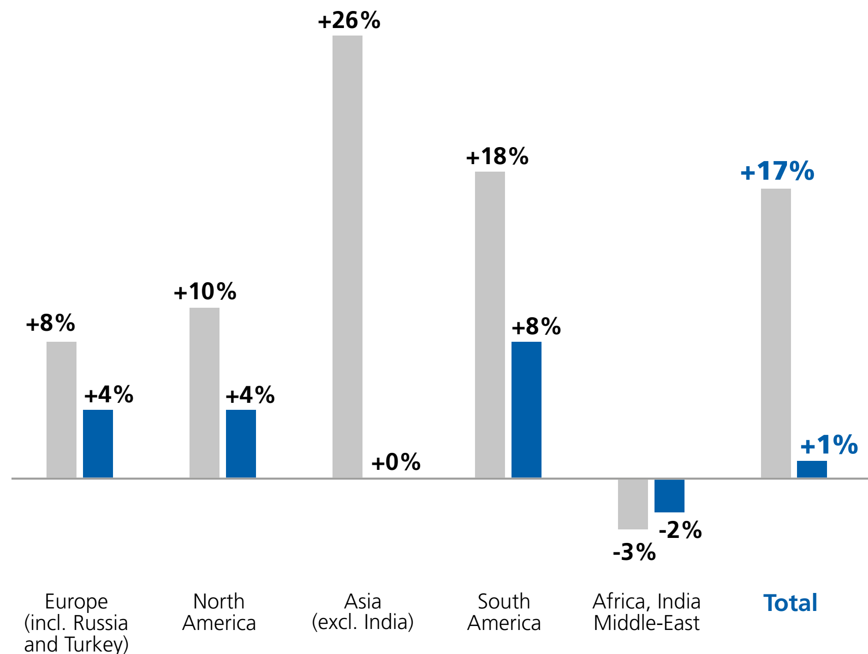
The **Africa/India/Middle East** market rose by 2%, with a strong 7% increase in India at a time of economic transition, and more modest gains in Africa and the Middle East due to political instability in certain countries and weakness in the oil-price dependent economies.

2.1.4 TRUCK TIRE MARKETS IN 2017

Supported by rising demand for overland transport in a favorable economic environment, the number of new radial and bias **Truck** tires sold worldwide rose by 4% in 2017. The year was shaped by a sharp 17% surge in original equipment sales and, in the replacement segment, by heavy buying in the first quarter ahead of the price increases announced across the industry and the subsequent easing of demand over the rest of the year (for a 1% increase overall).

THE GLOBAL **TRUCK** TIRE MARKET, 2017 *VS.* 2016





Michelin estimates – new tire market only.

2.1.4 a) Original equipment

In 2017, the **global OE Truck tire market,** as measured by the number of new radial and bias tires sold, rose by 17% off of low comparatives, led by a rebound in demand in China, North America, South America and Eastern Europe.

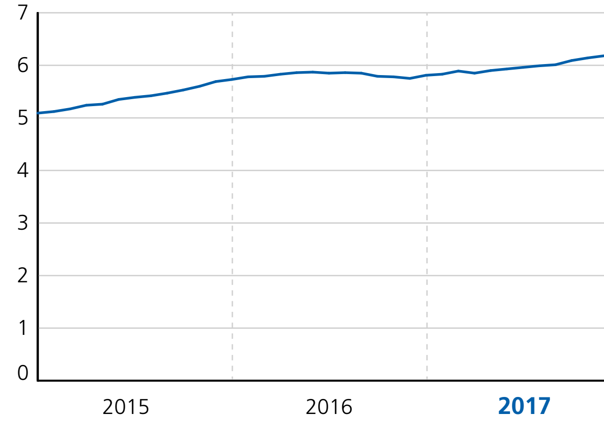
Truck tire markets Original equipment *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe[1]	7.0	6.5	+8%	+9%	+12%	+7%	+7%	+4%	+11%
North America[2]	5.8	5.3	+10%	+17%	+9%	+26%	+4%	+14%	-6%
Asia (excluding India)	28.6	22.7	+26%	+28%	+26%	+30%	+24%	+25%	+24%
South America	1.1	0.9	+18%	+40%	+65%	+22%	-1%	+5%	-6%
Africa/India/Middle East	5.2	5.3	-3%	+10%	+11%	+8%	-14%	-25%	-3%
TOTAL	**47.7**	**40.7**	**+17%**	**+22%**	**+20%**	**+23%**	**+13%**	**+13%**	**+13%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

The **European** market, which gained momentum at year-end to deliver an 8% overall increase for the year, benefited from low interest rates and truck purchases in response to the sustained demand for overland transport. In the Eastern European countries, an improving economy helped to drive a 14% rebound in the market.

THE OE TRUCK TIRE MARKET IN EUROPE

(in millions of new tires – moving 12 months – excluding Russia)

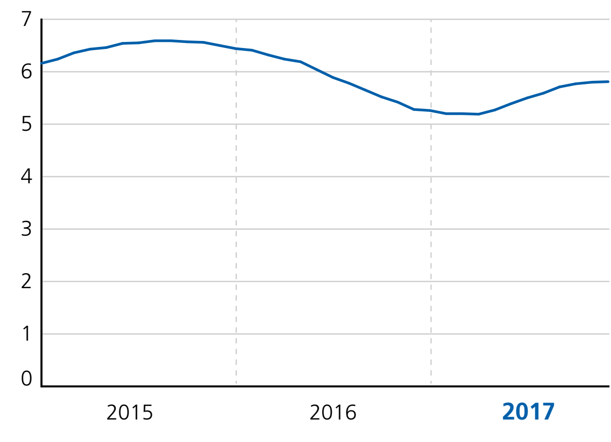


Michelin estimates.

In North America, the market enjoyed a rebound during the year, gaining 10% as the favorable economic environment encouraged trucking companies to upgrade their fleets.

THE OE TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Demand for radial and bias tires **in Asia (excluding India)** jumped 26% overall, led by the very robust 32% growth in China, where legislation limiting truck size and weight drove higher demand over the first three quarters. Sustained growth in the Thai market offset softer demand in Japan.

The **South American** market bounced back in the second half, surging 40% and ending the year up 18%, supported by the first signs of an economic recovery in Brazil and by export sales.

The **Africa/India/Middle East** radial and bias tire market retreated by 3%, reflecting (i) a 4% falloff in demand in India despite a timid upturn at year-end thanks to the new carbon emissions standards; and (ii) stable markets in Africa and the Middle East due to local economic and geopolitical issues.

2.1.4 b) Replacement

The **global replacement market** rose by 1%, on very brisk gains in every geography, except Africa/India/Middle East, led by early-year buying ahead of price increases.

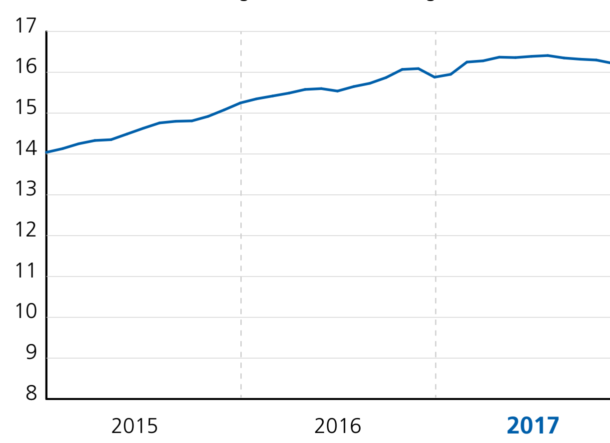
Truck tire markets Replacement *(in millions of tires)*	**2017**	**2016**	**2017/2016**	**Second half 2017/2016**	**Fourth quarter 2017/2016**	**Third quarter 2017/2016**	**First half 2017/2016**	**Second quarter 2017/2016**	**First quarter 2017/2016**
Europe(1)	24.4	23.6	+4%	+0%	-3%	+4%	+7%	+3%	+12%
North America(2)	25.4	24.5	+4%	+9%	+2%	+15%	-1%	-7%	+5%
Asia (excluding India)	84.9	84.5	+0%	-2%	-3%	-0%	+3%	-2%	+9%
South America	14.1	13.0	+8%	+11%	+12%	+10%	+5%	+4%	+7%
Africa/India/Middle East	31.0	31.8	-2%	-1%	-0%	-2%	-4%	-3%	-4%
TOTAL	**179.9**	**177.5**	**+1%**	**+1%**	**-1%**	**+3%**	**+2%**	**-2%**	**+6%**

(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

The **European** market rose by 4% over the year, led by demand from the freight and construction industries. The overall gain reflected growth in France (up 7%), Turkey (up 9%) and Russia (up 10%), flat demand in Germany and declines in Italy (down 2%) and Spain (down 3%).

THE REPLACEMENT TRUCK TIRE MARKET IN EUROPE

(in millions of new tires – moving 12 months – excluding Russia)

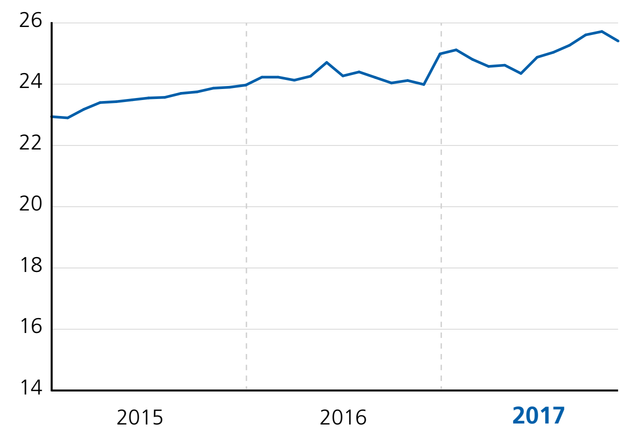


Michelin estimates.

Demand **in North America** ended the year up 4%, as a slight decline in the first half was offset by a 9% upsurge in the second, buoyed by the favorable economic environment. Growth slowed to 2% in the fourth quarter, due to comparison with year-earlier demand, which was boosted by early buying of Chinese tires ahead of proposed import duties.

THE REPLACEMENT TRUCK TIRE MARKET IN NORTH AMERICA

(in millions of new tires – moving 12 months)



Michelin estimates.

Replacement radial and bias tire markets **in Asia (excluding India)** leveled off during the year. Demand edged up just 1% in China, held back by the robust OE market and by the impact of emissions controls. It also improved by 3% in Japan, but declined by 3% in Thailand. Radial technology enjoyed another period of strong growth in the ASEAN markets.

The **South American** radial and bias tire market rebounded by a strong 8% in 2017, thanks in particular to the improving economy in Brazil.

In the **Africa/India/Middle East** region, the radial and bias market fell back 3%, in an economic environment that was at best stable over the year, with the exception of a few sub-Saharan countries. In India (down 3%), local economic and tax reforms dampened demand for freight transport and, by extension, truck tires.

2.1.5 SPECIALTY TIRE MARKETS IN 2017

Earthmover tires: after three straight years of decline, the mining tire markets rebounded by 15% in 2017, as inventory drawdowns bottomed out, production at both multinational and mid-sized mining companies recovered, and demand for outsourcing reappeared.

Original equipment markets turned sharply upwards, by 25% excluding China, at a time of low inventory and rising demand for mining machines.

Demand for infrastructure and quarry tires is improving, lifted by the favorable economic environment.

Agricultural tires: original equipment markets ended 2017 up 10%, as the early-year slowdown gave way to a sharp, unexpected upturn in OEM demand in the second quarter.

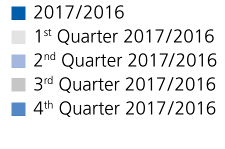
The replacement markets in mature countries are down over the year, the decline seen in the second half of the year exceeding the growth of the beginning of the year fueled by price increases.

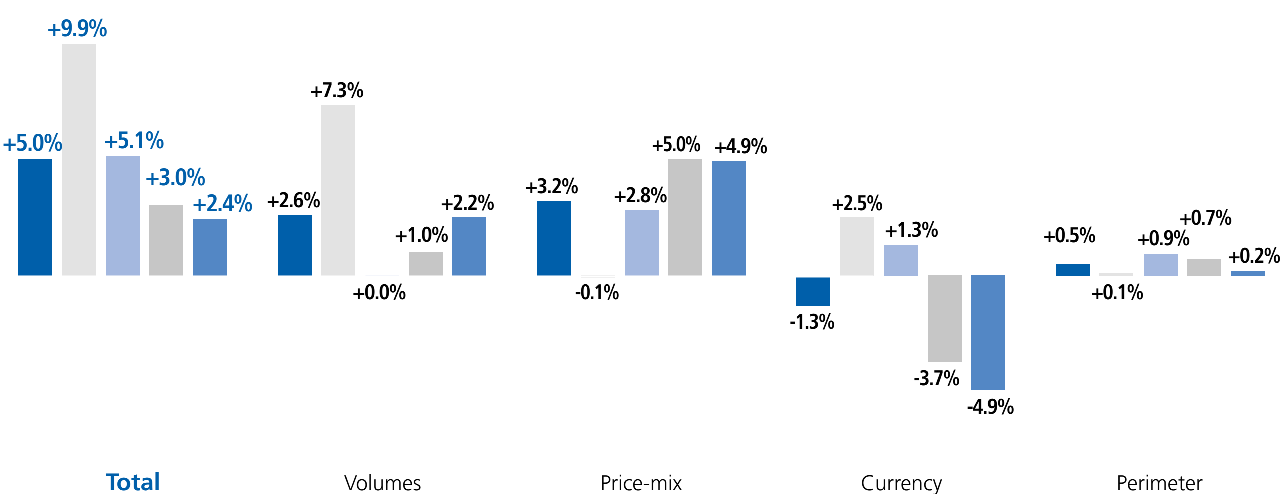
Two-wheel tires: motorcycle tire markets are expanding in the mature regions and are also trending upwards in the emerging economies.

Aircraft tires: demand in the commercial aircraft segment continued to grow, led by the increase in passenger traffic.

2.2 NET SALES

2.2.1 ANALYSIS OF NET SALES





Net sales stood at €21,960 million for the year, up 5.0% from €20,907 million in 2016 due to the combined impact of the following factors:

- a €543 million increase from the 2.6% growth in volumes, led by the sharp rebound in the mining tire businesses and the Group's sales performance;
- a €668 million or 3.2% increase from the price mix, primarily stemming from the €524 million or 2.5% improvement in prices, which, as announced, had a rapidly increasing impact over the year, from a negative 1.0% in the first quarter to a positive 2.1% in the second, and a positive 4.4% in the third and fourth respectively. This reflected the implementation of all of the announced price increases in the replacement segment and the contractual adjustments following application of raw materials indexation clauses in the indexed businesses. The mix effect added €144 million to net sales, or 0.7% to growth, thanks to (i) the highly positive product mix, primarily led by the 19% growth in volumes in the premium 18-inch and larger segment; and (ii) the favorable impact of the rebound in the mining tire business, which were somewhat dampened by the unfavorable impact of the relative growth rates of OE and replacement tire sales;
- the currency effect, which after holding positive in the first half, ended the year at a negative 1.3%, trimming €261 million from net sales. It primarily reflected the euro's unfavorable moves against the US dollar, Turkish lira and Chinese yuan, which were only partially offset by more favorable movements against the Brazilian real and the Russian ruble;
- a €103 million or 0.5% increase from changes in the scope of consolidation, including (i) the first-time consolidation of Levorin, a Brazilian two-wheel tiremaker acquired in December 2016, and NexTraq, a US truck fleet telematics solutions provider acquired in July 2017; and (ii) the disposal of TCi dealerships in the United States.

Note that net sales of tire-related services and solutions totaled €1,112 million in 2017, *versus* €1,059 million in 2016.

(in € millions)	2017	Second half 2017	Fourth quarter 2017	Third quarter 2017	First half 2017	Second quarter 2017	First quarter 2017
NET SALES	**21,960**	**10,901**	**5,566**	**5,335**	**11,059**	**5,492**	**5,567**
Year-on-year change	**+1,052**	**+285**	**+129**	**+156**	**+767**	**+265**	**+502**
Volumes	+543	+171	+119	+52	+372	+1	+371
Price mix	+668	+523	+265	+259	+145	+148	-3
Currency effect	-261	-460	-267	-193	+198	+70	+128
Scope of consolidation	+103	+51	+12	+38	+52	+46	+6
Year-on-year % change	**+5.0%**	**+2.7%**	**+2.4%**	**+3.0%**	**+7.5%**	**+5.1%**	**+9.9%**
Volumes	+2.6%	+1.6%	+2.2%	+1.0%	+3.6%	+0.0%	+7.3%
Price mix	+3.2%	+4.9%	+4.9%	+5.0%	+1.4%	+2.8%	-0.1%
Currency effect	-1.3%	-4.3%	-4.9%	-3.7%	+2.0%	+1.3%	+2.5%
Scope of consolidation	+0.5%	+0.5%	+0.2%	+0.7%	+0.5%	+0.9%	+0.1%

2.2.2 NET SALES BY REPORTING SEGMENT

(in € millions)	2017	Second half 2017	Fourth quarter 2017	Third quarter 2017	First half 2017	Second quarter 2017	First quarter 2017
CONSOLIDATED TOTAL	**21,960**	**10,901**	**5,566**	**5,335**	**11,059**	**5,492**	**5,567**
Passenger car/Light truck tires & related distribution	12,479	6,216	3,237	2,979	6,263	3,062	3,201
Truck tires & related distribution	6,123	3,082	1,518	1,564	3,041	1,523	1,518
Specialty businesses[1]	3,358	1,603	811	792	1,755	907	848
Year-on-year % change	**+5.0%**	**+2.7%**	**+2.4%**	**+3.0%**	**+7.5%**	**+5.1%**	**+9.9%**
Passenger car/Light truck tires & related distribution	+3.1%	+0.4%	+0.4%	+0.5%	+5.9%	+1.4%	+10.5%
Truck tires & related distribution	+2.6%	+0.8%	-0.5%	+2.0%	+4.6%	+3.1%	+6.2%
Specialty businesses[1]	+18.4%	+17.3%	+18.4%	+16.1%	+19.5%	+24.1%	+14.9%

(1) Specialty businesses: Earthmover, Agricultural, Two-Wheel and Aircraft tires; Michelin Travel Partner, BookaTable and Michelin Lifestyle.

2.2.2 a) Passenger car/Light truck tires & related distribution – Analysis of net sales

Volumes in the Passenger car/Light truck tires & related distribution business increased by 2% in 2017, with an especially robust 8% gain in the first quarter driven by buying ahead of the price increases applied in every geography. This was followed by a 2% contraction in the second quarter as demand eased before recovering in the second half, with gains of 1% in the third quarter and 2% in the fourth. During the year, the Group further strengthened its positions in the original equipment segment.

In the aggressively competitive **European** market, sales in Western Europe rose solidly in the OE segment, while replacement volumes felt the impact of higher prices, albeit with a growing proportion of 18-inch and larger tires in the mix and a successful performance by the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines. In Eastern Europe, the other Group brands helped to drive a strong rebound in sales as demand turned upwards again.

In North America, where markets remain highly import-driven, net sales edged back slightly over the year, demonstrating resilience in the weakening OE segment and holding steady on the replacement side, supported by the new MICHELIN Pilot Sport 4S, MICHELIN Defender and MICHELIN Primacy XC lines.

The decline in net sales **in South America** reflected the Group's priority focus on maintaining margin integrity and a firm pricing policy, particularly in the 18-inch and larger segment.

In Asia (excluding India), net sales in China are expanding, thanks to a deepening presence with local OEMs and growth in line with the market in the replacement segment. Positions in Southeast Asia are being consolidated in both the OE and replacement segments by enhancing the product offering and continuing to optimize the dealership network.

Sales volumes were unchanged **in the Africa/India/Middle East** region, where the Group's positions improved somewhat in India and business in the rest of the region felt the impact of local geopolitical and economic difficulties.

In all, net sales in the Passenger car/Light truck tires & related distribution segment rose by 3.1% in 2017, to €12,479 million from €12,105 million the year before. The 2% increase in volumes was dampened by the geographic mix in the original equipment segment. Prices generally ended the period higher, lifted by the increases introduced in response to rising raw materials costs. The still favorable mix effect reflected the success of the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines, as well as the 19% growth in sales of MICHELIN brand 18-inch and larger tires in a segment that expanded by 13% over the year.

2.2.2 b) Truck tires & related distribution – Analysis of net sales

Volumes in the Truck tires & related distribution business slipped 2% in 2017, with a robust 3% gain in the first quarter driven by buying ahead of the price increases announced in every geography, followed by a 3% contraction in each of the following quarters, reflecting the priority focus on preserving margins and maintaining higher prices.

In the highly competitive **Western European** market, the first quarter saw very strong growth in sales of new Group tires, driven by dealer buying ahead of the price increases, even when these were scheduled for introduction at a later date. The rest of the year was shaped by price pressure stemming from the downturn in raw materials prices. This competitive environment also weighed on the performance of the integrated dealership networks.

In North America, where the market was shaped by a favorable economic environment, strong growth in original equipment sales and a decline in imports, Group volumes suffered from the price increases and a certain number of supply chain issues. The development of fleet services continued apace.

In South America, where growth in the replacement market is being driven by the economic recovery and imports (which led to a decline in the premium segment in Brazil), Michelin is focusing on margin integrity by maintaining higher prices. The intermediate brands are enjoying sustained growth and Sascar's telematics services remain highly popular.

In Asia (excluding India), net sales in China contracted during the year, despite the launch of the MICHELIN X Guard tire and the fact that Michelin tires deliver energy efficiency in line with the government's commitment to reducing emissions in urban areas. The Group's share of the Southeast Asian market rose slightly thanks to sales of the MICHELIN brands and the BFGoodrich intermediate lines.

In the Africa/India/Middle East region, sales in India were lifted by the improving economy, the start-up of the original equipment contract with Ashok Leyland and the popularity of the MICHELIN X Guard tire. Business in the rest of the region remains fragile in an uncertain geopolitical environment.

In all, net sales in the Truck tires & related distribution segment amounted to €6,123 million in 2017, a 2.6% increase from the €5,966 million reported a year earlier. The performance reflected (i) the negative currency effect; (ii) the priority focus on margins, with price increases introduced to offset, particularly in the second half, the rise in raw materials costs; and (iii) the 2% decline in sales volumes.

2.2.2 c) Specialty businesses – Analysis of net sales

Earthmover tires: net sales climbed sharply, lifted by the rebound in mining operations around the world and the application of raw materials indexation clauses.

Agricultural tires: net sales rose over the year, led by the growth in volumes as demand for farm machinery recovered.

Two-wheel tires: The slight increase in net sales (excluding Levorin) was driven by the growth in volumes, which was evenly spread between the recreational and commuting segments. The consolidation of Levorin is supporting the growth strategy in South America.

Aircraft tires: net sales edged up over the year, with gains in the commercial radial segment thanks to the demand for NZG technology.

Michelin Travel Partner's net sales performance was mainly shaped by (i) further market share gains in the persistently difficult print B2C markets; (ii) sustained growth in B2B revenue thanks to the monetization of MICHELIN Guide launches; and (iii) stable revenue in the digital segment where the online business has slowed. Michelin Restaurants now operates as part of BookaTable. Michelin Travel Partner is sharpening its strategic focus on dining and travel as part of the Michelin Experiences line, which brings together all of the businesses that offer customers an outstanding mobility experience. In 2017, the unit pursued its targeted acquisition strategy, purchasing successively (i) Alliance Réseaux and One Shop Pay (and indirectly Mon Tour En France) in April to expand its travel services portfolio; (ii) a 40% stake in Robert Parker Wine Advocate, the world's most widely read wine tasting and rating guide, in June; (iii) the assets of Streetwise, a North American laminated map publisher, in August; and (iv) a 40% stake in Le Fooding, a website specialized in hot new restaurants and trendy bars, in October.

In all, net sales by the Specialty Businesses increased by 18.4% year-on-year, to €3,358 million from €2,836 million in 2016. The increase corresponded to the robust 16% growth in volumes, which offset the unfavorable currency effect thanks to the continued rebound in mining tire sales and the sharp upturn in the Earthmover and Agricultural original equipment business. Net sales were also lifted by the price increases applied in both the indexed and non-indexed businesses.

2.2.3 CHANGES IN EXCHANGE RATES FOR THE MAIN OPERATING CURRENCIES

At current exchange rates, consolidated net sales rose by 5.0% in 2017.

This performance reflected a €261 million negative currency effect resulting primarily from the euro's unfavorable moves against the US dollar, the Chinese yuan, the Turkish lira, the British pound, the Japanese yen, the Argentine peso and the Mexican peso. On the other hand, the rebounds in the Russian and Brazilian economies had a favorable impact on their currencies' exchange rates against the euro.

Average exchange rate	2017	2016	Change
Euro/USD	1.129	1.107	+2.0%
Euro/CAD	1.465	1.466	-0.1%
Euro/MXN	21.307	20.615	+3.4%
Euro/BRL	3.601	3.841	-6.2%
Euro/GBP	0.877	0.816	+7.4%
Euro/JPY	126.630	120.077	+5.5%
Euro/CNY	7.631	7.351	+3.8%
Euro/THB	38.311	39.070	-1.9%
Euro/AUD	1.473	1.488	-1.0%
Euro/ZAR	15.021	16.237	-7.5%
Euro/ARS	18.624	16.290	+14.3%
Euro/TRY	4.114	3.333	+23.4%
Euro/RUB	65.879	73.887	-10.8%

Net sales break down as follows by currency:

Currency	%	Currency	%
ARS	1%		
AUD	2%	JPY	1%
BRL	4%	MXN	2%
CAD	3%	PLN	1%
CLP	1%	RUB	1%
CNY	6%	THB	1%
EUR	34%	TRY	1%
GBP	3%	USD	37%
INR	1%	Other currencies	1%
TOTAL			**100%**

2.2.4 NET SALES BY REGION

(in € millions)	2017	2017/2016	Second half 2017	First half 2017
GROUP	**21,960**	**+5.0%**	**10,901**	**11,059**
Europe	8,315	+2.6%	4,209	4,106
of which France	*1,984*	*+3.5%*	*1,004*	*980*
North America (incl. Mexico)	8,056	+3.4%	3,955	4,100
Other regions	5,589	+11.5%	2,736	2,853

(in € millions)	2017	% of total	2016	% of total
GROUP	**21,960**		**20,907**	
Europe	8,315	37.9%	8,101	38.7%
of which France	*1,984*	*9.0%*	*1,917*	*9.2%*
North America (incl. Mexico)	8,056	36.7%	7,792	37.3%
Other regions	5,589	25.5%	5,014	24.0%

At a time of rising raw materials prices, consolidated net sales rose in every geography despite unfavorable currency movements.

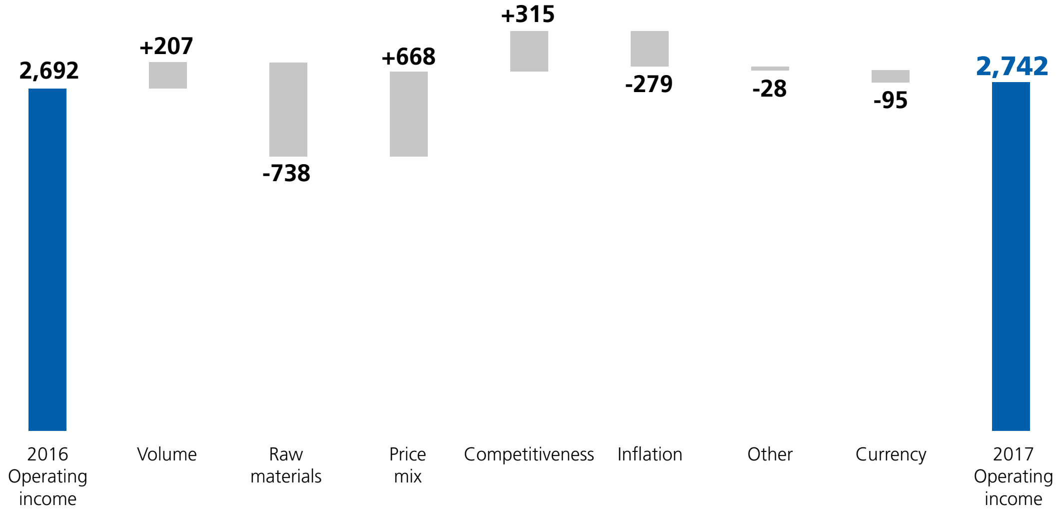
More than 60% of consolidated net sales were generated outside Europe and more than 90% outside France.

2.3 CONSOLIDATED INCOME STATEMENT REVIEW

(in € millions, except per-share data)	2017	2016	2017/2016	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Net sales	**21,960**	**20,907**	**+5.0%**		
Cost of sales	(14,815)	(13,810)	+7.3%	67.5%	66.1%
Gross income	**7,145**	**7,097**	**+0.7%**	**32.5%**	**33.9%**
Sales and marketing expenses	(1,861)	(1,907)	-2.4%	8.5%	9.1%
Research and development expenses	(641)	(718)	-10.6%	2.9%	3.4%
General and administrative expenses	(1,866)	(1,759)	+6.1%	8.5%	8.4%
Other operating income and expenses	(35)	(21)	+64.5%	0.2%	0.1%
Operating income from recurring activities	**2,742**	**2,692**	**+1.9%**	**12.5%**	**12.9%**
Operating income/(loss) from non-recurring activities	(111)	99	-211.8%	0.5%	0.5%
Operating income	**2,631**	**2,791**	**-5.7%**	**12.0%**	**13.3%**
Cost of net debt	(176)	(203)	-13.5%	0.8%	1.0%
Other financial income and expenses	0	20	-100.5%	0.0%	0.1%
Net interest on employee benefit obligations	(115)	(139)	-17.0%	0.5%	0.7%
Share of profits and losses from associates	14	(5)	nm	0.1%	0.0%
Income before taxes	**2,354**	**2,464**	**-4.5%**	**10.7%**	**11.8%**
Income tax	(661)	(797)	-17.0%	3.0%	3.8%
Net income	**1,693**	**1,667**	**+1.5%**	**7.7%**	**8.0%**
▶ Attributable to shareholders of the Company	1,700	1,676	+1.4%	7.7%	8.0%
▶ Attributable to non-controlling interests	(7)	(9)			
Earnings per share *(in €)*					
▶ Basic	9.39	9.21	+2.0%		
▶ Diluted	9.34	9.03	+3.4%		

2.3.1 OPERATING INCOME FROM RECURRING ACTIVITIES

(in € millions)



Operating income from recurring activities amounted to €2,742 million or 12.5% of net sales in the year ended December 31, 2017, *versus* a reported €2,692 million and 12.9% in 2016. Operating income/(loss) from non-recurring activities represented a loss of €111 million, corresponding primarily to a provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions, and to the cost of reorganizing Group operations. These costs were partially offset by gains on changes to the retiree health coverage plan in the United States and to the pension plan in the United Kingdom.

They growth of operating income from recuring activities for the year may be analyzed as follows:

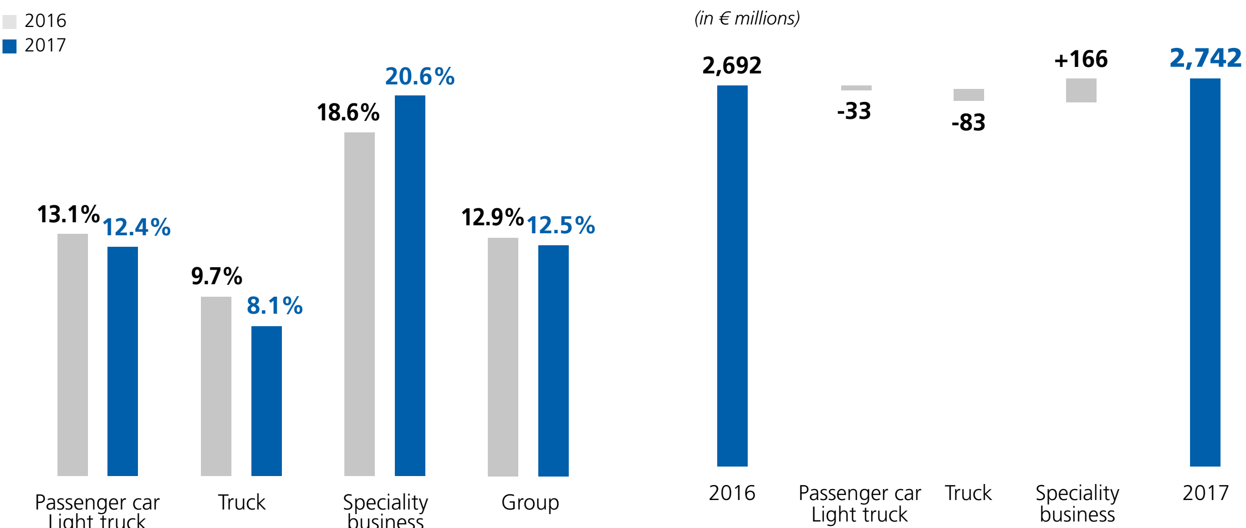
- a €207 million increase from the 2.6% growth in volumes;
- a €70 million net decrease from changes in the price mix and raw materials costs. Changes in the price mix added €668 million to operating income for the period, of which €524 million stemmed from the price increases introduced to offset higher raw materials costs, which had a €738 million adverse impact over the year. In all, the net decrease came to €57 million for businesses whose prices are indexed to raw materials costs and €13 million for non-indexed businesses;
- €315 million in gains from the competitiveness plan, in line with the implementation schedule. These included €110 million in general cost savings, €51 million in materials cost savings and €153 million in manufacturing and logistics productivity gains, which together exceeded the €279 million adverse impact of inflation on production costs and overheads;
- a €28 million decrease from other unfavorable cost factors;
- a €95 million decrease from the currency effect.

For the full year, Michelin has therefore achieved its target of generating operating income from recurring activities in an amount exceeding the 2016 figure at constant exchange rates. In 2017, operating income from recurring activities totaled €2,837 million at constant exchange rates, a €145 million improvement on the €2,692 million reported in 2016.

2.3.2 OPERATING INCOME FROM RECURRING ACTIVITIES BY OPERATING SEGMENT

(in € millions)	2017	2016	Second half 2017	First half 2017
Passenger car/Light truck tires & related distribution				
Net sales	12,479	12,105	6,216	6,263
Operating income from recurring activities	1,552	1,585	752	800
Operating margin on recurring activities	**12.4%**	**13.1%**	**12.1%**	**12.8%**
Truck tires & related distribution				
Net sales	6,123	5,966	3,082	3,041
Operating income from recurring activities	497	580	268	229
Operating margin on recurring activities	**8.1%**	**9.7%**	**8.7%**	**7.5%**
Specialty businesses				
Net sales	3,358	2,836	1,603	1,755
Operating income from recurring activities	693	527	329	364
Operating margin on recurring activities	**20.6%**	**18.6%**	**20.5%**	**20.7%**
Group				
Net sales	21,960	20,907	10,901	11,059
Operating income from recurring activities	2,742	2,692	1,349	1,393
Operating margin on recurring activities	**12.5%**	**12.9%**	**12.4%**	**12.6%**

2.3.2 a) Operating margin on recurring activities by operating segment



- Passenger car/Light truck tires & related distribution.
- Truck tires & related distribution.
- Specialty businesses: Earthmover, Agricultural, Two-wheel and Aircraft tires; Michelin Travel Partner, BookaTable and Michelin Lifestyle Ltd.

2.3.2 b) Passenger car/Light truck tires & related distribution – Analysis of operating income from recurring activities

Passenger car/Light truck tires & related distribution *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	12,479	12,105	+3.1%	57%	58%
Change in volumes	*+2%*				
Operating income from recurring activities	1,552	1,585	-2.1%	57%	59%
Operating margin on recurring activities	12.4%	13.1%	-0.7 pt		

Operating income from recurring activities came to €1,552 million or 12.4% of net sales *versus* the €1,585 million and 13.1% reported in 2016.

At a time of sharply rising raw materials costs, the Group successfully maintained margins in its Passenger car/Light truck tires business, excluding the currency effect, by pursuing an agile pricing policy that delivered a positive price-mix/raw materials effect with a 2% increase in volumes. The mix effect remained positive despite the relative growth rates of OE and replacement tire sales and an unfavorable geographic mix. It reflected the success of the MICHELIN CrossClimate+ and MICHELIN Pilot Sport 4S lines, which drove sales gains of 2% for MICHELIN brand tires, with a 19% increase for 18-inch and larger tires. Sales of other Group brands rose by 3% over the year. The 0.7-point contraction in operating margin was primarily caused by the dilutive impact of the price increases introduced to offset the impact of higher raw materials costs and adverse exchange rate movements.

2.3.2 c) Truck tires & related distribution – Analysis of operating income from recurring activities

Truck tires & related distribution *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	6,123	5,966	+2.6%	28%	29%
Change in volumes	*-2%*				
Operating income from recurring activities	497	580	-14.3%	18%	22%
Operating margin on recurring activities	8.1%	9.7%	-1.6 pt		

Operating income from recurring activities amounted to €497 million or 8.1% of net sales, compared with €580 million and 9.7% the year before.

The decrease first of all reflected the steep increase in raw materials costs, offset by the pricing policy implemented to preserve unit margins. In this regard, given a more competitive environment, the decline was mainly attributable to reduced volumes and the negative currency effect. New products and services continued to be introduced over the year, which was shaped by the success of the MICHELIN X Multi, MICHELIN X Works, MICHELIN X-Guard and BFGoodrich tire lines, strong sales of Tire Care services and the growing popularity of Sascar solutions in South America. The effects of a very positive manufacturing performance in 2017, particularly in Asia, partially offset the cost of programs to adjust the manufacturing base in Europe, particularly in retreading operations. The 1.6-point contraction in operating margin was partially caused by the dilutive impact of the price increases introduced to offset the impact of higher raw materials costs and adverse exchange rate movements.

2.3.2 d) Specialty businesses – Analysis of operating income from recurring activities

Specialty businesses *(in € millions)*	**2017**	**2016**	**2017/2016**	**2017** *(% of consolidated total)*	**2016** *(% of consolidated total)*
Net sales	3,358	2,836	+18.4%	15%	14%
Change in volumes	*+16%*				
Operating income from recurring activities	693	527	+31.5%	25%	20%
Operating margin on recurring activities	20.6%	18.6%	+2.0 pt		

Operating income from recurring activities amounted to €693 million, *versus* a reported €527 million in 2016, for a margin up two points to 20.6% of net sales.

The improvement corresponded to the robust 16% growth in volumes, led by the sustained rebound in demand for the Group's mining tires and the sharp upturn in Earthmover and Agricultural original equipment sales. This factor and the price increases introduced in both the indexed and non-indexed businesses amply outweighed the impact of higher raw materials costs and the negative currency effect.

2.3.3 OTHER INCOME STATEMENT ITEMS

2.3.3 a) Raw materials

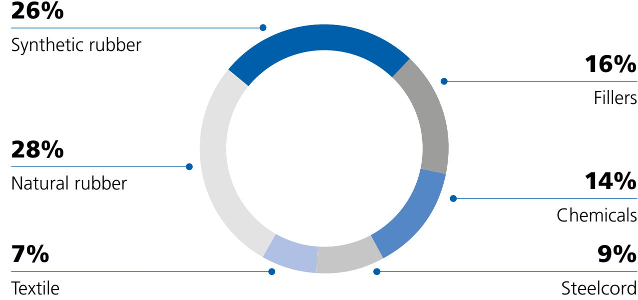
The cost of **raw materials** reported in the income statement under "Cost of sales" has been estimated at €5.2 billion in 2017 *versus* €4.3 billion in 2016.

It is calculated on the basis of:

- the price and mix of the Group's raw materials purchases;
- production and sales volumes;
- the valuation of raw materials, semi-finished and finished product inventories using the weighted average cost method. This method tends to spread fluctuations in purchase costs over time and delay their recognition in cost of sales, due to timing differences between the purchase of the raw materials and the sale of the finished product;
- exchange rate movements, which correspond to (i) the impact of converting the cost of purchases made in local currencies into the consolidation currency; and (ii) an untracked residual currency effect resulting from the difference between the purchasing companies' local currency and the currency used to purchase their raw materials.

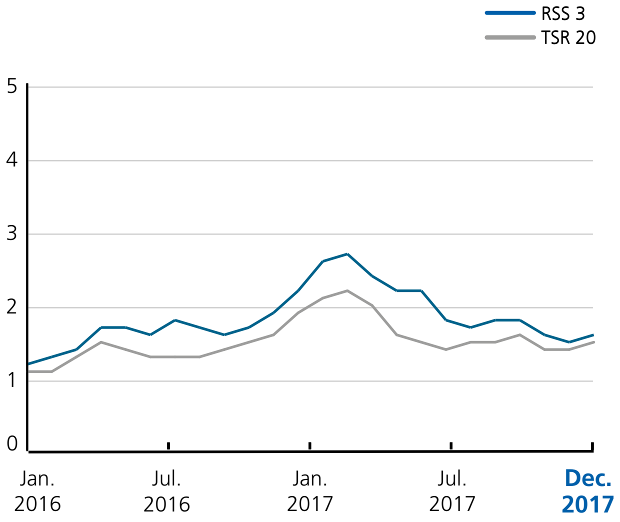
In 2017, the raw materials costs recognized in cost of sales included the €738 million gain from price adjustments, as well as the residual currency effect. Changes in prices feed through to the income statement five to six months later for natural rubber and around three months later for butadiene.

RAW MATERIALS RECOGNIZED IN 2017 COST OF SALES (€5.2 BILLION)

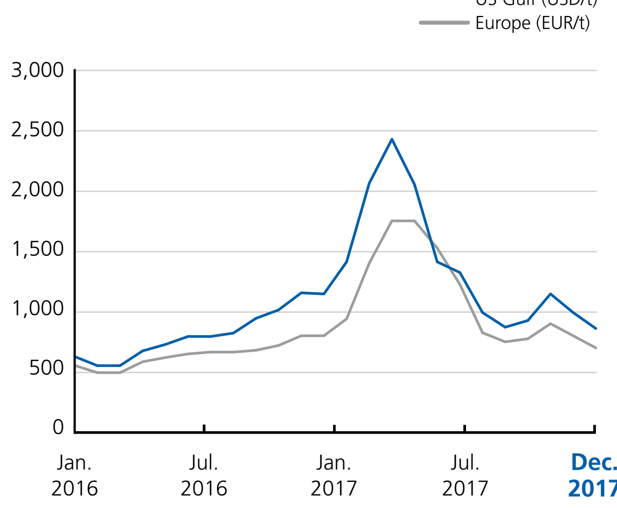


NATURAL RUBBER PRICES (SICOM)

(USD/kg)



BUTADIENE PRICES



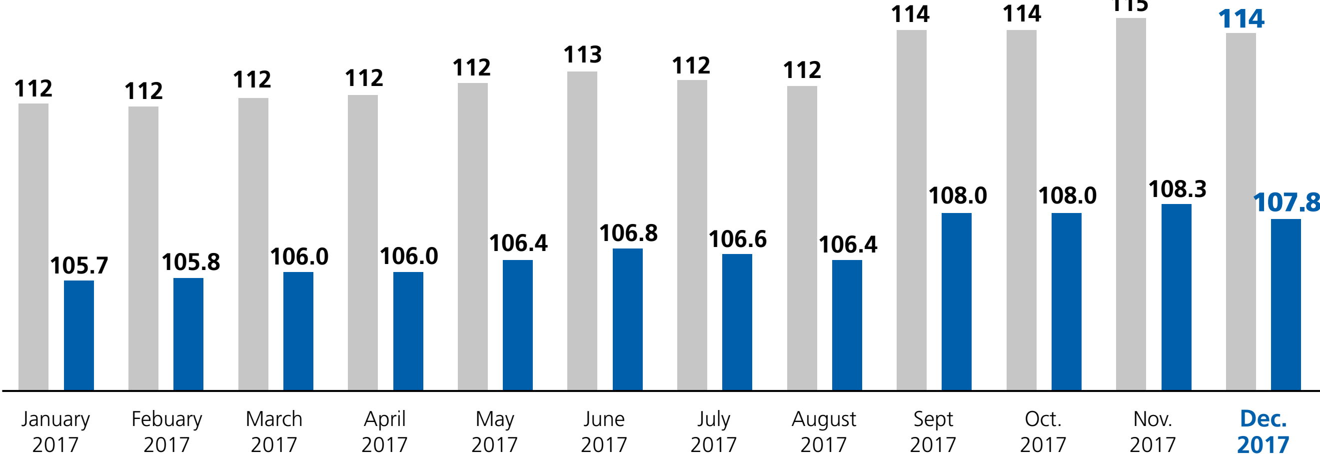
2.3.3 b) Employee benefit costs and number of employees

At €5,871 million, **employee benefit costs** represented 26.7% of net sales in 2017, unchanged from the year before. In addition to inflation in the emerging economies and North America, the increase in these costs primarily resulted from the consolidation of companies acquired in late 2016 and throughout 2017 (especially Levorin in Brazil and NexTraq in the United States). Group-wide, the inflation rate stood at 2.05% for the year.

(in € millions and number of people)	2017	2016	Change
Total employee benefit costs	5,871	5,542	+5.9%
As a % of net sales	*26.7%*	*26.5%*	*+0.2pt*
Employees on payroll at December 31	114,100	111,700	+2.1%
Number of full time equivalent employees at December 31	107,800	105,700	+2.0%
Average number of full time equivalent employees	106,800	106,200	+0.6%

NUMBER OF EMPLOYEES

(in thousands)

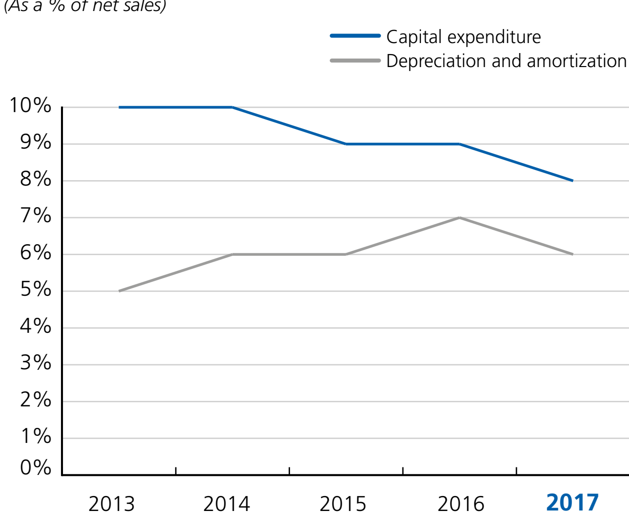


2.3.3 c) Depreciation and amortization

(in € millions)	2017	2016	Change
Depreciation and amortization	1,345	1,392	-3.4%
As a % of additions to intangible assets and property, plant and equipment	*76%*	*77%*	

Depreciation and amortization charges decreased by €47 million or 3.4% to €1,345 million for the year. The improvement reflected the results of research and development programs that increased the useful lives of the Group's tire curing molds, resulting in longer depreciation periods. This factor (+€80 million) more than offset the steady growth in depreciation charges due to the temporary increase in capital expenditure committed in recent years to support the Group's growth. Given the projects currently underway, depreciation and amortization charges are expected to continue to increase in the years ahead.

(As a % of net sales)



2.3.3 d) Transportation costs

(in € millions)	2017	2016	Change
Transportation costs	1,183	1,152	+2.7%
As a % of net sales	*5.4%*	*5.5%*	

Transportation costs stood at €1,183 million, up 2.7% year-on-year, mainly due to (i) the increase in sales volumes, particularly in the mining businesses; (ii) the faster growth in intercontinental transport costs required to serve growing markets; and (iii) higher fuel prices.

2.3.3 e) Sales and marketing expenses

Sales and marketing expenses represented 8.5% of net sales in 2017, or 0.6 point lower than the year before. In value, they declined by €46 million to €1,861 million as a result of the greater efficiency in spending and the favorable currency effect.

2.3.3 f) Research and development expenses

Research and development expenses stood at €641 million, a 10.6% year-on-year reduction that reflected (i) the commitment to optimizing the R&D and engineering teams to improve the efficiency of R&D activities; and (ii) the reassignment of some of these teams to corporate services, reducing the budget by around €40 million over the year.

As a percentage of net sales, R&D expenses declined to 2.9% from 3.4% in 2016.

2.3.3 g) General and administrative expenses

At €1,866 million, **general and administrative expenses** represented 8.5% of net sales, *versus* €1,759 million and 8.4% in 2016. The €107 million increase primarily stemmed from the reallocation of certain R&D expenses to corporate overheads, as well as the costs of organizing the global Movin'On sustainable mobility summit and of deploying the project to reorganize the Group's worldwide operations.

2.3.3 h) Other operating income and expenses from recurring activities

Other operating income and expenses from recurring activities represented a net expense of €35 million in 2017 *versus* the net expense of €21 million reported in 2016. Most of the 2017 expense corresponded to various taxes, acquisition costs and expenses on stock option grants in France.

2.3.3 i) Operating income/(loss) from non-recurring activities

Operating income/(loss) from non-recurring activities represented a loss of €111 million in 2017, *versus* income of €99 million in 2016 (primarily reflecting the €271 million gain from a change in the retiree health coverage plan in the United States).The loss mainly corresponded to a provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions, and to the costs of reorganizing Group operations. It was partially offset by gains on changes to the retiree health coverage plan in the United States and to the pension plan in the United Kingdom.

2.3.3 j) Cost of net debt

(in € millions)	2017	2016	Change
Cost of net debt	176	203	-27

At €176 million, the **cost of net debt** was down €27 million compared with 2016, primarily as a result of the following factors:

- a €30 million decline in net interest expense, to €172 million, reflecting the net impact of:
  - a €4 million decrease due to the reduction in average net debt to €1,199 million in 2017 from €1,294 million the year before,
  - a €28 million decrease from the decline in the average gross interest rate on borrowings to 6.2% in 2017 from 7.1% in 2016,
  - a €1 million net increase from a variety of factors, including the negative carry, corresponding to the effect of investing cash and cash equivalents at a rate below the Group's average borrowing cost;
- a €16 million negative result on interest rate derivatives (-€9 million compared to 2016) mainly due to the variation of Chinese interest rates;
- a €6 million decrease from capitalizing borrowing costs;
- a €6 million net decrease from other factors.

2.3.3 k) Other financial income and expenses

(in € millions)	2017	2016	Change
Other financial income and expenses	0	20	-20

There were no **other financial income and expenses** recognized in 2017. The €20 million in income reported in 2016 stemmed mainly from the recognition of a gain on the renegotiation of a pension insurance contract in Spain.

2.3.3 l) Income tax

(in € millions)	2017	2016	Change
Income before taxes	2,354	2,464	-110
Income tax	**(661)**	**(797)**	**-136**
Current tax	(478)	(665)	-187
Withholding tax	(81)	(84)	-3
Deferred tax	(102)	(48)	+54

Income tax amounted to €661 million in 2017, a €136 million year-on-year decrease that reflected not only the decline in income before taxes, but also a number of positive factors, such as (i) lower tax rates in Poland and the United States, which had a positive impact on deferred taxes; (ii) the reduction in losses at companies whose deferred tax assets have not yet been recognized; and (iii) the reimbursement of the 3% tax on dividends in France.

The effective tax rate was 28.1%, *versus* 32.3% the year before.

2.3.3 m) Consolidated net income and earnings per share

(in € millions)	2017	2016	Change
Net income	1,693	1,667	+26
As a % of net sales	*7.7%*	*8.0%*	*-0.3pt*
▶ Attributable to shareholders of the Company	1,700	1,676	+24
▶ Attributable to non-controlling interests	(7)	(9)	+2
Earnings per share *(in €)*			
▶ Basic	9.39	9.21	+0.18
▶ Diluted	9.34	9.03	+0.31

Net income came to €1,693 million, or 7.7% of net sales, compared with the €1,167 million reported in 2016. The €26 million increase reflected the following factors:

- favorable factors:
  - the €50 million increase in operating income from recurring activities,
  - the €27 million reduction in cost of net debt,
  - the €24 million decrease in interest on employee benefit obligations,
  - the €19 million improvement in the Group's share of profit from associates, which swung to a €14 million profit from a €5 million loss in 2016,
  - the €136 million reduction in income tax;
- unfavorable factors:
  - the €210 million negative swing in operating income/(loss) from non-recurring activities, to a loss of €111 million from income of €99 million in 2016,
  - the €20 million decrease in other financial income and expenses, to 0 in 2017 from income of €20 million in 2016.

2.4 CONSOLIDATED BALANCE SHEET REVIEW

ASSETS

(in € millions)	December 31, 2017	December 31, 2016	Total change	Currency effect	Movement
Goodwill	1,092	963	+129	-104	+233
Intangible assets	785	630	+155	-41	+196
Property, plant and equipment	10,883	11,053	-170	-647	+476
Non-current financial assets and other assets	479	323	+156	-18	+174
Investments in associates	356	309	+47	-18	+65
Deferred tax assets	890	1,191	-301	-48	-253
Non-current assets	**14,485**	**14,469**	**+16**	**-875**	**+891**
Inventories	4,508	4,480	+28	-298	+326
Trade receivables	3,084	3,042	+42	-171	+213
Current financial assets	285	303	-18	-2	-16
Other current assets	1,132	1,202	-69	-9	-60
Cash and cash equivalents	1,773	1,826	-53	-15	-39
Current assets	10,782	**10,853**	**-71**	**-495**	**+424**
TOTAL ASSETS	**25,267**	**25,322**	**-55**	**-1,370**	**+1,315**

EQUITY AND LIABILITIES

(in € millions)	December 31, 2017	December 31, 2016	Total change	Currency effect	Movement
Share capital	359	360	-1	-	-1
Share premiums	2,942	3,024	-82	-	-82
Reserves	7,925	7,215	+710	-528	+1,238
Non-controlling interests	35	47	-11	-4	-7
Equity	**11,261**	**10,646**	**+615**	**-532**	**+1,148**
Non-current financial liabilities	2,366	1,773	+592	-29	+621
Employee benefit obligations	3,969	4,763	-794	-180	-614
Provisions and other non-current liabilities	1,676	1,604	+72	-79	+150
Deferred tax liabilities	113	117	-3	-10	+7
Non-current liabilities	**8,124**	**8,257**	**-133**	**-297**	**+164**
Current financial liabilities	493	1,320	-827	-218	-609
Trade payables	2,501	2,364	+137	-121	+258
Reverse factoring contracts	503	339	+163	-45	+208
Other current liabilities	2,385	2,396	-11	-130	+118
Current liabilities	**5,882**	**6,419**	**-537**	**-513**	**-24**
TOTAL EQUITY AND LIABILITIES	**25,267**	**25,322**	**-55**	**-1,342**	**+1,287**

2.4.1 GOODWILL

Excluding the negative €104 million impact of translation adjustments, **goodwill** rose by €233 million to €1,092 million at December 31, 2017, primarily due to the recognition of goodwill on NexTraq, a leading US telematics solutions provider, and Levorin, Brazil's largest two-wheel tire manufacturer.

2.4.2 INTANGIBLE ASSETS

Intangible assets amounted to €785 million, a €196 million increase from December 31, 2016 before the €41 million negative translation adjustment. The increase was primarily due to the consolidation of the intangible assets of NexTraq, Levorin and Sascar Mexico.

2.4.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment amounted to €10,883 million, a €476 million increase from December 31, 2016 before taking into account negative translation adjustments of €647 million, The increase was primarily led by the ongoing investment in new capacity in fast growing markets (the premium Passenger car segment, North America and Asia), and in products for the premium and entry-level segments. Additions to property, plant and equipment exceeded depreciation expense for the year.

2.4.4 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

Non-current financial assets and other assets stood at €479 million, an increase of €174 million excluding the €18 million negative currency effect that was mainly due to:

- a €10 million increase from fair value adjustments to available-for-sale financial assets;
- a €112 million increase in available-for-sale financial assets, including among others the equity interests held in Smartdrive, Lehigh Technologies, PTG and Téléflow;
- €55 million in premium payments and fair value adjustments to the derivatives on the non-dilutive, cash-settled convertible bonds issued in the first quarter;
- a €23 million increase from fair value adjustments to other derivative instruments;
- a €35 million decrease due to the consolidation of Levorin and Restaurantes, whose shares had been recognized in available-for-sale financial assets at December 31, 2016;
- a €9 million increase from other movements.

2.4.5 INVESTMENTS IN ASSOCIATES

Excluding the €18 million negative translation adjustment, **investments in associates** increased by €65 million in 2017, reflecting the Group's raised stake in SIPH, as well as a number of equity investments in such companies as Robert Parker Wine Advocate, T&W Tire and Le Fooding. This impact was partially offset by the disposal of the Group's interest in the Warrior joint venture in China and a €10 million reduction in dividends received.

2.4.6 DEFERRED TAX ASSETS AND LIABILITIES

At December 31, 2017, the Group held a net **deferred tax asset of €777 million,** representing a decrease of €260 million compared with the amount reported at end-2016 (before taking into €38 million in negative translation adjustments). The decrease was mainly attributable to (i) the actuarial gains recognized during the year on employee benefit obligations, particularly in the United Kingdom and the United States; (ii) timing differences, essentially on property, plant and equipment in the United States; and (iii) the first-time consolidation of Levorin and NexTraq.

2.4.7 TRADE WORKING CAPITAL REQUIREMENT

(in € millions)	December 31, 2017	December 31, 2016	Change	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Inventories	4,508	4,480	+27	20.5%	21.4%
Trade receivables	3,084	3,042	+42	14.0%	14.6%
Trade payables	(2,501)	(2,364)	-137	11.4%	11.3%
Reverse factoring contracts	(503)	(339)	-163	2.3%	1.6%
TRADE WORKING CAPITAL REQUIREMENT	**4,588**	**4,819**	**-232**	**20.9%**	**23.1%**

Trade working capital requirement decreased by €232 million compared with December 31, 2016, chiefly due to the €304 million currency effect. Excluding that effect, trade working capital requirement rose by €72 million over the year, in line with the growth in business, as the increase in trade payables only partially offset the increase in receivables and inventories. It represented 20.9% of net sales at December 31, compared with 23.1% at year-end 2016.

Inventories amounted to €4,508 million, representing 20.5% of net sales for 2017. Excluding translation adjustments, they were €326 million up on year-end 2016, primarily due to the higher prices of their raw materials component and the 4% increase in raw material and semi-finished tonnages, with finished product tonnages remaining unchanged over the year.

Excluding translation adjustments, **trade receivables** rose by €213 million year-on-year to €3,084 million at December 31, 2017, primarily as a result of the increase in net sales in the final quarter. As a percentage of net sales, they declined by 0.6 point, to 14.0% from 14.6% a year earlier.

The growth in net sales, particularly in the final months of the year, also had the effect of increasing **trade payables,** which ended the year up €467 million at €3,004 million (including €503 million in reverse factoring contracts but before €166 million in translation adjustments).

2.4.8 CASH AND CASH EQUIVALENTS

Excluding the currency effect, **cash and cash equivalents** declined by €39 million year-on-year to €1,773 million, reflecting the net impact of the following factors:

- increases from:
  - the €662 million in free cash flow, after the investment of €476 million in acquisitions (mainly all outstanding shares of NexTraq),
  - the €35 million in proceeds from the issue of new shares on the exercise of stock options, the granting of performance shares and the repayment in 2017 of loans granted to Group employees in 2016 under the Employee Share Ownership Plan,
  - other factors in an amount of €63 million;
- decreases from:
  - the payment of €612 million in dividends, including tax on the distribution of cash dividends,
  - the outlay of €101 million for share buybacks during the year,
  - the acquisition of cash management instruments for €18 million,
  - the €68 million reduction in debt during the year.

2.4.9 EQUITY

Including the negative €532 million in translation adjustments, **consolidated equity** increased by €615 million to €11,261 million at December 31, 2017 from the €10,646 million reported a year earlier, primarily as a result of the following factors:

- increases:
  - €1,304 million in comprehensive income for the year, including:
    - net income of €1,693 million,
    - the €131 million favorable impact of actuarial gains and losses, after deferred taxes,
    - €13 million in unrealized gains on available-for-sale financial assets, net of deferred tax,
    - the €532 million negative impact from the translation of foreign currencies,
    - an aggregate €1 million net decrease from other factors,
  - €17 million in proceeds from the issue of 348,063 new shares on the exercise of stock options and the grant of performance shares,
  - €7 million in service costs on performance share-based payment plans;
- decreases:
  - €612 million in dividends and other distributions,
  - €101 million committed to the buyback and cancellation of 893,197 Michelin shares under the shareholder-approved plan.

At December 31, 2017, the **share capital** of Compagnie Générale des Établissements Michelin stood at €359,041,974, comprising 179,520,987 shares corresponding to 247,029,830 voting rights.

2.4.10 NET DEBT

Net debt stood at €716 million at December 31, 2017, down €229 million year-on-year, primarily as a result of the following factors:

- €11 million in net cash flow, corresponding to:
  - €662 million in free cash flow generated during the year, less
  - €651 million in dividends, net share buybacks and other outlays;
- €227 million in positive translation adjustments;
- €193 million in capitalized interest expense on the zero-coupon OCEANE convertible bonds;
- €203 million in other factors increasing net debt, of which:
  - €135 million corresponding to new finance leases,
  - €51 million arising on changes in the scope of consolidation,
  - €17 million in other factors increasing net debt.

CHANGES IN NET DEBT

(in € millions)	2017	2016
At January 1	**944**	**1,008**
Free cash flow[1]	-662	-1,024
Distributions and other	+651	+780
Interest expense on the zero-coupon convertible bonds	-193	+34
Translation adjustments	-227	+107
Other	+203	+39
AT DECEMBER 31	**+716**	**+944**
CHANGE	**-229**	**-64**

(1) Free cash flow corresponds to cash flows from operating activities less cash flows used in investing activities, adjusted for net cash flows used in cash management instruments and loan guarantees.

2.4.10 a) Gearing

Gearing declined to 6% at December 31, 2017, from 9% at year-end 2016, reflecting the strong generation of free cash flow over the year and the favorable impact of currency movements on net debt.

2.4.10 b) Credit ratings

The solicited corporate credit ratings of Compagnie Générale des Établissements Michelin (CGEM) and Compagnie Financière Michelin SCmA (CFM) are as follows:

		CGEM	CFM
Short term	Standard & Poor's	A-2	A-2
	Moody's	P-2	P-2
Long term	Standard & Poor's	A-	A-
	Moody's	A3	A3
Outlook	Standard & Poor's	Stable	Stable
	Moody's	Stable	Stable

- On January 29, 2016, Standard & Poor's upgraded Michelin's long-term credit rating to A- from BBB+, while affirming its A-2 short-term rating and stable outlook.
- On March 20, 2015, Moody's upgraded Michelin's long-term credit rating to A3 from Baa1, with a stable outlook, while affirming its P-2 short-term rating.

Note that CGEM and CFM have also been issued unsolicited credit ratings by Fitch Ratings:

	CGEM	CFM
Short term	F2	F2
Long term	A-	A-
Outlook	Stable	Stable

2.4.11 PROVISIONS

Provisions and other non-current liabilities amounted to €1,676 million, *versus* €1,604 million at December 31, 2016. Excluding the currency effect, they increased by €150 million over the year, primarily due to the commitments undertaken as part of the reorganization and alignment of the Group's operations in Europe, along with a provision set aside in respect of a dispute with URSSAF, the French government agency responsible for collecting social security and other contributions.

2.4.12 EMPLOYEE BENEFITS

CHANGE IN THE FAIR VALUE OF THE NET DEFINED BENEFIT OBLIGATION

(in € millions)	Pension plans	Other defined benefit plans	2017	2016
At January 1	**2,742**	**2,021**	**4,763**	**4,888**
Translation adjustments	(79)	(101)	(180)	1
Contributions paid to the funds	(190)	-	(190)	(74)
Benefits paid directly to the beneficiaries	(32)	(122)	(154)	(156)
Changes in scope of consolidation	-	-	-	(55)
Net cost recognized in operating expenses				
Current service cost	58	62	120	127
Actuarial (gains) or losses recognized on other long term benefit obligations	-	-	-	-
Past service cost arising from plan amendments	(20)	(36)	(56)	(262)
Past service cost arising from plan curtailments and settlements	-	-	-	(19)
Employee benefit costs included in provisions for the reorganization and adaptation of activities	(88)	(95)	(183)	(19)
Other items	-	-	-	(1)
Costs recognized below the line				
Net interest on the net defined benefit obligation (asset)	60	55	115	139
Costs recognized in other comprehensive income				
Actuarial (gains) or losses	(332)	36	(296)	377
Portion of unrecognized asset due to the application of the asset ceiling	30	-	30	(183)
NET OBLIGATION AT DECEMBER 31	**2,149**	**1,820**	**3,969**	**4,763**

The net defined benefit obligation recognized in the consolidated balance sheet at December 31, 2017 stood at €3,969 million, a decrease of €794 million that was led by the following main factors:

- actuarial gains of €(296) million, mainly due to:
  - an actual rate of return on plan assets that was higher than the discount rate, for €(415) million,
  - the change in actuarial assumptions, for €189 million, and experience gains for €(72) million;
- a €239 million decrease from plan amendments, curtailments or settlements, primarily consisting of the €(24) million gain on amendments to the pension scheme in the United Kingdom, a €(39) million gain on a change in the health coverage plan in the United States, and a €(182) million gain relating to the early retirement plan in France;
- translation adjustments for €(180) million, linked to the rise in the euro against the Canadian and US dollars and the pound sterling.

The amount recognized in the income statement in respect of defined benefit plans represented a gain of €4 million in 2017, *versus* a gain of €35 million in 2016.

The amount recognized in operating income came to €120 million, compared to €174 million in 2016. Net interest on the net defined benefit obligation, reported below the line, represented €115 million in 2017, *versus* €139 million in 2016.

The cost recognized in respect of defined contribution plans amounted to €220 million in 2017, up €7 million year on year, mainly due to increases in plan costs in North America.

Total payments under defined benefit plans amounted to €344 million in 2017, *versus* €230 million the year before, including:

- contributions paid to fund management institutions for €190 million, up €116 million from €74 million in 2016, mainly due to the payment during the year of €124 million in pension fund front-loading contributions in the United Kingdom and United States;
- benefits paid directly to employees for €154 million, *versus* €156 million in 2016.

Total payments under defined contribution plans amounted to €220 million in 2017, *versus* €213 million the previous year.

Actuarial gains recorded in 2017 in the amount of €(296) million corresponded to:

- €372 million in actuarial losses on defined benefit obligations, resulting mainly from reductions in discount rates;
- €(181) million in actuarial gains on defined benefit obligations, mainly resulting from revised mortality tables;
- €(72) million in experience gains on defined benefit obligations;
- €(415) million in actuarial gains on plan assets, due to an actual rate of return on plan assets that was higher than the discount rate.

2.5 CONSOLIDATED CASH FLOW STATEMENT REVIEW

2.5.1 CASH FLOWS FROM OPERATING ACTIVITIES

(in € millions)	2017	2016	Change
EBITDA from recurring activities	4,087	**4,084**	**+3**
Change in inventories	(311)	(83)	-228
Change in trade receivables and prepayments	(317)	(319)	+2
Change in trade payables and prepayments	404	289	+115
Restructuring cash costs	(100)	(99)	-1
Other changes in provisions	(246)	(107)	-139
Tax and interest paid	(936)	(911)	-25
Other operating working capital	160	(89)	+249
CASH FLOWS FROM OPERATING ACTIVITIES	**2,741**	**2,765**	**-24**

At €4,087 million, **EBITDA** from recurring activities was unchanged year-on-year, as the growth in operating income from recurring activities, to €2,742 million from €2,692 million in 2016, offset the decline in depreciation and amortization charges for the year.

Cash flows from operating activities fell by €24 million, to €2,741 million from €2,765 million in 2016, primarily as a result of:

- the firm EBITDA performance (up €3 million);
- the negative impact of the increase in trade working capital requirement, which rose by €224 million in 2017 after rising by €113 million in 2016, reflecting:
  - the €311 million increase in inventories, *versus* an €83 million increase in 2016, primarily due to the rise in raw materials prices and, to a lesser extent, the growth in raw materials and semi-finished product tonnages,
  - the €317 million increase in trade receivables, compared to a €319 million increase in 2016, reflecting in particular the growth in net sales in the final quarter of the year,
  - the €404 million decline in trade payables, compared to a €289 million decrease in 2016, primarily due to the €164 million increase in payables covered by reverse factoring contracts;
- the increase in costs related to the reorganization and realignment of business operations, to €100 million from €99 million in 2016;
- the increase in tax and interest paid during the year, from €911 million in 2016 to €936 million in 2017, including the payment of interests on the zero-coupon 2017 OCEANE convertible bonds at maturity ;
- The variation in the other operating working capital generated a positive impact of €249 million mainly due to one-time effects relating to the deferred payment or reimbursement of various taxes and social debts.

2.5.2 CAPITAL EXPENDITURE

(in € millions)	2017	2016	2017/2016	2017 *(as a % of net sales)*	2016 *(as a % of net sales)*
Gross purchases of intangible assets and PP&E	**1,771**	**1,811**	**-40**	**8.1%**	**8.7%**
Investment grants received and change in capital expenditure payables	(103)	4	-107	0.5%	0.0%
Proceeds from sales of intangible assets and PP&E	(65)	(89)	+24	0.3%	0.4%
NET ADDITIONS TO INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT	**1,603**	**1,726**	**-123**	**7.3%**	**8.3%**

Additions to **intangible assets and property, plant and equipment** amounted to €1,771 million during the year, compared with €1,811 million in 2016. As a result, total capital expenditure represented 8.1% of net sales *versus* 8.7% the year before. Growth investments accounted for €739 million of the total for the year.

By Product Line, the main capital projects completed during the year or still underway are as follows:

Passenger car and Light truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - León, Mexico,
  - Roanne, France,
  - Shenyang, China,
  - Pirot, Serbia;

Truck tires:

- Projects to increase capacity, improve productivity or refresh product lines in:
  - Romania,
  - Thailand,
  - France,
  - Poland,
  - India;

Specialty products:

- Agricultural tires,
- Aircraft tires.

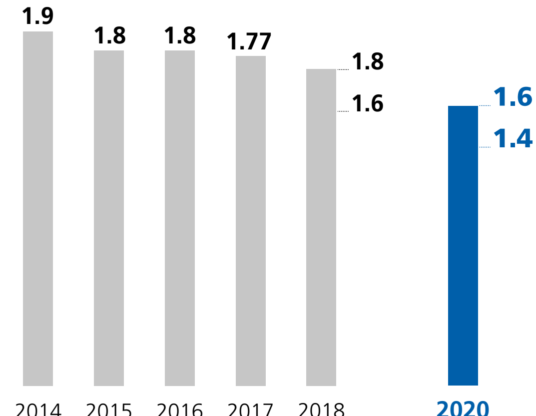
In addition, Michelin is actively investing in the following areas:

- fast growing markets, such as premium Passenger car and Light truck tires, North America and China;
- customer service (information systems, logistics hubs, etc.);
- distribution and digital services;
- high-tech materials.

The amounts expected to result from this capital expenditure strategy are illustrated below.

CHANGE IN ACTUAL AND ESTIMATED PURCHASES OF INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

(in € billions)



Note that the Group's financing depends on its ability to generate cash flow as well as on market opportunities. As a result, there is generally no direct link between financing sources and capital expenditure projects.

2.5.3 AVAILABLE CASH FLOW AND FREE CASH FLOW

Available cash flow corresponds to cash flow from recurring operating activities, i.e. after routine capital expenditure but before growth investments.

Free cash flow, which is stated before dividend payments and financing transactions, corresponds to cash flows from operating activities less cash flows used in investing activities (excluding net cash flows used in cash management instruments and loan guarantees).

(in € millions)	2017	2016
Cash flows from operating activities	**2,741**	**2,765**
Routine capital expenditure (maintenance, IT, dealerships, etc.)	(1,032)	(985)
AVAILABLE CASH FLOW	**1,709**	**1,780**
Growth investments	(739)	(826)
Acquisitions	(476)	(16)
Other	168	86
FREE CASH FLOW	**662**	**1,024**

After deducting €1,032 million in routine capital expenditure, available cash flow was strongly positive in 2017, at €1,709 million.

Lifted by the available cash flow, free cash flow ended the year at €662 million, after €739 million in growth investments and €476 million in acquisitions, primarily in such areas as materials (SIPH, Lehigh Technologies), solutions (NexTraq and Copiloto Satelital) and Experiences (40% of Robert Parker Wine Advocate and 40% of Le Fooding).

2.5.4 STRUCTURAL FREE CASH FLOW

To track its intrinsic performance, Michelin has set targets based on its structural free cash flow, which is defined as free cash flow before acquisitions, adjusted for the impact of raw materials prices on trade receivables, trade payables and inventories, and the payment of interests on the zero-coupon 2017 OCEANE convertible bonds at maturity.

(in € millions)	2017	2016
FREE CASH FLOW	**662**	**1,024**
Acquisitions	476	16
FREE CASH FLOW EXCLUDING ACQUISITIONS & DISPOSALS	**1,138**	**1,040**
Impact of raw materials costs on working capital requirement	178	(79)
Interest paid at maturity on the zero-coupon OCEANE 2017 convertible bonds	193	0
STRUCTURAL FREE CASH FLOW	**1,509**	**961**

2.6 RETURN ON CAPITAL EMPLOYED (ROCE)

Achieving an annual return on capital employed (ROCE) after tax and at constant scope of consolidation of at least 15% by 2020 is one of Michelin's strategic objectives.

ROCE is measured as:

- net operating profit after tax (NOPAT), calculated at a standard tax rate of 31%, corresponding to the Group's average effective tax rate;
- divided by the average economic assets employed during the year, *i.e.*, all of the Group's intangible assets, property, plant and equipment, loans and deposits, and net working capital requirement.

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

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

The Group's weighted average cost of capital (WACC) is based on a theoretical balance between equity and debt. The rates used are determined (i) for equity capital, based on the yield on Michelin shares expected by the stock markets; and (ii) for debt capital, on the market risk-free rate plus the risk premium applied to Michelin by the markets, as adjusted for the tax effect. Based on this calculation method, 2017 WACC remained below the 9% target the Group uses to assess its value creation.

(in € millions)	2017	2016
Operating income from recurring activities	2,742	2,692
Average standard income tax rate used for ROCE calculation	31%	31%
Net operating profit after tax (NOPAT)	**1,892**	**1,857**
Intangible assets and property, plant and equipment	12,760	12,646
Loans and deposits	74	70
Investments in associates and joint ventures	356	309
Total non-current financial assets	13,191	13,025
Working capital requirement	2,708	2,873
Economic assets at December 31	15,899	15,898
Average economic assets	**15,898**	**15,405**
Consolidated ROCE	**11.9%**	**12.1%**
Passenger car/Light truck tires & related distribution ROCE	12.5%	12.9%
Truck tires & related distribution ROCE	6.7%	8.1%
Specialty businesses ROCE	22.2%	17.9%

Given the evolutions so far known in the US tax law, the standard tax rate is reduced to 28%, and the ROCE thus measured is 12.4%.

2.7 TREND INFORMATION

2.7.1 OUTLOOK

In 2018, the Passenger car/Light truck and Truck tire markets are expected to experience modest growth over the year, while the mining tire, agricultural original equipment and earthmover original equipment markets should remain buoyant.

Given the market conditions, price management will make it possible to generate a net positive effect from changes in the price mix and raw materials costs, assuming an estimated €50 to €100 million increase in raw materials prices. Based on January 2018 exchange rates, the currency effect would reduce full-year operating income from recurring activities by around €300 million.

In this environment, Michelin's objectives for 2018 are volume growth in line with global market trends, operating income from recurring activities exceeding the 2017 figure at constant exchange rates, and structural free cash flow of more than €1.1 billion.

2.7.2 PROFIT FORECASTS OR ESTIMATES

No precise earnings or operating margin forecasts or estimates have been issued for 2018.

In light of the trend information provided in section 2.7.1, any previously issued targets for 2018 do not take into account the current economic environment and are not achievable this year.

2.7.3 RECENT EVENTS

Michelin and Sumitomo Corporation to Create Second-Largest Wholesale Player in the U.S. and Mexico

On January 3, 2018, Michelin North America Inc. (MNAI) and Sumitomo Corporation of Americas (SCOA) announced a definitive agreement to combine their respective North American replacement tire distribution and related service operations in a 50-50 joint venture, which will be the second largest wholesale tire dealer in the United States.

The combined unit will operate under a new brand, NTW, and will be one of the operating companies of TBC Corporation. It will provide better availability of tire products at all price points across North America, achieving greater scale in wholesale delivery for customers. The JV will also enable the two companies to enhance the quality, capacity and speed of customer service.

The partnership will bring together MNAI's TCi, the fourth largest wholesale tire and service network in the United States, with more than 85 locations nationwide, and SCOA's TBC, one of the country's largest vertically integrated marketers of tires for the automotive replacement market, with 59 wholesale distribution centers and more than 2,400 North American retail locations.

Strategic benefits of the transaction are expected to include the following:

- The joint venture will be more competitive in the fast growing North American tire wholesaling and auto services industry. To capture the growth in these critical markets, the new unit will include TBC's Mexican wholesale business, TBC de Mexico, one of the largest wholesalers in an expanding market.
- The deal will enable both companies to more effectively satisfy the needs of online customers by combining distribution, reach and speed.
- The joint venture will also provide a foundation for coast-to-coast coverage of car and light truck service providers, addressing the growth in the fleet maintenance business and the increasing complexity of service standards and tire sizes.
- The transaction will increase the companies' market share and operational scope, positioning the joint venture for faster growth.

The joint venture will be managed by a six-member Board of Directors, appointed equally by MNAI and SCOA following completion of the transaction.

Erik R. Olsen, formerly President & Chief Executive Officer of TBC, will lead the organization as CEO, while Don Byrd, formerly President & Chief Operating Officer of TCi, will lead the new NTW wholesale business as President & COO. The new unit will be headquartered in Palm Beach Gardens, Florida.

The joint venture will combine two profitable companies, TCi Wholesale and TBC. Based on the enterprise value of each business ($160 million for TCi Wholesale and $1,520 million for TBC), Michelin will contribute a cash payment of $630 million to SCOA and TCi Wholesale to equalize ownership in the new unit.

The transaction is subject to customary approvals.

Succession plan for Jean-Dominique Senard, Michelin's General Managing Partner

On February 9, 2018, Michelin announced the succession plan for Jean-Dominique Senard, General Managing Partner.

The term of office of Michelin's Chief Executive Officer is due to expire at the close of the 2019 Annual Shareholders Meeting and, as he recently announced, Jean-Dominique Senard does not want to stand for re-election.

To plan his replacement in line with corporate governance best practices and in the Group's best interests, the Non-Managing General Partner, SAGES, engaged in a rigorous, thorough selection process several months ago in full cooperation with Michelin's Supervisory Board and Jean-Dominique Senard, General Managing Partner, himself.

As part of this process, and in accordance with the Company's Bylaws, the Board of Directors of SAGES made a recommendation that was presented by its Chairman, Jacques de Chateauvieux, to the Company's Supervisory Board meeting on February 9, 2018.

The Supervisory Board issued a unanimous opinion in favor of SAGES' recommendation. The General Partners subsequently held a meeting during which this recommendation was approved by Jean-Dominique Senard.

All participants in the Company's governance system agreed that management continuity should be secured immediately, in line with Michelin's values.

As a result, the decision was made to submit the following resolutions to the shareholders at the Company's upcoming Annual Meeting in May 2018:

- an extraordinary resolution to elect Florent Menegaux as General Managing Partner;
- an ordinary resolution to elect Yves Chapot as Managing Partner.

Once these replacements have been made, and in accordance with the Company's Bylaws, SAGES will act on the Supervisory Board's recommendation and appoint Jean-Dominique Senard as Chief Executive Officer, to be succeeded by Florent Menegaux at the close of the 2019 Annual Shareholders Meeting.

2.8 HIGHLIGHTS

2.8.1 PERFORMANCE

Michelin has purchased NexTraq, a telematics solution for utility vehicles

(June 14, 2017) – Michelin has purchased NexTraq, a subsidiary of Fleetcor Technologies. NexTraq provides solutions which improve driver safety, fuel management and fleet productivity. It has around 7,000 fleet management customers and 116,000 private subscribers in North America. This purchase bolsters our presence in fleet services, currently a flourishing market.

A global reorganization project to better serve our customers

(June 22, 2017) – On March 16, 2017 Michelin launched a new organization project to reinforce its growth. The objective is to meet new customer expectations, improve satisfaction, simplify our operating methods and accelerate the Group's digital technology. This new organization will encourage close relations with our customers all over the world and will focus on recruiting highly skilled professionals in high-tech and digital equipment.

Michelin and Robert Parker's Wine Advocate join forces

(July 5, 2017) – Michelin purchased 40% of Robert Parker's Wine Advocate (RPWA), world leader in wine tasting and scoring. Founded by American Robert Parker in 1978, RPWA is today the international reference for wine reviews with its famous scoring system from 50 to 100 points. With this purchase, Michelin is bolstering its position on the fine food market, beginning with the Asian and North American markets.

The MICHELIN brand: trust and progress

(July 27, 2017) – For the third consecutive year, the Reputation Institute, which ranks the world's brands according to their reputation, has put Michelin at the head of the French rankings and 13th worldwide.

Our reputation is based on several cornerstones: the quality of our products, the fruit of our innovation, the many services designed to make our customers' lives easier and our commitments to a responsible future.

Capital reduction

(December 14, 2017) – In 2017, Michelin continued its share buyback programme for €101 million.

The redeemed shares have been cancelled in full. On December 15, 2017, the share capital was reduced to 179,438,277 shares.

Michelin and Sumitomo Corporation to form second largest wholesaler in US and Mexico

(January 3, 2018) – To ensure better availability of their products and improved delivery to their customers in the United States and Mexico, Michelin and Sumitomo Corporation of Americas are announcing the merger of their wholesale and retail activities. This will create the second largest tire wholesaler on North American soil, in a joint venture held in equal parts. The entity will operate under a new identity, NTW.

Success for the non-dilutive convertible bond issue by Michelin

(January 5, 2018) – Michelin announced the launch of another non-dilutive convertible bond issue maturing January 10, 2023 for a nominal amount of USD 600 million. They will be redeemable in cash only, and will therefore not give rise to the issue of new shares or the hand-over of existing Michelin shares.

2.8.2 PRODUCTS – INNOVATION – SERVICES

2.8.2 a) Passenger car and Light truck tires and related distribution

MICHELIN Pilot Sport 4S: a premium tire in every sense

(January 19, 2017) – Designed on the back of our competition experience and partnerships with manufacturers, the MICHELIN Pilot Sport range is now a benchmark for sports sedans. Today it is joined by a new model, the MICHELIN Pilot Sport 4S, which is ahead of all its rivals in track trials. This is a premium tire right down to its look and is available in 35 different sizes.

MICHELIN CrossClimate+: better performance every season, for longer

(February 27, 2017) – Like its predecessor, the new MICHELIN CrossClimate+ tire provides the qualities of a summer tire plus greater traction on snow-covered ground thanks to innovative rubber, a unique tread and high performance siping. But is its performance consistent from the first to the last kilometre? The answer is yes!

Concept tires: our Vision for the future

(June 13, 2017) – Michelin presented its Vision wheel concept for future tires at Movin'On. This wheel was designed using our latest innovations (3D metal printing, bio-materials and smart solutions). It is an airless wheel, completely connected, with a "rechargeable" tread, produced on demand by 3D printing.

MICHELIN ACORUS: a wheel that bends but won't break

(September 27, 2017) – Our engineers have developed the MICHELIN ACORUS technology to make tires safer and more resistant. Rubber expanders are fitted to a slightly narrower wheel. In partnership with Maxion, world leader in wheels, today we are offering a new "flexible" wheel. It means the wheel-tire block is more shock-resistant and reduces the risks of puncture.

MICHELIN sells its stake in Double Coin (Anhui) Warrior Tire Co. Ltd.

(November 20, 2017) – In order to strengthen their respective brands, Michelin and Huayi Group have decided to separate and terminate the joint venture Double Coin (Anhui) Warrior Tire Co. Ltd, established in 2011, to help the Warrior brand improve its competitiveness in the market. This transaction is in the best interests of Michelin, Double Coin and Warrior Tire Co. Ltd and will contribute to the sustainable growth of each.

2.8.2 b) Truck tires and related distribution

MICHELIN X® FORCE™ ZL: the new, genuinely tough all-terrain tire.

(February 14, 2017) – Designed for light civilian and military vehicles (fire trucks, tactical vehicles, etc.), the new MICHELIN X® FORCE™ ZL 335/80R20 tire is the toughest of its kind. More damage-resistant, it can drive flat over 100 km and can support up to 3,350 kg of load per tire, or 775 kg more than its predecessor at identical performance levels!

Michelin Sascar Expands its Fleet Services in Mexico

(March 2017) – Following the acquisition of the commercial fleet management assets of Copiloto Satelital, Michelin Sascar Mexico has become the service provider for Copiloto's fleet management customers.

Based in Mexico, Copiloto offers fleet management solutions such as surveillance, accident prevention, cost control and other services to commercial fleet customers in Mexico, primarily through its proprietary Internet platform.

MICHELIN X® MULTI™: a new generation of heavy truck tires to go even further

(May 22, 2017) – The MICHELIN X® MULTI™ range of heavy truck tires for short and mid-distance transport companies offers tires designed to combine the lowest cost per mile with exceptional grip in all weather conditions. Equipped with an RFID chip, MICHELIN X® MULTI™ tires provide access to a range of digital services for tracking operations carried out on each tire.

Michelin solutions launches four digital services, revolutionizing fleet management

(November 23, 2017) – At Solutrans 2017, MICHELIN solutions presented four innovative digital services designed to help drivers and fleet managers get the most out of their assets and their businesses. MyBestRoute chooses the best route; MyInspection digitizes and standardizes vehicle inspections; MyTraining facilitates driver training; MyRoadChallenge makes driving fun and motivates drivers to drive safely.

2.8.2 c) Specialty businesses

/ Earthmover tires

MICHELIN unveils its new generation of civil engineering tire management systems

(October 4, 2017) – Michelin presents the latest generation of its tire management system for the mining industry: MEMS®4. Michelin is transforming its current offering into a comprehensive monitoring and reporting platform for tires and trucks integrating vehicle cycle analysis. Based on an approved data capture tool (readable by Android mobile devices) that interfaces with a new web-based software platform, this improvement was made feasible by the addition of real-time accelerometer and GPS data.

MICHELIN® X®TRA LOAD: record productivity for rigid dump trucks

(July 3, 2017) – Productivity is the number one challenge for rigid dump truck users. With the new MICHELIN® X®TRA LOAD range, we offer an increase in load capacity and an extended lifespan. Operators in quarries and mines can therefore transport a tonnage rate never reached before, continuously.

/ Agricultural tires

MICHELIN ROADBIB: the farming tire fond of road

(June 13, 2017) – Michelin has co-designed its new agricultural tire with contractors to meet their specific requirements. The new MICHELIN ROADBIB tire, unique in its category, takes into account the fact that tractors travel on the road 50% of the time for those customers. Its revolutionary tread increases of 60% the footprint on the road compared to a traditional agricultural lugs' tire. This tire provides stability, comfort and 25% more longevity.

MICHELIN acquires PTG and Teleflow

(November 13, 2017) – Michelin announces the acquisition of PTG and Teleflow, two industry leaders in the field of central tire inflation systems (CTIS), enabling farmers to manage their tire pressures depending on the terrain and conditions of use. With these acquisitions, Michelin is becoming the leader of CTIS, with a huge challenge in terms of soils protection and productivity for agriculture. The first concrete fruit of this collaboration is MICHELIN ZEN@TERRA solution, presented during Agritechnica fair in Hannover.

/ Two-wheel tires

Four new MICHELIN mountain bike tire ranges

(March 13, 2017) – In terms of mountain bike tires, our philosophy of "one use, one terrain, one tire" has led us to design four new ranges, two dedicated to cross-country and two to all mountain. Developed with competition riders, these two type-of-use ranges cutting-edge technology and make sure that everyone can find the best performing and most suitable tire for how they ride their mountain bike.

MICHELIN Enduro: a new range with more grip for the long-term

(August 28, 2017) – Rocks, sand, grass... The Enduro is torture for tires. To cope with these tests, Michelin has developed a new range of Enduro bike tires, making good use of our latest innovations. The result: better grip, of course, but also an improved lifespan and greater robustness. Available in medium and hard to adapt to different terrains, they will take you even further.

/ Aircraft tires

Michelin and Safran develop the first smart tire for planes

(June 20, 2017) – Inspection operations for plane tires have always been complex. PresSense, a pressure sensor integrated in the tire developed by Michelin and Safran, is changing everything. The tire's pressure information can now be seen on a reader connected to a smartphone and a database. PresSense helps accelerate and simplify all the necessary maintenance operations.

/ Michelin Travel Partner

Michelin in the Fooding® era

(September 1, 2017) – Since 2000, the Guide du Fooding® has offered a different approach to gastronomy, which complements the Michelin Guide. Today, Michelin has acquired a 40% share in the Guide du Fooding®, establishing a natural partnership. We can now recommend exclusive and diverse gastronomic experiences to our customers.

2.8.3 SUSTAINABLE DEVELOPMENT

General Motors and Michelin: a shared vision of sustainable rubber cultivation

(May 18, 2017) – General Motors has published guidelines to make sure that tire suppliers privilege responsible rubber cultivation. We praise this decision which reflects our own commitments: implementation of a responsible and natural rubber policy, assessment of our suppliers' CSR performance, mapping operators in the sector's value chain, reforestation project in partnership with the WWF... Our approaches converge to lead all of the industry towards virtuous practices.

Rubberway: an app for mapping good practices in the natural rubber industry

(September 7, 2017) – Michelin promotes responsible and sustainable natural rubber throughout the world. To measure the application of good practices throughout the value chain - production, processing, transport - we have developed the Rubberway phone app. It picks up information on working methods from all involved in the industry, in complete transparency, encouraging genuine traceability of rubber from plantation to factory.

2.8.4 COMPETITION

Roborace: a race for intelligence

(January 25, 2017) – This year there will be autonomous electric vehicle races in parallel with the Formula-E championship. Michelin is one of the three official partners to the competition called "Roboroace". Competition vehicles must use tires that can be fitted to mass-produced vehicles, making this new championship a laboratory for vehicles of the future.

24 Hours of Le Mans: 20/20

(June 19, 2017) – With its victory in the 2017 edition of 24 Hours of Le Mans, the No. 2 Hybrid Porsche 919 gave Michelin its 20th consecutive win in Sarthe. 20 years of victories testifying to our Motorsports teams' ability to adapt to the constant changes in regulations and vehicles. As it is every year, the 24 Hours of Le Mans race was a forum for successfully testing the latest tire innovations which will be transferred from track to road over the coming years.

FIM Moto-e World Cup joins forces with Michelin

(December 14, 2017) – After MotoGP comes Formula-E... Michelin becomes the official tire supplier of the FIM (International Motorcycle Federation) Moto-e World Cup, the first sports discipline for fully electric motorcycles with zero emissions and which will kick off in 2019. This will be a valuable development laboratory for innovations that will be found in the standard Michelin tires of tomorrow.

2.9 RISK FACTORS

2.9.1 INTRODUCTION

In today's constantly evolving economic, competitive and technological environment, anticipating and managing risks are central to the success of Michelin's corporate strategy. Its geographic reach and leadership position in the global tire market, as well as the diversity of its business activities, mean that the Group is exposed to a variety of risks, both endogenous and exogenous. Strategic, financial, industrial, commercial, environmental and people-related risks have been clearly identified and are being managed in ways that minimize their occurrence and impact.

For Michelin, a risk corresponds to the possibility of an event occurring whose consequences could impact its objectives, particularly as concerns its financial position and reputation.

To ensure that risks are rigorously managed, a global risk management process is in place that complies with the most exacting international professional standards such as ISO 31000, COSO and the reference framework of the French securities regulator, the AMF. This process is continuously updated to reflect the latest regulatory changes and risk management best practices.

As part of its risk mapping procedure, Michelin has reviewed the risks that could have a material adverse effect on its operations, financial position or earnings. The Group does not currently consider that it is exposed to any significant risks other than those presented herein. However, it is possible that other risks not described below or which have not been identified to date could also have a negative impact on its earnings, objectives, reputation or share price.

As part of this global process, certain procedures are in place to manage cross-functional risks. Two of these are described below as examples.

Insurance coverage

Some risks can be transferred to insurance companies in line with the Group's insurance strategy, with different solutions used depending on the frequency of the risks concerned.

/ High-frequency risks

To cover high-frequency risks, integrated global insurance programs have been arranged, to the extent possible, in the insurance and reinsurance markets. These mainly concern property & casualty/business interruption and liability insurance.

- The property & casualty/business interruption insurance program provides combined total coverage of €1.5 billion, except for natural disasters, for which the coverage limit may be lower depending on the country.
- The liability insurance program comprises three key coverage areas:
  - product liability for the manufacturing companies;
  - general liability, offering direct coverage in European Union countries and umbrella coverage in excess of local cover in all other countries;
  - environmental liability coverage for all Group companies.
- The Cyber risk insurance program covers damages (including additional operating costs) as well as damages to third parties, with a combined limit of €150 million per year.

/ Medium-frequency risks

To reduce costs by pooling medium-frequency risks, The Group has set up a captive insurance and reinsurance company to provide coverage in the following areas, with limits commensurate with its resources:

- property & casualty risks, with a €50 million limit per claim and per year;
- product liability in the United States and Canada, with limits of US$20 million per claim and US$40 million per year;
- product recall expenses, with limits of US$25 million per claim and US$50 million per year;
- cyber security risks, with a €5 million limit per claim and per year.

Including premiums paid to the captive insurance and reinsurance company, aggregate premiums amounted to €64.7 million in 2017, a decline of €1 million from 2016 despite notable coverage improvements and, in particular, higher limits in some cases.

Crisis management

A second cross-functional process concerns crisis management.

Given its size, the nature of its manufacturing and commercial activities and its environmental and social responsibility, Michelin is exposed in the course of its operations to the risk of crises that could affect its business and, potentially, its reputation. To foresee, plan for and effectively respond to any such events, a crisis management system is in place and led by the Group Quality, Audit and Risk Management Department. The system's underlying processes are regularly updated to ensure maximum effectiveness and responsiveness. It is deployed among the various management and other teams through appropriate simulation exercises and training seminars.

2.9.2 RISKS RELATED TO THE GROUP'S OPERATIONS AND STRATEGY

2.9.2 a) Market risk

/ Risk factors

Michelin's principal business operations consist in selling, to vehicle manufacturers, dealer networks and end-users, tires for cars, vans and trucks as well as Specialty tires for earthmovers, farm machinery, mining equipment, aircraft, scooters, motorcycles and bicycles.

Depending on the year, around 75% to 80% of the car, van and truck tire business involves replacement sales, which are shaped by a wide variety of factors, including consumer tire demand, the number of kilometers driven, average vehicle speeds, fuel prices, dealer inventory management and, in the case of winter tires, weather conditions.

The original equipment business, which represents around 20% to 25% of car, van and truck tire sales, depends on automotive demand in our host markets and on automaker production programs. Over the long term, the replacement tire business has been relatively stable and much less cyclical than the original equipment business.

Most of the Specialty tire markets primarily depend on raw material prices in the mining, oil and agriculture sectors.

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

/ Risk management response

On the operations side, the Chief Executive Officer and the Group Executive Committee are responsible for determining strategy and leading the Group. They are assisted in these tasks by analyses provided by the Corporate Development, Market Intelligence and Financial Control Departments. From time to time, the Chief Executive Officer submits major projects to the Supervisory Board for consideration, *i.e.* projects aimed at securing our sustainable, responsible growth over the long term. The strategic decisions related to these projects are approved by the Supervisory Board and implemented under the responsibility of the line management teams. The strategic plan is regularly reviewed over the medium term by the Chief Executive Officer and the Group Executive Committee.

Our broad global footprint offers a significant advantage in responding to any volatility in demand for particular products or in a particular geographic market.

2.9.2 b) Innovation risk

/ Risk factors

To retain the technological leadership that supports its ambitious growth objectives, Michelin invests heavily in research and innovation, as manifested in the portfolio of projects overseen by the Technology Centers.

In this regard, the Group is exposed to two distinct types of innovation risk. First is the risk of losing its technological leadership, which would expose it to increased competitive pressure. For example, changes in technologies or the regulatory environment could result in our products becoming obsolete or less appealing to customers. Similarly, our technological lead could be lessened if we experienced delays in new product development.

The second type of innovation risk involves the development of innovative products that are less successful than expected in the marketplace.

/ Risk management response

Innovation is a core component of corporate strategy, having been identified as one of the principal contributors to meeting our growth objectives. Each year, the Group dedicates around €700 million in investment and nearly 6,000 employees to its innovation commitment.

To ensure that the innovation process is effectively managed, a specific governance framework has been put in place.

It is designed to involve and empower all of our executive teams, in particular by ensuring that:

- the R&D teams are highly receptive to the outside world and new technologies, notably by working in collaboration with universities;
- marketing teams and researchers work in close cooperation, to bring their creative products or service concepts viably to market as quickly as possible, while meeting the highest quality standards.

The process is supported by our Advanced Marketing Department, which performs marketing and profitability studies prior to every new product launch.

2.9.2 c) Competition risk

/ Risk factors

Michelin is exposed to increasingly aggressive global competition, particularly from Asian tiremakers, which is being driven by the fast pace of technological change, rising capital expenditure, sustained price pressure from certain competitors, temporary overcapacity and steadily improving manufacturing competitiveness.

If this situation persists it could have a negative impact on our operations, financial position and earnings.

/ Risk management response

Our strategy to counter competition risk is to continuously innovate, expand more quickly in high-growth markets and improve our competitiveness. We are also taking steps to bolster our specific strengths such as our global footprint, our premium positioning, our leadership in Specialty businesses* and the power of the MICHELIN brand. In tandem, the brand portfolio is being expanded to broaden and deepen our presence in every market segment.

Lastly, the Group is stepping up its commitment to improve competitiveness *via* a new plan described on page 13.

2.9.2 d) Risk of default by dealers

/ Risk factors

Michelin's channel strategy is based mainly on the development of external dealership networks.

Substantially all of these dealers are independent, with the integrated dealerships – Euromaster in Europe and TCi in North America – making only a limited contribution to sales volumes. This is the case, for example, of the mainly franchise-based TyrePlus network that is currently being developed in new markets.

In connection with these retail activities, the Group is exposed to the risk of default by its dealers and independent import companies.

/ Risk management response

The credit network, which reports to the Group Finance Department, tracks dealer risk on a daily basis. A monthly reporting process ensures the effective monitoring and management of payment periods, customer risk and credit portfolio quality. Bad debts written off in the annual financial statements have not been material for a number of years.

2.9.2 e) Raw materials risk

/ Risk factors

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

Raw materials, which represented 40% of consolidated purchases in 2017, include both commodities traded directly on organized markets, such as natural rubber, and manufactured products, like butadiene, styrene, metal cables and textiles, whose prices are negotiated with producers.

On the basis of estimated 2017 production volumes, the sensitivity of cash purchasing outlays to fluctuations in natural rubber and oil prices is as follows:

- a US$0.10 per kg decrease in natural rubber prices would feed through to around an US$90 million reduction in full-year purchasing costs;
- a US$1.00 per barrel decline in oil prices would feed through to a US$9 million decrease in full-year purchasing costs.

Raw materials costs for 2015, 2016 and 2017	2015	2016	2017
In € millions	4,711	4,316	5,172
As a % of net sales	22.2%	20.6%	23.6%
Of which:			
Natural rubber	26%	25%	28%
Synthetic rubber	25%	25%	26%
Reinforcing agents	18%	17%	16%
Chemicals	15%	15%	14%
Metal cables	10%	10%	9%
Textiles	7%	8%	7%

* *Source: Group estimate.*

/ Risk management response

The impact of changes in raw materials prices is tracked and managed by analyzing:

- changes in the cost of raw materials used, as recognized in the income statement;
- the impact on working capital requirement.

The impact of higher raw materials prices is estimated using internal models that take into account a number of factors, such as actual changes in the cost of raw materials used in production, production volumes, exchange rates and the time required to transform the raw materials, from delivery and storage to manufacturing.

Michelin has long been committed to managing selling prices in such a way as to maintain a favorable net effect between changes in price-mix and changes in raw materials costs. In 2017, the rise in the cost of raw materials used in production had a €738 million adverse effect, resulting in a net negative impact of €70 million, versus the €668 million positive price-mix impact.

Margins on certain fixed-price sales contracts have been protected using short-term futures. At December 31, 2017, these futures had a negative fair value of €1 million, recorded in assets. This compares with the €5.2 billion cost of raw materials used in production in 2017 (see note 16.3 to the consolidated financial statements on page 267).

2.9.2 f) Reputational risk

/ Risk factors

Michelin has an excellent brand image, both in terms of its products and as a company. However, like any other well-known multinational corporation, it is exposed to events and circumstances that could damage its brands and/or reputation.

In addition, the rapidly growing influence of social media means that we are exposed to online reputational risk, at a time when information is being openly and rapidly circulated, in particular on the Internet.

/ Risk management response

It is vital to safeguard our reputational equity, which is one of our major assets. A dedicated corporate department, Communication and Brands, therefore leads a full array of measures to ensure that our brands and reputation are protected.

Among these efficient measures is a systematic, ongoing intelligence process that analyzes online and other media, to identify any initiatives or comments that could spiral out of control and lastingly damage our image.

The crisis management system also helps control reputational risk.

2.9.3 OPERATIONAL RISKS

2.9.3 a) Ethical risk

/ Risk factors

Michelin pays particular attention to the risk of ethics violations and expects every employee to consistently act with integrity and to respect the internal and external standards that have underpinned our corporate culture for over a century. Any conduct that runs counter to these values could constitute an ethics violation.

/ Risk management response

Michelin is committed to conducting business in an ethical manner in every host country, in line with our firm belief that the way we achieve our results is just as important as the results themselves.

This is why a dedicated ethics and compliance system is in place, based on the following components:

- a Code of Ethics distributed across the organization;
- whose 17 chapters define the behavioral standards applicable to our business activities, along with guidelines to help employees make decisions about key ethical issues:
  - Michelin's pledge to uphold international principles, such as the UN Global Compact and the Universal Declaration of Human Rights,
  - legal and regulatory compliance,
  - conflicts of interest,
  - gifts and invitations,
  - governmental relations and anti-corruption measures,
  - donations and political contributions,
  - confidentiality,
  - fair competition,
  - insider trading,
  - protecting Group assets,
  - fraud,
  - supplier relations,
  - sales and international trade,
  - true and fair financial reporting,
  - health and safety,
  - discrimination and harassment,
  - protecting employee privacy;
- a training curriculum dedicated to these issues is currently being deployed;
- a governance structure comprising:
  - a Group Ethics Committee, meeting three or four times a year under the responsibility of the President, Geographic Zones. Its members include the Heads of the Legal Affairs, Finance, Personnel, Safety and Security, and Quality, Audit and Risk Management Departments,
  - a dedicated Ethics Committee in each region,
  - a reporting process at both Group level and in each region to help swiftly relay any violations of the Code of Ethics.

Lastly, in every host region, an ethics hotline enables employees to report any suspected cases of fraud or unethical behavior.

2.9.3 b) Health and safety risks

/ Risk factors

Michelin directly employs 114,100 people worldwide and also uses temporary employment agencies and subcontractors. These people work in a very wide variety of environments, primarily in industrial facilities – where they use machines and equipment that range from manual to fully automated, depending on the type of product manufactured and the age of the machines – but also in logistics operations and dealerships.

Given the nature of our business, employees are exposed to:

- risks related to site equipment and organization (mechanical and electrical risks, ergonomic risks), risks related to the general working environment (heat, working at heights, psychosocial risks, and exposure to country-specific risks such as political instability, terrorism or kidnappings);
- risks related to exposure to chemicals;
- risks of industrial accidents and natural disasters;
- risks related to handling tires and using tire-handling equipment.

These risks can have an impact on the health, the well-being, and even the physical integrity of our employees and other people who work at our sites.

/ Risk management response

To anticipate and minimize potential risks to the health of both our employees and third parties, a specific procedure is in place to analyze, manage and attenuate health and safety risks for everyone.

Training programs, for example, encourage all employees, temporary workers and subcontractors to get personally involved in reducing these risks.

At the same time, managers ensure that our working methods, guidelines and practices are correctly applied in order to avoid the occurrence of any risks relating to health and safety.

The design, machines and equipment are continuously improved so as to prevent most of these risks. Progress is tracked through management indicators such as the frequency and severity of workplace accidents, while the methods, guidelines and practices in place are assessed using internal control procedures.

For further information on health and safety risks, please refer to section 6.1.3.

2.9.3 c) Environmental risk

/ Risk factors

Tires are non-biodegradable and are made of both natural and synthetic materials such as rubber, petroleum derivatives, chemicals and metals. They become worn through use and have a limited lifespan. As the only point of contact between a vehicle and the road, their use requires the burning of fuel and therefore the emission of greenhouse gases. This means that more than 90% of a tire's lifecycle environmental impact comes from its use.

Tire production processes use energy, electricity and water as well as steam generated internally in gas, coal or oil-fired boilers, which means that they can also potentially pose a risk to the environment. The land and sea transport both of semi-finished products among the various plants and of manufactured products to dealerships in 170 countries across the globe gives rise to CO_2 emissions.

Lastly, the Group is exposed to the risk of legal or financial consequences if its operations cause soil or air pollution or if it fails to comply with the applicable local, national or international environmental regulations and standards.

/ Risk management response

Michelin's assertive commitment to shrinking its environmental footprint has led to the launch of a number of initiatives.

First, the rolling resistance of our tires is being steadily reduced in order to improve their fuel efficiency. Since 1992, we have developed five generations of more fuel-efficient tires for cars and three for trucks. Furthermore, consumption of rubber and synthetic products has been considerably reduced in recent years thanks to R&D investments, which have enabled the production of lighter tires that last longer and can carry heavier loads.

Second, we are actively attenuating the environmental impact of the tire manufacturing process, with a substantial reduction in energy and water use and in VOC and carbon emissions. We have also scaled back as far as possible the amount of waste produced. At the same time, end-of-life tires are recycled in all of our host countries, with the recycling rate reaching 95% in the European Union.

Progress in our environmental responsibility performance is measured annually. In 2017, the review showed that the Michelin Environmental Footprint indicator was 47.3% lower than in 2005.

For further information on environmental risks, please refer to section 6.4.

Financial risks associated with climate change and the low-carbon strategy

Michelin's contribution to the CDP (formerly the Carbon Disclosure Project) consists of a report describing the risks arising from the effects of climate change on its business. The potential effects on the natural environment are not currently identified as giving rise to substantial risks. Any problems in sourcing synthetic rubber or raw materials are addressed in our business continuity plans. Similarly, stricter regulations are not currently considered as giving rise to a substantial risk. The Group considers that regulatory changes represent an opportunity rather than a risk, as Michelin's products and services offer low-carbon mobility solutions. The Group's strategy for combating climate change (see section 6.4.4) enables it to anticipate physical, regulatory and multifaceted changes, in particular by giving strategic direction to long-term capital spending plans. In 2017, Michelin was ranked among the most innovative companies in the areas of transparency and combating climate change by the CDP. Michelin's A- score was a reflection of its strategy, CO_2 emission reduction results and long-term ambitions of further reducing its carbon footprint.

2.9.3 d) Risk related to the safety and performance of products and services

/ Risk factors

The tire is an important vehicle safety component. Michelin's brand image is inextricably linked to the innovative features, quality, reliability and safety of its products, which are also an important factor in vehicle safety. Every year, we manufacture around 190 million tires worldwide to equip everything on wheels, including cars, trucks, buses, aircraft, scooters, motorcycles, earthmovers, farm tractors and subway trains.

The regulatory environments in our operating markets vary widely and our tires are used in a broad range of conditions. Consequently, Michelin's exposure to product risk can arise from weather conditions (temperature and humidity), from the quality and type of pavement (motorways, highways and runways), from the unusually extreme use of our tires in some geographic regions (in terms of load or speed), from counterfeit tires that do not offer customers the same safety guarantees, and from highly specific uses that push the boundaries of current technological capabilities.

/ Risk management response

Tire quality, reliability and safety are part of our corporate DNA and the primary concern of every employee. This corporate culture is demonstrated in operations by strict procedures and processes that guarantee optimal quality at each stage in a tire's service life, from specifications and design to process engineering, manufacture, distribution and use. To effectively anticipate and manage potential risks related to the use of our products, their in-use behavior is constantly monitored to detect even the slightest hint of malfunction and to swiftly implement the requisite corrective measures.

2.9.3 e) Accounting and financial risks

Organization of financial risk management

The Corporate Financing Department controls, measures and supervises financial risks for each company and region, as well as at Group level. These tasks are overseen by the Group Financial Department, to which the Corporate Financing Department reports.

One of the Corporate Financing Department's ongoing missions is to define the rules for applying financial risk management policies, which are monitored on the basis of a full array of internal standards, procedures and authoritative literature. Geographic Zone finance managers oversee the implementation of the Group's financial risk management policies by the finance managers of the companies in their zone. In addition, compliance with financial risk policies is assessed through internal audit reviews to evaluate risk control efficiency and identify means of improvement.

All decisions regarding Group financial risk hedging policy are taken by the Group Financial Department. As a general rule, the Group strictly limits the use of derivatives to the sole purpose of hedging clearly identified exposures.

The Financial Risks Committee is responsible for defining and approving financial risk management policies, identifying and assessing risks, and approving and monitoring hedges. It meets on a monthly basis and comprises representatives from the Group Financial Department and the Corporate Financing Department.

Liquidity risk

/ Risk factors

Liquidity is defined as the ability to repay borrowings when they fall due and to find new stable sources of financing so that there is always sufficient money to cover expenses. In the course of its business, the Group is exposed to the risk of having insufficient liquid resources to finance its operations and make the investments needed to drive its growth. It must therefore manage its cash reserves and committed lines of credit on a continuous basis.

/ Risk management response

The Corporate Financing Department is responsible for ensuring that the Group has the financing and liquidity it needs at the lowest possible cost. The Group raises financing on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and maintains cash reserves that are calibrated in order to ensure the refinancing of short-term debt. Long-term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular Compagnie Financière Michelin SCmA, which acts as the financing hub for the Group.

Except in the case of particular obligations related to the specific features of local financial markets, the operating subsidiaries are financed in accordance with the following model:

- cash pooling with the Group for the management of day-to-day liquidity requirements;
- intercompany credit lines and loans to meet medium and long-term requirements.

Short-term financing for subsidiaries that do not participate in the cash pool is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short- and long-term financing requirements based on business forecasts and the strategic plans of the operating entities.

As a matter of prudent financial policy, the Group strives to ensure that its financial contracts do not include hard covenants or "material adverse change" clauses that could restrict its ability to utilize credit lines or accelerate its repayments. At December 31, 2017 no such clause featured in the Group's loan agreements. With regard to default and acceleration clauses, there is only a very low probability that the related triggering events will actually occur, and any potential impact on the Group's financial position would not be material.

For further information on the Group's liquidity risk, please refer to note 4.1.2 to the 2017 consolidated financial statements.

Currency risk

/ Risk factors

Currency risk is defined as the impact on financial indicators of fluctuations in the exchange rates of foreign currencies used in the normal course of business. The Group is exposed to currency risks on its foreign currency transactions (transaction risk) and also on the translation of its net investment in foreign subsidiaries (translation risk).

Foreign currency transaction risk arises from the monetary assets and liabilities of the Group and its subsidiaries (mainly cash and cash equivalents, receivables, payables and borrowings) are denominated in foreign currencies. It corresponds to the risk of exchange rate changes between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

Currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of changes in the exchange rate used to translate the net investment in the foreign subsidiary into euros during the consolidation process.

/ Risk management response

Foreign currency transaction risk

Foreign currency transaction risk is monitored by the Corporate Financing Department.

Each Group company continually calculates its accounting foreign exchange exposure in relation to its functional currency and hedges it systematically. A number of temporary exemptions can, however, be granted by the Group Financial Department when it is not possible to hedge a currency or when it is justified under exceptional market conditions.

Foreign currency payables and receivables of the same type and with equivalent maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding company in turn assesses its own resulting net exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. The structural exposure is hedged using long-term instruments (with a life of up to six years) and the operational exposure is hedged using short-term instruments (generally expiring within three months). Currency risk monitoring and hedging is based on Group internal standards and procedures. A currency transaction risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis *via* a detailed management report.

Foreign currency translation risk

The Group does not use hedging instruments to actively manage this risk.

Investments in foreign subsidiaries are booked in the functional currency of the parent company and are not included in the parent company's foreign exchange position.

For further information on the Group's currency risk, please refer to note 4.1.3 to the 2017 consolidated financial statements on page 249.

Interest rate risk

/ Risk factors

The Group's income statement may be affected by interest rate risk. An unfavorable change in interest rates may adversely affect future finance costs and cash flows. The Group is in a net debt position and is exposed to the risk of an increase in interest rates on its variable rate debt. It may also be exposed to an opportunity risk in the case of a fall in interest rates, if too great a proportion of debt is at fixed rates. It is also exposed to interest rate risk on its financial investments and the related yields.

/ Risk management response

The objective of interest rate management is to minimize financing costs while protecting future cash flows against unfavorable movements in interest rates. For this purpose, the Group uses various derivative instruments available in the market, but restricts itself to the use of "plain vanilla" instruments (interest rate swaps, caps, collars, etc.).

Interest rate exposure is analyzed and monitored by the Financial Risks Committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department, which is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, notably taking into consideration the Group's gearing (as hedging requirements evolve in line with the relative weighting of debt).

For further information on the Group's interest rate risk, please refer to note 4.1.4 to the 2017 consolidated financial statements on page 250.

Equity risk

/ Risk factors

The Group owns shares in listed companies whose share price fluctuates, among other things, in line with changes in the global stock markets, the multiples applied by the markets to the industries in which these companies operate and their specific economic and financial metrics.

Equity investments are made for strategic rather than trading purposes. Equities are held under a medium or long-term strategy, and not for short-term trading portfolio management.

/ Risk management response

The Group Investments Committee, which comprises representatives from the Finance, Legal Affairs and Corporate Development Departments, is responsible for ensuring that investment management and monitoring rules are properly applied. To this end, the Committee reviews investments each year to assess the degree of risk involved and the results obtained compared with the stated objectives.

For further information on the Group's equity risk see note 4.1.5 to the 2017 consolidated financial statements on page 250.

Counterparty risk

/ Risk factors

Counterparty risk is the risk of a debtor refusing or being unable to fulfill all or part of its obligations. The Group is exposed to counterparty risk on its contracts and financial instruments. Counterparty risk may lead to an impairment loss or a loss of liquidity. The Group is exposed to the risk of impairment losses arising from the investment of available cash in money market instruments and other marketable securities, as well as on finance receivables, derivative instruments and third party guarantees. It is exposed to the risk of a loss of liquidity on its undrawn committed lines of credit.

/ Risk management response

The Group chooses its banks extremely carefully, particularly when it comes to the management of its cash investments. As it would be inappropriate to add financial risk to the industrial and commercial risks that are associated with its operations, the Group gives priority to the security and liquidity of all its cash investments. Cash investments consist of (i) financial instruments that are subject to no risk or an insignificant risk of changes in value purchased from a sufficiently diversified group of leading banks, and (ii) unrestricted units in diversified money market funds or short-term bond funds.

As well as cash investments, the asset value of derivative instruments used for hedging purposes is also exposed to counterparty risk. These assets and their distribution by bank are tracked weekly by Group Treasury and monitored monthly by the Financial Risks Committee.

To limit counterparty risk on hedging instruments, the Group enters into two-way collateral agreements with its main banks.

For further information on the Group's counterparty risk, please refer to note 4.1.6 to the 2017 consolidated financial statements on page 250.

Credit risk

/ Risk factors

Credit risks may arise when the Group grants credit to its customers. If a customer becomes insolvent or files for bankruptcy, it may default on the receivables held by the Group and this may have a negative impact on the Group's income statement.

/ Risk management response

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for managing and collecting trade receivables. The main policies and procedures are defined by the Group and are monitored and controlled at both regional and Group level. A monthly credit risk reporting system has been set up to monitor these risks.

For further information on our major customers, please refer to note 4.1.7 to the 2017 consolidated financial statements on page 250.

Application of risk management and internal control objectives related to the preparation of accounting and financial information

Among the various objectives of the risk management and internal control system, this section focuses on the control activities related to the process of preparing accounting and financial information.

/ Preparation and processing of accounting and financial information

The Chief Executive Officer is responsible for disclosing reliable financial and accounting information. The accounting, consolidation, budget control and financial communication departments all contribute to the process of producing this information.

Within the organization, accounting teams generally report to the heads of the Geographic Zones, while budget controllers report to the heads of the Product Lines.

Consolidated financial statements are prepared monthly according to the same overall process as for the annual financial statements.

The internal control procedures required to produce reliable accounting information are defined at Group level and implemented locally. These include a physical inventory of both fixed assets and inventories, segregation of tasks and reconciliation with independent sources of information.

A dedicated team is in charge of aligning accounting policies throughout the Group, monitoring changes in applicable financial reporting standards, updating accounting manuals for all the subsidiaries and dealing with any issues they may raise.

Statutory and management accounting data are reported simultaneously by the subsidiaries and programmed controls verify that the main indicators – such as revenue and operating income – are consistent between the two sets of data. Statutory accounting data received from the subsidiaries are checked for consistency and then consolidated to produce the Group's financial statements.

Monthly changes in consolidated data are systematically analyzed. Differences between forecast and actual management accounting data are reviewed in detail every month by the Group Executive Committee and the Product Lines.

At every interim and annual closing, the Geographic Zone Directors certify in writing that, to the best of their knowledge, the separate accounts submitted by the companies within their region provide a true and fair view of the results of their operations. This statement specifically covers a number of issues that could significantly affect the financial statements in the event of non-compliance (*e.g.,* applicable laws and regulations and contractual provisions) or occurrence (*e.g.,* disputes or fraud).

The Investor Relations Department, which forms an integral part of the Corporate Finance Department, is responsible for preparing and disclosing all of the Group's financial information to the investing community. Financial information is disclosed in three main forms:

- the Registration Document and the Annual and Sustainable Development Report;
- financial press releases;
- presentations to analysts and investors.

The design and preparation of the Registration Document and the Annual and Sustainable Development Report are coordinated by the Investor Relations Department and approved by the Chief Executive Officer, with significant input from the Group Legal Affairs Department and the Sustainable Development and Mobility teams. Both of these documents contain extensive, high-quality information drawn from contributions by a range of specialists in the Group's main fields of operations.

Financial press releases are written by the Chief Investor Relations Officer; those that announce earnings are also reviewed by the Supervisory Board.

Presentations to analysts and investors are prepared by the Investor Relations Department under the supervision of the Corporate Finance Department.

/ Management of accounting and finance internal control

Group managers can detect any weaknesses in their internal control processes through the systems used to manage their operations. In addition, internal reviews are performed in the units by their specialized experts.

Information generated by the management systems is analyzed by the Budget Control teams and reported to the managers concerned for inclusion in the scorecards used to manage their operations. A management scorecard is also prepared for the Group Executive Committee, enabling it to track the Group's business month by month. On a quarterly basis, similar reports are presented in an appropriate format to the Supervisory Board. The Corporate Finance Department is responsible for ensuring the relevance and consistency of this management data.

The Group IT Department is in charge of overseeing IT policies and the corresponding resources.

The internal control procedures contained in the Group's Quality System include rules relating to data access and protection, the development of applications, and structuring and segregating development, process engineering and production tasks.

/ Recurring assessments of the accounting and financial information preparation process

Self-assessments

To ensure that the work carried out to comply with France's Financial Security Act delivers lasting improvements, the Accounting and Financial Internal Control Department reports to the Corporate Finance Department. It is responsible for managing internal control processes and for overseeing work on financial internal control with a view to providing reasonable assurance that the Group's financial information is reliable and that its assets are safeguarded.

It defines internal control standards, coordinates and sets up internal control information systems and day-to-day management procedures. It also assists the network of internal controllers in the host regions and the main business lines in implementing these systems and procedures.

Its role includes:

- standardizing internal control best practices and training regional correspondents in their use;
- regularly updating key risks by process;
- defining major control issues in conjunction with the owners of the processes concerned;
- drafting control guidelines and manuals and preparing internal control tests;
- overseeing the regional managers and the managers of business lines concerned;
- structuring the internal control network;
- interfacing with the other stakeholders in the relevant processes, such as process owners, risk managers and internal and external auditors;
- advising on the implementation of transformation projects and programs.

Since 2009, the Group has developed and deployed a worldwide application for monitoring the entire internal control process, which leverages the guidelines and principles defined in previous phases undertaken since 2004. The model will continue to be extended to cover either additional processes or new legal entities.

This self-assessment system encompasses the following 17 processes:

- purchasing, from ordering to supplier payment;
- sales, from customer order to payment;
- credit management;
- management of inventories (raw materials, semi-finished and finished products, and spare parts);
- inventory valuations;
- financing and financial risk management;
- management of intra-Group transactions (transfer pricing and elimination of intra-Group balances);
- identification of on and off-balance sheet commitments;
- information systems management and administration (general IT testing);
- accounts closing;
- project and fixed asset management;
- taxes;
- human resources management (compensation, benefits and travel expenses);
- consolidation;
- investor relations;
- mergers/acquisitions/divestments;
- management of customs affairs, including the Group's customs management processes, import/export management, supervising freight forwarders, organizing delegations of authority, customs documentation, etc.

At every company covered by the system, the key internal control activities for each process are self-assessed and improved by the line personnel concerned every year.

Internal Controller reviews

The key controls for every process are tested on every site at least once every four years and more often where necessary.

The results of tests conducted by internal controllers are shared with the external auditors of the Group's companies, so that they can capitalize on the findings and strengthen their own external audit procedures.

Action plans

In each company, action plans are prepared to address the identified areas for improvement and are implemented by line personnel.

More generally, this approach is integrated into the continuous improvement process, which is also supported by the findings of the external and internal auditors. As well, this self-assessment and testing system is applied to the five core components of the internal control process.

Action plans are generally scheduled for completion within two years for 80% of compliance shortfalls, excluding information system issues which take longer to resolve and require more resources.

Findings of the Financial Internal Control assessment

The Geographic Zone Directors and the Process Owners are responsible for their internal control compliance, with accountability supported by annual objectives.

The findings of the Financial Internal Control assessment and the implementation of the action plans are tracked by the line management concerned and consolidated at Group level.

They are periodically presented to the Corporate Finance Department's Finance Committee, to the managers in charge of the relevant processes and business lines, and to the Geographic Zones concerned.

The Audit Committee provides the Supervisory Board with status reports on the assessment process.

2.9.3 f) Business interruption risk

/ Risk factors

The Group's tires are produced in two stages. First, semi-finished products are manufactured for use as components, which are then processed and assembled to produce the finished products that make up the different types of tires we sell. Consequently, any business interruption incident at a semi-finished product facility could have a serious impact, given that its output may be used by several different finished product plants.

There are a variety of external and internal factors that can give rise to business interruption risk for either type of production facility.

External risk factors include (i) supply shortages, which could jeopardize the output of semi-finished products and have a serious knock-on effect on the production of finished products, (ii) natural disasters, particularly in high-risk regions such as the United States (tornadoes) and Asia (flooding), and (iii) regulatory or geopolitical changes.

Internal sources of business interruption risk include fire, IT failures and other technical problems.

/ Risk management response

To effectively anticipate and manage business interruption risk, Michelin has set up a specific plan focused on the following three action areas:

1. Prevention, by stepping up training for plant staff, conducting technical inspections, securing component supply, strengthening fire safety measures, and strategically selecting plant locations.
2. Protection, by keeping buffer inventory of replacement parts for critical equipment, performing regular maintenance, multi-sourcing finished-product inputs, developing multi-sourcing among component suppliers, and striking the right balance between insourcing and outsourcing of component production.
3. Management, notably by deploying a Business Continuity Management process for all production activities. This process makes it possible to respond swiftly in the event of a crisis, by quickly transferring a production line to another plant and identifying critical products so that strategic decisions can be made ahead of time.

2.9.3 g) Supply continuity risk

/ Risk factors

Every year Michelin purchases nearly €13 billion worth of goods and services from around 50,000 different suppliers. These purchases may be broken down into three families:

1. Raw materials, divided into eight categories: natural rubber, monomers, elastomers, fillers, chemicals, oils and resins, textile reinforcements and metal reinforcements.
2. Industrial inputs, mainly engineering services for building new plants and improving existing facilities.
3. Services, primarily logistic, financial, advertising, consulting and industrial services.

The Group is therefore exposed to three types of risk factors related to supply continuity:

- any imbalance between supply and demand can lead to tighter markets, which in turn can create supply difficulties for rare, high-demand or single-source raw materials;
- the scarcity of certain components can make the Group dependent on their suppliers. For example, consolidation in commodity markets can exert pressure on the supply chain;
- certain regulatory constraints – such as the tightening of environmental regulations in Europe, the United States and a number of emerging markets – can impact the operations of some suppliers.

The Group is also exposed to the risk that one or more suppliers may cease trading, which can happen for a wide variety of reasons including financial difficulties, a deliberate decision to withdraw from an insufficiently profitable business, termination of production following acquisition by a competitor, or the closure of a production facility as a result of a fire, explosion, natural disaster or geopolitical event.

/ Risk management response

To more effectively anticipate, prevent and manage supply continuity risks, procedures have been introduced to centralize purchasing across the globe.

More generally, a variety of risk management measures have been implemented across the organization to deal with every type of supply continuity risk. These include training employees in this issue to improve risk planning, conducting audits of critical suppliers' business continuity plans, signing multi-year contracts with the main suppliers, looking for new suppliers, maintaining strategic buffer inventory for critical products and seeking substitute products when certain commodities become scarce.

2.9.3 h) Property security risk

/ Risk factors

The main property security risk is fire, both in production processes and in storage areas for raw materials and finished products. However, very few significant fire incidents have been reported Group-wide.

/ Risk management response

To manage this risk, Michelin developed the proprietary High Protected Risk Michelin (HPRM) standard, which covers prevention, protection, early detection and rapid response. A corporate team of risk management experts oversees a network of on-site correspondents to ensure that the standard is properly applied. In addition, existing facilities are currently being upgraded to HPRM standards. All new projects are audited by an Environmental and Prevention expert for HPRM-compliance using a proprietary application. Feedback and best practices are systematically shared across the organization and formally documented. Thanks to effective application of this standard, in the past decade no fire or other industrial accident at any of Michelin's sites worldwide has caused serious injury to employees, damage to Group or third-party assets, or an adverse environmental impact.

2.9.3 i) Knowledge retention risk

/ Risk factors

One of Michelin's competitive advantages stems from the ability to sharply differentiate its products and services thanks to continuous, sustained innovation. Consequently, protecting its knowledge, expertise and any and all trade secrets is a key factor in maintaining its leadership and driving its future growth.

The Group is exposed to risks in its cooperation with external stakeholders, including consumers, suppliers, partners, subcontractors and academic institutions. Likewise, it is dependent on the information systems used to store and share sensitive information.

Michelin is also exposed to risks relating to a fast-changing business environment, in which security breaches and piracy are becoming increasingly sophisticated and require constant vigilance and responsiveness from the IT teams. In addition, the Group has to take into account the growing use of social networks and the resulting risk of information leakage.

Sensitive information mainly concerns products, services, materials, procedures, equipment, techniques and methods, as well as design, testing and manufacturing data. However, information about production, research, marketing and other business strategies, as well as consumer and supplier databases, also risks being lost or stolen.

/ Risk management response

To prevent the risk of Michelin know-how and/or expertise being disclosed or lost, the Group safeguards its intellectual property by means of a policy based on a broad vision of what constitutes a trade secret and, whenever possible or appropriate, by filing patent applications. Operating markets are therefore closely monitored to ensure that our intellectual property rights are not infringed. In the last decade, for example, the patent portfolio has tripled to more than 2,000 active patents. Sensitive information and assets are also protected by physical and logical security systems.

2.9.3 j) Human resources risk

/ Risk factors

Michelin's strategy for the years ahead is built on four pillars: innovating with passion, growing to serve our customers, improving competitiveness across the board and moving forward together (with mutual commitments between the Company and its employees). With this in mind, we need to refresh and adapt our capabilities both to support our growth in emerging markets and to replace employees who are nearing retirement age, especially in the mature markets. This means upgrading current skills-sets, and incorporating new ones, transferring knowledge and expertise, and encouraging employee mobility, both geographically and across businesses. For these reasons, maintaining our appeal as an employer and enhancing our induction, training and skills development initiatives for new hires, will act as key enablers over this period.

Moreover, in a fast-moving competitive environment, being unable to attract and retain talent worldwide or effectively transfer our culture and expertise represents a significant risk that could prevent us from meeting our objectives.

/ Risk management response

To refresh and sustainably nurture its capabilities, Michelin has undertaken a large number of initiatives to attract the best talent and ensure the effective transfer of knowledge and expertise among employees. In addition, mobility among units, job-tracks and countries is strongly encouraged. The Group has a network of experienced in-house trainers. In 2017, the percentage of training hours per total hours worked was 3.2%.

Note as well that in North America, the United Kingdom and certain other regions, employee benefits include defined benefit pension plans, which represent a long-term benefit payment obligation for the Group. Michelin's total obligation for pension plans and other employee benefits amounted to €10.3 billion as of December 31, 2017, including €7.4 billion in partially or fully funded commitments. As of the same date, the related plan assets totaled €6.4 billion.

The main factors that affect the amount of the employee benefit obligation are returns on plan assets, actuarial assumptions (including the discount rate), experience adjustments, changes in legislation and plan amendments. An adverse change in one or more of these factors could result in a significant increase in the amount of the obligation and consequently require the Group to make additional contributions to make up for the funding shortfall.

For further information on the financing of employee benefits please refer to note 27 to the consolidated financial statements, which gives a breakdown of provisions for employee benefit obligations.

2.9.3 k) Legal and tax risks

/ Risk factors

By virtue of its size, industry, global footprint and diverse business lines and processes, Michelin faces a certain number of legal and tax risks.

Among the legal risks that affect all international manufacturing companies, the Group is exposed to the following:

- **antitrust risks:** due to the size of our market share, we have to be particularly vigilant about our position vis-à-vis the competition;
- **product liability risks,** reflecting the safety issues associated with our products;
- **intellectual property risks:** in view of the important role that innovation plays in our business model, our knowledge and expertise have to be protected by carefully and diligently managing our trade secrets and by filing patent applications where appropriate.

/ Risk management response

The Group Legal Affairs Department constantly monitors the regulatory landscape to identify any changes or developments.

More specifically, it supports the contract management process by systematically reviewing sale and purchase agreements. It has also devised an internal program aimed at ensuring compliance with antitrust laws and has set up product liability insurance coverage.

Meanwhile, the Tax Department, which reports to the Corporate Finance Department, has put in place its own system for tracking changes in tax legislation.

Lastly, Michelin believes that as of the date this document was prepared there were no non-recurring events or governmental, legal or arbitration proceedings either in progress or impending that would be likely to have or had in the past 12 months a material impact on the Group's financial position, earnings, operations or assets.

2.9.3 l) Information technology and information systems risk

/ Risk factors

Michelin's business relies on state-of-the art information technology, systems and infrastructure (datacenters, servers and networks).

Over the past 10 years, we have extensively overhauled our information technology and systems, building on both legacy assets and those of the successive companies acquired. Our broad geographic footprint and highly diverse business base, product ranges and procedures all make for a complex environment, with the result that our information system has several thousand applications, a thousand or so main servers and around 100 datacenters.

To cite just a few of the major changes, management of IT infrastructure (servers, networks and datacenters) has been outsourced, partnerships have been formed to develop applications, and data hosting sites have been centralized. As a result, we are becoming more dependent on our partners for deploying and maintaining our IT infrastructure and software and are particularly exposed to the risk of a service interruption by a key provider. Other IT risk factors may include security breaches, piracy, theft of knowledge, expertise or confidential information, the shutdown of one or several systems due to an IT failure, obsolescence of an information system component (*e.g.* an application or server), and regulatory changes, notably concerning the Internet (licenses, copyright, personal data protection, etc.).

/ Risk management response

To deal with the above-described IT and information systems risks, multi-year action plans have been prepared based on the following measures: (i) closely tracking contractual terms and conditions to be able to respond in the event of service provider default, (ii) reinforcing the physical and logical security of IT systems, (iii) systematically reviewing IT continuity needs and putting in place IT recovery plans, and (iv) replacing obsolete components with new ones or a solution combining several applications. The internal auditors periodically monitor and analyze these measures to ensure that they are effective and are being correctly applied.

2.9.3 m) Project management risk

/ Risk factors

In view of the tire market's medium- to long-term structural growth prospects, Michelin plans to maintain its capital expenditure commitment in coming years, investing between €1,500 and €1,800 million a year, excluding acquisitions and depending on the outlook for its host markets.

There are three types of major projects.

The first are growth projects, which are mainly focused on manufacturing facilities and aimed at increasing production capacity. For example, a new synthetic elastomer plant is currently being built in Indonesia and a passenger car tire plant in Mexico.

The second are business transformation projects designed to help us better respond to customer expectations while also optimizing our business processes. The OPE Business Management System project aims to drive gains in administrative process efficiency, sharply improve supply chain responsiveness and increase the plants' responsibility for customer service.

The third are technological innovation projects to support the development of new components or new products. Examples include 3D printing of metal parts, the MICHELIN XDR3® tire and the CrossClimate+ tire for the European market.

Michelin is therefore exposed to a number of risks that may arise when implementing major projects, such as the risk of a project falling out of alignment with corporate strategy or failing after not meeting its milestone or budget targets.

/ Risk management response

To effectively control the risks that may arise on major projects, an annual process is in place to allocate the necessary resources for their management. Moreover, to ensure consistent implementation, standard project management methods defined by the Group Quality, Audit and Risk Management Department are used across the organization. Each major project has its own governance framework, with responsibilities allotted among the project owner, the project manager and the project contributors. Coaches are also assigned to major projects to support project managers in leading the project and managing change.

Lastly, quality controls are performed to ensure that any potential risks have been identified and addressed in line with Group practices. In addition, major projects are audited by the Group Quality, Audit and Risk Management Department.

2.10 MATERIAL CONTRACTS

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

2.11 INFORMATION CONCERNING SUPPLIER PAYMENTS

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

	Past due		Due within 60 days		Due beyond 60 days		Total trade payables	
Trade payables *(including tax, in € thousands)*	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Foreign suppliers								
Group	0	0	14,565	9,879	0	0	14,565	9,879
Non-Group	0	0	451	661	0	0	451	661
French suppliers								
Group	0	0	167,235	130,181	0	0	167,235	130,181
Non-Group	0	0	501	188	0	0	501	188
TOTAL	**0**	**0**	**182,752**	**140,909**	**0**	**0**	**182,752**	**140,909**

Trade payables totaled €183 million at December 31, 2017 and €141 million at December 31, 2016. They are reported under "Other liabilities" which, including other payables, amounted to €458 million at year-end 2017 and €390 million at year-end 2016.

2.12 MATERIAL CHANGES IN THE COMPANY'S BUSINESS OR FINANCIAL POSITION

There were no material changes in the Company's business or financial position between February 12, 2018 (the date of the Statutory Auditors' Report) and the date on which this Registration Document was filed with the *Autorité des marchés financiers*.

2.13 INFORMATION DISCLOSED IN COMPLIANCE WITH FRANCE'S GRENELLE 2 ACT

The 2017 social, societal and environmental information disclosed in compliance with Article 225 of the Grenelle 2 Act, as well as the Auditors' review report, may be found in section 6, "2017 Employee, Societal and Environmental Information".

2.14 DISCLOSURES PURSUANT TO FRANCE'S DUTY OF CARE ACT APPLICABLE TO PARENT COMPANIES AND SUB CONTRACTING COMPANIES

The 2017 duty of care plan, which outlines the risks that the Group and its main subcontractors face in relation to the environment, public health and safety and human rights, pursuant to the French Duty of Care Act (no. 2017-399) of March 27, 2017, is presented in section 6 "2017 Employee, Societal and Environmental Information" (6.5).

2.15 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES

Tire manufacturing is a capital-intensive industry in which the pace of technological innovation is relatively slow. It is therefore essential to be able to devise long-term plans and follow them through.

Throughout its history, Compagnie Générale des Établissements Michelin (CGEM), the Group's parent company, has been organized as a partnership limited by shares (S.C.A.).

This partnership model offers three main advantages:

- It aligns Group management decisions with shareholder interests.
- It guarantees clear segregation of management and supervisory powers.
- It fosters direct ties with each shareholder, as all shares must be registered.

There are two partner categories:

The limited partners or shareholders, who provide capital, elect the members of the Supervisory Board and the Managing Partners and approve the financial statements presented by Management. Their liability is limited to the amount of their investment. All Michelin shares are registered, which enables the Group to better understand the expectations of its shareholders, who receive a return on their investment in the form of a dividend.

The General Partners, who have unlimited personal liability for the Company's debts. They can be relieved of this liability only by decision of the shareholders in an Extraordinary Meeting. The General Partners may be shareholders, but may not take part in any votes to elect Supervisory Board members or appoint Statutory Auditors. The General Partners receive a share of the Company's profits in accordance with its Bylaws, subject to shareholder approval at the Annual Shareholders Meeting.

Since May 11, 2012, Michelin has had two General Partners: Jean-Dominique Senard, General Managing Partner (Chief Executive Officer), and Société Auxiliaire de Gestion (SAGES), Non-Managing General Partner.

2.15.1 AN EXPERIENCED, STABLE AND RESPONSIBLE MANAGEMENT TEAM

2.15.1 a) Members

Michelin is managed by a General Managing Partner – Jean-Dominique Senard[1] – who holds the position of Chief Executive Officer in accordance with the Bylaws.

General Managing Partners must each hold at least 5,000 shares in the Company.

At the Annual Shareholders Meeting on May 13, 2011, on the recommendation of the General Partners, the shareholders voted to amend the Company's Bylaws in order to establish a four-year term for Managing Partners elected for the first time by the Annual Shareholders Meeting on the recommendation of the Supervisory Board. The shareholders also decided that this four-year term would be renewable at the initiative of the Non-Managing General Partner (SAGES[2]), with the agreement of the Supervisory Board of CGEM.

Previously, the only restriction on a Managing Partner's term was an age limit of 72.

In accordance with these rules, on October 6, 2014 SAGES, in its capacity as Non-Managing General Partner, decided to ask the Supervisory Board to approve the renewal of Jean-Dominique Senard's term as General Managing Partner for a period of four years.

At its meeting on October 31, 2014, the Supervisory Board unanimously approved the proposed renewal, after the Compensation and Appointments Committee expressed a favorable opinion. This decision was announced in a press release published on November 3, 2014.

Consequently, the term of office as General Managing Partner of Jean-Dominique Senard has been renewed for four years, and will expire at the close of the Annual Shareholders Meeting to be called in the first half of 2019 to approve the financial statements for 2018.

The Company's Bylaws stipulate that the General Managing Partner may resign provided that the decision is announced at least six months before the next Annual Shareholders Meeting. However, his resignation will be effective only when it has been formally accepted by an Extraordinary Shareholders Meeting held on the same day as the Annual Meeting.

Furthermore, the General Managing Partner may be removed from office according to the same procedure as that applicable for the renewal of his appointment.

2.15.1 b) Role and responsibilities

The Chief Executive Officer is responsible for administering and managing the Company.

His core responsibilities are to:

- Define and implement the Group's strategy.
- Lead the Group's business.
- Establish internal control and risk management procedures and oversee their implementation.
- Approve the financial statements of the Company and the Group.
- Define financial information policies.
- Prepare the various reports to shareholders.

He fulfills these responsibilities under the oversight of the Supervisory Board.

The Group's operating activities are headed by a General Operations Department and organized into four product lines that are dedicated to bringing products and services to their markets worldwide. The product lines each define their own strategy and are responsible for their results. They include:

- Passenger car – Light truck Product Line.
- Truck Product Line.
- Specialty Product Line including the Earthmover, Agricultural, Two-wheel and Aircraft tire lines.
- Materials Product Line.

The Corporate Departments ensure the consistency of the Group's policies. They provide specialized assistance to the product lines, lending expertise as appropriate and guaranteeing process effectiveness and efficiency. The Corporate Departments include:

- Purchasing.
- Digital Operations, mainly overseeing Michelin Solutions and Sascar.
- Corporate Development.
- Distribution, overseeing Euromaster, TCi, franchising, e-tailing and wholesaling.
- Finance.
- Legal.
- Brands and External Relations, notably overseeing the operations of Michelin Travel Partner (travel services) and Michelin Lifestyle Limited (non-tire licensed products under the MICHELIN brand).
- Human Resources.
- Quality, Audit and Risk Management.
- Research and Development.
- Information Systems.

The Progress and Geographic Zones Department is responsible for ensuring that improvement initiatives are aligned with the Group's strategy while developing suitable progress methods for the Group's various units. It leads the product line support functions in the Group's six host regions (Geographic Zones), which have been identified based on their specific features. These regions are: Africa-India-Middle East, North America, South America, East Asia and Australia, China and Europe.

The Chief Executive Officer is assisted by an Executive Committee comprising the following 13 members as of 2017:

- **Sonia Artinian-Fredou,** Executive Vice President, Distribution.
- **Yves Chapot,** Executive Vice President, Passenger Car and Light Truck Product Line.
- **François Corbin,** Executive Vice President, Corporate Development, Progress and Geographic Zones.
- **Claire Dorland-Clauzel,** Executive Vice President, Communication, Brands and External Relations.
- **Terry Gettys,** Executive Vice President, Research and Development.
- **Jean-Christophe Guérin,** Executive Vice President, Materials Product Line.
- **Jean-Michel Guillon,** Executive Vice President, Human Resources.
- **Marc Henry,** Chief Financial Officer and Executive Vice President, Specialty Product Lines.
- **Serge Lafon,** Executive Vice President, Truck Product Line.

(1) For biographical details about Jean-Dominique Senard, please refer to section 2.14.4.

(2) For details about SAGES, please refer to section 4.1.4.

- **Florent Menegaux,** Chief Executive Officer and Chief Operating Officer.
- **Florence Vincent,** Executive Vice President, Quality, Audit and Risk Management.

2.15.1 c) Liability

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

In line with this system based on long-term responsibility and commitment, the Chief Executive Officer may not relinquish his status as General Partner without the prior approval of shareholders given at an Extraordinary Meeting. His interests are therefore closely aligned with the long-term consequences of the Group's management decisions.

2.15.2 STRICT SEPARATION BETWEEN MANAGEMENT AND THE SUPERVISORY BOARD, AUDIT COMMITTEE AND COMPENSATION AND APPOINTMENTS COMMITTEE

The membership, structure, responsibilities and committees of the Supervisory Board and the description of its activities are included in section 4 of the Corporate Governance Report.

The Supervisory Board exercises permanent oversight of the Company's management and assesses its quality on behalf of the shareholders, presenting a report thereon at each Annual Shareholders Meeting.

Its oversight procedures include:

- Reviewing the separate and consolidated financial statements approved by the Chief Executive Officer.
- Assessing the quality of the Group's financial information.
- Assessing the Group's internal control and risk management systems.
- Reviewing strategic roadmaps and their implementation.
- Ensuring that shareholders' rights are respected.

The Supervisory Board is regularly informed about the Group's strategy and outlook.

In addition, pursuant to the Board's internal rules, the Chief Executive Officer must submit to the Board details of any planned capital projects, proposed new commitments to dispose of assets or possible business acquisitions representing material amounts before any final decision is made.

Lastly, in application of the Bylaws, the Board's internal rules and the internal rules of the Compensation and Appointments Committee, the Supervisory Board must express an opinion on or approve (depending on the case) all decisions concerning the Managing Partners (election, re-election and removal from office of a General Managing Partner or the Chief Executive Officer) and the determination of the compensation packages for General Managing Partners and the Chief Executive Officer.

2.15.3 SAGES, A NON-MANAGING GENERAL PARTNER, GUARANTEEING THE COMPANY'S LONG-TERM VIABILITY (1)

In application of CGEM's Bylaws, Société Auxiliaire de Gestion (SAGES) is a Non-Managing General Partner of CGEM and consequently has unlimited liability for the Company's debts. General Partners can be relieved of this liability only by decision of the shareholders in Extraordinary Meeting. The General Partners may be shareholders, but may not take part in any votes to elect Supervisory Board members or appoint Statutory Auditors.

As SAGES is not a Managing Partner, it is not authorized to play any part in the Company's management. However, if the position of CGEM's Managing Partner were to fall vacant, SAGES would take on the Managing Partner's role for an interim period and would be responsible for calling an Extraordinary Shareholders Meeting to elect a new Managing Partner.

As well as assuming liability for CGEM's debts, in its capacity as General Partner, SAGES is responsible for recommending candidates for election as Managing Partner at the Shareholders Meetings, the re-election of Managing Partners or their removal from office, after obtaining the agreement of the Supervisory Board.

SAGES is a French *société par actions simplifiée* (joint stock company) registered in Clermont-Ferrand under No. 870 200 466.

SAGES has three groups of shareholders – members of the founding family, current and former Michelin executives and qualified persons from outside the Group – each of which has the same proportionate shareholding and the same number of seats on its Board of Directors.

To enable SAGES to assume its liability as Non-Managing General Partner of CGEM, at least 30% of its distributable earnings (derived mainly from the share of profits paid by CGEM in accordance with CGEM's Bylaws) is allocated to a contingency reserve fund set up purely for the purpose of covering any losses that may result from its liability as CGEM's General Partner or, on an exceptional, interim basis, as Managing Partner. At least 50% of the reserve is invested in CGEM shares.

(1) See section 2.14.4 for biographical details about the Chairman of SAGES.

2.15.4 ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY BODIES, AND EXECUTIVE MANAGEMENT

2.15.4 a) Executive Management

JEAN-DOMINIQUE SENARD

Born in 1953

Experience:

Graduate of HEC business school, MA in Law.

From 1979 to 1996, held various management positions in finance and operations at Total then Saint-Gobain.

Joined Pechiney in 1996 as Chief Financial Officer and member of the Executive Committee, then Director, Primary Aluminum Division, until 2004.

Subsequently appointed as a member of Alcan group's Executive Committee and Chairman of Pechiney S.A.

Joined Michelin in 2005 as Chief Financial Officer and member of the Executive Council, becoming Non-General Managing Partner in 2007.

Business address:

23, place des Carmes-Déchaux
63000 Clermont-Ferrand
France

2.15.4 b) Supervisory Bodies

OLIVIER BAZIL

Born in 1946 – French national

Experience:

Olivier Bazil is a Director of Legrand* and a Member of the Board's Strategy Committee and Nominating and Governance Committee.

He has spent his entire career with Legrand, which he joined in 1973 as Deputy Company Secretary before going on to become Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a Member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer.

He is a graduate of HEC and holds an MBA from Harvard Business School.

Business address:

Legrand
128, avenue de Lattre de Tassigny
87000 Limoges
France

PAT COX

Born in 1952 – Irish national

Experience:

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

He is President of *Fondation Jean Monnet pour l'Europe*, European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, Chairman of the KPMG Ireland Public Interest Committee and Chairman of the Board of *Alliance Française Dublin*.

Business address:

7 Maretimo Gardens East
Blackrock
County Dublin
Ireland

BARBARA DALIBARD

Born in 1958 – French national

Experience:

Barbara Dalibard is currently Chief Executive Officer of SITA. Her previous positions included Chief Executive Officer of SNCF Voyageurs, member of the France Telecom group Management Committee in charge of enterprise communication solutions, and various management positions within France Telecom and Alcatel.

Business address:

SITA
26, Chemin de Joinville
P.O Box 31
1216 Cointrin
Geneva
Switzerland

ANNE-SOPHIE DE LA BIGNE

Born in 1960 – French national

Experience:

Since 2008, Anne-Sophie de La Bigne has been Vice President in charge of civil affairs in the Public Affairs Division, France, at Airbus Group*.

She began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999.

She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001.

Between 2001 and 2006, she served as Vice President, Strategy and European Affairs, at Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS) and, from 2006 to 2007, she was responsible for international corporate relations in EADS' Public Affairs Division.

** Listed companies*

Business address:
Airbus Group
12, rue Pasteur - BP 76
92152 Suresnes Cedex
France

JEAN-PIERRE DUPRIEU

Born in 1952 – French national

Experience:

Jean-Pierre Duprieu was Executive Vice President of the Air Liquide group*. Between 2010 and 2016, he was a member of Air Liquide's Executive Management team, in charge of supervising the group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs.

He is a Director of Korian*.

Business address:
Air Liquide
75, quai d'Orsay
75006 Paris Cedex 07
France

ARUNA JAYANTHI

Born in 1962 – Indian national

Experience:

From 2011 until the end of 2015, Aruna Jayanthi was Chief Executive Officer of Capgemini India, responsible for overseeing all of the Capgemini group's operations in India, covering Consulting, Technology and Outsourcing Services provided by some 50,000 employees.

On January 1, 2016, she became head of a new global Business Services unit comprising ITOPS and BPO (Capgemini and IGATE).

After obtaining a Master's degree in finance management from the Narsee Monjee Institute of Management Studies in Mumbai, Aruna Jayanthi held various IT services positions between 1984 and 2000 (including at clients' offices in Europe and the United States), with Tata Consulting Services, Aptech and other companies.

She joined the Capgemini group in 2000.

Business address:
Capgemini India Pvt. Ltd
Godrej & Boyce Compound
LBS Road, Vikhroli (West)
Mumbai 400079 (India)

MONIQUE LEROUX

Born in 1954 – Canadian national

Experience:

Monique Leroux is currently Chair of the Board of Invest Quebec and Chair of the Quebec Government's Advisory Committee on the Economy and Innovation. From 2008 to 2016, she was Chair of the Board, President and Chief Executive Officer of Desjardins, Canada's largest cooperative financial group. She has been a member of the Board of Directors of International Cooperative Alliance since 2013, serving as its President from 2015 to 2017. In 2017, she was appointed by Canada's Prime Minister as a member of the Canada-United States Council for Advancement of Women Entrepreneurs and Business Leaders. She is also Chair of the Board of Governors of the Company for the Celebration of Montreal's 375th Anniversary. She sits on the Boards of Directors of Bell (BCE), Couche-Tard (ATD) and S&P Global (United States) and is a Strategic Advisor to Fiera Capital.

Monique Leroux is a member of the Order of Canada, an Officer of the *Ordre national du Québec* and a *Chevalier de la Légion d'honneur* (France), and has been awarded honorary doctorates by eight Canadian universities.

Business address:
Fiera Capital
1501 McGill College
Montréal (Québec)
H3A 3M8
Canada

CYRILLE POUGHON

Born in 1975 – French national

Experience:

Cyrille Poughon is currently Leader of the Head Office Security and Safety Program at Manufacture Française des Pneumatiques Michelin.

He began his career with the Michelin Group in 1996 and has held a variety of positions in sales and logistics.

He served as Secretary of Michelin's European Works Council until 2014.

In 2015, he followed the "Certified Corporate Director" training program organized by Sciences-Po and *Institut Français des Administrateurs*.

Business address:
Michelin
23, place des Carmes-Déchaux
63040 Clermont-Ferrand
France

MICHEL ROLLIER

Born in 1944

Experience:

Michel Rollier is currently Chairman of the AFEP/MEDEF High Committee on Corporate Governance.

He began his career at Aussedat-Rey (part of the International Paper group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996. He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012.

Business address:
Michelin
27, cours de l'Île-Seguin
92100 Boulogne-Billancourt
France

** Listed companies*

2.15.4 c) Non-managing general partner

In application of CGEM's Bylaws, Société Auxiliaire de Gestion (SAGES) is a Non-Managing General Partner of CGEM and consequently has unlimited liability for the Company's debts.

The Chairman of SAGES, Jacques d'Armand de Chateauvieux, is its only executive director.

	Directorships and other positions held
Jacques d'Armand de Chateauvieux Born on February 13, 1951 No shares owned directly as of December 31, 2017 295,531 shares owned by SAGES as of December 31, 2017 Chairman of SAGES since April 2011 **Experience:** Jacques d'Armand de Chateauvieux is a graduate of *Institut supérieur de gestion de Paris* and holds an MBA from Columbia University, New York. As Chairman of BOURBON since 1979, he was instrumental in converting the company from a diversified conglomerate into an international group specialized in offshore oil and gas marine services. **Business address:** BOURBON 33, rue du Louvre 75002 Paris France	**2013-2014** Chairman of BOURBON Chairman of Cana Tera S.A.S. Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer S.A. Chairman and a Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) **2015** Chairman of BOURBON (France) Chairman of Cana Tera S.C.A. (Luxembourg) Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer Holding Pte. Ltd (Singapore) Chairman of Sapmer S.A. Chairman and a Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) **2016** Chairman of BOURBON (France) Statutory Manager of CT Lux Sarl (Luxembourg) Chairman and Managing Director of Jaccar Holdings S.A. (Luxembourg) Chairman of Sapmer S.A. (Listed on Euronext Paris) Chairman of Sapmer Holding (Singapore) Chairman and a Director of Greenship Holdings (Singapore) Director of Sinopacific Shipbuilding Group (China) **2017** Chairman and Chief Executive Officer of BOURBON Corporation S.A.* (France) Statutory Manager of CT Lux Sarl (Luxembourg) Chairman of JACCAR Holdings SAS (France) Chairman of Sapmer S.A. (Listed on Euronext Paris) Chairman and Director of Sapmer Holding (Singapore) Chairman of Sapmer Investissements SAS Chairman and Director of Greenship Holdings Manager Pte. Ltd (Singapore) Director of Sinopacific Shipbuilding Group (China)

* *Listed company.*

2.15.4 d) Statutory Auditors

Please refer to section 9.2 – Statutory Auditors.

3

FINANCIAL HIGHLIGHTS

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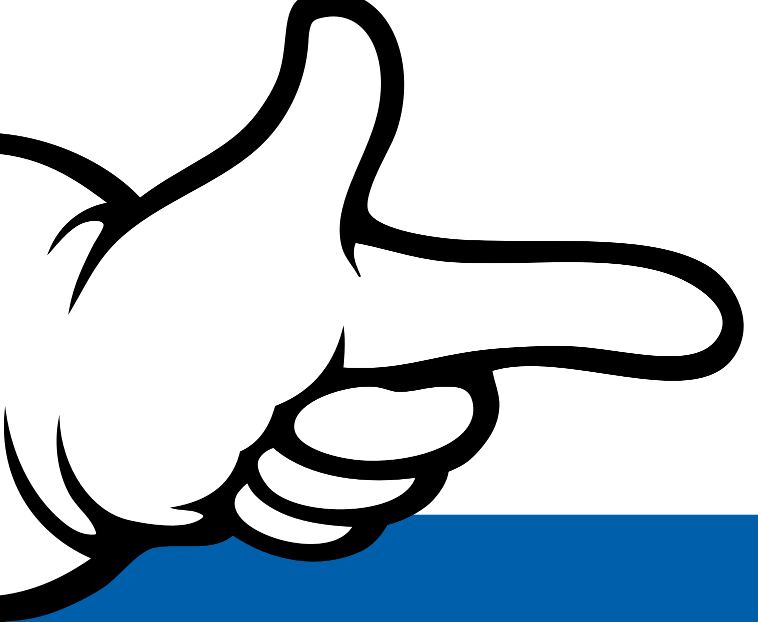
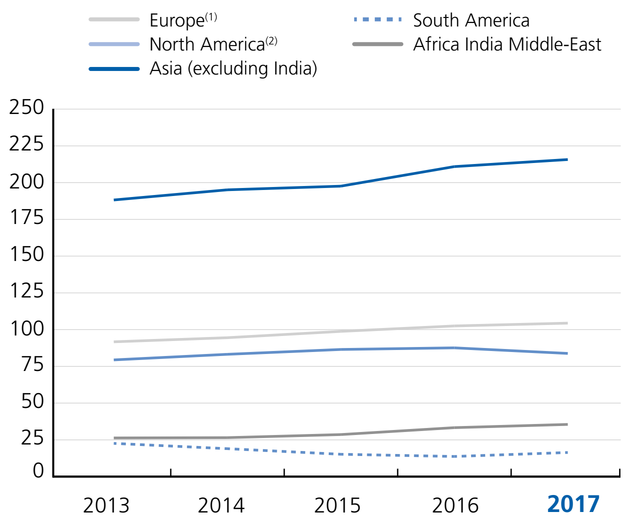


3.1 MARKETS

THE ORIGINAL EQUIPMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

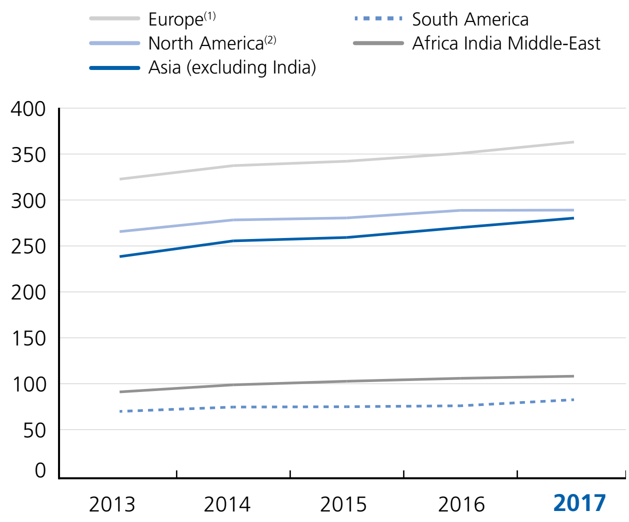
(in millions of tires)



1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE REPLACEMENT CAR AND LIGHT TRUCK TIRE MARKET BY REGION

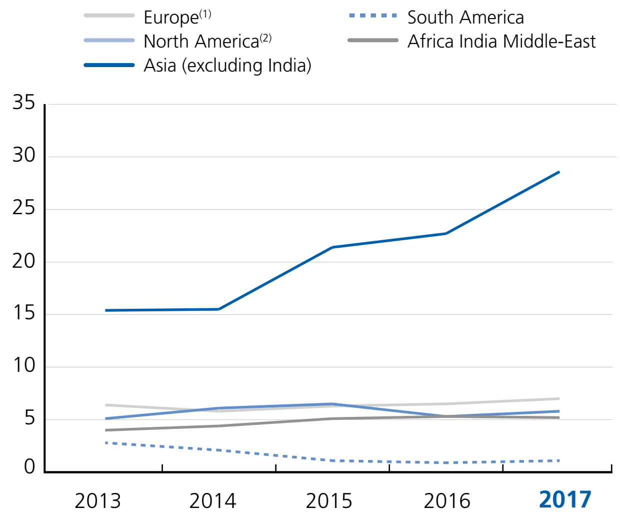
(in millions of tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE ORIGINAL EQUIPMENT TRUCK TIRE MARKET BY REGION

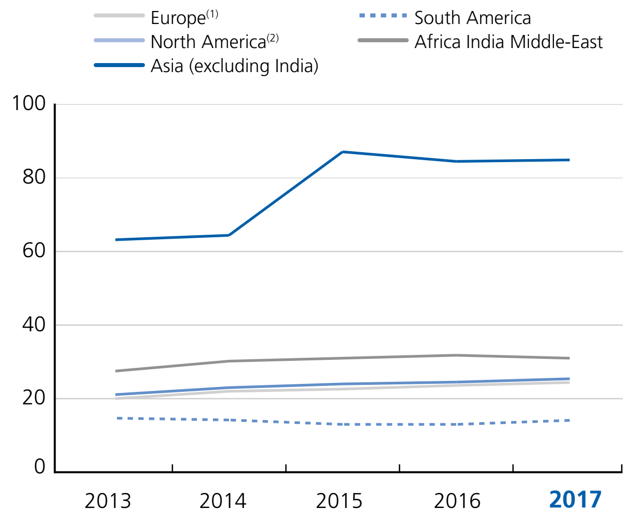
(in millions of new tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE REPLACEMENT TRUCK TIRE MARKET BY REGION

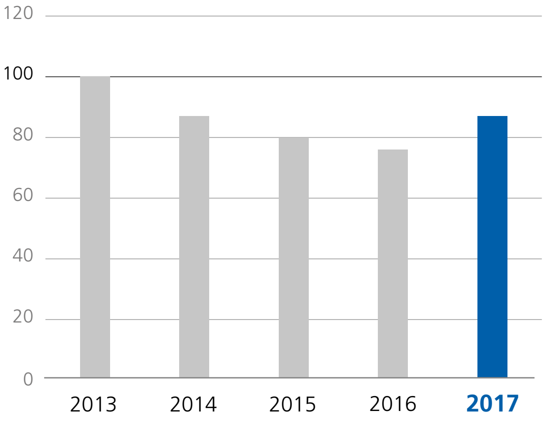
(in millions of new tires)



(1) Including Russia and Turkey.
(2) United States, Canada and Mexico.
Michelin estimates.

THE EARTHMOVER MINING TIRE MARKET

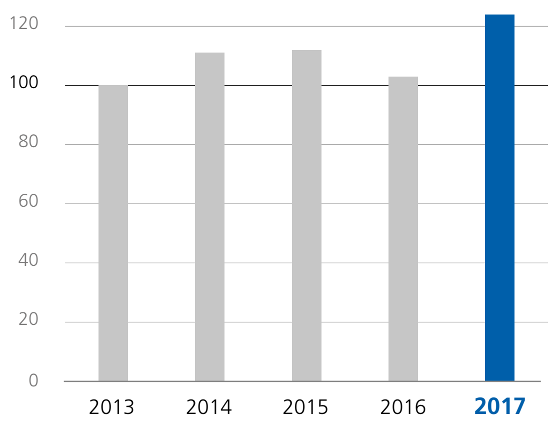
(base 100 in 2013 in number of tires)



Michelin estimates.

THE EARTHMOVER INFRASTRUCTURE & ORIGINAL EQUIPMENT TIRE MARKET

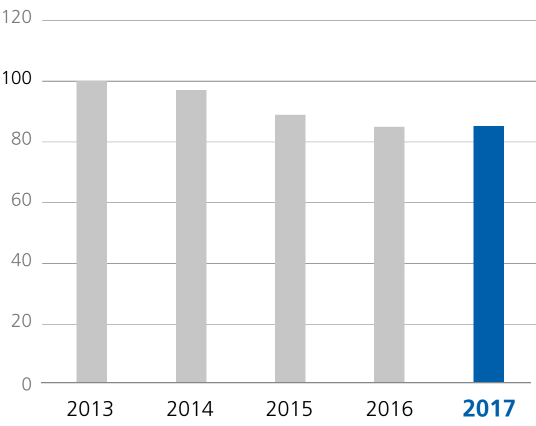
(base 100 in 2013 in number of tires)



Michelin estimates.

THE AGRICULTURAL TIRE MARKET

(base 100 in 2013 in number of tires in Europe and North America)

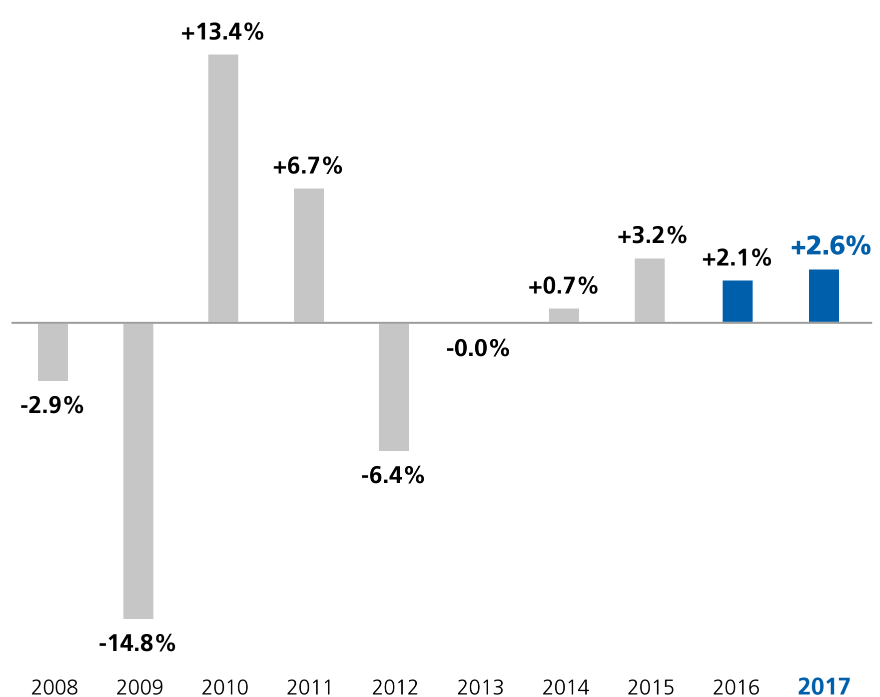


Michelin estimates.

3.2 SALES

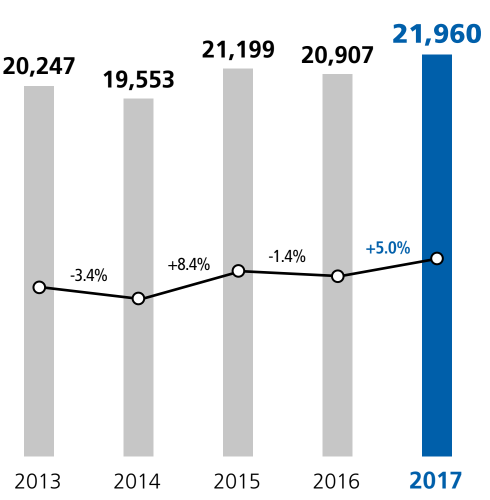
SALES VOLUME

(in tons)



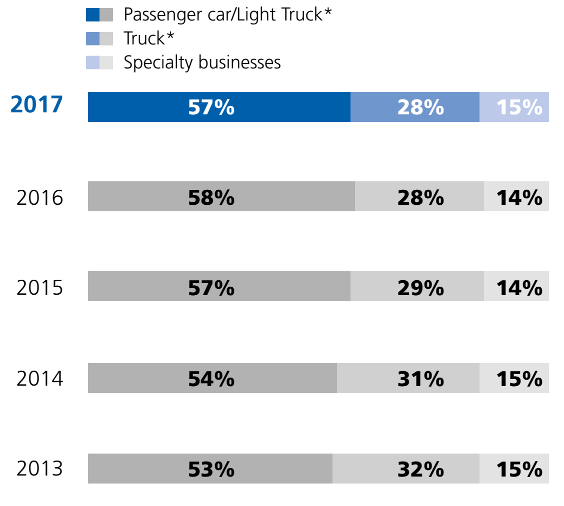
NET SALES

(in € million)



NET SALES BY REPORTING SEGMENT – BREAKDOWN

(in value)



* *And related distribution.*

NET SALES BY REGION – BREAKDOWN

(in value)

	Europe (incl. Central and Eastern)	North America (incl. Mexico)	Other
2017	38%	37%	25%
2016	39%	37%	24%
2015	39%	38%	23%
2014	41%	35%	24%
2013	40%	35%	25%

SALES BY REGION – BREAKDOWN

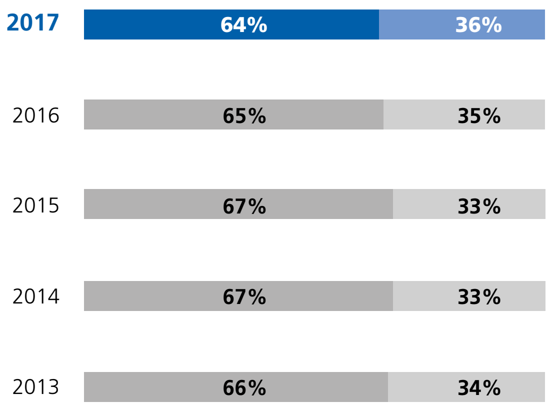
(in tons)

	Europe (incl. Central and Eastern)	North America (incl. Mexico)	Other
2017	36%	36%	27%
2016	34%	38%	28%
2015	37%	38%	25%
2014	36%	38%	26%
2013	36%	37%	27%

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

(in tons)

Mature markets
Fast-growing markets

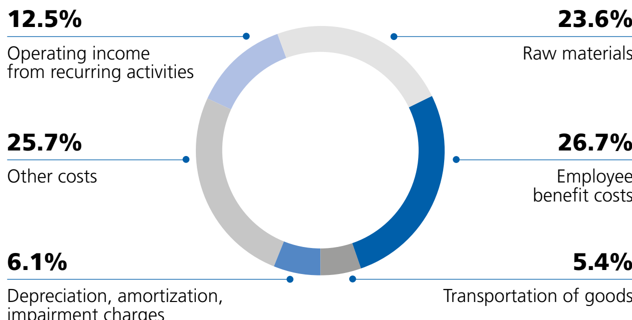


* *Mature markets: United States, Canada, Western Europe and Japan.*

3.3 EARNINGS

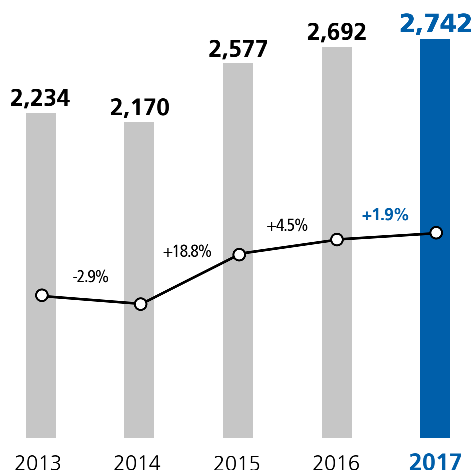
ANALYSIS OF OPERATING EXPENSES

(as a % of 2017 net sales)



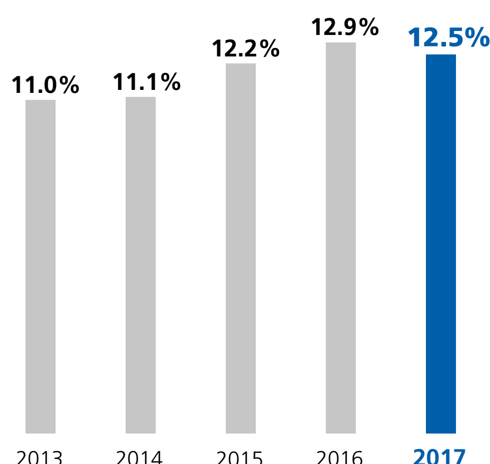
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



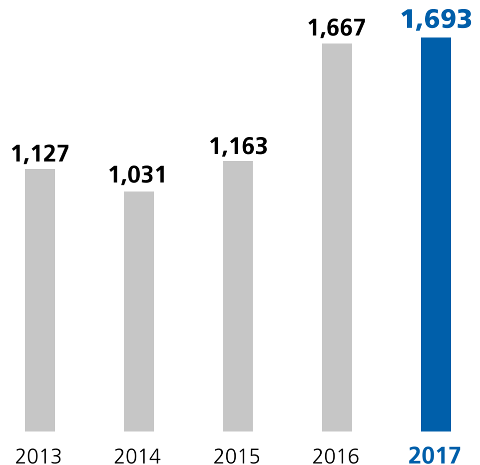
OPERATING MARGIN FROM RECURRING ACTIVITIES

(as a % of net sales)



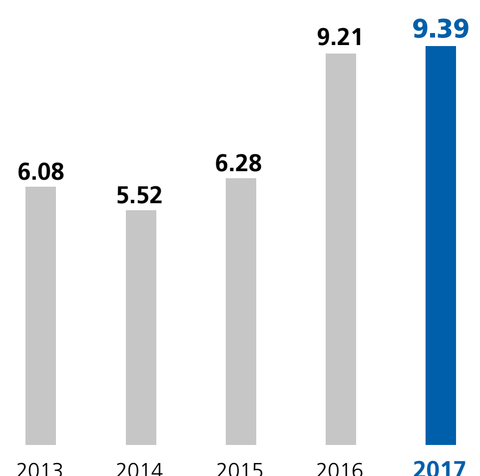
NET INCOME

(in € million)



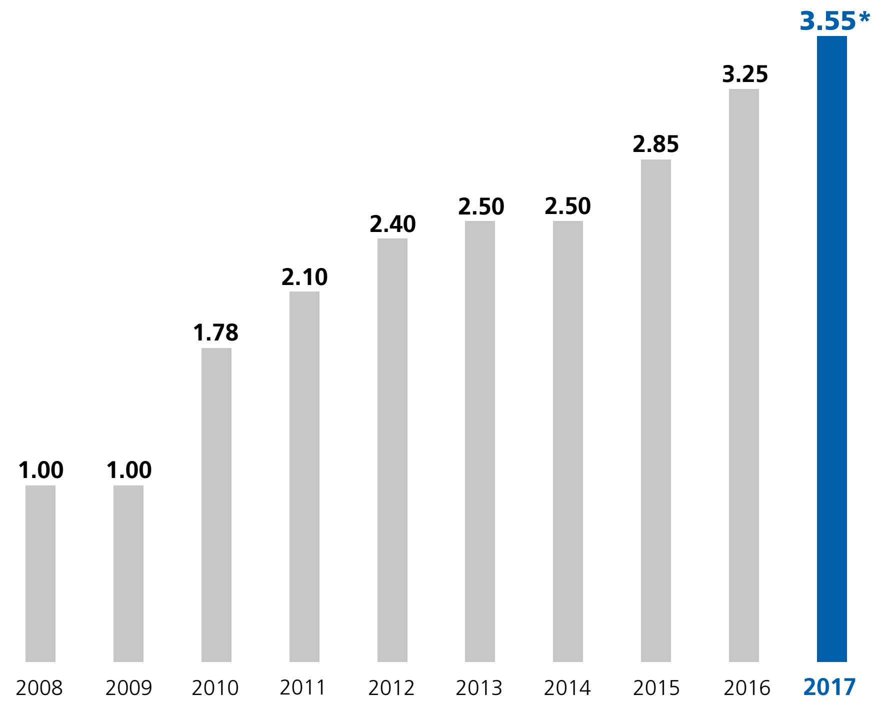
BASIC EARNINGS PER SHARE

(in €)



DIVIDEND PER SHARE

(in €)



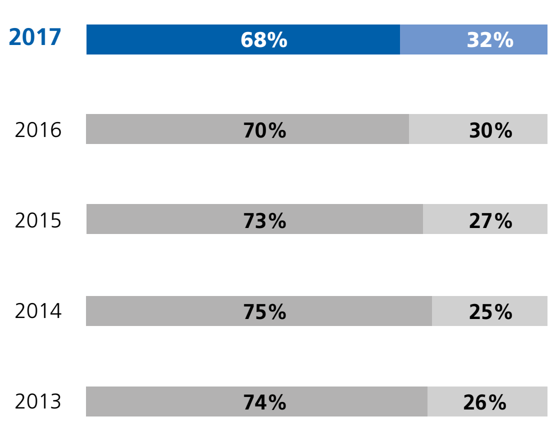
* *Subject to approval by the Annual Meeting of May 18, 2018.*

3.4 REPORTING SEGMENTS

3.4.1 PASSENGER CAR AND LIGHT TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

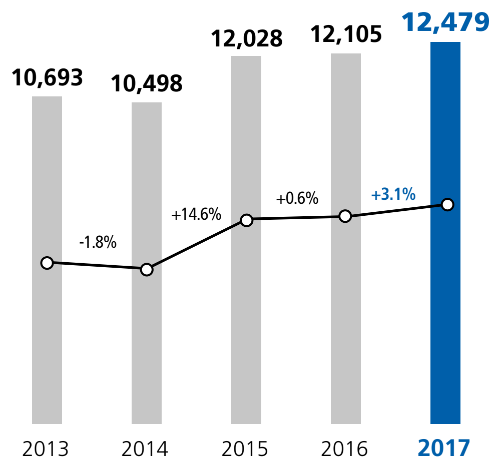
(in tons)



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

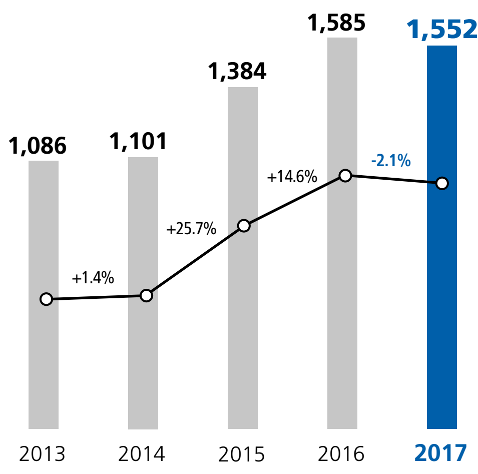
NET SALES

(in € million)



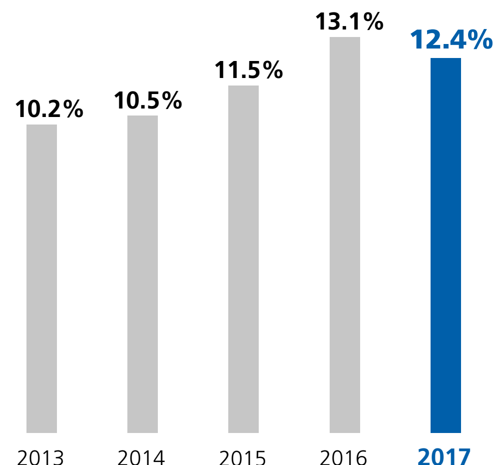
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

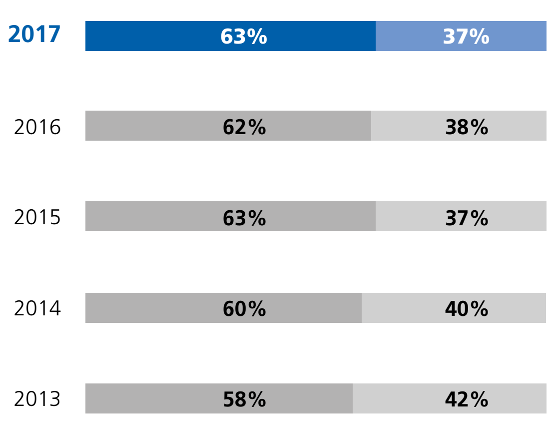
(as a % of net sales)



3.4.2 TRUCK TIRES AND RELATED DISTRIBUTION

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

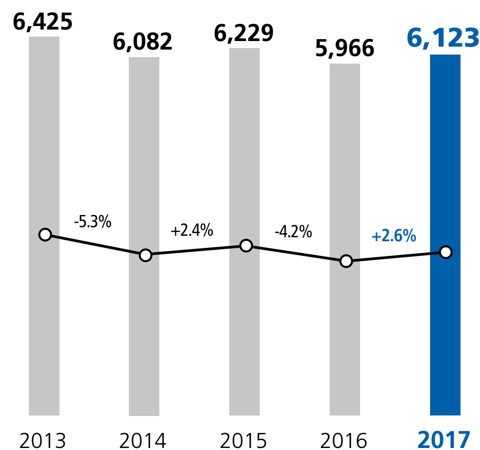
(in tons)



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

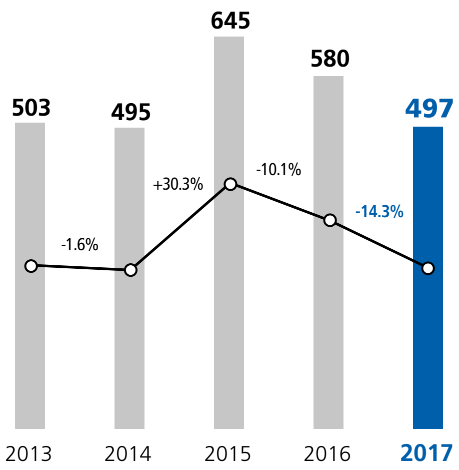
NET SALES

(in € million)



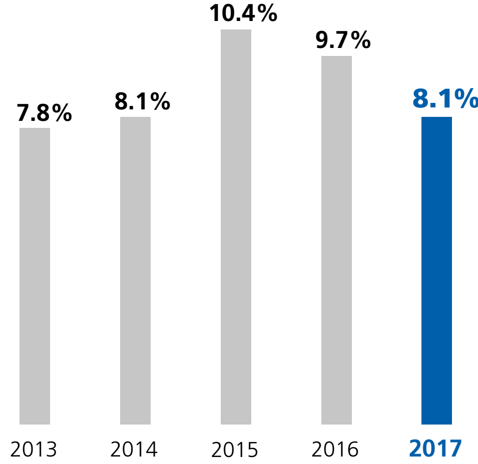
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

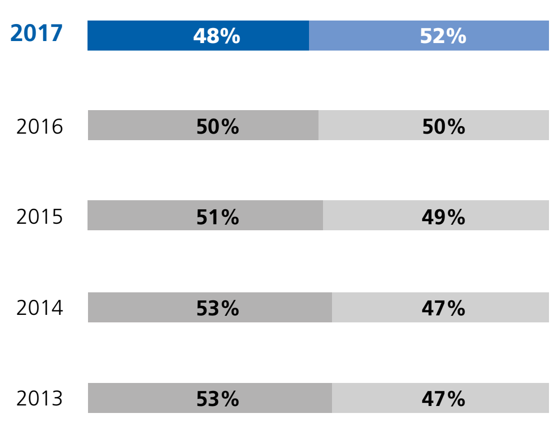
(as a % of net sales)



3.4.3 SPECIALTY BUSINESSES

BREAKDOWN OF SALES BETWEEN MATURE* AND FAST-GROWING MARKETS

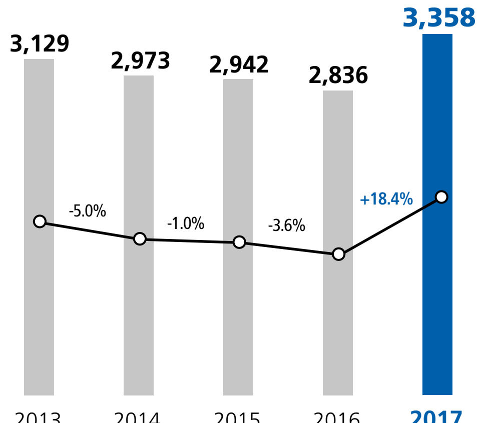
(in tons)



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

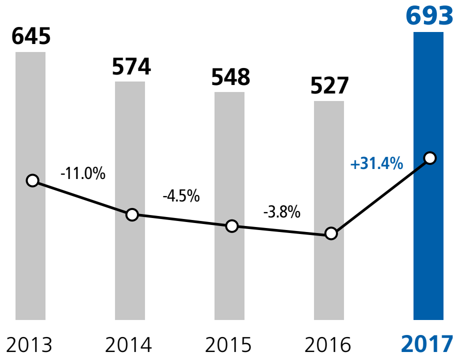
NET SALES

(in € million)



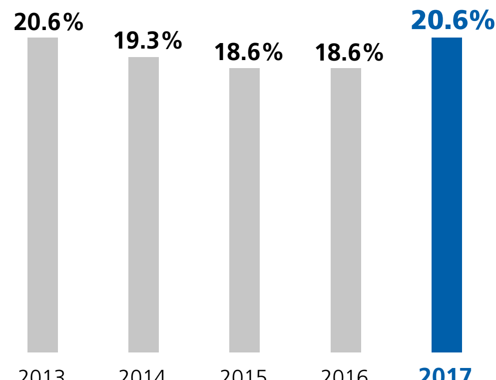
OPERATING INCOME FROM RECURRING ACTIVITIES

(in € million)



OPERATING MARGIN FROM RECURRING ACTIVITIES

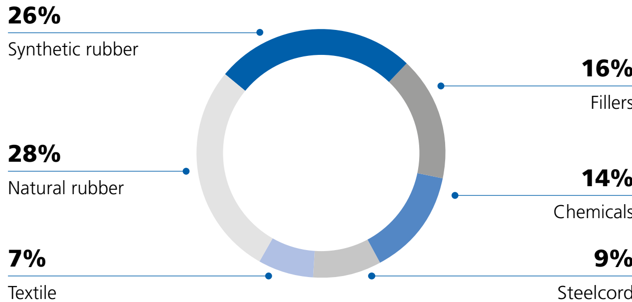
(as a % of net sales)



3.5 COST STRUCTURE

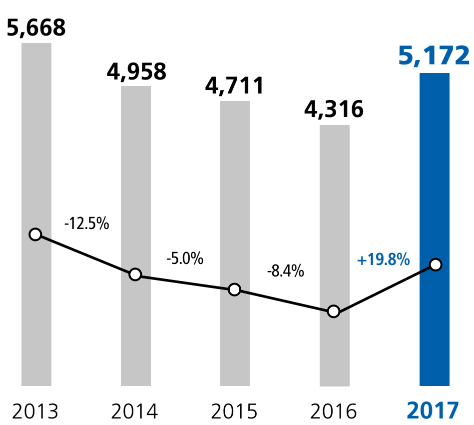
RAW MATERIAL COST

(in €, in 2017)



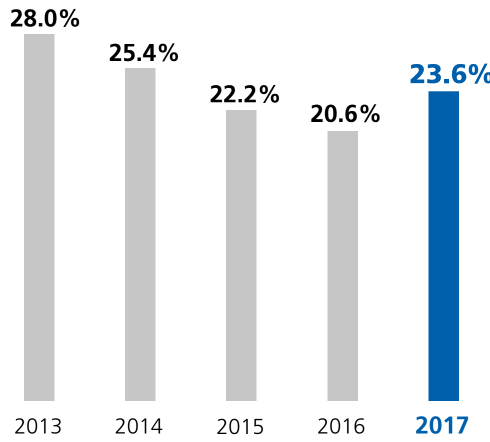
RAW MATERIAL COST

(in € million)



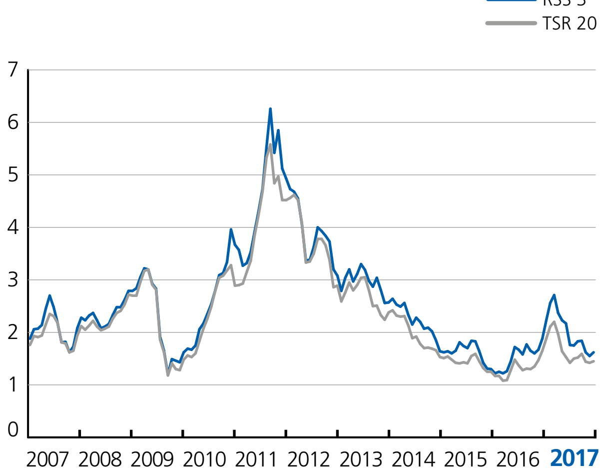
RAW MATERIAL COST

(as a % of net sales)



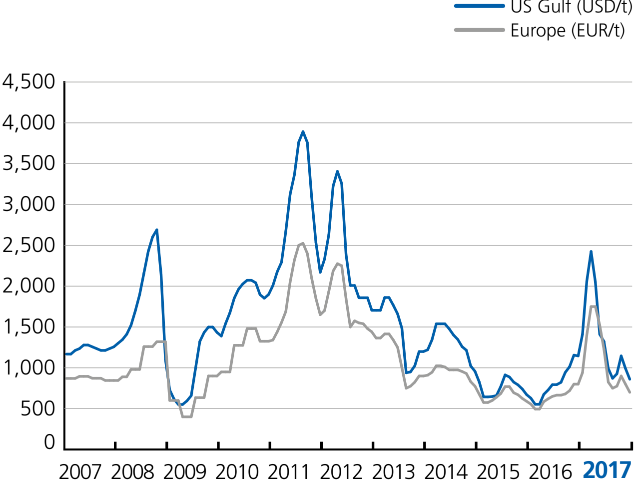
NATURAL RUBBER PRICES*

(in $/kg)



* Monthly average.

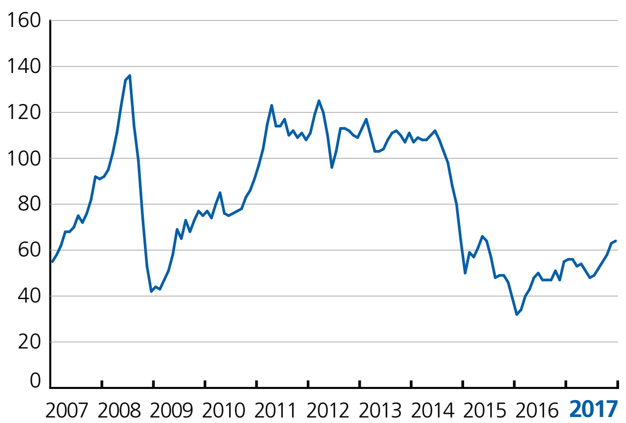
BUTADIENE PRICES*



* Monthly average.

BRENT OIL PRICES*

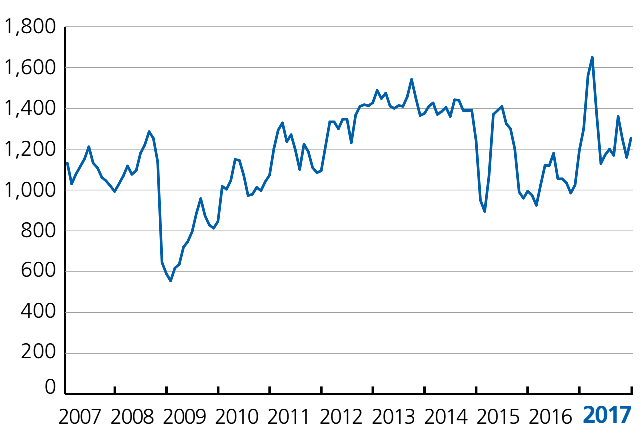
(in $/bbl)



* Monthly average.

STYRENE PRICES*

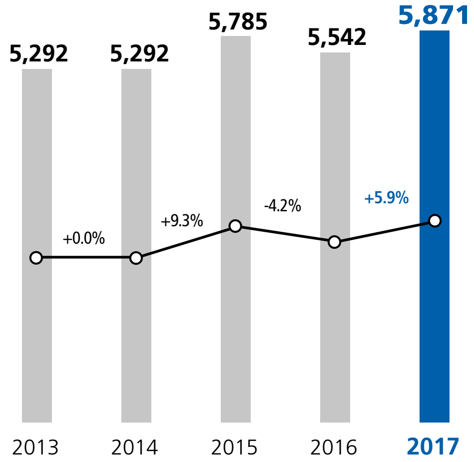
(in €/ton)



* Monthly average.

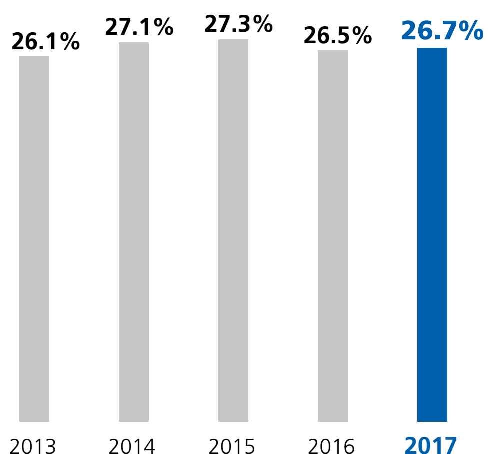
EMPLOYEE BENEFIT COSTS

(in € million)



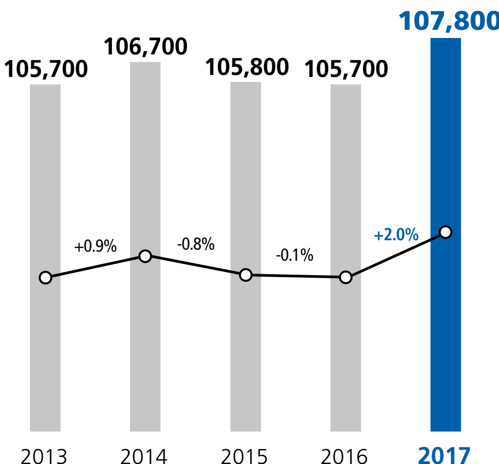
EMPLOYEE BENEFIT COSTS

(as a % of net sales)



NUMBER OF EMPLOYEE

(full-time equivalent employees at December 31)



EMPLOYEES BY REGION

(full-time equivalent employees at December 31)

	2017	2016	2015	2014	2013
Europe	61,900	61,200	61,400	61,300	62,100
North America	21,800	22,000	21,700	21,900	21,300
Asia (excluding India)	15,000	14,800	15,000	15,400	15,400
South America	7,400	6,000	6,000	6,300	5,100
Africa India Middle-East	1,700	1,700	1,700	1,800	1,800
TOTAL	**107,800**	**105,700**	**105,800**	**106,700**	**105,700**
including mature countries[(1)]	*64%*	*67%*	*67%*	*66%*	*68%*
including fast-growing countries	*36%*	*33%*	*33%*	*34%*	*32%*

(1) Mature countries: United States, Canada, Western Europe, Japan.

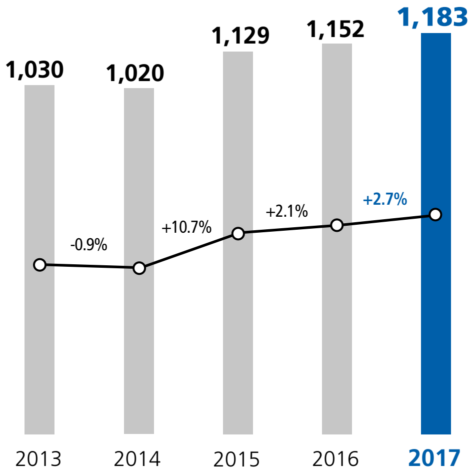
EMPLOYEES BY JOB CATEGORY

(total workforce at December 31)

	2017	2016	2015	2014	2013
Production workers	61.9%	61.5%	61.5%	62.4%	61.4%
Administrative and technical staff	29.4%	30.0%	30.3%	30.0%	31.0%
Managers	8.7%	8.5%	8.2%	7.6%	7.6%

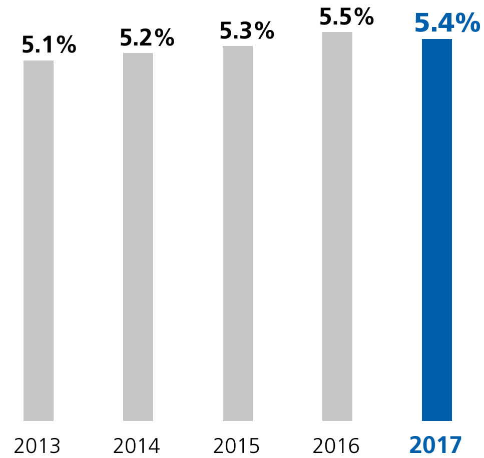
TRANSPORTATION COSTS

(in € million)



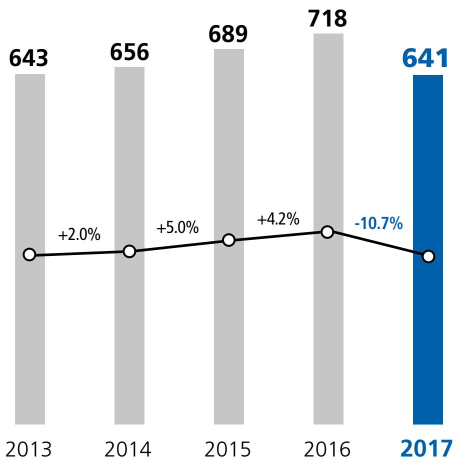
TRANSPORTATION COSTS

(as a % of net sales)



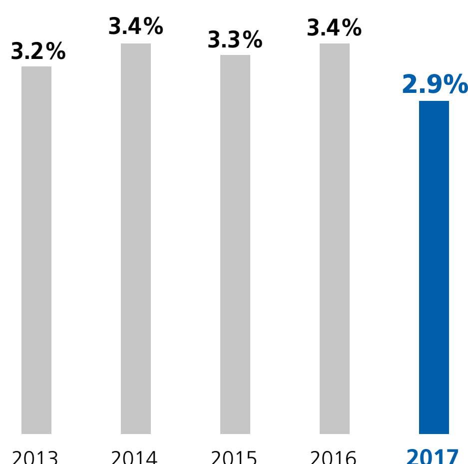
RESEARCH AND DEVELOPMENT COSTS

(in € million)



RESEARCH AND DEVELOPMENT COSTS

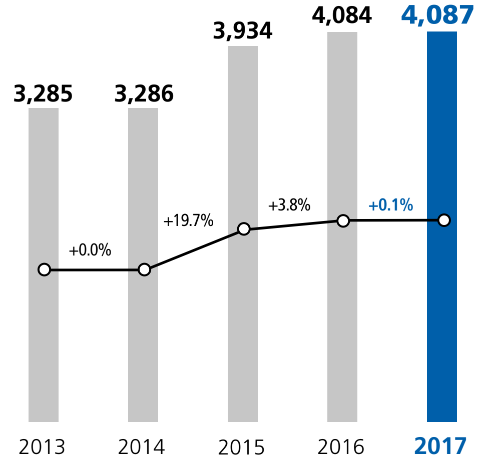
(as a % of net sales)



3.6 CASH FLOW AND BALANCE SHEET

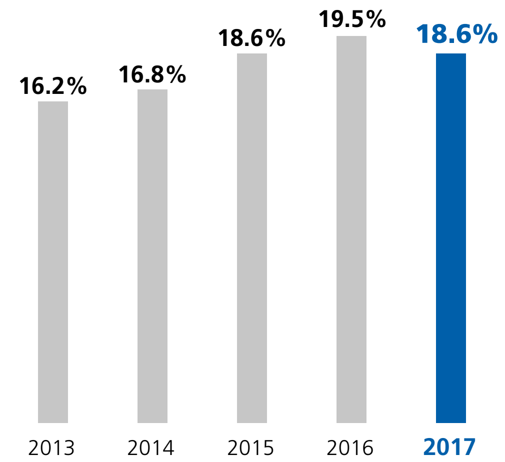
EBITDA FROM RECURRING ACTIVITIES[1]

(in € million)



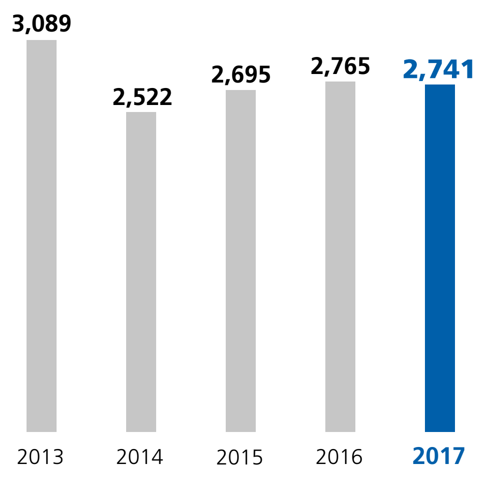
EBITDA FROM RECURRING ACTIVITIES[1]

(as a % of net sales)



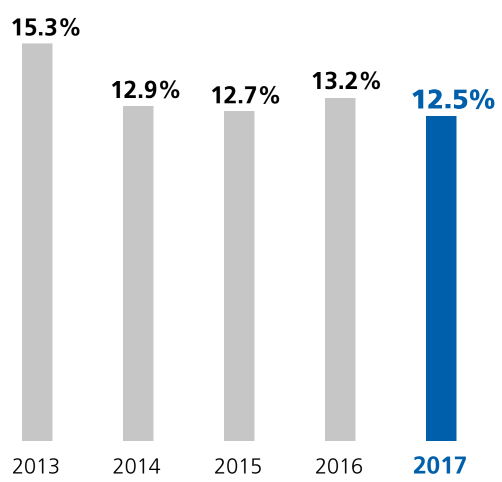
CASH FLOWS FROM OPERATING ACTIVITIES

(in € million)



CASH FLOWS FROM OPERATING ACTIVITIES

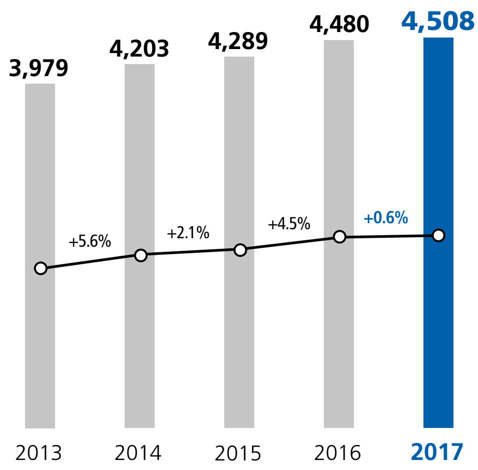
(as a % of net sales)



(1) This indicator is as defined in note 3.7.2 to the consolidated financial statements.

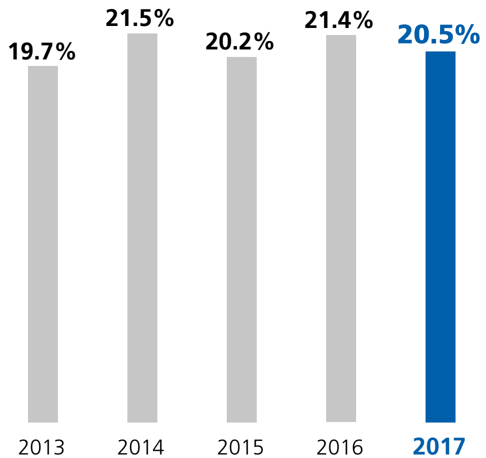
INVENTORIES

(in € million)



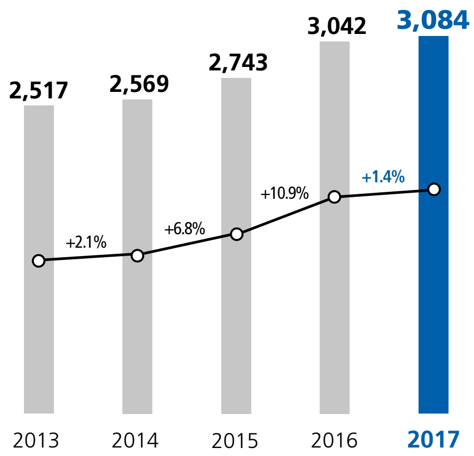
INVENTORIES

(as a % of net sales)



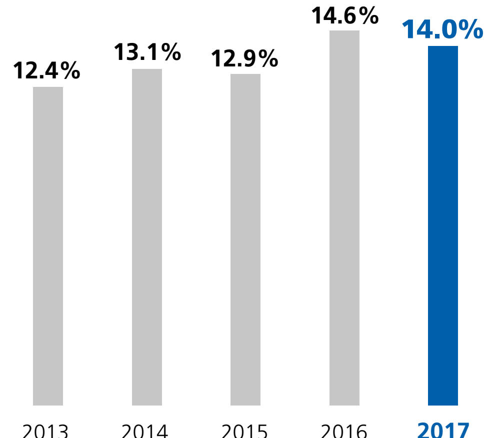
TRADE RECEIVABLES

(in € million)



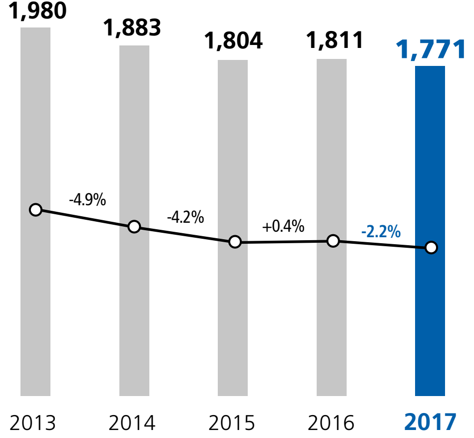
TRADE RECEIVABLES

(as a % of net sales)



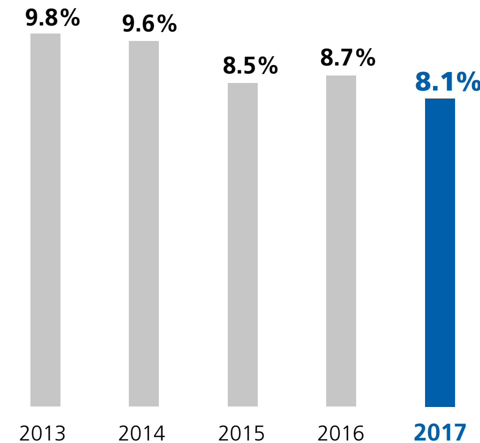
CAPITAL EXPENDITURE

(in € million)



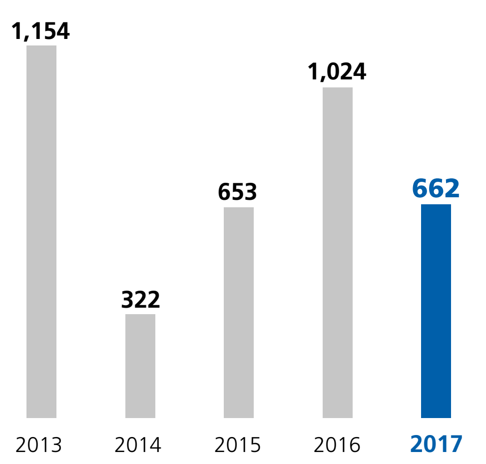
CAPITAL EXPENDITURE

(as a % of net sales)



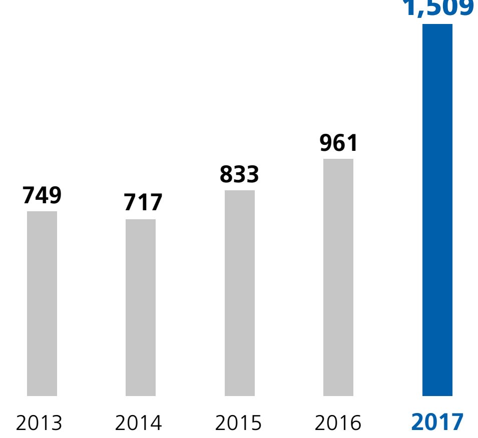
FREE CASH FLOW[(1)] (AFTER CAPITAL EXPENDITURE AND BEFORE PAYMENT OF DIVIDENDS)

(in € million)



STRUCTURAL FREE CASH FLOW[(1)]

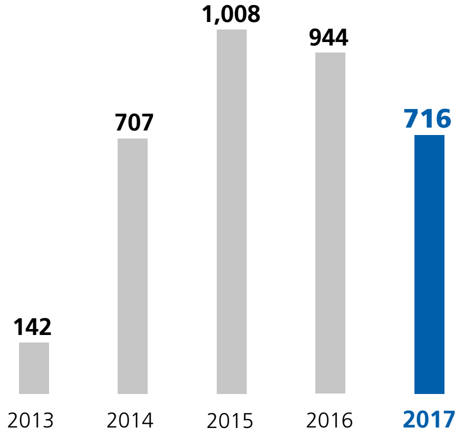
(in € million)



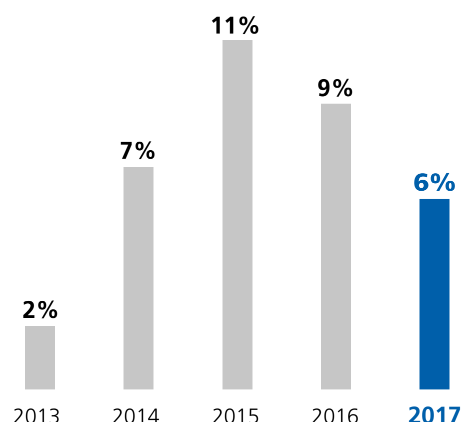
(1) This indicator is defined in section 2.5.3 of the present document.

NET DEBT[1]

(in € million)



NET DEBT-TO-EQUITY RATIO[1]

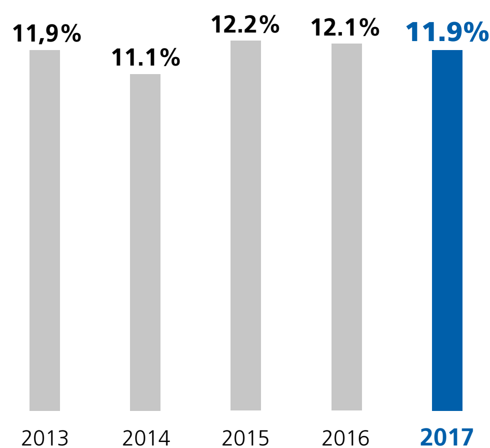


NET DEBT[1]-TO-EBITDA RATIO[2]

0.26
0.22
0.23
0.18
0.04
2013
2014
2015
2016
2017

RETURN ON CAPITAL EMPLOYED[3]

(after tax)



(1) This indicator is defined in note 26 to the consolidated financial statements.
(2) This indicator is defined in note 3.7.2 to the consolidated financial statements.
(3) This indicator is defined in section 2.6 of the present document.

3.7 CONSOLIDATED KEY FIGURES AND RATIOS

(in € million)	2017	2016	2015	2014	2013
Net sales	21,960	20,907	21,199	19,553	20,247
% change	+5.0%	-1.4%	+8.4%	-3.4%	-5.7%
Total employee benefit costs	5,871	5,542	5,785	5,292	5,292
as a % of sales	26.7%	26.5%	27.3%	27.1%	26.1%
Number of employees *(full time equivalent)*	107,800	105,700	105,800	106,700	105,700
Research and development expenses	641	718	689	656	643
as a % of sales	2.9%	3.4%	3.3%	3.4%	3.2%
EBITDA from recurring activities [(1)]	4,087	4,084	3,934	3,286	3,285
Operating income from recurring activities	2,742	2,692	2,577	2,170	2,234
Operating margin from recurring activities	12.5%	12.9%	12.2%	11.1%	11.0%
Operating income	2,631	2,791	2,207	1,991	1,974
Operating margin	12.0%	13.3%	10.4%	10.2%	9.7%
Cost of net debt	176	203	184	130	94
Other financial income and expenses	(0)	20	(30)	(43)	(15)
Income before taxes	2,354	2,464	1,869	1,651	1,702
Income tax	661	797	706	620	575
Effective tax rate	28.1%	32.3%	37.8%	37.5%	33.8%
Net income	1,693	1,667	1,163	1,031	1,127
as a % of sales	7.7%	8.0%	5.5%	5.3%	5.6%
Dividends[(2)]	585	522	463	464	438
Cash flows from operating activities	**2,741**	**2,764**	**2,695**	**2,522**	**3,089**
as a % of sales	12.5%	13.2%	12.7%	12.9%	15.3%
Gross purchases of intangible assets and PP&E	1,771	1,811	1,804	1,883	1,980
as a % of sales	8.1%	8.7%	8.5%	9.6%	9.8%
Net debt [(3)]	716	944	1,008	707	142
Equity	11,261	10,646	9,542	9,523	9,256
Gearing	6%	9%	11%	7%	2%
Net debt[(3)] / EBITDA[(1)]	0.18	0.23	0.26	0.22	0.04
Cash flows from operating activities / Net debt[(3)]	NS	NS	NS	NS	NS
Operating income from recurring activities / Net interest charge[(4)]	15.9	13.3	12.8	16.0	15.7
Free cash flow[(5)]	662	1,024	653	322	1,154
ROE[(6)]	15.0%	15.7%	12.2%	10.8%	12.2%
ROCE[(7)]	11.9%	12.1%	12.2%	11.1%	11.9%
Per share data *(in €)*					
Net assets per share[(8)]	62.7	59.1	52.5	51.3	49.8
Basic earnings per share	9.39	9.21	6.28	5.52	6.08
Diluted earnings per share	9.34	9.03	6.19	5.45	5.98
Price-earnings ratio[(9)]	12.7	11.5	14.0	13.6	12.7
Dividend for the year[(10)]	3.55	3.25	2.85	2.50	2.50
Pay-out ratio[(11)]	36.0%	36.5%	37.0%	40.6%	35.0%
Yield[(12)]	3.0%	3.1%	3.2%	3.3%	3.2%
Share turnover rate[(13)]	71%	78%	99%	91%	99%

(1) As defined in note 3.7.2 to the consolidated financial statements.
(2) Including the dividends paid in shares.
(3) Net debt: financial liabilities - cash and cash equivalents (excluding cash flows from cash management financial assets and borrowing collaterals) +/- derivative assets, as defined in note 26 to the consolidated financial statements.
(4) Net interest charge: interest financing expenses - interest income from cash and equivalents.
(5) Free cash flow: cash flows from operating activities - cash flows from investing activities (excluding cash flows from cash management financial assets and borrowing collaterals), as defined in section 2.5.3.
(6) ROE: net income attributable to shareholders/shareholders' equity excluding non-controlling interests.
(7) ROCE: Net Operating Profit After Tax (NOPAT)/capital employed (intangible assets and PP&E + long-term financial assets + working capital requirement), as defined in section 2.6.
(8) Net assets per share: net assets/number of shares outstanding at the end of the period.
(9) P/E: Share price at the end of the period/basic earnings per share.
(10) Subject to approval at the Annual Shareholders Meeting on May 18, 2018.
(11) Distribution rate: Dividend/Net income.
(12) Dividend yield: dividend per share/share price at December 31.
(13) Share turnover rate: number of shares traded during the year/average number of shares outstanding during the year.

CORPORATE GOVERNANCE REPORT

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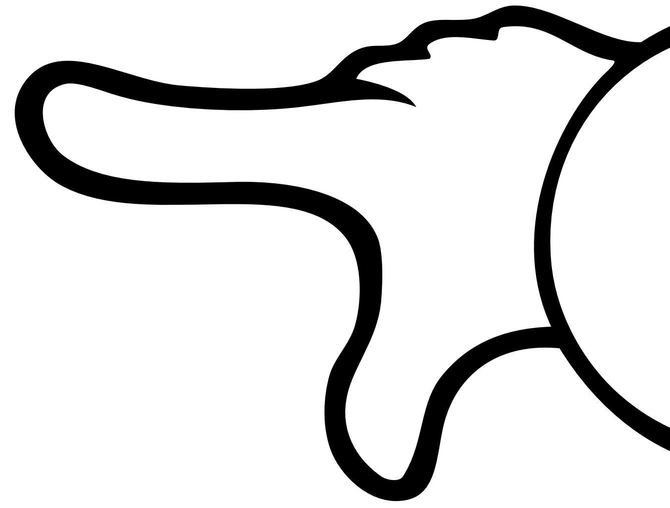

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This report has been prepared by the Supervisory Board in application of Article L. 226-10-1 of the French Commercial Code modified by Government order 2017-1162 dated July 12, 2017 introducing various measures to simplify and clarify companies' obligations. This report was approved by the Supervisory Board on February 9, 2018.

4.1 DIRECTORSHIPS AND OTHER POSITIONS HELD BY THE MANAGING PARTNERS AT DECEMBER 31, 2017

Biographical details of the Managing Partners are presented in section 2.15.4 of this Registration Document.

4.1.1 MANAGING PARTNERS

Michelin is led by Jean-Dominique Senard, Chief Executive Officer and General Partner.

The Chief Executive Officer's role is described in section 2.15.1 of this Registration Document.

Information about the Executive Committee's members is presented in section 2.15.1 b) of this Registration Document.

JEAN-DOMINIQUE SENARD
Born in 1953
17,487 shares owned as of December 31, 2017
First elected: May 13, 2011
(General Managing Partner)

Directorships and other positions hold

Chief Executive Officer

2013	2014-2017
Managing Partner of Compagnie Financière Michelin SCmA Director of Groupe SEB Director of Saint-Gobain	Managing Partner of Compagnie Financière Michelin SCmA Director of Saint-Gobain*, Chairman of its Audit and Risk Committee

* *Listed company.*

4.1.2 SUPERVISORY BOARD

4.1.2 a) Members

As of December 31, 2017, the Supervisory Board comprised nine members, six of whom were qualified as independent.

OLIVIER BAZIL
Born in 1946 – French national
1,010 shares owned as of December 31, 2017
First elected: May 17, 2013
Current term expires: 2021

Directorships and other positions hold

Independent member

Chairman of the Audit Committee

2013-2014
Director of Legrand and member of the Board's Strategy Committee and Nominating and Compensation Committee
Director of Firmenich International S.A. and Chairman of its Audit Committee
Member of the Supervisory Board of Société Civile du Château Palmer
Chairman of Fritz S.A.S.
Director of Vallourec, Chairman of its Audit Committee and member of its Strategy Committee

2015-2016
Director of Legrand and member of the Board's Strategy Committee and Nominating and Governance Committee
Director of Firmenich International S.A. and Chairman of its Audit Committee
Member of the Supervisory Board of Société Civile du Château Palmer
Chairman of Fritz S.A.S.
Director of Vallourec, Chairman of its Audit Committee and member of its Strategy Committee

2017
Director of Legrand* and member of the Board's Strategy Committee and Nominating and Governance Committee
Member of the Supervisory Board of Société Civile du Château Palmer
Chairman of Fritz S.A.S.
Director of Vallourec*, Chairman of its Audit Committee and member of its Strategy Committee (until May 2017)

* *Listed company.*

PAT COX
Born in 1952 – Irish national
491 shares owned as of December 31, 2017
First elected: May 20, 2005
Current term expires: 2018

Directorships and other positions hold

Non-independent member (non-executive)

Member of the Compensation and Appointments Committee

2013
Member of the Board of Trustees of Friends of Europe
Director of UCD Michael Smurfit Graduate School of Business
Member of the President's Consultative Board, University College Cork
Patron of the Blue Box Creative Learning Centre
President of the European Parliament Former Members Association

2014-2015
Member of the Board of Trustees of Friends of Europe
Patron of the Blue Box Creative Learning Centre

2016
President of *Fondation Jean Monnet pour l'Europe,* Switzerland
Member of the Board of Trustees of Friends of Europe, Belgium
Leader of Needs Assessment Mission on parliamentary reform for the European Parliament and the *Verkhovna Rada,* Kyiv, Ukraine
European Coordinator of the Scandinavian-Mediterranean TEN T Core Network (transportation) Corridor, European Union
President of *Alliance Française* Dublin
Honorary Vice President of the European Movement Ireland
Member of the Board of the Institute of International and European Affairs, Dublin
Member of the Board, Third Age Foundation, Ireland
Member of the European Advisory Council, Liberty Global, Netherlands
Member of the Yalta European Strategy (YES) forum, Ukraine
Chairman of the Public Interest Committee, KPMG, Ireland

2017
President of *Fondation Jean Monnet pour l'Europe,* Switzerland
Member of the Board of Trustees of Friends of Europe, Belgium
Leader of Needs Assessment Mission on parliamentary reform for the European Parliament and the *Verkhovna Rada,* Kyiv, Ukraine
European Coordinator of the Scandinavian-Mediterranean TEN T Core Network (transportation) Corridor, European Union
President of *Alliance Française* Dublin
Honorary Vice President of the European Movement Ireland
Member of the Board of the Institute of International and European Affairs, Dublin
Member of the Board, Third Age Foundation, Ireland
Member of the Yalta European Strategy (YES), Ukraine
Chairman of the Public Interest Committee, KPMG, Ireland
Member of the Board of Appian Asset Management Ltd, Dublin

BARBARA DALIBARD
Born in 1958 – French national
485 shares owned as of December 31, 2017
First elected: May 16, 2008
Current term expires: 2019

Directorships and other positions hold

Independent member

Senior independent member

Chair of the Compensation and Appointments Committee

2013-2014
Chief Executive Officer of SNCF Voyageurs
Chairman of VSC Group
Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV)
Member of the Supervisory Board of Wolters Kluwer
Director of Eurostar International Limited

2015
Chief Executive Officer of SNCF Voyageurs
Chairman of VSC Group
Director of Nuovo Trasporto Viaggiatori S.p.A. (NTV)
Member of the Supervisory Board of Wolters Kluwer
Director of Eurostar International Limited
Member of the Board of Directors of Société Générale

2016
Chief Executive Officer of SNCF Voyageurs, then Chief Executive Officer of SITA
Chair of VSC Group
Director of Eurostar International Limited
Member of the Board of Directors of Société Générale

2017
Chief Executive Officer of SITA

ANNE-SOPHIE DE LA BIGNE
Born in 1960 – French national
903 shares owned as of December 31, 2017
First elected: May 17, 2013
Current term expires: 2020

Directorships and other positions hold

Independent member

Member of the Audit Committee

Member of the Compensation and Appointments Committee

2013-2017
No other directorships

JEAN-PIERRE DUPRIEU
Born in 1952 – French national
510 shares owned as of December 31, 2017
First elected: May 17, 2013
Current term expires: 2020

Directorships and other positions hold

Independent member

Member of the Audit Committee

2013-2015
Executive Vice President of the Air Liquide group
Director of Air Liquide Santé International
Chairman of the Board of Directors of Air Liquide Eastern Europe
Director of Air Liquide Welding

2016
Executive Vice President of the Air Liquide group
Director of Air Liquide Santé International
Chairman of the Board of Directors of Air Liquide Eastern Europe
Director of Air Liquide Welding
Director of Korian

2017
Director of Air Liquide Welding
Director of Korian*

* *Listed company.*

ARUNA JAYANTHI
Born in 1962 – Indian national
400 shares owned as of December 31, 2017
First elected: May 22, 2015
Current term expires: 2019

Directorships and other positions hold

Independent member

2013
Chairman of the Board of Directors of Capgemini India Private Limited
Director of Capgemini Business Services India Limited
Director of Pune Software Park Private Limited
Director of Capgemini Technology Services Maroc S.A.

2014
Director of Capgemini Technology Services Maroc S.A.
Chair of the Board of Directors of Capgemini India Private Limited
Director of Capgemini Business Services India Limited Director of Pune Software Park Private Limited
Director of Capgemini Sverige AB
Director of IBX Norge
Director of Capgemini Norge AS

2015-2016
Director of Capgemini Norge AS
Director of Capgemini Technology Services Maroc S.A.
Chair of the Board of Directors of Capgemini India Private Limited
Director of Capgemini Business Services India Private Limited (formerly Capgemini Business Services India Limited)
Director of Pune Software Park Private Limited
Chair of the Board of Directors of Capgemini Sverige AB

2017
Director of Capgemini Norge AS
Chair of the Board of Directors of Capgemini Sverige AB
Director of Espire AS
Chair of the Supervisory Board of Capgemini Polska Sp. Z.o.o.
Director of Capgemini Technology Services India Limited

MONIQUE LEROUX
Born in 1954 – Canadian national
1,000 shares owned as of December 31, 2017
First elected: October 1, 2015
Current term expires: 2018

Directorships and other positions hold

Independent member

Member of the Audit Committee

2013
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks

2014
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of Crédit Industriel et Commercial (CIC)
Member of the Board of Directors of the Rideau Hall Foundation

2015
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Fédération des Caisses Desjardins du Québec/Mouvement des Caisses Desjardins
Vice Chair of the Executive Committee and Director of the International Confederation of Popular Banks (CIBP)
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of Crédit Industriel et Commercial (CIC)
Member of the Board of Directors of the Rideau Hall Foundation
President of the International Cooperative Alliance (ICA)
Member of the Board of Directors of the University of Montreal
Member of the Board of Directors of Alimentation Couche-Tard

2016
Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins
Chief Executive Officer of Desjardins Sécurité Financière
Chief Executive Officer of Desjardins Groupe d'Assurances Générales
Chair of the Board of Directors of Invest Quebec
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of Crédit Industriel et Commercial (CIC)
Member of the Board of Directors of the Rideau Hall Foundation
President of the International Cooperative Alliance (ICA)
Member of the Board of Directors of Alimentation Couche-Tard
Member of the Board of Directors of Bell/BCE (since April 2016)
Member of the Board of Directors of S&P Global (since October 2016)

2017
Chair of the Board of Directors of Invest Quebec
Member of the Executive Committee and Director of the European Association of Cooperative Banks
Member of the Board of Directors of Crédit Industriel et Commercial (CIC) (until May 2017)
Member of the Board of Directors of the Rideau Hall Foundation
President of the International Cooperative Alliance (ICA) (until November 2017)
Member of the Board of Directors of Alimentation Couche-Tard
Member of the Board of Directors of Bell/BCE (since April 2016)
Member of the Board of Directors of S&P Global (since October 2016)
Member of the Board of Lallemand (privately owned company) (since June 2017)
Strategic Advisor, Fiera Capital (since June 2017)

CYRILLE POUGHON
Born in 1975 – French national
410 shares owned as of December 31, 2017
First elected: May 16, 2014
Current term expires: 2018

Directorships and other positions hold

Non-independent member (non-executive)

2013-2014
Secretary of the Michelin European Works Council

2015-2017
No other directorships

MICHEL ROLLIER
Born in 1944
24,392 shares owned as of December 31, 2017
First elected: May 17, 2013
Current term expires: 2021

Directorships and other positions hold

Non-independent member (non-executive)

Chairman of the Supervisory Board

Member of the Compensation and Appointments Committee

2013
Chairman of the Board of Directors of Siparex Associés
Chairman of the Supervisory Board of Somfy
Director of Lafarge
Member of the AFEP/MEDEF High Committee on Corporate Governance

2014-2015
Chairman of the Board of Directors of Siparex Associés
Chairman of the Supervisory Board of Somfy
Director of Lafarge
Member of the AFEP/MEDEF High Committee on Corporate Governance
Chairman of *Association Nationale des Sociétés par Actions* (ANSA)

2016
Chairman of the Board of Directors of Siparex Associés
Chairman of the Supervisory Board of Somfy SA
Chairman of the Remunerations Committee of Somfy SA
Director of Lafarge
Member of the AFEP/MEDEF High Committee on Corporate Governance
Chairman of *Association Nationale des Sociétés par Actions* (ANSA)
Chairman of *Plateforme de la Filière Automobile* (PFA)

2017
Chairman of the Board of Directors of Siparex Associés
Chairman of the Supervisory Board of Somfy SA*
Chairman of the Remunerations Committee of Somfy SA*
Chairman of the AFEP/MEDEF High Committee on Corporate Governance
Chairman of *Association Nationale des Sociétés par Actions* (ANSA)
Chairman of *Plateforme de la Filière Automobile* (PFA)

* *Listed company.*

4.1.2 b) Terms of office of Supervisory Board members at December 31, 2017

Name	First elected/ re-elected[1]	Current term expires[2]	Independent[3]
Olivier Bazil	May 17, 2013		
	May 19, 2017	2021	yes
Pat Cox	May 20, 2005		
	May 7, 2010		
	May 16, 2014	2018	no
Barbara Dalibard	May 16, 2008		
	May 17, 2013		
	May 22, 2015	2019	yes
Anne-Sophie de La Bigne	May 17, 2013		
	May 13, 2016	2020	yes
Jean-Pierre Duprieu	May 17, 2013		
	May 13, 2016	2020	yes
Aruna Jayanthi	May 22, 2015	2019	yes
Monique Leroux	October 1, 2015[4]	2018	yes
Cyrille Poughon	May 16, 2014	2018	no
Michel Rollier (Président)	May 17, 2013		
	May 19, 2017	2021	no

(1) *At the Annual Meeting of May 15, 2009, shareholders voted to reduce the term of Supervisory Board members from five years to four.*
(2) *At the Annual Meeting of May 17, 2013, shareholders voted to elect Supervisory Board members for terms of two, three or four years, so that their terms do not all expire at the same time.*
(3) *Based on the criteria set in the Supervisory Board's internal rules which correspond to those recommended in the AFEP/MEDEF Corporate Governance Code for listed companies.*
(4) *Monique Leroux was appointed as a member of the Supervisory Board on October 1, 2015 to replace Laurence Parisot, who had resigned, for the remainder of Ms. Parisot's term of office.*

4.1.3 STATEMENTS

There are no family relationships between Michelin's Chief Executive Officer, any Supervisory Board members and the Chairman of SAGES (CGEM's Non-Managing General Partner).

To the best of the Company's knowledge, neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member has, in the past five years, been (i) convicted of fraud, (ii) associated with a bankruptcy, receivership or liquidation, (iii) the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities (including designated professional bodies) or disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer.

Neither Michelin's Chief Executive Officer nor the Chairman of SAGES nor any Supervisory Board member has a service contract with the Company or any of its subsidiaries.

There are no:

- Arrangements or understandings with major shareholders, customers, suppliers or others, pursuant to which they were selected as a Chief Executive Officer or as a member of the Supervisory Board or as Chairman of SAGES.
- Conflicts of interest between the duties to the Company of the Chief Executive Officer, the Supervisory Board members or the Chairman of SAGES and their private interests and/or other duties.
- Restrictions accepted by these persons on the disposal of their Michelin shares within a certain period of time, except for those resulting from market abuse regulations and the specific rules applicable to the Chief Executive Officer.

4.2 MEMBERSHIP STRUCTURE OF THE SUPERVISORY BOARD AND APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY

In accordance with the applicable law and the Company's Bylaws, the Supervisory Board may have no less than three and no more than ten members elected by the Annual Shareholders Meeting for a term of four years[1]. All Supervisory Board members must be shareholders.

The General Partners (including the Chief Executive Officer) may not take part in the vote. Supervisory Board members may be re-elected. According to the Bylaws, no more than one-third of Supervisory Board members may be aged over 75.

The Supervisory Board currently has nine members, whose names are listed below along with details of their current position. This information is disclosed in accordance with Article L. 226-4-1 of the French Commercial Code introduced by French Act 2011-103 of January 27, 2011 concerning the balanced representation of men and women on Boards of Directors and Supervisory Boards and gender equality in the workplace:

- **Olivier Bazil,** Director of Legrand[2] and Vallourec[2].
- **Pat Cox,** President of *Fondation Jean Monnet pour l'Europe,* European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, former President of the European Parliament and former member of the Irish Parliament.
- **Barbara Dalibard,** Chief Executive Officer of SITA.
- **Anne-Sophie de La Bigne,** Vice-President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus group[2].
- **Jean-Pierre Duprieu,** Director of Korian[2], former Executive Vice-President of the Air Liquide group[2].
- **Aruna Jayanthi,** Chief Executive Officer of Capgemini India.
- **Monique Leroux,** Chair of the Board of Directors of Invest Quebec, former President of the International Cooperative Alliance, former Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins.
- **Cyrille Poughon,** Leader of the Head Office Security and Safety Program, Manufacture Française des Pneumatiques Michelin.
- **Michel Rollier,** Chairman of the Supervisory Board, Chairman of the AFEP/MEDEF High Committee on Corporate Governance.

The following additional information about Supervisory Board members is provided in the sections indicated:

- Biographical details are provided in section 2.15.4 b) of this Registration Document.
- Details of their compensation are provided in sections 4.4.1 b), 4.4.2, 4.4.5, 4.4.6 and 4.4.7 of this report.
- The list of directorships and other positions held, together with the dates on which they were first elected and their current term expires are provided in section 4.1 of this report.

In summary, the Supervisory Board's diversity in terms of experience and backgrounds is illustrated by the fact that, in 2017:

- 45% of the Board members were women.
- 67% of the Board members were independent.
- 34% of the Board members were foreign nationals.

(1) *Five years for members elected prior to 2009. Certain members may be elected for a two- or three-year period in order to effectively stagger the terms of office of Supervisory Board members.*

(2) *Listed company.*

4.3 SUPERVISORY BOARD PRACTICES

4.3.1 ROLE OF THE SUPERVISORY BOARD

The Supervisory Board exercises permanent oversight of the Company's management and assesses its quality on behalf of the shareholders, presenting a report thereon at each Annual Shareholders Meeting.

The recommendation provided under Article 4 of the AFEP/MEDEF Code, according to which material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors, cannot apply in this instance, because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company.

However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its Bylaws[(1)] as well as the Supervisory Board's internal rules.

Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made.

This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.3.2 i) prepared in accordance with the "comply or explain" rule.

Lastly, in application of the Bylaws, the Supervisory Board's internal rules and the internal rules of the Compensation and Appointments Committee, the Supervisory Board must be consulted or express an opinion (depending on the case) on all decisions concerning the Managing Partners (election, re-election and removal from office of the General Managing Partner and Chief Executive Officer or any other Managing Partner) and the determination of the Chief Executive Officer's compensation package and that of any other Managing Partner.

To enable the Supervisory Board to effectively fulfill its oversight role, its members receive quarterly reports presenting key performance indicators, as well as regular information such as copies of the Group's main press releases, research reports published by analysts who follow Michelin, and updates on the Group's business environment.

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

The Supervisory Board is assisted in its oversight role by two committees, the Audit Committee and the Compensation and Appointments Committee.

4.3.2 THE SUPERVISORY BOARD'S ACTIVITIES DURING 2017

4.3.2 a) General activities

At its meetings on February 9 and July 24 respectively, the Board reviewed (i) the statutory and consolidated financial statements for the year ended December 31, 2016 and (ii) the interim financial statements for the six months ended June 30, 2017. It also examined and expressed its opinion on the financial information communicated to the markets.

The issues examined by the Supervisory Board – based in some cases on presentations made by the Chief Executive Officer or by members of business line management – were as follows:

- Quarterly financial information and interim and annual results – based in part on a review of the management scorecards used by the Executive Committee – and the corresponding press releases, including a discussion of investor relations.
- The planning process and budget assumptions.
- The Audit Committee's report.
- Capital allocation policy between the Company and shareholders.
- Internal control and risk management, and the Chairman's report on these topics and on Supervisory Board practices.
- The High-Tech Materials strategy.
- The strategic plan for the Group and the plans for each major business unit.
- Competitor analysis.
- The Experience business.
- The practical benefits of the Industrial Competitiveness program in France.
- Proposed acquisitions.
- Project to streamline the Group's organization and business processes.
- Report of the Compensation and Appointments Committee.
- The Supervisory Board's membership.
- Preparation of recommendations on the re-election of existing Supervisory Board members or the election of new members.
- Changes in the membership of the Committees of the Board.
- Annual assessment of Supervisory Board members' independence.
- Annual self-assessment of the Board's work.
- Chief Executive Officer succession plan.
- Compensation policies.
- Preparation of the Annual Shareholders Meeting.

(1) Article 17 of the Bylaws states that "(...) The Supervisory Board is jointly and regularly informed about the Company's situation and the key issues listed in the Supervisory Board's internal rules. The Supervisory Board reports to the Shareholders Meeting on the fulfillment of its duties (...)".

Part of each Supervisory Board meeting takes place behind closed doors, without the Chief Executive Officer or any representatives of Executive Management being present.

In addition, the independent members of the Board held a closed session.

The Supervisory Board continued the process initiated in 2015 to enable the member representing employees to act as a neutral observer of the Group's social dialog processes in order to make an informed contribution to the Board's discussions.

During 2017, Cyrille Poughon, the member representing employees, visited Group facilities in Mexico, India and the United Kingdom (Scotland). He subsequently presented to the Supervisory Board a summary of the challenges and opportunities identified during his conversations with the local team in each country, along with his observations.

In addition, in line with legal requirements, the Company decided that the Supervisory Board of its main French subsidiary, Manufacture Française des Pneumatiques Michelin, should also continue to include an employee representative, appointed by the Company's Central Works Council.

4.3.2 b) Supervisory Board members' attendance rates

The Supervisory Board met seven times in 2017 – on February 9, April 21, May 19, July 24, October 5, December 1 and December 18 – with an average attendance rate (including unscheduled Board meetings and meetings of Board Committees) of 95.4%.

The attendance rates of the individual Board members are presented in the table below:

	Participation at meetings held in 2017		
Supervisory Board members	Supervisory Board (7 meetings)	Audit Committee (4 meetings)	Compensation and Appointments Committee (3 meetings)
Olivier Bazil	7/7	4/4	N/A
Pat Cox	6/7	N/A	3/3
Barbara Dalibard	7/7	N/A	3/3
Anne-Sophie de La Bigne[(1)]	7/7	4/4	1/1
Jean-Pierre Duprieu	6/7	4/4	N/A
Aruna Jayanthi	5/7	N/A	N/A
Monique Leroux[(2)]	7/7	2/2	N/A
Cyrille Poughon	7/7	N/A	N/A
Michel Rollier	7/7	N/A	3/3

(1) Anne-Sophie de La Bigne participated in the only meeting of the Compensation and Appointments Committee held after her appointment to the Committee on May 19, 2017.
(2) Monique Leroux participated in all the meetings of the Audit Committee held after her appointment to the Committee on May 19, 2017.
N/A: Not applicable.

4.3.2 c) Training for Supervisory Board members

As part of its training policy for Supervisory Board members, during the year the Company once again organized a special training program on the Group's operations. The program gave all of the members an opportunity to acquire or refresh their hands-on insight into how Michelin's various businesses are run.

The Supervisory Board held one of its meetings in 2017 at a major plant in France, attending a presentation about the plant's history and its production activities which use the very latest technologies.

In addition, the members spent half a day visiting this site and the various specialized workshops, and conversing with a certain number of managers.

These topic-specific presentations, along with those made during the year at Supervisory Board meetings by members of Executive Management and their teams, are welcomed by Supervisory Board members as a means of enhancing their understanding of all the challenges facing the Michelin Group.

4.3.2 d) Changes in the membership of the Supervisory Board in 2017

A major part of the Board's work in 2017 entailed preparing for the expiration of Supervisory Board members' terms of office.

The Compensation and Appointments Committee reviewed the proposed re-election of Olivier Bazil and Michel Rollier as Supervisory Board members.

The General Partners were not involved in the processes for the election of members of the Supervisory Board.

Olivier Bazil and Michel Rollier informed the other Supervisory Board members that they wish to stand for re-election.

In reviewing their proposed re-election, the Compensation and Appointments Committee took into account the main candidate assessment criteria, covering their skills, experience, independence and availability (*i.e.* that they do not hold too many other directorships) and the commitment to promoting Board diversity in terms of both culture and background.

When examining the individual situations of Olivier Bazil and Michel Rollier, the Board notably considered:

- The pros and cons of re-electing them.
- The skills and experience they bring to the Board.

- Their availability and involvement in the work of the Board and its Committees.
- Their independence and the absence of any conflicts of interest.
- Their contribution to the complementary nature of the Board's membership.

Olivier Bazil is a Director of Legrand[(1)] and a member of its Board's Strategy and Social Responsibility Committee and Nominating and Governance Committee.

He has been a member of Michelin's Supervisory Board and Chairman of its Audit Committee since 2013 and is considered by the Supervisory Board as being an independent member[(2)] because:

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.

The Board examined Mr. Bazil's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- His contribution to the work of the Board, as reflected in his availability and attendance rate.
- His experience in the areas of accounting, finance and internal control.
- The efficient organization of the Audit Committee.
- His excellent understanding of the challenges facing the Group.
- His executive management experience and familiarity with French and international industrial strategies.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Olivier Bazil be re-elected for a further four-year term. Mr. Bazil did not take part in the Board's discussion or vote. He was re-elected at the Annual Shareholders Meeting of May 19, 2017.

Michel Rollier is Chairman of the AFEP/MEDEF High Committee on Corporate Governance.

He has been Chairman of Michelin's Supervisory Board, and member of the Compensation and Appointments Committee of the Board since 2013.

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not an executive officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which an executive officer of Michelin has a seat on the Board.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

The Supervisory Board decided to maintain his qualification as a non-independent member despite the fact that he had not held an executive position at Michelin during the past five years.

The Board examined Mr. Rollier's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- The continuous improvements in Michelin's governance achieved jointly with the Chief Executive Officer and the General Partners.
- The efficient organization and effectiveness of the Supervisory Board, whose good practices were recognized in the results of the assessment performed in 2016 by an independent firm of consultants.
- His availability and attendance rate at Board and Audit Committee meetings.
- His excellent understanding of the challenges facing the Group.
- His experience in finance.
- His executive management experience.
- His knowledge of Michelin's markets and the automotive industry.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Michel Rollier be re-elected for a further four-year term. Mr. Rollier did not take part in the Board's discussion or vote. He was re-elected at the Annual Shareholders Meeting of May 19, 2017.

4.3.2 e) Preparing recommendations for re-electing Supervisory Board members and other resolutions to be presented at the 2018 Annual Shareholders Meeting

The Supervisory Board asked the Compensation and Appointments Committee to review the situation of members whose term was due to expire at the 2018 Annual Shareholders Meeting, and the Chief Executive Officer succession plan.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2018 Annual Shareholders Meeting (see section 10.2 of this Registration Document).

(1) Listed company.

(2) See the detailed review of Supervisory Board members' independence in the Report of the Chairman of the Supervisory Board on the membership of the Supervisory Board (section 4.5.1 b) of the 2016 Registration Document).

4.3.2 f) Designation of a senior independent Supervisory Board member

The Supervisory Board members decided to designate a senior independent member responsible notably for leading the group of independent members and organizing meetings of this group.

Following this decision, Barbara Dalibard, Chair of the Compensation and Appointments Committee, was designated as Senior Independent Member.

4.3.2 g) Review of Supervisory Board members' independence and any conflicts of interest

The Supervisory Board has chosen to refer to all the criteria listed in the AFEP/MEDEF Code to assess its members' independence and obtain assurance that a majority of the members are independent and without any vested interests (*i.e.* with no relationship of any kind whatsoever with the Company or its management which might risk coloring the member's judgment[1]).

The Supervisory Board's internal rules also explicitly stipulate that its members are required to inform the Board of any potential or existing conflict of interest and are banned from taking part in the discussion and vote on the matters concerned.

In the first phase, the Compensation and Appointments Committee checks that each Supervisory Board member has formally declared, in relation to the provisions and abstention obligations of the Board's internal rules, that:

- They have no close family ties with the Managing Partner or their fellow Supervisory Board members.
- They have not been convicted of fraud during the past five years, or been associated with a bankruptcy, receivership or liquidation during the past five years, or been the subject of any official public incrimination and/or sanctions by statutory or regulatory authorities or been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer during the past five years.
- They do not have a service contract with the Company or any of its subsidiaries.
- They have not been selected to serve as a Supervisory Board member pursuant to any arrangement or agreement with a principal shareholder, customer, supplier or other stakeholder.
- To the best of their knowledge, there are no restrictions on the disposal within a certain period of time of their Michelin shares, except for those resulting from insider dealing rules.
- To the best of their knowledge, there are no conflicts of interest between their obligations towards the Company in their capacity as Supervisory Board member and their personal interests and/or other obligations.

Where applicable, the Committee also checks any notifications given to the Board by its members.

In the second phase, to complete the earlier statements and observations, the Committee:

- Checks that none of the Board members had been an auditor of the Company during the past five years.
- Reviews the period served on the Board by members since they were first elected, in particular for members who have served on the Board for 12 or more years.
- Checks that no Board member has received any variable compensation in cash or shares or any other performance-based compensation from the Company or the Group.

In addition, the Committee examines whether any Board member:

- Is or has been in the past five years an employee or executive officer of the Company, or an employee or executive director of its parent or a company that the latter consolidates.
- Is an executive director of a company in which the Company holds a directorship, directly or indirectly, or in which an employee appointed as such or an executive director of the Company (currently in office or having held such office for less than five years) is a director.
- Is a customer, supplier, investment banker or commercial banker:
  - that is material to the Company or the Group; or
  - that depends on the Company or the Group for a significant part of its business.

In the third phase, the Committee reviews the situation of Board members who may personally conduct significant amounts of business with the Company or be involved with undertakings that may maintain significant business relations with the Company.

In each case, the Committee starts by examining the nature of the Board member's duties in the undertaking concerned, particularly whether they hold a non-executive position such as member of the Board of Directors or Supervisory Board, whether they are qualified as independent by that undertaking and whether they share any cross-directorships with an executive officer of the Company.

Where a Board member holds an executive or management position, the Committee examines the nature and scope of the member's duties and, if the undertaking is a material competitor, customer or supplier of the Company, assesses whether the position may give rise to a conflict of interest between that undertaking and the Company.

When considered necessary, the Committee then analyses individual situations based on (i) the type of relationship that exists between the Company and the undertaking concerned and (ii) the amounts represented by financial transactions between the Company and the undertaking, applying different materiality thresholds depending on the type of relationship (revenues in relation to consolidated revenues, purchase volumes, etc.).

The Compensation and Appointments Committee conducted an independence review in 2017. Its conclusions were presented to the Supervisory Board, which discussed and then adopted them. The review process can be summarized as follows:

The Committee also examined the situation of **Anne-Sophie de La Bigne** in light of her position with Airbus group as Vice President in charge of Civil Affairs in the Public Affairs Division France. The Committee noted that (i) Ms. de La Bigne does not hold an executive position at Airbus with responsibility for purchasing or selling products or services and (ii) her area of responsibility is limited to France.

The Committee nevertheless decided to examine the volume of business conducted between Michelin and the Airbus group, as some of the latter's subsidiaries purchase products and/or services from Michelin.

(1) When the Compensation and Appointments Committee assesses the independence of one of its members, that member does not take part in the Committee's discussion and analysis of his or her situation nor in the Supervisory Board's decision regarding his or her independence.

Due to the structure of the aerospace markets served by Michelin and the companies operating in these markets, the Committee examined the revenues earned by Michelin in 2016 from the sale of products and services not only to Airbus group companies but also to these companies' customers that own or lease aircraft. The sales figure was then compared to Michelin's consolidated sales for 2016.

The comparison showed that the sales in question represented significantly less than 1% of the Group's consolidated sales for the year.

Consequently, the Committee proposed considering that Anne-Sophie de La Bigne's indirect business relationship with Michelin by virtue of her position with the Airbus group was not material.

The Committee also examined the business relationship between Michelin and the Capgemini group, whose Indian subsidiary is headed by **Aruna Jayanthi.**

Worldwide transactions between the Capgemini group and Michelin represent only a small proportion of Michelin's purchases of IT services, and do not account for a significant portion of Capgemini's revenue.

Consequently, the Committee proposed considering that Aruna Jayanthi's indirect business relationship with Michelin by virtue of her position with the Capgemini group was not material.

The Committee examined the situation of **Pat Cox,** in light of the rules in the AFEP/MEDEF Code concerning the calculation of the time served on the Supervisory Board for the purpose of assessing members' independence. The Committee decided that, based on the above rules, Pat Cox no longer qualified as independent as from May 20, 2017, corresponding to the date on which he had served for 12 years on the Supervisory Board. Pat Cox, who is a member of the Committee, did not take part in the discussion of his situation and was not involved in determining the Committee's conclusions.

Cyrille Poughon, who was elected to the Supervisory Board for the first time on May 16, 2014, is an employee of Manufacture Française des Pneumatiques Michelin, one of the Group's largest operating companies and its largest French subsidiary. Despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that Mr. Poughon could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group.

The Compensation and Appointments Committee decided that, to avoid any ambiguity and in the Company's interests, **Michel Rollier,** Chairman of the AFEP/MEDEF High Committee on Corporate Governance, should continue to be qualified as a non-independent member of the Supervisory Board, despite the fact that he had stepped down from his executive position at Michelin more than five years ago. Michel Rollier, who is a member of the Committee, did not take part in the discussion of his situation and was not involved in determining the Committee's conclusions.

Having reviewed the Compensation and Appointments Committee's analyses, the Supervisory Board decided that all of its members with the exception of Pat Cox, Cyrille Poughon and Michel Rollier are independent based on the criteria in the AFEP/MEDEF Code. These independent members represent just under 67% of total Supervisory Board members, a significantly higher proportion than that recommended in the AFEP/MEDEF Code, which states that half of the Board members of widely-held corporations without controlling shareholders should be independent.

4.3.2 h) Assessment of the Supervisory Board's practices

In 2016, the Supervisory Board retained the services of a firm of consultants to assess its overall practices and the contributions of individual members.

The assessment was carried out during the fourth quarter of 2016 and the results were presented in the Report of the Chairman of the Supervisory Board (section 4.5.1 b) of the 2016 Registration Document, pages 129-130).

In 2017, a self-assessment was performed by the Chairman of the Supervisory Board and the Senior Independent Member.

This self-assessment consisted in interviewing each Board member individually based on a questionnaire that they had received beforehand.

As is the case every year, an exchange of views and a discussion of Board practices among its members will be included on the agenda of an upcoming Supervisory Board meeting in spring 2018.

Last year's self-assessment concerned the following matters:

- The Board's role and organization.
- The choice of topics addressed and the time allocated to them.
- Governance.
- The Board's overall qualifications.
- The quality and quantity of information received.
- Performance management.
- The Committees' practices.

The self-assessment confirmed the Board members' high level of satisfaction, which was on par with that of previous years.

In particular, members appreciated the quality of the presentations made to the Board, and their very frank and open discussions with Group management.

The areas for improvement suggested by members concerned their desire to better understand the Group's corporate social responsibility and environmental challenges, as well as the processes deployed to identify key executives who have the potential to join the executive management team.

4.3.2 i) Implementation of the "comply or explain" rule

In accordance with Article L. 225-68 of the French Commercial Code and paragraph 25.1 of the AFEP/MEDEF Code and the corresponding implementation guidance, the Supervisory Board considers that it complies with the recommendations of the AFEP/MEDEF Code, as adapted to the Company's structure as a French partnership limited by shares (S.C.A.), which was adopted at the time of its formation in 1863, except as explained below:

Code recommendation	Explanation
Material transactions outside the scope of the firm's stated strategy should be subject to prior approval by the Board of Directors (Recommendation 3.2)	This recommendation, provided under Article 4 of the AFEP/MEDEF Code, is not directly applicable because of the Company's legal form as a partnership limited by shares. With this type of partnership, the General Managing Partner (Chief Executive Officer) has unlimited personal liability and his powers are completely separate from those of the Supervisory Board, with the result that the Supervisory Board has no authority to become involved in managing the Company. However, to (i) ensure that the Supervisory Board exercises effective oversight of the Company's management and (ii) adhere to the spirit of the AFEP/MEDEF recommendation, since 2011 the Company has amended its Bylaws[(1)] as well as the Supervisory Board's internal rules. Pursuant to the internal rules, the Chief Executive Officer must submit to the Supervisory Board details of any planned capital projects, new commitments, asset disposals or business acquisitions representing material amounts before any final decision is made. This means that the Supervisory Board is automatically consulted about all projects that are material for the Group. Moreover, as it expresses an opinion on such projects, it is clearly able to report to shareholders thereon if appropriate. This approach complies with the spirit and aims of the recommendation.
Appointment to the Compensation Committee of a Director representing employees (Recommendation 17.1)	The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees. In view of (i) the limited number of Committee members, which helps to guarantee its efficiency, and (ii) the amendment in the AFEP/MEDEF Code of the method of calculating the 12-year limit on the period served on the Board for a member to be qualified as independent, the inclusion on the Committee of the Supervisory Board of a member representing employees would have the effect of reducing the proportion of independent members to less than half, versus the majority required by the AFEP/MEDEF Code.

(1) Article 17 of the Bylaws states that "(...) The Supervisory Board is jointly and regularly informed about the Company's situation and the key issues listed in the Supervisory Board's internal rules. The Supervisory Board reports to the Shareholders Meeting on the fulfillment of its duties (...)".

4.3.2 j) Audit Committee

/ Members

The Audit Committee has at least three members appointed for their full term as Supervisory Board members. At least two-thirds of the members must be independent. Since May 19, 2017, the Audit Committee has comprised the following members:

- Olivier Bazil, independent member and Committee Chairman.

  Olivier Bazil was born in 1946 and is a French national. He is a Director of Legrand[(1)] and a member of Legrand's Strategy and Social Responsibility Committee and Nominating and Governance Committee. In 2017, he was also a Director of Vallourec[(1)], Chairman of Vallourec's Audit Committee and a member of its Strategy Committee.

  He has spent his entire career with Legrand[(1)], which he joined in 1973 as Deputy Company Secretary before going on to become Chief Financial Officer (1979), a Director (1989), Deputy Chief Executive Officer and a member of the Executive Committee (1994), and then Vice Chairman of the Board of Directors and Chief Operating Officer.

  Mr. Bazil is a graduate of HEC and holds an MBA from Harvard Business School.

- Jean-Pierre Duprieu, independent member.

  Jean-Pierre Duprieu was born in 1952 and is a French national. He is a Director of Korian[(1)] and the former Executive Vice President of the Air Liquide group[(1)]. He was a member of Air Liquide's Executive Management team from 2010 until 2016, in charge of supervising the group's European and Healthcare activities as well as corporate functions, including information systems and Efficiency/Purchasing programs.

- Anne-Sophie de La Bigne, independent member.

  Anne-Sophie de La Bigne was born in 1960 and is a French national. Since 2008, she has been Vice President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus group[(1)].

  She began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999. She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001.

  Between 2001 and 2006, she served as Vice President, Strategy and European Affairs, at Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS) and from 2006 to 2007, she was responsible for international corporate relations in the EADS[(1)] Public Affairs Division.

- Monique Leroux, independent member.

  Monique Leroux is currently Chair of the Board of Invest Quebec and Chair of the Quebec Government's Advisory Committee on the Economy and Innovation. From 2008 to 2016, she was Chair of the Board, President and Chief Executive Officer of Mouvement des Caisses Desjardins, Canada's largest cooperative financial group. She has been a member of the Board of Directors

(1) Listed company.

of the International Cooperative Alliance since 2013, serving as its President from 2015 to 2017. In 2017, she was appointed by Canada's Prime Minister as a member of the Canada-United States Council for Advancement of Women Entrepreneurs and Business Leaders. She is also Chair of the Board of Governors of the Society for the Celebration of Montreal's 375th Anniversary. She sits on the Board of Directors of Bell (BCE), Couche-Tard (ATD), Michelin (ML-France) and S&P Global (United States), and is a Strategic Advisor to Fiera Capital.

Ms. Leroux is a member of the Order of Canada, an Officer of the *Ordre national du Québec* and a *Chevalier de la Légion d'honneur* (France), and has been awarded honorary doctorates by eight Canadian universities.

Due to the extensive experience acquired during their careers, notably as part of the executive management and strategic advisory teams of large corporations, the Audit Committee's four members have a deep understanding of financial and accounting matters.

/ Role and responsibilities

The main provisions of the Audit Committee's internal rules are outlined below.

The Audit Committee assists the Supervisory Board in fulfilling its oversight role. It operates as a specialized committee tasked with addressing issues related to the preparation and control of accounting and financial information in accordance with Articles L. 823-19 and L. 823-20-4 of the French Commercial Code.

The Audit Committee's role includes:

- Reviewing the annual and interim financial statements, as approved by the Chief Executive Officer and audited by the Statutory Auditors, as well as the quarterly financial information.
- Obtaining assurance that the Group's accounting methods and policies are appropriate and are applied consistently, and overseeing the quality of information given to the shareholders.
- Reviewing off-balance sheet commitments.
- Assessing the effectiveness of internal control and risk management systems.
- Reviewing all of the Group's risks, assessing the effectiveness of measures taken to control these risks and examining their accounting treatment and the related disclosures in the Group's communications.
- Reviewing the Statutory Auditors' annual audit programs.
- Reviewing the Quality, Audit and Risk Management Department's internal audit programs and recommending internal audits of specific financial risks.
- Verifying the Statutory Auditors' independence and objectivity and expressing an opinion about their appointment or re-appointment.

/ Committee practices

The Committee's work program and meeting schedule are decided by the Supervisory Board, in agreement with the Management.

In view of the distance they may have to travel to attend meetings and the other business commitments not only of the Supervisory Board and Audit Committee members but also of the members of Executive Management, the Audit Committee conducts its formal review of the financial statements half a day before they are examined by the Supervisory Board.

However, to enable the Committee to perform its work as efficiently as possible:

- The documents concerning the financial statements are made available to the Committee members several days in advance.
- The Chairman of the Audit Committee meets with the Group's Chief Financial Officer in advance to review the financial statements and prepare the Committee's meeting.

This process ensures that the discussion of the financial statements by the Committee and the Board is both efficient and of a high quality, in accordance with the recommendations in the AFEP/MEDEF Code on the organization of the Audit Committees' work.

The Committee may also call on the services of independent experts. In addition, the Committee meets with the Statutory Auditors once a year without any members of management being present.

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

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

The Audit Committee monitors issues relating to the preparation and control of accounting and financial information, in accordance with Articles L. 823-19 and L. 823-20-4° of the French Commercial Code.

The Committee met four times in 2017 – on February 8, April 20, July 24 and November 30 – with a 100% attendance rate.

/ Activities

During its meetings, the Audit Committee made inquiries of:

- The Chief Financial Officer.
- The Deputy Chief Financial Officer.
- The Executive Vice President, Accounting.
- The Executive Vice President, Materials Product Line.
- The Senior Vice President, Internal Control.
- The Executive Vice President, Quality, Audit and Risk Management.
- The Senior Vice President, Internal Audit.
- The Senior Vice President, Risk Management.
- The Executive Vice President, Group Information Systems.
- The Senior Vice President, Data Center and Application Platform.
- The Chief Safety Officer.
- The Senior Vice President, Information Systems.
- The Head of the OPE Business Process Management System.
- Both Statutory Auditors.

The main purpose of the meetings held in 2017 was to review:

- The audited separate and consolidated financial statements for the year ended December 31, 2016, and the projections prepared in accordance with French law. In particular, the Audit Committee analyzed the accounting treatment of acquisitions, employee benefits, 2016 consolidated key figures and significant events of the year, material changes in consolidated income statement and balance sheet items, the main components of consolidated free cash flow, and the main items in the separate financial statements of the Company. It noted that the audit of the accounts had gone smoothly. The Statutory Auditors reported to the Committee on their audit, noting that they would be issuing an unqualified opinion, without any emphasis of matter, on both the separate and consolidated financial statements.
- The interim consolidated financial statements for the six months ended June 30, 2017. The Committee mainly reviewed the changes in accounting methods and in the scope of consolidation, restructuring cost estimates, free cash flow and working capital. The Statutory Auditors reported to the Committee on their limited review of the interim financial statements for the six months ended June 30, 2017. Their limited review report did not contain any qualifications or emphasis of matter. The Auditors also presented their audit plan for 2017.

- Update of risk mapping and risk management plan, and the internal audit program. The Executive Vice President, Quality, Audit and Risk Management, the Senior Vice President, Internal Audit and the Senior Vice President, Risk Management reported to the Committee on the internal auditors' activities in 2017, including details of the audits in progress and the action taken to implement the internal auditors' recommendations.
- The new organization's reporting and management processes. The Deputy Chief Financial Officer presented the new organization, together with the supporting management, internal reporting and external reporting principles.
- Cyber risk management. The Chief Safety Officer and the Senior Vice President, Information Systems presented the Group's information systems security policy.
- Impact of new IFRS accounting standards. The Executive Vice President, Accounting presented the three new standards (IFRS 9, IFRS 15 and IFRS 16) and commented on the work needed for their application by the Group.
- The Statutory Auditors' new audit report and report to the Audit Committee. The Statutory Auditors presented the impact of the European audit reform on their reports.
- Procurement risk management. The Executive Vice President, Materials Product Line, presented to the Committee the Group's policy for managing procurement risk (interruption of external supplies, internal production stoppages).
- IT infrastructure organization and choices. The Executive Vice President, Group Information Systems and the Senior Vice President, Data Center and Application Platform presented the Group's IT infrastructure choices to the Committee.
- Organization of the subsidiaries' control structures. The Executive Vice President, Tax and Excise Duties presented to the Committee the proposals to change these structures.
- Guarantees of the Michelin customer promise. The Executive Vice President, Quality, Audit and Risk Management presented the changes made to the Quality function with the aim of improving customer satisfaction levels.
- The OPE Business Process Management System Program. The Executive Vice President responsible for this program updated the Committee on the program's status.
- Internal control. The Senior Vice President, Internal Control and the Deputy Chief Financial Officer reported to the Committee on the performance of the internal control system in 2016 and on changes to the system made during the year.

The Chairman of the Audit Committee reported to the Supervisory Board on the Committee's work on February 9, April 21, July 24, and December 1, 2017.

4.3.2 k) Compensation and Appointments Committee

/ Members

The Compensation and Appointments Committee has at least three members, appointed for their full term as Supervisory Board members. The Chairman and a majority of the members must be qualified as independent.

The current members of the Compensation and Appointments Committee are:

- Barbara Dalibard, an independent member of the Supervisory Board since her election, Chair of the Committee since October 2015 and Senior Independent Member of the Supervisory Board since May 2017. Barbara Dalibard was born in 1958 and is a French national. She is currently Chief Executive Officer of SITA. Her previous positions included Chief Executive Officer of SNCF Voyageurs, member of the France Telecom group Management Committee in charge of enterprise communication solutions, and various management positions within France Telecom and the Alcatel group.
- Pat Cox, a non-executive non-independent member of the Supervisory Board, who was born in 1952 and is an Irish national. He is a former member of the Irish Parliament and of the European Parliament. He served as President of the European Parliament from January 2002 to June 2004. He is President of *Fondation Jean Monnet pour l'Europe,* European Coordinator for the Scandinavian-Mediterranean Corridor transportation infrastructure project, Chairman of the KPMG Ireland Public Interest Committee and Chairman of the Board of *Alliance Française* Dublin.
- Anne-Sophie de La Bigne, independent member of the Supervisory Board and member of the Audit Committee. Anne-Sophie de La Bigne was born in 1960 and is a French national. Since 2008, she has been Vice President in charge of Civil Affairs in the Public Affairs Division, France, at Airbus group[1].

  Anne-Sophie de La Bigne began her career in 1983 as a financial controller with the Matra group before joining the Strategy & Business Development Department of the Lagardère group, where she worked from 1985 to 1999.

  She subsequently became Head of the Strategic Analysis Department at Aerospatiale Matra/EADS, a position she held until 2001.

  Between 2001 and 2006, she served as Vice President, Strategy and European Affairs, at Groupement des Industries Françaises Aéronautiques et Spatiales (GIFAS) and, from 2006 to 2007, she was responsible for international corporate relations in the EADS' Public Affairs Division.
- Michel Rollier, a non-executive non-independent member. Michel Rollier was born in 1944 and is a French national. He is Chairman of the AFEP/MEDEF High Committee on Corporate Governance. He began his career at Aussedat-Rey (part of the International Paper group) in 1971, initially occupying the post of Financial Controller before going on to head up a business unit. He then held the position of Chief Financial Officer between 1987 and 1994 and subsequently Deputy Chief Executive Officer from 1994 to 1996. He joined Michelin in 1996 as Vice President, Financial & Legal Affairs and then served as Chief Financial Officer and a member of the Executive Council from 1999 to 2005. He was elected General Managing Partner by Michelin's shareholders on May 20, 2005, serving alongside Édouard Michelin until Mr. Michelin's tragic death in 2006. Mr. Rollier stepped down as General Managing Partner in May 2012.

The Company chose to recommend that employees should be represented on the Supervisory Board and an employee of a Group company was elected to the Supervisory Board at the 2014 Annual Shareholders Meeting. However, the Compensation and Appointments Committee does not include any member representing employees. In view of the limited number of Committee members and their current situation in relation to the AFEP/MEDEF Code's independence rules, the inclusion on the Committee of the Supervisory Board member representing employees would have the effect of reducing the proportion of independent members to just half of the members, versus the majority required by the AFEP/MEDEF Code.

(1) Listed company.

This exception to the full application of the AFEP/MEDEF Code's recommendations is mentioned in the table in section 4.3.2 i) prepared in accordance with the "comply or explain" rule.

The main provisions of the Compensation and Appointments Committee's internal rules are outlined below.

/ Role and responsibilities

The Committee's role encompasses:

- Senior management compensation policy, including the criteria used to determine:
  - Fixed and variable compensation paid to members of the Executive Committee.
  - Variable compensation paid to other senior executives.
- The stock option and performance share allocation policy.
- Senior management appointments policy; senior management career and succession plans.
- The policy concerning the appointment of Managing Partners, including career and succession plans, developed jointly with the Non-Managing General Partner (SAGES).

Concerning the specific issue of the compensation paid to the Chief Executive Officer (the only Managing Partner), in light of the legal provisions specifically applicable to partnerships limited by shares and the provisions of the Bylaws, the Committee makes proposals to the Supervisory Board about the various components of the Chief Executive Officer's package which currently includes (i) variable profit shares that depend on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of his duties within the subsidiary.

The Committee's proposals help the Supervisory Board to formulate recommendations to the Non-Managing General Partner about the different components of the profit share payable to the Chief Executive Officer.

The Committee also reviews all amounts and benefits awarded or to be awarded to the Chief Executive Officer for the previous year by Group companies.

As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Chief Executive Officer are proportionate and consistent in terms of (i) the Group's performance and (ii) industry and market practice.

The Committee also ensures that the components of the Chief Executive Officer's compensation are balanced, by (i) assessing the components of his variable compensation (profit-share allocation) calculated over one year and several years, and (ii) ensuring that his profit shares never exceed a reasonable percentage of his fixed compensation.

In assessing the level of his variable compensation, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) the fact that General Partners are in an unusual situation to the extent that they have unlimited joint and personal liability for the Company's debts.

In addition to working on this review process and issuing the corresponding recommendations for the Board, the Committee prepares and submits to the Board and the Non-Managing General Partner its conclusions on the components of the compensation due or paid by the Company to the Chief Executive Officer for the previous year, in order to help the Board prepare its report to the Annual Shareholders Meeting for the advisory vote on the Chief Executive Officer's compensation.

/ Committee practices

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

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

The Compensation and Appointments Committee may invite the Executive Vice President, Personnel or any internal or external expert to attend its meetings, depending on the agenda items.

Meetings of the Committee are attended by the Chief Executive Officer, except when his compensation or succession plan, or the succession plans of the Supervisory Board members, are being discussed, in accordance with AFEP/MEDEF Code recommendation 17.1.[1]

/ Activities

The Compensation and Appointments Committee met three times in 2017 – on January 26, April 21 and October 30 – with a 100% attendance rate.

The Committee's work mainly consisted in reviewing the following issues:

Chief Executive Officer's compensation

In early 2017, the Committee analyzed and submitted to the Board its conclusions about the achievement rates for the performance conditions used to determine the variable compensation due or awarded by the Company to the Chief Executive Officer for 2016, so that the Board could submit its own conclusions to the Non-Managing General Partner (SAGES) for approval.

This compensation was presented at the Annual Shareholders Meeting of May 19, 2017 and was approved by a majority of 96.32% of the votes cast (6th resolution).

The Compensation and Appointments Committee also proposed the components of the Chief Executive Officer's 2017 variable compensation for approval by the Non-Managing General Partner.

In early 2018, the Committee analyzed the various components of the Chief Executive Officer's compensation and noted the achievement rates for the applicable performance criteria.

With the agreement of the Non-Managing General Partner, the Supervisory Board prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 18, 2018 ("say-on-pay" advisory vote on the compensation due or awarded to the Chief Executive Officer (sole executive director) for 2017, 6th resolution).[2]

On the recommendation of the Committee, the Supervisory Board, with the agreement of the General Partners, also confirmed the compensation policy applicable to the Chief Executive Officer, including the adjustments needed to take account of the implementation of the Chief Executive Officer succession plan.[3]

(1) This rule also results from the legal ban on a General Partner becoming involved in appointing the members of the Supervisory Board of a partnership limited by shares (see Article L. 226-4, paragraph 3 of the French Commercial Code, the Company's Bylaws and the Supervisory Board's internal rules, as well as the detailed explanations provided in section 10.2 of the 2016 Registration Document concerning the resolutions presented at the Annual Shareholders Meeting of May 19, 2017).

(2) See detailed description in sections 4.4.4 and 10.2.3 of this Registration Document.

(3) See detailed description in section 4.4.1 a) of this Registration Document.

Compensation of the Chairman of the Supervisory Board

The Supervisory Board examined the compensation awarded to its Chairman and prepared and recommended the components of his compensation to be submitted to the Annual Shareholders Meeting of May 19, 2017. The "say-on-pay" advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board for 2016 (7th resolution) was approved by a majority of 99.49% of the votes cast.

The Supervisory Board examined the compensation awarded to its Chairman and prepared and recommended the components to be submitted to the Annual Shareholders Meeting of May 18, 2018 for the 2017 financial year (7th resolution).[1]

Supervisory Board members' independence and any conflicts of interest

The Committee performed its annual review of the Supervisory Board members' independence, by examining in particular whether there were any business relationships between the members and Michelin that could be qualified as material.[2]

Chief Executive Officer succession plan

The Compensation and Appointments Committee of the Supervisory Board periodically reviews the succession plans and career plans of the Group's executive management team, Managing Partners and current or potential future members of the Executive Committee, in order to ensure a smooth succession to these positions when the time comes or to deal with any crisis situation. The review is also designed to enable the Committee to express an opinion on the proposed candidate to succeed the Managing Partner to be submitted for approval at the Annual Shareholders Meeting.

To the above ends, for several years now the Compensation and Appointments Committee, led by its Chair who is also the Senior Independent Supervisory Board Member, has analyzed the performance appraisals of key executives prepared by management with the assistance of an independent firm of consultants. The Committee has held very instructive discussions with these consultants that have enabled it to appreciate the quality of their work.

The main features of the succession and career plans are as follows:

- Measures to give potential candidates considerable exposure, in order to better assess their abilities, particularly in areas outside their current positions and in relation to the business's global scope.
- Systems to track their progress in acquiring the skills needed for their potential future position.
- Assessments of their progress in tackling the types of real life situations that they would be faced with in their potential future position.

The Supervisory Board regularly reviewed the implementation of these features during its meetings. The reviews were led by the Chair of the Compensation and Appointments Committee and conducted in agreement with the Non-Managing General Partner (SAGES), with input from the Chief Executive Officer where useful.

The Committee's procedures and recommendations are presented in the Supervisory Board's report on the resolutions to be submitted to the 2018 Annual Shareholders Meeting (see section 10.2.2 of this Registration Document).

Recommendations concerning the re-election/election of Supervisory Board members at the Annual Shareholders Meetings of May 19, 2017 and May 18, 2018

At the Supervisory Board's request, the Committee reviewed the proposed re-election/election of Supervisory Board members.

The Committee's work and its recommendations to the Supervisory Board are described in detail in section 4.3.2 d) of this report for the re-elections/elections proposed at the Annual Shareholders Meeting of May 19, 2017 and in the Supervisory Board's report on the proposed resolutions (see section 10.2.1 of this Registration Document) for the re-elections/elections to be proposed at the Annual Shareholders Meeting of May 18, 2018.

Variable compensation policy

As in prior years, the Committee reviewed the Company's variable compensation and performance share policies, as well as changes to these policies.

(1) See detailed description in sections 4.4.1 b) and 10.2.4 of this Registration Document.
(2) See detailed description in section 4.3.2 g) of this report.

4.4 MANAGEMENT AND SUPERVISORY BOARD COMPENSATION

4.4.1 COMPENSATION POLICIES APPLICABLE TO THE CHIEF EXECUTIVE OFFICER AND THE CHAIRMAN OF THE SUPERVISORY BOARD

4.4.1 a) Compensation policy: Chief Executive Officer

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2018:

- To explain the principles and criteria for determining, allocating and awarding the components of the compensation and benefits of the Chief Executive Officer and of any General Managing Partner or Managing Partner who may be elected in 2018.[1]
- To give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Chief Executive Officer, in line with the AFEP/MEDEF Code recommendation[2] which provides for a mandatory shareholder vote (see the information and resolution presented in section 10.1.1 of this Registration Document and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting).

/ 2018, a transition year

The election of Florent Menegaux as General Managing Partner and Yves Chapot as Managing Partner is proposed in preparation for the management transition announced by the Company on February 9, 2018. To ensure that the succession goes as smoothly as possible, Jean-Dominique Senard would stay on as Chief Executive Officer until the end of his term, which expires at the close of the Annual Shareholders Meeting to be called to approve the 2018 financial statements.

If Florent Menegaux and Yves Chapot are duly elected by shareholders, the compensation policy will apply temporarily to three Managing Partners and then, following Jean-Dominique Senard's retirement, to two Managing Partners.

/ Principles inherent in the position of General Partner

In their capacity as General Partners of CGEM, the General Managing Partner(s) has/(have) unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners[3] each receive a portion of the Company's profits (the "Profit Share") as provided for in the Bylaws[4]. This means that their interests are fully aligned with those of the shareholders, as they are paid a Profit Share only if the Company makes a profit. In addition, the amount is capped at 0.6% of consolidated net profit for the year.

A Managing Partner who is not a General Partner is not personally liable for the Company's debts. However, the Company's Bylaws stipulate that his compensation should include a variable portion determined based on criteria related to the Company's performance.

/ Principles for determining the Managing Partners' compensation

In application of the Company's Bylaws, the Supervisory Board's internal rules and the internal rules of the Compensation and Appointments Committee, the Supervisory Board's approval is required for decisions concerning the determination of a Managing Partner's compensation.

In light of the specific legal provisions applicable to partnerships limited by shares and the provisions of the Bylaws, the Committee makes proposals to the Supervisory Board about the various components of the General Managing Partners' package which currently includes (i) variable Profit Shares that depend on one or several performance criteria and (ii) fixed compensation paid by a subsidiary in respect of the Managing Partner's duties within the subsidiary. The Committee's proposals help the Supervisory Board to formulate recommendations to the Non-Managing General Partner about the different components of the Profit Shares payable to the General Managing Partners.

The compensation package of the Managing Partner who is not a General Partner would be determined by unanimous decision of the Non-Managing General Partner and the General Managing Partner, based on the recommendation of the Compensation and Appointments Committee.

The Committee also reviews all amounts and benefits awarded or to be awarded to the Managing Partners for the previous year by Group companies. As part of the review, the Committee particularly verifies that the amounts paid or awarded to the Managing Partners are proportionate and consistent in terms of (i) the Group's performance and (ii) industry and market practice.

(1) This concerns the proposal to elect Florent Menegaux as General Managing Partner and Yves Chapot as Managing Partner that will be submitted to shareholders for approval at the Annual Meeting on May 18, 2018 (resolutions 12 and 13).

(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

(3) At December 31, 2017, the Company had two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see presentation in sections 2.15.3 and 2.15.4 c). On May 18, 2018, if shareholders approve the resolutions presented at the Annual Shareholders Meeting, a third General Partner – Florent Menegaux – will be appointed as Managing Partner.

(4) See Article 30 of the Bylaws, reproduced in section 4.6.5 below.

In addition to working on this review process and issuing the corresponding recommendations for the Board, the Committee prepares and submits to the Board and the Non-Managing General Partner its conclusions on the components of the compensation due or paid by the Company to the Managing Partners for the previous year, in order to help the Board prepare its report to the Annual Shareholders Meeting for the advisory vote on the Managing Partners' compensation.

Since 2014, shareholders have been asked to issue an advisory vote on the compensation due or awarded to the Chief Executive Officer for the previous year. Positive advisory votes were issued with a majority of 94.74% in 2014, 95.72% in 2015, 97.39% in 2016 and 96.32% in 2017.

4.4.1.a) 1. Fixed compensation

Since 2014, the Supervisory Board's policy has been to maintain the Chief Executive Officer's fixed compensation at a stable level that is consistent with the fixed compensation paid to the top executives of other CAC 40 companies and in harmony with the other components of his compensation.

In 2018, the Chief Executive Officer's fixed compensation amounts to €1,100,000[1].

If one or several Managing Partners are elected, their compensation will be significantly lower than that of the Chief Executive Officer and will be prorated to the period served as Managing Partner during 2018.

4.4.1.a) 2. Annual and long-term variable compensation

Shared principles

To engage senior executives more deeply in the Company's performance and encourage them to act with long-term interests in mind, the Managing Partner(s)' bonus includes one annual variable component and one long-term variable component.

Taking into account the specific legal provisions applicable to partnerships limited by shares and the provisions of the Bylaws, as described below, the Compensation and Appointments Committee makes proposals to the Supervisory Board about the various components of the variable compensation that depend on one or several performance criteria and are paid to the Managing Partner(s) by the Company or by any subsidiary of which they are an executive officer.

The Committee's proposals are discussed by the Supervisory Board, which then makes recommendations to the Non-Managing General Partner (SAGES) about the different criteria to be applied to the annual and long-term variable compensation payable to the Managing Partner(s).

The Committee also ensures that the components of the Managing Partner(s)' compensation are balanced, by (i) assessing the components of their variable compensation calculated over one year and several years, and (ii) ensuring that their variable compensation never exceeds a reasonable percentage of their fixed compensation.

The compensation of the Managing Partner(s) takes into account the difference in status between a Managing General Partner and a Managing Partner who is not a General Partner.

Managing General Partner(s)

In accordance with Article 30, paragraph 3, of CGEM's Bylaws[2], the Profit Shares allocated to the General Partners of CGEM out of profit for the year are based on reported net income.

The Profit Shares are:

- Set at 12% of the Company's net income for the year, net of dividend income corresponding to distributions of profits or reserves by MFPM and Compagnie Financière Michelin SCmA (CFM);
- Capped at 0.6% of the Group's consolidated net income.

In assessing the level of the Profit Shares, the Committee considers (i) the inherent variability of the Company's profits, (ii) projected future profits and (iii) the fact that General Partners are in an unusual situation to the extent that they have unlimited joint and personal liability for the Company's debts.

Since 2014, variable compensation is comprised of three parts: two annual variable components and one long-term variable component.

This structure means that the General Managing Partners' variable compensation fluctuates partly in line with net income for the year and partly on the basis of several additional performance conditions related to factors that are essential for the deployment of Michelin's strategy.

Non-General Managing Partner

If a Managing Partner who is not a General Partner is elected, he will be awarded annual and long-term variable compensation that is determined by reference to several performance criteria.

4.4.1.a) 2.1 Annual variable compensation

Shared features

The annual variable components of the Managing Partners' compensation depend above all on the level of net income for the year and, in the case of the General Managing Partner, are paid out of the Profit Shares allocated to the General Partners on a mutually agreed basis.

Since 2015, as decided by the General Partners on the recommendation of the Supervisory Board, the basis used to calculate the Annual Variable Components of the Chief Executive Officer's compensation (the Consolidated Calculation Base) has been set at 0.6% of the Group's consolidated net income.

If one or several Managing Partners are elected, their annual variable compensation will be prorated to the period served as Managing Partner during 2018.

Single-criterion annual variable component

This component is determined based on an initial performance criterion – net income for the year – and in the case of the Chief Executive Officer is equal to 8% of the Consolidated Calculation Base.

If a new General Managing Partner is elected, his portion of the Consolidated Calculation Base corresponding to this component will be significantly less than that applicable for the Chief Executive Officer and will be prorated to the period served as General Managing Partner during 2018.

There are no plans to award any such component to any Managing Partner who is not a General Partner.

(1) This compensation is payable to Jean-Dominique Senard by Manufacture Française des Pneumatiques Michelin (MFPM) for his role as the Company's Non-General Managing Partner.
(2) See section 4.6.5 of this Corporate Governance Report for details.

Multi-criteria annual variable compensation

This component is determined based on the criterion of net income for the year and various other annual performance criteria, such as business growth, the level of overheads and growth in free cash flow.

It currently corresponds to between 0% and 14% of the Consolidated Calculation Base in the case of the Chief Executive Officer.

The performance criteria set by the Supervisory Board include:

- Quantitative criteria – the same as those applied to determine the annual variable compensation of the Executive Committee members and Group managers – which together account for up to 100/100.

  For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of the performance targets set for these quantitative criteria.
- Qualitative criteria, together accounting for up to 50/50.

In addition:

- A specific trigger point is applied to each criterion, together with a second general trigger point corresponding to a cumulative achievement rate of at least 50/150 across all criteria.
- The maximum 14% of the Consolidated Calculation Base for this component is awarded only if the cumulative achievement rate for all the criteria is 150/150.

If a new General Managing Partner is elected, his portion of the Consolidated Calculation Base for this component will be significantly less than that applicable for the Chief Executive Officer and will be prorated to the period served as General Managing Partner during 2018.

If a Managing Partner is elected who is not a General Partner, similar principles will apply to his variable annual compensation. However, said compensation (i) will be sensibly less than that awarded to the current Chief Executive Officer and the new General Managing Partner, (ii) will not be deducted from a Profit Share, and (iii) will be prorated to the period served as Managing Partner during 2018.

4.4.1.a) 2.2 Cash-settled deferred variable component: long-term incentive bonus

This long-term incentive bonus awarded each year to a General Managing Partner is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares.

In the case of the Chief Executive Officer and, if applicable, the General Managing Partner, the base amount of the incentive bonus is €1,800,000, it being specified that if a General Managing Partner is elected, his long-term incentive bonus will be significantly lower than that of the Chief Executive Officer and will be prorated to the period served as General Managing Partner.

The base amount is increased or reduced to reflect the percentage gain or loss in Michelin's share price over the three years following the award date.

The amount obtained by applying the adjustment clause is modulated by the application of additional performance criteria set by the Supervisory Board and applicable over the same three-year period.

In response to shareholder expectations and the changing tire market environment, the Supervisory Board's policy since 2016 for the Chief Executive Officer has consisted of aligning these criteria with the vesting criteria for employee performance share plans, which concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020 (see section 1.1 of this Registration Document).

The first criterion, which accounts for 35% of the Chief Executive Officer's bonus, concerns growth in the Michelin share price compared with that of the CAC 40 index over a trailing three-year period.

It falls under the third objective ("Secure robust financial performance") of the Ambitions for 2020.

The CAC 40 index has been chosen due to the breakdown of the Group's operations into the various product families (truck tires, passenger car and light truck tires, specialty tires). These operations expose the Group to changes in consumer goods markets (around 40% of the Group's business), economic growth and industrial markets (around 30%), and raw materials prices (around 15%). In this regard, automotive stocks alone (around 15% of the Group's business) – and especially automotive equipment stocks – would be a less appropriate benchmark for measuring Michelin's performance.

The second criterion, accounting for 30% of the Chief Executive Officer's bonus, concerns Michelin's CSR performance as reflected in two indicators: the main impact of the Group's industrial operations (for 15%) and the degree of employee engagement (for 15%) over a trailing three-year period.

It is part of the second objective ("Demonstrate our commitment to the well-being and development of our employees") and the fifth objective ("Set the industry standard for responsible manufacturing") of the Ambitions for 2020.

Employee engagement is an important driver of operational excellence and the Group's ability to meet its performance objectives. Michelin has set the particularly ambitious objective of becoming a world-class leader in this area by reaching and maintaining an 85% employee engagement rate by 2020. Since 2013, the annual "Moving Forward Together: Your Voice for Action" survey has measured the engagement rate and employee opinions about their work.

The action taken, gains made to date and the detailed employee engagement calculation method are presented in section 6.2.5 c) of this Registration Document.

Since 2005, Michelin has measured and published its industrial operations' energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled, using the Michelin site Environmental Footprint (MEF) indicator. The goal for 2020 is to reduce the MEF by 50% compared with 2005.

The action taken, gains made to date and the detailed MEF calculation method are presented in section 6 (pages 205-208 and 214) of this Registration Document.

The third criterion, accounting for 35% of the Chief Executive Officer's bonus, concerns growth in consolidated operating income[1] over a trailing three-year period.

It falls under the third objective ("Secure robust financial performance") of the Ambitions for 2020.

The choice of this criterion is part of the Group's value creation strategy aiming to guarantee a robust and sustainable financial position, the independence of the Group and the achievement of its growth ambitions.

Details of these criteria were published in the 2015 Registration Document (pages 299 to 301). This information is also provided in section 4.4.3 c), pages 134-135 of this Registration Document, together with the related intermediate achievement rates.

The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full.

The final amount receivable under the long-term incentive plan will be:

- Capped at 150% of the average of the annual variable compensation paid to the Chief Executive Officer for the reference three-year period.
- Deducted from his Profit Share for the last year of the reference three-year period to be paid after the financial statements for that year have been approved:
  - subject to the availability of Profit Shares payable out of net income for that year; and
  - up to the amount of said available Profit Shares after deducting the annual variable compensation due for that year.

If the Chief Executive Officer were to cease to be a General Partner (for reasons other than death or disability) before his term expires and before the end of the performance assessment period, notably due to his resignation or removal from office, he would forfeit his rights to the long-term incentive bonus.

For long-term incentive bonuses awarded in 2017 and subsequent years, the Supervisory Board and the Non-Managing General Partner have decided that if the Chief Executive Officer ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, before the end of the reference three-year period for determining the achievement rate for the performance criteria, the three-year period will continue to run, including beyond the end of his term (until end-2019 and end-2020).

In this case, the incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual time served as Chief Executive Officer during the period.

If a Managing Partner is elected who is not a General Partner, he will be awarded a long-term incentive bonus determined according to similar principles, it being specified that the amount of the bonus (i) will be significantly less than that of the Chief Executive Officer and the new General Managing Partner, (ii) will not be deducted from any Profit Share, and (iii) will be prorated to the period the new General Managing Partner actually serves.

In the case of the Managing Partner, this long-term incentive bonus may be awarded through performance shares, with said award determined by principles and criteria similar to those described in this section.

4.4.1.a) 3. Fringe benefits and attendance fees

The Chief Executive Officer receives a fringe benefit in the form of a Company car.

He does not receive any attendance fees from the Company or any Group subsidiaries.

If one or several Managing Partners are elected, they will not receive any attendance fees from the Company or any Group subsidiaries. In addition to being covered by the same health and death/disability insurance plans as MFPM employees, they will receive a similar fringe benefit.

4.4.1.a) 4. Stock options and performance shares

No stock options or performance shares have been granted to the Chief Executive Officer by the Company or any Group subsidiaries.

If a Managing Partner is elected who is not a General Partner, he may be granted performance shares as an alternative to the long-term incentive bonus described in section 4.4.1 a) 2.2. If he ceases to hold office before his term expires and before the end of the performance assessment period (for reasons other than death or disability), notably due to his resignation or removal from office, he will definitively forfeit the instruments initially awarded to him. If he ceases to hold office on the date his term expires or, due to disability or death, before the end of the reference three-year period for determining the achievement rate for the performance criteria, he will maintain the instruments initially awarded to him for an amount prorated to the time served in office during the plan period, it being specified that the reference three-year period will continue to run, including beyond the end of his term.

4.4.1.a) 5. Pension benefits[2]

The Managing Partners are not covered by any supplementary pension plan set up specifically for executive officers.

In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan).

This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features:

- Participants must have served for at least five years as a senior executive.
- 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement).
- The replacement rate including benefit entitlements under compulsory plans is capped at 35%.
- An evaluation is carried out in accordance with Group accounting policies.

(1) Consolidated operating income, before non-recurring income and expenses (on a like-for-like basis and excluding changes in exchange rates).

(2) The information in this section and in section 4.4.3 e) of this Registration Document complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016.

- Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code.
- 70% of the prior year's benefit obligation funded through a contribution to an insured plan.

Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM.

If one or several Managing Partners are elected and they do not participate in the Michelin Executive Supplementary Pension Plan, they may be given the opportunity to build up a pension fund by receiving an initial seed capital award, in cash or shares, and annual payments.

4.4.1.a) 6. Compensation for loss of office

In accordance with Article 13-2 of the Bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if the Chief Executive Officer were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of his total compensation for the two years preceding the year of his removal from office.

By decision of the Supervisory Board, it would be based on the performance criteria used to determine his annual variable compensation and would be calculated using the following formula:

[Total compensation paid over the two years preceding the loss of office] x [the average (in %) of the "contingent annual variable payment" of the Profit Shares for the three years preceding the loss of office].

The compensation for loss of office would be reduced, if applicable, so that any other severance payments due to the Chief Executive Officer would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code.

If one or several Managing Partners are elected, they will be entitled to similar compensation for loss of office. In the case of a Managing Partner who is not a General Partner, this compensation would not be deducted from any Profit Share.

4.4.1.a) 7. Non-compete clause

In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, the Chief Executive Officer is subject to a non-compete clause.

Mr. Senard's current non-compete clause was signed on July 26, 2011, with the prior approval of the Supervisory Board. It replaces the non-compete clause in his employment contract which is no longer in force.

If the Company were to decide to apply this non-compete clause over a period of up to two years, it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies. The compensation would be deducted from his Profit Share.

The Company is, however, entitled to waive the application of this clause.

If Mr. Senard were to be awarded compensation for loss of office as provided for above (see "Compensation for loss of office"), the non-compete indemnity would be reduced or withheld entirely, if necessary, so that his aggregate severance package, including the non-compete indemnity referred to above, would not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code.

If one or several Managing Partners are elected, they would be entitled to a similar non-compete indemnity. In the case of a Managing Partner who is not a General Partner, this indemnity would not be deducted from any Profit Share.

4.4.1.a) 8. Exceptional compensation

No provision has been made for the payment of any exceptional compensation to the Managing Partners. In the case of a General Managing Partner, any such compensation would in any event be deducted from his Profit Share.

4.4.1 b) Compensation policy: Chairman of the Supervisory Board

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board has decided for 2018:

- To explain the principles and criteria for determining, allocating and awarding the components of the compensation of the Chairman of the Supervisory Board.
- To give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Chairman of the Supervisory Board, in line with the AFEP/MEDEF Code recommendation[1] which provides for a mandatory shareholder vote (see the information and resolution presented in section 10.1.1 of this Registration Document and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting).

4.4.1.b) 1. Attendance fees

Since the resolution of the Annual Shareholders Meeting of May 13, 2016, adopted by a 99.54% majority vote, the total annual attendance fees awarded to the members of the Supervisory Board have been set at €555,000.

Of the total amount, the Supervisory Board decided to allocate attendance fees of €90,000 to Michel Rollier as from 2016, representing compensation for his responsibilities and tasks as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee.

(1) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

In the same way as for the other Supervisory Board members and as in prior years, most of the fee (60%) is contingent on Michel Rollier's attendance rate at meetings of the Supervisory Board and the Compensation and Appointments Committee, as provided for in the Board's internal rules.

The amounts paid to Mr. Rollier in the last two years and his meeting attendance rate are presented, respectively, in sections 4.4.2 c) and 4.4.6 of this Registration Document.

4.4.1.b) 2. Other components of compensation

As Mr. Rollier does not hold any other positions within the Company or the Michelin Group, he does not receive any other compensation from the Company or its subsidiaries.

4.4.2 SUMMARY INFORMATION CONCERNING THE CHIEF EXECUTIVE OFFICER AND THE CHAIRMAN OF THE SUPERVISORY BOARD

The data and tables in this section:

- Present the compensation of Jean-Dominique Senard, Chief Executive Officer and sole executive director *(dirigeant mandataire social exécutif),* Michel Rollier, Chairman of the Supervisory Board and sole non-executive non-independent director *(dirigeant mandataire social non exécutif),* and the Supervisory Board members who are qualified as non-executive directors *(mandataires sociaux non exécutifs).*
- Have been prepared in accordance with the AFEP/MEDEF Code (November 2016) and related implementation guidelines (December 2016).
- Comply with AMF recommendation 2012-02 (as updated on November 22, 2017) on "corporate governance and executive compensation in companies that refer to the AFEP/MEDEF Code – Consolidated presentation of the recommendations contained in the AMF's annual reports", as well as with AMF recommendation 2009-16 (as updated on April 13, 2015), which serves as a guide to preparing registration documents.

The Supervisory Board and the General Partners have decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation paid and awarded to the Chief Executive Officer and the Chairman of the Supervisory Board[(1)], in line with the AFEP/MEDEF Code recommendation[(2)] which provides for a mandatory shareholder vote.

The information required by shareholders for the purpose of their advisory vote on the components of the 2017 compensation of the Chief Executive Officer and the Chairman of the Supervisory Board is presented in this Corporate Governance Report, including sections 4.4.4 and 4.4.6 of this Registration Document.

4.4.2 a) Compensation, stock options and performance shares awarded to the Chief Executive Officer and the Chairman of the Supervisory Board (in €) (based on Table 1 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2017	2016
Compensation due for the year	3,799,658	3,303,789
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
Value of other long-term compensation plans	0[(1)]	0
TOTAL	**3,799,658**	**3,303,789**
Reference CGEM consolidated net income	*1,692,941,994*	*1,667,252,073*

(1) A previously unreported long-term incentive bonus was awarded in 2017. See page 135 of the 2017 Registration Document for details.

Michel Rollier, Chairman of the Supervisory Board	2017	2016
Compensation due for the year	90,000	90,000
Value of stock options granted during the year	0	0
Value of performance shares granted during the year	0	0
Value of other long-term compensation plans	0	0
TOTAL	**90,000**	**90,000**

(1) In connection with the compensation policy described in section 4.4.1 and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting.
(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

4.4.2 b) Compensation due and paid to the General Managing Partner (in €) (based on Table 2 in the AFEP/MEDEF Code)

Jean-Dominique Senard, Chief Executive Officer and General Partner with unlimited personal liability for the Company's debts	2017		2016	
	Due	Paid[1]	Due	Paid
Fixed compensation[2]	1,100,000	1,100,000	1,100,000	1,100,000
Annual variable compensation	1,696,328[3]	1,700,597[4]	1,700,597[4]	1,276,975[5]
Long-term variable compensation	994,860	495,116	495,116	0
Exceptional compensation	0	0	0	0
Attendance fees	0	0	0	0
Fringe benefit (car)	8,470	8,076	8,076	6,894
TOTAL	**3,799,658**	**3,303,789**	**3,303,789**	**2,383,869**
Reference CGEM consolidated net income	*1,692,941,994*	*1,667,252,073*	*1,163,401,238*	*1,031,090,189*

(1) This table does not include amounts paid that are due solely for prior years (see section 4.4.3 c) page 133 of this Registration Document).
(2) Compensation paid by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, in consideration of his role as Non-General Managing Partner of the Company.
(3) Amount before withholding tax estimated based on applying the performance criteria. It is proportional to CGEM's 2017 consolidated earnings and is proposed with the endorsement of the Supervisory Board and the agreement of SAGES, Non-Managing General Partner. It is subject to approval of the Profit Shares by CGEM shareholders at the next Annual Meeting on May 18, 2018 (see section 4.4.3 b). It includes the estimated €50,000 statutory share of the 2017 profit of Compagnie Financière Michelin SCmA (CFM) (Profit Share) that is payable by that company subject to approval by its shareholders at the 2018 Annual Meeting. This Profit Share is entirely variable to the extent that it depends on CFM's profit for the year.
(4) Including €50,000 received from CFM, a controlled entity. These Profit Shares are entirely variable as they are contingent on the profit generated by each of the two companies (CFM and CGEM) in 2016.
(5) Entirely variable Profit Shares contingent on profit generated in 2015. Paid by CGEM and CFM in 2015 following approval of the related resolutions at their 2016 Annual Shareholders Meetings.

4.4.2 c) Compensation due and paid to the Chairman of the Supervisory Board (in €) (based on Table 2 in the AFEP/MEDEF Code)

Michel Rollier, Chairman of the Supervisory Board	2017		2016	
	Due	Paid	Due	Paid
Fixed compensation	0	0	0	0
Annual variable compensation	0	0	0	0
Exceptional compensation	0	0	0	0
Attendance fees	90,000	90,000	90,000[1]	68,000
Fringe benefit	0	0	0	0
TOTAL	**90,000**	**90,000**	**90,000**	**68,000**

(1) New amount decided by the Supervisory Board, based on the total annual attendance fees approved by the Annual Meeting of May 13, 2016 (see section 10.2.3 of the 2015 Registration Document, page 306).

4.4.2 d) Attendance fees and other compensation received by the Supervisory Board members other than the Chairman (based on Table 3 in the AFEP/MEDEF Code)

See the table in section 4.4.7 below.

4.4.2 e) Stock options granted during the year to the Chief Executive Officer and the Chairman of the Supervisory Board by the issuer and any other Group company (based on Table 4 in the AFEP/MEDEF Code)[1]

No stock options were granted by the Company in 2017 to the Chief Executive Officer or the Chairman of the Supervisory Board.

No stock options have been granted to either the Chief Executive Officer or the Chairman of the Supervisory Board since 2005.

	Plan no. and date	Type of options (purchase or subscription)	Value of the options calculated by the method used for the consolidated financial statements	Number of options granted during the year	Exercise price	Exercise period
Jean-Dominique Senard	-	-	0	0	-	-
Michel Rollier	-	-	0	0	-	-

4.4.2 f) Stock options exercised during the year by the Chief Executive Officer and the Chairman of the Supervisory Board (based on Table 5 in the AFEP/MEDEF Code)[1]

	Plan No. and date	Number of options exercised during the year	Exercise price
Jean-Dominique Senard	-	0	-
Michel Rollier	-	0	-

4.4.2 g) Performance shares granted during the year to the Chief Executive Officer and the Chairman of the Supervisory Board by the issuer and any other Group company (based on Table 6 in the AFEP/MEDEF Code)[2]

Of the 120,520 performance share rights granted on November 25, 2016 pursuant to the authorization given at the May 13, 2016 Annual Shareholders Meeting, none were granted to the Chief Executive Officer or the Chairman of the Supervisory Board.

	Plan no. and date	Number of performance share rights granted during the year	Value of the performance shares calculated by the method used for the consolidated financial statements	Vesting date	End of lock-up period	Performance conditions
Jean-Dominique Senard	-	0	0	-	-	-
Michel Rollier	-	0	0	-	-	-

4.4.2 h) Performance shares granted to the Chief Executive Officer and the Chairman of the Supervisory Board for which the lock-up period ended during the year (based on Table 7 in the AFEP/MEDEF Code)[2]

	Plan no. and date	Number of performance shares for which the lock-up period ended during the year	Vesting conditions
Jean-Dominique Senard	-	0	-
Michel Rollier	-	0	-

(1) Refer also to the Managing Partners' Special Report and to the details of current plans, as presented in the table in section 5.5.3 concerning stock options.
(2) Refer also to the Managing Partners' Special Report and to the details of current plans in section 5.5.4 concerning performance shares.

4.4.2 i) Past awards of stock options – Information about stock options (based on Table 8 in the AFEP/MEDEF Code)

See the table in section 5.5.3 a) below.

4.4.2 j) Past awards of performance shares – Information about performance shares (based on Table 9 in the AFEP/MEDEF Code)

See the table in section 5.5.4 a) below.

4.4.2 k) Long-term variable compensation awarded to the Chief Executive Officer and the Chairman of the Supervisory Board (based on Table 10 in the AFEP/MEDEF Code)

For Jean-Dominique Senard, see the tables in section 4.4.3 c).

For Michel Rollier: not applicable.

4.4.2 l) Employment contracts, supplementary pension benefits and other benefits (based on Table 11 in the AFEP/MEDEF Code)

Executive officer	Employment contract		Supplementary pension benefits		Benefits or advantages due or likely to be due as a result of terminations or changes of office		Non-compete indemnity	
	Yes	No	Yes	No	Yes	No	Yes	No
Jean-Dominique Senard Position: Chief Executive Officer and General Partner Start date of term of office: 2011 Expiration of term of office: 2019[1]		X	X[2]		X[3]		X[4]	
Michel Rollier Position: Chairman of the Supervisory Board Start date of term of office: 2013 Expiration of term of office: 2021		X		X		X		X

(1) See section 2.15.1 a) of this Registration Document.

(2) Defined benefit pension plan set up for senior executives of MFPM (for detailed explanations, see section 4.4.1 a) 5.

(3) Benefit defined in the CGEM Bylaws:
– set by the Non-Managing General Partner with the endorsement of the Supervisory Board;
– only payable in the event of forced departure due to a change of strategy or of control;
– capped at two years' fixed and variable compensation (this cap includes any other benefits payable on termination of office such as a non-compete indemnity);
– subject to performance conditions (see section 4.4.1 a) 6 for details).

(4) Indemnity payable in his capacity as an executive officer of CGEM:
– with the possibility for the Board to waive the implementation of the non-compete clause;
– capped at 16 months' worth of his most recent aggregate compensation;
– deducted, where appropriate, from the cap equal to two years' fixed and variable compensation, applicable to all benefits payable on termination of office, including the compensation for loss of office payable in the event of a forced departure due to a change in the Company's strategy or control (for detailed explanations, see section 4.4.1 a) 7.

4.4.3 AMOUNTS ALLOCATED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER AND GENERAL PARTNER

In his capacity as a General Partner of CGEM, Jean-Dominique Senard has unlimited personal liability for the Company's debts. As consideration for this liability, the General Partners[1] each receive a portion of the Company's profits as provided for in the Bylaws[2]. This means that their interests are fully aligned with those of the shareholders, as they are paid this consideration only if the Company makes a profit.

As in prior years, the Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Jean-Dominique Senard, Chief Executive Officer and sole executive director, pursuant to the compensation policy described in the Corporate Governance Report and in section 4.4.1 above.

4.4.3 a) Fixed compensation

In 2017, Mr. Senard received fixed compensation of €1,100,000 from MFPM for his role as the Company's Non-General Managing Partner, unchanged since 2014.

4.4.3 b) Variable compensation

/ Annual variable compensation

Shared features

Details of the annual variable components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.

They were determined by the Supervisory Board in application of the compensation policy defined in section 10.2.2.1 of the 2016 Registration Document.

The annual variable components of Mr. Senard's compensation are paid out of the Profit Shares allocated to the two General Partners, which amounted to €10,157,651.96 for 2017.[3]

Based on the Group's consolidated net income of €1,692,942 thousand[3], the Compensation and Appointments Committee has noted that the Consolidated Calculation Base of 0.6% of consolidated net income amounts to €10,157,651.96 for 2017.

Given the mutually agreed division of the Profit Share between the General Partners, and the results achieved in 2017 in relation to the performance conditions, as presented below, the total amount payable to Mr. Senard stands at €1,696,328.

Single-Criterion Annual Variable Component

The Compensation and Appointments Committee has noted that the Single-Criterion Annual Variable Component, set at 8% of the Consolidated Calculation Base, amounts to €812,612.16 for 2017[4], *i.e.* 73.9% of the fixed compensation.

Multi-Criteria Annual Variable Component

Quantitative criteria	Annual growth in sales volume	Annual savings from the Efficiency project to reduce overheads	Annual free cash flow
Indicator	Volume *(tonnes)*	Appropriate SG&A/gross margin ratio	Amount
Target (trigger point)[1]	Proportionate to observed increase	Achieved in stages as from a minimum ratio	Achieved in stages as from a minimum amount
Indicator: 2017 Actual	2.6%	56.5%	€1,138 million
Maximum value	50/100	25/100	25/100
Achievement rate		62/100	

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

(1) At December 31, 2017, the Company had two General Partners: Jean-Dominique Senard, Chief Executive Officer, and SAGES, Non-Managing General Partner (see sections 2.15.3 and 2.15.4 c) of this Registration Document).

(2) See Article 30 of the Bylaws, reproduced in section 4.6 below.

(3) See the 2nd and 3rd resolutions to be presented to the Annual Shareholders Meeting of May 18, 2018.

(4) This amount is net of the sum payable by CFM as compensation for Mr. Senard's role as General Managing Partner of this subsidiary, estimated at €50,000.

Qualitative criteria	Executive management succession plan	Deployment of four Group initiatives – Digital Strategy, Customer Service, Simplification of Operating Procedures & Empowerment, Integration & Profitable Growth of Three Recent Acquisitions (Sascar, BookaTable and Levorin)
Maximum value	25/50	25/50
Achievement rate	35/50	

Condition: Triggered when cumulative achievement rate	For the five criteria is at least 50/150: Achieved
Overall achievement rate (quantitative and qualitative criteria)	97/150[1]
Amount awarded according to quantitative and qualitative criteria *(in €)*	883,715.72
As a % of fixed compensation	80.3%

(1) Result rounded up by decision of the Supervisory Board. Jean-Dominique Senard will be awarded the maximum 14% of the Consolidated Calculation Base for this component only if the cumulative achievement rate for the five criteria is 150/150.

The Compensation and Appointments Committee carefully reviewed achievement rates for each of the quantitative and qualitative criteria.

In particular, concerning the two qualitative criteria, the Committee considered that the achievement rate was 35/50, as follows:

- Concerning the executive management succession plan, having observed that Mr. Senard had examined this issue in detail with continuous input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as good.
- Concerning deployment of the Group's four initiatives – Digital Strategy, Customer Service, Simplification of Operating Procedures & Empowerment, Integration & Profitable Growth of Three Recent Acquisitions (Sascar, BookaTable and Levorin) – the indicators defined by the Committee showed that significant progress had been achieved.

In conclusion of its analysis concerning the Multi-Criteria Annual Variable Component, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantitative and qualitative criteria should be rated as 97/150. Based on the Consolidated Calculation Base of €10,157,651.96, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €883,715.72 for 2017.

After discussing the matter during its meeting on February 9, 2018, the Supervisory Board approved the Compensation and Appointments Committee's recommendations.

The Chair of the Compensation and Appointments Committee then submitted its recommendations to the General Partners (SAGES and Mr. Senard), which approved them.

/ Cash-settled deferred variable compensation awarded in 2017 (long-term incentive bonus)

Details of the long-term incentive bonus were presented by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.

The bonus was determined by the Supervisory Board in application of the compensation policy defined in section 10.2.2.1 of the 2016 Registration Document.

The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2017-2019 period).

The amount obtained by applying the adjustment clause will be modulated by the application, over the three years 2017-2019, of criteria set by the Supervisory Board which are also applicable to performance share grants for Group employees. The criteria are: Michelin's comparative stock market performance, the environmental performance of manufacturing operations, employee engagement and change in operating income. These criteria reflect implementation of the Ambitions for 2020 described in section 1.1 of this Registration Document[1].

The amount obtained after applying the performance criteria will be:

- Prorated to reflect the period served as Chief Executive Officer during the three years 2017-2019.
- Capped at 150% of the annual average of the Annual Variable Components paid for the years 2017-2019, as prorated to reflect the period served as Chief Executive Officer during the three years.

As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2017.

Details of the performance criteria and related intermediate achievement rates are presented in Table 1.3 of section 4.4.3 c) (page 135) of this Registration Document.

The long-term incentive bonus is subject to the shareholders' "say-on-pay" advisory vote on 2017 compensation.

It is not reported in CGEM's financial statements because (i) it does not represent a commitment given by CGEM or any other Group company, and (ii) its payment is subject to several conditions that are uncertain of being fulfilled (including the availability of sufficient Profit Shares at the end of the long-term period) and achievement of certain performance criteria.

There is no way of reliably simulating the amount to be paid with respect to this incentive bonus in 2020, as the bonus:

- Is not paid by Michelin but is deducted from the General Partners' Profit Shares, and, as such, is not recorded in the Company's financial statements.
- Is subject to the achievement of highly uncertain conditions and criteria, as indicated above, over a period of three years, of which only one has passed.

If the Chief Executive Officer were to cease to be a General Partner (for reasons other than death or disability) before his term expires and before the end of the performance assessment period, notably due to his resignation or removal from office, he would forfeit his rights to the long-term incentive bonus.

(1) These criteria and the related objectives are presented in the 2015 Registration Document (pages 299-301) and in section 5.5.4 of this Registration Document.

The Supervisory Board and the Non-Managing General Partner have decided that if the Chief Executive Officer ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, before the end of the reference three-year period for determining the achievement rate for the performance criteria, the three-year period will continue to run, including beyond the end of his term (until end-2019).

In this case, the incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual period served as Chief Executive Officer during the period.

As for the incentive bonus awarded in 2016, Mr. Senard will be required to invest in Michelin shares 20% of the actual amounts received at the end of the three-year period for the 2017 incentive bonus and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over three years.

4.4.3 c) Cash-settled long-term incentive bonus

/ 1 – Cash-settled long-term incentive bonuses awarded since 2014[1]

1.1 – Cash-settled long-term incentive bonus awarded in 2015

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2015-2017[1] period	Annual average growth in consolidated net sales (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)	Annual average return on capital employed (ROCE) (based on a comparable consolidation scope, at constant exchange rates and accounting methods, excluding non-recurring items)
Type of criterion	Financial	Business	Financial
Weighting	33.3%	33.3%	33.3%
Objective	Target gradually met from the point at which Michelin's share price performance exceeds that of shares in the 3rd quartile[1]	Trigger point	Target gradually met once observed ROCE is significantly greater than the weighted average cost of capital employed
Indicator: achieved	Growth in the Michelin share price[1] (2nd quartile) = +55.4%	2015 = +1.0% 2016 = +0.4% 2017 = +6.3%	2015 = 12.2% 2016 = 12.1% 2017 = 11.9%
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2015-2017[1] period		
Ceiling	▶ 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2015, 2016 and 2017 ▶ Amount of Profit Shares available for distribution in 2018 out of 2017 profit, after deducting annual variable and multi-criteria variable compensation due for 2017		
Amount due[2]	€994,860		
Payment year	2018, after approval of the 2017 financial statements		
Commitment	Commitment to invest in Michelin shares 20% of the long-term incentive bonus received at the end of the three-year period and to retain these shares for as long as Mr. Senard remains in office, after which the shares may be sold on a phased basis over four years		

(1) Average share price for the second half of 2017 compared to the average share price for the second half of 2014; the average growth in the 3rd quartile of the CAC 40 index was 22.0% over the period.
(2) After limiting the amount decided by the Supervisory Board, at Mr. Senard's request.

The long-term incentive bonus was presented at the Annual Shareholders Meeting of May 13, 2016 and was approved by a majority of 97.39% of the votes cast (6th resolution).

Based on the presentation by the Chair of the Compensation and Appointments Committee, the Supervisory Board noted the achievement rates for each of the performance criteria and, at Mr. Senard's request, limited the gross amount of his long-term incentive bonus payable in 2018 to €994,860.

Mr. Senard is committed to investing 20% of this amount in Michelin shares, which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years.

(1) No liability is recognized for these incentive bonuses in the Company's financial statements because they are deducted from the General Partners' Profit Shares which in turn are paid out of the Company's profit for the year.

1.2 – Cash-settled long-term incentive bonus awarded in 2016

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2016-2018[1] period	Michelin's Environmental Footprint (as measured by the "MEF" indicator)[2]	Employee Engagement Rate (as measured by the annual "Moving Forward Together" survey)	Growth in consolidated operating income *(in € millions, before non-recurring items, at constant exchange rates and accounting methods)*
Type of criterion	Financial performance	Environmental and CSR performance	Environmental and CSR performance	Business performance
Weighting	35%	15%	15%	35%
Maximum objective	If the gain in Michelin's share price is at least 15 points more than the gain in the CAC 40[1], the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received	If the average MEF over three years is less than 60, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received	If the average engagement rate exceeds 80%, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received	If average annual growth in operating income exceeds €150 million, the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received
Target objective	If the gain in Michelin's share price is between 0 and 15 points more than the gain in the CAC 40[1], the result will be: (gain in the Michelin share price – gain in the CAC 40 index) x (35%/15)	If the average MEF over three years is between 60 and 63, the result will be: (1–(average MEF–60)/(63–60)) * 15%	If the engagement rate is between 77% and 80%, the result will be: (average engagement rate–77%)/(80%–77%) * 15%	If average annual growth in operating income is between €70 million and €150 million, the result will be: (operating income–€70m)/(€150m–€70m) * 15%
Trigger point	If the gain in Michelin's share price is less than the gain in the CAC 40[1], the achievement rate will be 0%	If the average MEF over three years is more than 63, the indicator will be 0%	If the average engagement rate is less than 77%, the indicator will be 0%	If average annual growth in operating income is less than €150 million, the indicator will be 0%
Indicator: intermediate assessment	Growth in the Michelin share price[3] = +34.4% Growth in the CAC 40[3] = +10.32%	2016 = 56.9 2017 = 53	2016 = 80% 2017 = 80%	2016 = +€243m 2017 = +€138m
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2016-2018 period.			
Ceiling	▶ 150% of the average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2016, 2017 and 2018 ▶ Amount of Profit Shares available for distribution in 2019 out of 2018 profit, after deducting annual variable and multi-criteria variable compensation due for 2018			
Payment year	2019, after approval of the 2018 financial statements			
Commitment	Commitment to invest in Michelin shares 20% of the long-term incentive bonus received at the end of the three-year period and to retain these shares for as long as Mr. Senard remains in office, after which the shares may be sold on a phased basis over four years			

(1) Average share price for the second half of 2018 compared to the average share price for the second half of 2015.
(2) Michelin site Environmental Footprint (MEF) indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled.
(3) Average share price for the second half of 2017 compared to the average share price for the second half of 2015.

The long-term incentive bonus was presented at the Annual Shareholders Meeting of May 19, 2017 and was approved by a majority of 96.32% of the votes cast (6th resolution).

The Compensation and Appointments Committee noted the above intermediate assessment of performance in relation to the various criteria.

Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares, which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years.

1.3 – Cash-settled long-term incentive bonus awarded in 2017

Criteria	Growth in the Michelin share price compared with that of the CAC 40 index over the 2017-2019[1] period	Michelin site Environmental Footprint (as measured by the "MEF" indicator)[2]	Employee Engagement Rate (as measured by the annual "Moving Forward Together" survey)	Growth in consolidated operating income *(in € millions, before non-recurring items, at constant exchange rates and accounting methods)*
Type of criterion	Financial performance	Environmental and CSR performance	Environmental and CSR performance	Business performance
Weighting	35%	15%	15%	35%
Maximum objective	If the gain in Michelin's share price is at least 15 points more than the gain in the CAC 40[1], the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received	If the average MEF over three years is less than 60, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received	If the average engagement rate exceeds 80%, the achievement rate will be 100% and the maximum 15% of the maximum potential bonus will be received	If average annual growth in operating income exceeds €150 million, the achievement rate will be 100% and the maximum 35% of the maximum potential bonus will be received
Target objective	If the gain in Michelin's share price is between 0 and 15 points more than the gain in the CAC 40[1], the result will be: (gain in the Michelin share price–gain in the CAC 40 index) x (35%/15)	If the average MEF over three years is between 60 and 63, the result will be: (1–(average MEF–60)/(63–60)) * 15%	If the engagement rate is between 77% and 80%, the result will be: (average engagement rate–77%)/(80%–77%) * 15%	If average annual growth in operating income is between €70 million and €150 million, the result will be: (operating income–€70m)/(€150m–€70m) * 15%
Trigger point	If the gain in Michelin's share price is less than the gain in the CAC 40[1], the achievement rate will be 0%	If the average MEF over three years is more than 63, the indicator will be 0%	If the average engagement rate is less than 77%, the indicator will be 0%	If average annual growth in operating income is less than €150 million, the indicator will be 0%
Indicator: intermediate assessment	Growth in the Michelin share price[3] = +24.6% Growth in the CAC 40[3] = +17.5%	2017 = 53	2017 = 80%	2017 = +€138m
Base amount	€1,800,000, as increased or reduced by the % change in the Michelin share price over the 2017-2019 period.			
Ceiling	▶ 150% of the annual average of the annual variable and multi-criteria variable compensation paid to Mr. Senard for 2017, 2018 and 2019 ▶ Amount of Profit Shares available for distribution in 2020 out of 2019 profit, after deducting single-criterion and multicriteria variable compensation due for 2019			
Payment year	2020, after approval of the 2019 financial statements			
Commitment	Commitment to invest in Michelin shares 20% of the long-term incentive bonus received at the end of the three-year period and to retain these shares for as long as Mr. Senard remains in office, after which the shares may be sold on a phased basis over three years			

(1) Average share price for the second half of 2019 compared to the average share price for the second half of 2016.
(2) Michelin site Environmental Footprint (MEF) indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled.
(3) Average share price for the second half of 2017 compared to the average share price for the second half of 2016.

The long-term incentive bonus performance criteria and objectives were presented at the Annual Shareholders Meeting of May 13, 2016 and were approved by a majority of 99.60% of the votes cast (25th resolution).

The Compensation and Appointments Committee noted the above intermediate assessment of performance in relation to the various criteria.

Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares, which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over three years.

1.4 – Cash-settled long-term incentive bonus awarded in 2014 and paid in 2017

This long-term incentive bonus was presented at the Annual Shareholders Meeting of May 22, 2015 and was approved by a majority of 95.72% of the votes cast (6th resolution).

Payment of the bonus was approved at the Annual Shareholders Meeting of May 19, 2017 by a majority of 96.32% of the votes cast (6th resolution) (details of this long-term incentive bonus are provided in Table 1.1 of section 4.3.2 c) of the 2016 Registration Document, page 114).

In accordance with the terms of the bonus award, Mr. Senard acquired 690 Michelin shares[(1)], corresponding to approximately 20% of the bonus received.

/ 2 - Cash-settled long-term incentive bonuses awarded between 2008 and 2011 (plans closed in 2012)

Grant year	2008	2009	2010	2011
Number of units awarded (2008)	20,719	-	-	-
Amount awarded (2009 to 2011) *(in €)*	-	0 (waived)	368,034.00	0 (waived)
Unit exercise price *(in €)*	59.85	-	-	-
Exercise period	May 19, 2012 to May 18, 2017	-	April 30, 2015 to April 29, 2019	-
Gross amount paid in 2017 *(in €)*	977,936.80	0	0	0
Units or incentive bonuses cancelled/expired	0	0	0	0
Units or incentive bonuses outstanding at December 31, 2017 *(in €)*	0	0	368,034.00	0

The long-term incentive bonus (ILTs) in respect of 2008 was awarded in the form of units whose value is equal to the difference between (i) the value of Michelin shares on the date the units are cashed in and (ii) the benchmark share price, defined as the exercise price of the respective stock options granted to Group employees on May 29, 2008. The other terms and conditions of the awards (notably the vesting period, eligibility criteria and the cap on gains) are identical to those of the stock option plan, except for certain minor adjustments made to reflect the legal status of a Non-General Managing Partner (which Mr. Senard was during this period). The number of units and the exercise price were adjusted under the same terms and conditions as the stock option plan following the October 25, 2010 share issue.

As allowed under ILT plan rules, in February 2017 Mr. Senard cashed in his 2008 ILT, representing a gross amount of €977,936.80 based on the opening Michelin share price of €107.05 on the settlement date.

The long-term incentive bonus awarded in 2009 was calculated on the basis of Mr. Senard's annual variable compensation. However, given the recessionary economic environment and the various measures implemented by the Group in response during 2009, Mr. Senard waived his right to this compensation.

Mr. Senard's 2010 ILT was equal to the average amount, in €, of the variable compensation paid to him for 2008, 2009 and 2010.

This ILT is indexed to the long-term change in the Michelin share price, as determined by comparing the average share price for the quarter preceding the 2010 ILT award date to the average price for the quarter preceding the date when Mr. Senard elects to cash in the 2010 ILT.

The adjustment may be positive or negative, depending on whether the average share price rises or falls, and is capped at 100% of the variable compensation used as the basis for calculating the 2010 ILT.

Payment of the 2010 ILT is deferred because it may only be cashed in between the fifth and ninth anniversaries of the reference year, unless Mr. Senard is removed from office due to mismanagement.

The maximum capped cost to the Company of the 2010 ILT as valued at December 31, 2017 may be analyzed as follows:

- €368,034 theoretically payable to Mr. Senard, corresponding to the average amount, in €, of the variable compensation paid to him in respect of 2008 (waived), 2009 (€494,807) and 2010 (€609,294).
- €368,034 in a provision covering the maximum impact of indexation on the ILT due, corresponding to an assumed Michelin share price of at least €107.
- €419,558 in applicable payroll taxes due by the Company upon payment of the ILT, estimated in accordance with current legislation and based on the maximum indexed amount.

In 2012, Mr. Senard waived his rights to his 2011 ILT calculated on the same basis as the 2010 ILT (*i.e.* the average amount, in €, of the variable compensation paid to him in respect of 2009, 2010 and 2011).

4.4.3 d) Fringe benefits, stock options, performance shares, attendance fees

In line with the Group's compensation policy[(2)], Mr. Senard did not receive any attendance fees in 2017 from the Company or any controlled entities, or any benefits other than those listed above. No stock options or performance shares were granted to him during the year by the Company or any controlled entities.

Mr. Senard has a fringe benefit in the form of a Company car (see table 4.4.2 b).

(1) See statement in section 4.5 of this Registration Document.
(2) See section 10.2.1.1 of the 2016 Registration Document

4.4.3 e) Pension benefits

The pension plan's structure and rules are described in section 4.4.1 a) 5 of this document. The description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016.

The plan rules are unchanged from 2016.

Mr. Senard's reference compensation for 2017 was made up solely of the fixed compensation paid by MFPM and amounted to €1,100,000.

Based on the assumptions set out in the above-mentioned enabling legislation of February 23, 2016, his estimated annual pension under the plan will amount to €148,500. The pension benefits will be taxed at the rate of 32%.

As the reference compensation represented less than half of the aggregate amount received by Mr. Senard for 2017 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by pension benefits paid under the plan would be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

4.4.3 f) Compensation for loss of office

No compensation for loss of office was paid in 2017.

4.4.3 g) Non-compete clause

No non-compete indemnity was paid in 2017.

4.4.4 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO JEAN-DOMINIQUE SENARD, CHIEF EXECUTIVE OFFICER, IN RESPECT OF 2017 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 18, 2018 ANNUAL MEETING

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chief Executive Officer[1], in line with the AFEP/MEDEF Code recommendation[2] which provides for a mandatory shareholder vote.

In line with the recommendation of the Compensation and Appointments Committee, the Supervisory Board has issued a favorable opinion on the total compensation due or awarded to Mr. Senard in respect of 2017 and recommends that the shareholders cast a favorable advisory vote thereon.

The components of Mr. Senard's compensation will therefore be presented to shareholders at the Annual Meeting on May 18, 2018 (6th resolution).

All of the amounts indicated are based on the standard tables provided in the AFEP/MEDEF Code, which are set out in sections 4.4.2 and 4.4.3 above.

(1) In connection with the compensation policy described in section 4.4.1 a) and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting.

(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	1,100,000	**Unchanged from the previous year.** This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner in 2014 and has not been changed since then. For more information, see sections 4.3.2 a) Fixed compensation and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 112 and 310 respectively).
Annual variable compensation	1,696,328	**Details of the Annual Variable Components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.** **Shared features** The basis used to calculate the Annual Variable Components (the Consolidated Calculation Base) corresponds to 0.6% of the Group's consolidated net income. The Annual Variable Components of Mr. Senard's compensation are paid out of the share of profit (Profit Shares) allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 18, 2018, amounts to €1,692,942 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2017 is €10,157,652. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2016 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,696,328 (before applicable withholding tax), as follows: **Single-Criterion Annual Variable Component** This component is equal to 8% of the Consolidated Calculation Base. The Compensation and Appointments Committee noted that the Single-Criterion Annual Variable Component amounts to €812,612.16 for 2017. **Multi-Criteria Annual Variable Component** This component corresponds to between 0% and 14% of the Consolidated Calculation Base, depending on achievement rates for seven criteria. The Compensation and Appointments Committee carefully reviewed each of the quantitative and qualitative criteria applicable to this component.[1] Based on this review, the Committee concluded that the overall achievement rate for the three quantitative criteria (which are the same as those applied to determine the 2017 variable compensation of the Executive Committee members and Group managers) was 62/100, compared to a maximum rate of 100/100. Concerning the two qualitative criteria, the Committee concluded that: ▶ Concerning the executive management succession plan, having observed that Mr. Senard had examined this issue in detail with input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as very good. ▶ Concerning deployment of the Group's four initiatives – Digital Strategy, Customer Service, Simplification of Operating Procedures & Empowerment, Integration & Profitable Growth of Three Recent Acquisitions (Sascar, BookaTable and Levorin) – the indicators defined by the Committee showed that significant progress had been achieved. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 35/50 compared with a maximum rate of 50/50. In conclusion of its analysis concerning the Multi-Criteria Annual Variable Component, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantitative and qualitative criteria should be rated as 97/150. Based on the Consolidated Calculation Base of €10,157,652, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a MultiCriteria Annual Variable Component of €883,715.72 for 2017. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2017	No cash-settled deferred variable compensation was due for 2017	**This long-term incentive bonus was announced by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.** The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2017-2019 period). The amount obtained by applying the adjustment clause will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the above three-year period: ▶ Share performance. ▶ Environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF). ▶ Growth in operating income.[1] These criteria are the same as the ones applicable to the 2017 performance share plan for Group employees, which is not open to Mr. Senard. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The long-term incentive bonus is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares. The final amount receivable under the long-term incentive plan will be: ▶ Capped at 150% of the average of the Annual Variable Components paid to Mr. Senard for 2017, 2018 and 2019. ▶ Paid out of the Profit Shares allocated to the General Partners in respect of 2019 and payable in 2020 after the 2019 financial statements have been approved: – subject to the availability of Profit Shares payable in 2020 out of 2019 profit; and – up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2019. If Mr. Senard were to cease to be a General Partner (for reasons other than death or disability) before his term expires and before the end of the performance assessment period, notably due to his resignation or removal from office, he would forfeit his rights to the long-term incentive bonus. If Mr. Senard ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, before the end of the reference three-year period for determining the achievement rate for the performance criteria, the three-year period will continue to run, including beyond the end of his term (until end-2019). In this case, the incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual period served as Chief Executive Officer during the period. In the same way as for the long-term incentive bonuses awarded in 2014 and 2015, Mr. Senard will be required to invest 20% of the bonus in Michelin shares at the end of the three-year period and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over three years. As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2017. For more information, see sections 4.4.3 b) Variable compensation and 4.4.3 c) Long-term incentive bonus (Table 1.3) of this Registration Document (pages 131 to 133 respectively), and section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) Consolidated operating income based on a comparable consolidation scope and at constant exchange rates and accounting methods, excluding non-recurring items, as adjusted if necessary for the effects of any exceptional events.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred incentive bonus awarded in 2015 and due in 2018 in respect of 2017	994,860	**The long-term incentive bonus was presented at the Annual Shareholders Meeting of May 13, 2016 and was approved by a majority of 97.39% of the votes cast (6th resolution).** 2017 was the last calculation year for this bonus and the Compensation and Appointments Committee therefore noted the achievement rates for each of the performance criteria, as follows: ▶ Growth in the Michelin share price compared with that of the CAC 40 index: 22.0% achievement rate out of a possible 33.3%. ▶ Average annual growth in net sales (by value): 33.3% achievement rate out of a possible 33.3%. ▶ Average annual return on capital employed (ROCE): 33.3% achievement rate out of a possible 33.3%. Based on the presentation by the Chair of the Compensation and Appointments Committee, the Supervisory Board noted the achievement rates for each of the performance criteria and, at Mr. Senard's request, limited the gross amount of his long-term incentive bonus payable in 2018 to €994,860 (before applicable withholding tax). Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares, which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years. For more information, see Table 1.1 in section 4.4.3 c) of this Registration Document (page 133).
Stock options, performance shares and other long-term compensation	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	8,470	Company car

Components of compensation due or awarded for 2017 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments[1]	Amounts submitted for shareholder approval *(in €)*	Presentation
Compensation for loss of office	No compensation for loss of office was due for 2017	**The detailed information in this section is unchanged from 2016.** In accordance with Article 13-2 of the Bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office. It would be subject to the performance conditions decided by the Supervisory Board in 2014. The final compensation would be reduced, if applicable, so that any other severance payments due to Mr. Senard would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).
Non-compete indemnity	No indemnity was due under a non-compete clause in 2017	**The detailed information in this section is unchanged from 2016.** In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause. The Company is, however, entitled to waive the application of this clause. If the Company were to decide to apply this non-compete clause over a period of up to two years, it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Senard's total severance package did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the French Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for S.A.s pursuant to Articles L. 225-37 and L. 225-68 of the French Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

Components of compensation due or awarded for 2017 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments[(1)]	Amounts submitted for shareholder approval *(in €)*	Presentation
Supplementary pension benefits	No supplementary pension benefits were due for 2017	**The pension plan structure and rules are unchanged from 2016.** This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan). This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features: ▶ Participants must have served for at least five years as a senior executive. ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement). ▶ The replacement rate including benefit entitlements under compulsory plans is capped at 35%. ▶ An evaluation is carried out in accordance with Group accounting policies. ▶ Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code. ▶ 70% of the prior year's benefit obligation funded through a contribution to an insured plan. Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM and amounts to €1,100,000 for 2017. Based on the assumptions set out in the above-mentioned enabling legislation of February 23, 2016, his estimated annual pension under the plan will amount to €148,500. The pension benefits will be taxed at the rate of 32%. As the reference compensation represented less than half of the aggregate amount received by Mr. Senard for 2017 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by pension benefits paid under the plan would be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

(1) Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the French Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for S.A.s pursuant to Articles L. 225-37 and L. 225-68 of the French Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

4.4.5 AMOUNTS ALLOCATED TO MICHEL ROLLIER, CHAIRMAN OF THE SUPERVISORY BOARD

The Compensation and Appointments Committee of the Supervisory Board has reviewed all the components of the compensation due, awarded or to be awarded to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director, pursuant to the compensation policy described in the Supervisory Board's report presented in section 10.2.1.2 of the 2016 Registration Document.

4.4.5 a) Attendance fees

In 2017, Michel Rollier received total attendance fees of €90,000 in respect of 2016.

Based on the allocation and payment policy decided by the Supervisory Board in 2016, attendance fees totaling €90,000 have been awarded to Mr. Rollier for 2017, payable in 2018.

4.4.5 b) Other components of compensation

No other compensation was paid or awarded to Michel Rollier for 2017.

4.4.6 ADVISORY VOTE ON THE COMPONENTS OF THE COMPENSATION DUE OR AWARDED TO MICHEL ROLLIER, CHAIRMAN OF THE SUPERVISORY BOARD, IN RESPECT OF 2017 AND SUBMITTED TO SHAREHOLDERS AT THE MAY 18, 2018 ANNUAL MEETING

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board has decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board[(1)], in line with the AFEP/MEDEF Code recommendation[(2)] which provides for a mandatory shareholder vote.

In line with the recommendation of the Compensation and Appointments Committee, the Supervisory Board has decided the allocation of total attendance fees and recommends that the shareholders cast a favorable advisory vote on the total compensation due or awarded to Michel Rollier for 2017.

The components of Mr. Rollier's compensation will therefore be presented to shareholders at the Annual Meeting on May 18, 2018 (7th resolution).

All of the amounts indicated are based on the standard tables provided in the AFEP/MEDEF Code, which are set out in sections 4.4.2 and 4.4.5 above.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	N/A	No fixed compensation
Annual variable compensation	N/A	No annual variable compensation
Cash-settled deferred variable compensation	N/A	No cash-settled deferred variable compensation
Stock options, performance shares and other share-based payments	N/A	No stock options granted No performance shares awarded No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	90,000	Total amount allocated in respect of his duties as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee Mr. Rollier's attendance rate at meetings of the Supervisory Board and the Committee of which he is a member was 100% in 2017 For more information, see sections 4.4.2 c) and 4.4.5 of the 2017 Registration Document (pages 128 and 142 respectively)
Value of fringe benefits	N/A	No fringe benefits

Components of compensation due or awarded for 2017 which have been or are being submitted for shareholder approval under the procedure applicable to related-party agreements and commitments	Amounts submitted for shareholder approval *(in €)*	Presentation
Compensation for loss of office	N/A	No commitment for the payment of compensation for loss of office
Non-compete indemnity	N/A	No commitment for the payment of a non-compete indemnity
Supplementary pension benefits	N/A	No commitment for the payment of supplementary pension benefits

(1) In connection with the compensation policy described in section 4.4.1 b) and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting.
(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

4.4.7 COMPENSATION RECEIVED BY THE MEMBERS OF THE SUPERVISORY BOARD IN 2017

ATTENDANCE FEES AND OTHER COMPENSATION RECEIVED BY THE NON-EXECUTIVE MEMBERS OF THE SUPERVISORY BOARD IN 2017 (BASED ON TABLE 3 IN THE AFEP/MEDEF CODE)

Non-executive Supervisory Board members	Amount paid in 2017 (for 2016)	Amount paid in 2016 (for 2015)
Olivier Bazil		
Attendance fees	65,000	53,000
Other compensation	0	0
Pat Cox		
Attendance fees	56,400	46,000
Other compensation	0	0
Barbara Dalibard		
Attendance fees	65,000	40,250[(1)]
Other compensation	0	0
Anne-Sophie de La Bigne		
Attendance fees	55,000	46,000
Other compensation	0	0
Jean-Pierre Duprieu		
Attendance fees	55,000	46,000
Other compensation	0	0
Aruna Jayanthi		
Attendance fees	55,000	21,000[(1)]
Other compensation	0	0
Monique Leroux		
Attendance fees	50,000	9,000[(1)]
Other compensation	0	0
Cyrille Poughon		
Attendance fees	45,000	36,000
Other compensation	0	0
Michel Rollier		
Attendance fees	90,000	68,000
Other compensation	0	0
TOTAL	**536,400[(2)]**	**396,250[(3)]**

(1) Corresponding to the fees earned during the period from the date of appointment or up to the date of retirement.
(2) Out of total annual fees of up to €555,000 approved by the Annual Shareholders Meeting of May 13, 2016 (10th resolution, adopted by a majority of 99.54% of the votes cast).
(3) Including €31,000 paid in 2016 in respect of 2015 to Laurence Parisot, who was a member of the Supervisory Board until July 2015.

4.4.8 TOTAL COMPENSATION AWARDED TO THE GROUP EXECUTIVE COMMITTEE

In 2017, the members of the Group Executive Committee received aggregate gross compensation of €12,701,293 (including €3,385,724 corresponding to the variable component for 2016 paid during the first half of 2017). In 2016, the gross aggregate compensation received by Group Executive Committee members totaled €10,389,271 (including €3,382,704 corresponding to the variable component for 2015 paid during the first half of 2016).

The Group Executive Committee members do not receive any attendance fees as members of the Boards of any Group companies.

4.5 TRADING IN MICHELIN SHARES BY MANAGING PARTNERS, GENERAL PARTNERS AND SUPERVISORY BOARD MEMBERS AND THEIR CLOSE RELATIVES IN 2017

/ The Managing Partner

Jean-Dominique Senard

690 shares purchased on June 6, 2017 at a unit price of €116.55 a share.

/ Supervisory Board

Monique Leroux

300 shares purchased on March 29, 2017 at a unit price of €111.35 a share.

/ SAGES (Non-Managing General Partner)

2,341 shares purchased on March 6, 2017 at a unit price of €106.57 a share.

22,150 shares purchased on December 14, 2017 at a unit price of €121.35 a share.

To the best of the Company's knowledge, no other transactions in the Company's shares were carried out by the Chief Executive Officer, SAGES, Supervisory Board members or their close relatives during the year.

4.6 ARTICLES OF INCORPORATION, BYLAWS AND SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

The Bylaws, in French and English, can be downloaded from the Company's website (www.michelin.com).

4.6.1 GENERAL PARTNERS (ARTICLE 1 OF THE BYLAWS)

- Jean-Dominique Senard (Managing Chairman).
- Société Auxiliaire de Gestion – SAGES (registered in the Clermont-Ferrand Trade and Companies Register under number 870 200 466), a simplified joint stock company chaired by Jacques de Chateauvieux (please refer to the presentation and role of this company, sections 2.15.3 and 2.15.4 c) above).

4.6.2 CORPORATE PURPOSE (ARTICLE 2 OF THE BYLAWS)

- All operations and activities directly or indirectly linked to the production, manufacture and sale of rubber, at all stages of manufacture, in all forms and for all uses.
- All industrial, commercial and financial operations, related in particular to:
  - tires, tire components, tire accessories and manufactured rubber in general;
  - mechanical engineering in all its applications, and in particular motor vehicles and industrial vehicles, components, spare parts and accessories;
  - the production, sale and use of natural or synthetic chemicals and their derivatives, in particular the various sorts of elastomers, plastics, fibers and resins, and generally all activities and products of the chemicals industry, especially as related to the products and operations described above;
  - the filing, acquisition, use, transfer or sale of any intangible property rights, and in particular patents and related rights, trademarks and manufacturing processes relating to the corporate purpose.
- To be carried out directly, as well as through equity interests, the creation of new companies, joint ventures *(sociétés en participation)* and economic interest groups *(groupements d'intérêt économique),* contributions, partnerships *(commandites),* the subscription, purchase or exchange of securities, or interests, in all businesses whose activities relate to the aforementioned purposes, or by way of merger or otherwise.
- And generally, all commercial, industrial, real estate, securities and financial transactions related directly or indirectly in whole or in part to any of the purposes specified above or to any similar or related purposes.

4.6.3 MANAGING PARTNERS (ARTICLE 10 OF THE BYLAWS)

The Company is led by a Managing Chairman and managed by one or more Managing Partners, who are individuals and who may or may not be General Partners.

4.6.4 FISCAL YEAR (ARTICLE 29 OF THE BYLAWS)

The Company's fiscal year begins on January 1 and ends on December 31.

4.6.5 STATUTORY ALLOCATION OF PROFITS (ARTICLE 30 OF THE BYLAWS)

An amount equivalent to 12% of net profit for the year is allocated to the General Partners, from which are deducted the dividends and reserves distributed by the subsidiaries Manufacture Française des Pneumatiques Michelin (MFPM) and Compagnie Financière Michelin SCmA (CFM). The allocated amount is capped at 0.6% of consolidated net profit for the year, with any excess being allocated to profit available for appropriation. Net profit comprises net revenue for the year less general and administrative costs and all other expenses of the Company, including any depreciation, amortization and provisions deemed necessary. Net profit remaining after the 12% allocation to the General Partners, plus any retained earnings brought forward from the prior year, is attributable to shareholders.

The shareholders may decide to make deductions from this attributable net profit to be used, as recommended by the Managing Chairman, to create or increase one or more reserve or contingency funds, over which the General Partners shall not have any rights.

Any attributable net profit remaining after the above deduction shall be distributed to shareholders.

4.6.6 SHAREHOLDER PARTICIPATION AT GENERAL MEETINGS

/ Notices of Meeting (Article 21 of the Bylaws)

Notices of meeting are issued in such form and with such advance notice as is prescribed by law.

/ Conditions of attendance (Articles 22 and 24 of the Bylaws)

Shareholders may attend General Meetings regardless of how many shares they own, provided such shares are fully paid up and are registered in the Company's share register at least three days before the date of the Meeting.

/ Exercising voting rights – attribution of double voting rights (Article 22 of the Bylaws)

Owners or proxies of owners of fully paid-up shares registered in the name of the same holder for at least four years shall have two votes per share, without limitation.

In the event of a capital increase paid up by capitalizing reserves, income or additional paid-in capital, the resulting bonus shares distributed in respect of registered shares carrying double voting rights shall similarly carry double voting rights.

Transfer through inheritance, liquidation of marital assets, *inter vivos* transfers to a spouse or to a relative in the ascending or descending line shall not result in the loss of double voting rights or a break in the qualifying period described above.

Shares transferred for any other reason shall lose their double voting rights *ipso jure*.

/ Statutory disclosure thresholds

The Bylaws do not provide for any disclosure to the Company when certain shareholding thresholds are exceeded.

Further information is provided on the Company's website www.michelin.com.

4.7 OWNERSHIP STRUCTURE AND VOTING RIGHTS

At December 31, 2017:

- Share capital: €359,041,974
- Shares outstanding: 179,520,987 all fully paid up
- Voting rights outstanding: 247,029,830

SHARE OWNERSHIP

(at December 31, 2017)

12.4%
Individual Shareholders

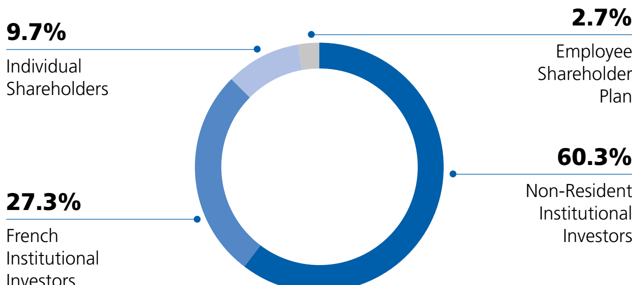
25.3%
French Institutional Investors

2.0%
Employee Shareholder Plan

60.3%
Non-Resident Institutional Investors

VOTING RIGHTS

(at December 31, 2017)



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

At December 31, 2017, 179,520,987 shares were held by the public, corresponding to 100% of the voting rights.

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

- As of October 30, 2017, BlackRock Inc. held 5.03% of the capital and 3.66% of the voting rights.
- As of April 4, 2016, Mage Invest held 3.8% of the capital and 5.1% of the voting rights.
- No other shareholder directly or indirectly holds more than 5% of the capital and voting rights.
- There are no shareholders' agreements or pacts.

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

4.8 FINANCIAL AUTHORIZATIONS

4.8.1 GRANTED BY THE ANNUAL SHAREHOLDERS MEETING OF MAY 13, 2016

/ Issuance of shares and share equivalents with pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €120[1] *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	16th	26 months (July 2018)	▶ €7.62 billion (shares) ▶ €2.50 billion[4] (securities carrying rights to shares)	€127 million[2][3] (less than 35% of issued capital)	None
Issuance of new shares by capitalizing reserves	20th	26 months (July 2018)	€4.8 billion	€80 million	None

(1) CGEM share price at December 31, 2017, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €127 million, excluding any shares issued under the 20th, 22nd and 25th resolutions (23rd resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 16th, 17th and 18th resolutions (19th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 15th, 16th, 17th, 18th, 19th and 21st resolutions not to exceed €2.5 billion (23rd resolution).

/ Issuance of shares and share equivalents without pre-emptive subscription rights

Corporate action	Resolution	Duration (expiry date)	Maximum issue amount, based on a share price of €120[1] *(in €)*	Maximum aggregate par value of shares *(in €)*	Utilization during the year
Issuance of shares and/or securities carrying rights to shares	17th	26 months (July 2018)	▶ €2.16 billion (shares) ▶ €1 billion[4] (securities carrying rights to shares)	€36 million[2][3] (less than 10% of issued capital)	None
Issuance of shares and/or securities carrying rights to shares through an offer governed by Article L. 411-2 of the French Monetary and Financial Code *(Code monétaire et financier)*	18th	26 months (July 2018)	▶ €2.16 billion (shares) ▶ €1 billion[4] (securities carrying rights to shares)	€36 million[2][3][5] (less than 10% of issued capital)	None
Issuance of ordinary shares in connection with a stock-for-stock offer or in payment of contributed assets	21st	26 months (July 2018)	€2.16 billion	€36 million[5]	None

(1) CGEM share price at December 31, 2017, rounded up to the nearest whole number.
(2) With the aggregate par value of shares issued in connection with all of the authorized transactions not to exceed €127 million, excluding any shares issued under the 20th, 22nd and 25th resolutions (23rd resolution).
(3) This amount may be raised by up to 15% if the issue is oversubscribed, subject to the ceilings set respectively in the 16th, 17th and 18th resolutions (19th resolution).
(4) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 15th, 16th, 17th, 18th, 19th and 21st resolutions not to exceed €2.5 billion (23rd resolution).
(5) Amount to be included in the maximum total capital increase authorized under the 17th resolution.

/ Debt securities without rights to shares/other debt securities

Corporate action	Resolution	Duration (expiry date)	Maximum nominal amount authorized *(in €)*	Utilization during the year
Issuance of bonds	15th	26 months (July 2018)	€2.5 billion(1)	$600 million(2)

(1) With the aggregate nominal amount of all debt securities, with or without rights to shares, authorized by the 15th, 16th, 17th, 18th, 19th and 21st resolutions not to exceed €2.5 billion (23rd resolution).
(2) Please refer to page 279 of this Registration Document.

/ Employee share issues

Corporate action	Resolution	Duration (expiry date)	Comments	Utilization during the year
Issuance of new ordinary shares	22nd	26 months (July 2018)	Less than 2% of issued capital	None
Performance share grants	25th	38 months (July 2019)	▶ Excluding the Chief Executive Officer ▶ Performance conditions over three years ▶ Capped at 0.5% of issued capital	Issuance of 296,440 rights(1)

(1) Please refer to section 5.5.4.

/ Share buyback program

Corporate action	Resolution	Duration (expiry date)	Limitations	Utilization during the year
Share buyback program	5th	18 months (November 2017)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €140	Buyback of 262,756 shares(1)
Share cancellations	24th	18 months (November 2017)	10% of issued capital	None

(1) Please refer to section 5.5.6.

4.8.2 GRANTED BY THE ANNUAL SHAREHOLDERS MEETING OF MAY 19, 2017

/ Share buyback program

Corporate action	Resolution	Duration (expiry date)	Limitations	Utilization during the year
Share buyback program	5th	18 months (November 2018)	▶ Statutory limit of 10% of issued capital ▶ Maximum purchase price: €160	Buyback of 647,720 shares(1)
Share cancellations	10th	18 months (November 2018)	10% of issued capital	Cancellation of 893,197 shares(2)

(1) Please refer to section 5.5.6.
(2) Please refer to sections 5.5.1 and 5.5.6.

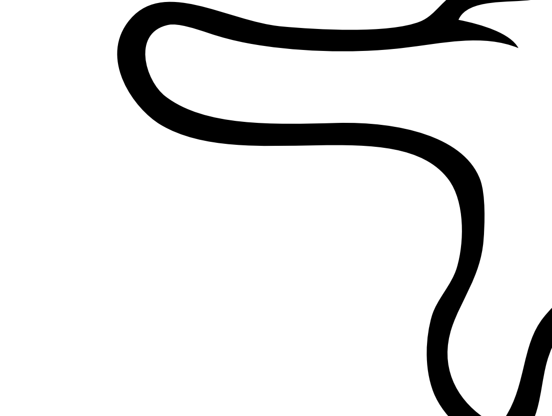
4.9 CHANGE OF CONTROL

Because the Company is organized as a *société en commandite par actions* (partnership limited by shares), any shareholder gaining control of the capital and corresponding voting rights could not exercise control over the Company without the approval, in accordance with the Bylaws, of the Non-Managing General Partner and/or, as the case may be, all of the General Partners and/or the Supervisory Board, which would be required to make the following decisions:

- Election of new Managing Partners.
- Amendment of the Bylaws.
- Election of new General Partners.

4.10 STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L. 226-10-1 OF THE FRENCH COMMERCIAL CODE ON THE CORPORATE GOVERNANCE REPORT

In accordance with the release published by the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) on January 30, 2018, the Statutory Auditors' review of the Supervisory Board's corporate governance report, pursuant to Article L. 225-315 of the French Commercial Code, is described in the Statutory Auditor's report on the financial statements presented in Section 8.3 herein.



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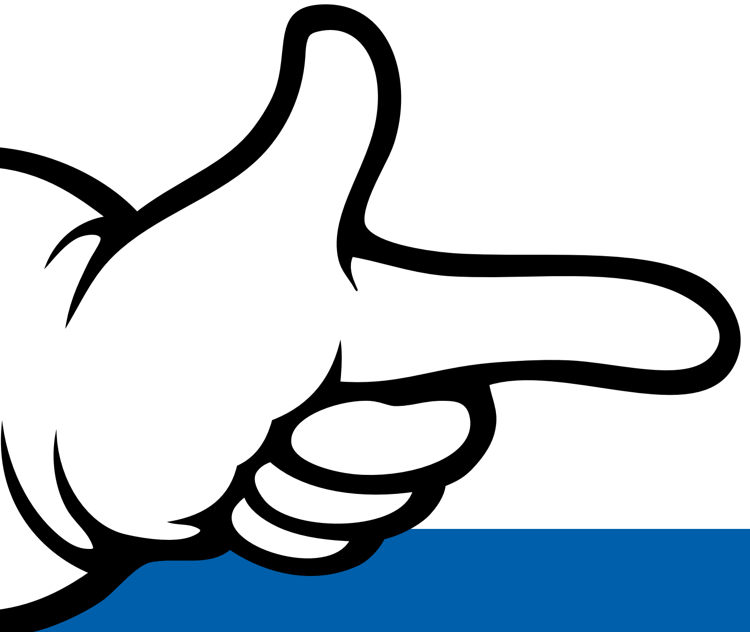


5.1 INFORMATION ABOUT THE COMPANY[1]

Legal and commercial name of the Company

- Compagnie Générale des Établissements Michelin.

Place of registration and registration number

- The Company is registered in the Clermont-Ferrand Trade and Companies Register under number 855 200 887.

Date of incorporation and term

- The Company was incorporated on July 15, 1863. Its term will end on December 31, 2050, unless it is wound up before that date or its term is extended.

Registered office

- The Company's registered office is located at 12, cours Sablon, Clermont-Ferrand (Puy-de-Dôme), France.
- Phone: +33 (0)4 73 98 59 00

Legal form and governing law

- The Company is a *société en commandite par actions* (partnership limited by shares) governed by Articles L. 226-1 to L. 226-14 of the French Commercial Code.

Main business

- Managing subsidiaries and other interests held in any and all countries.

5.2 SHARE INFORMATION

5.2.1 THE MICHELIN SHARE

Traded on the NYSE Euronext Paris stock exchange

- Compartment A;
- Eligible for the SRD deferred settlement system;
- ISIN: FR 0000121261;
- Par value: €2.00;
- Traded in units of: 1.

Market capitalization

- €21,452 million at December 31, 2017.

Average daily trading volume

- 503,534 shares since January 1, 2017.

Indices

The Michelin share is included in two leading stock market indices. As of December 31, 2017, it represented:

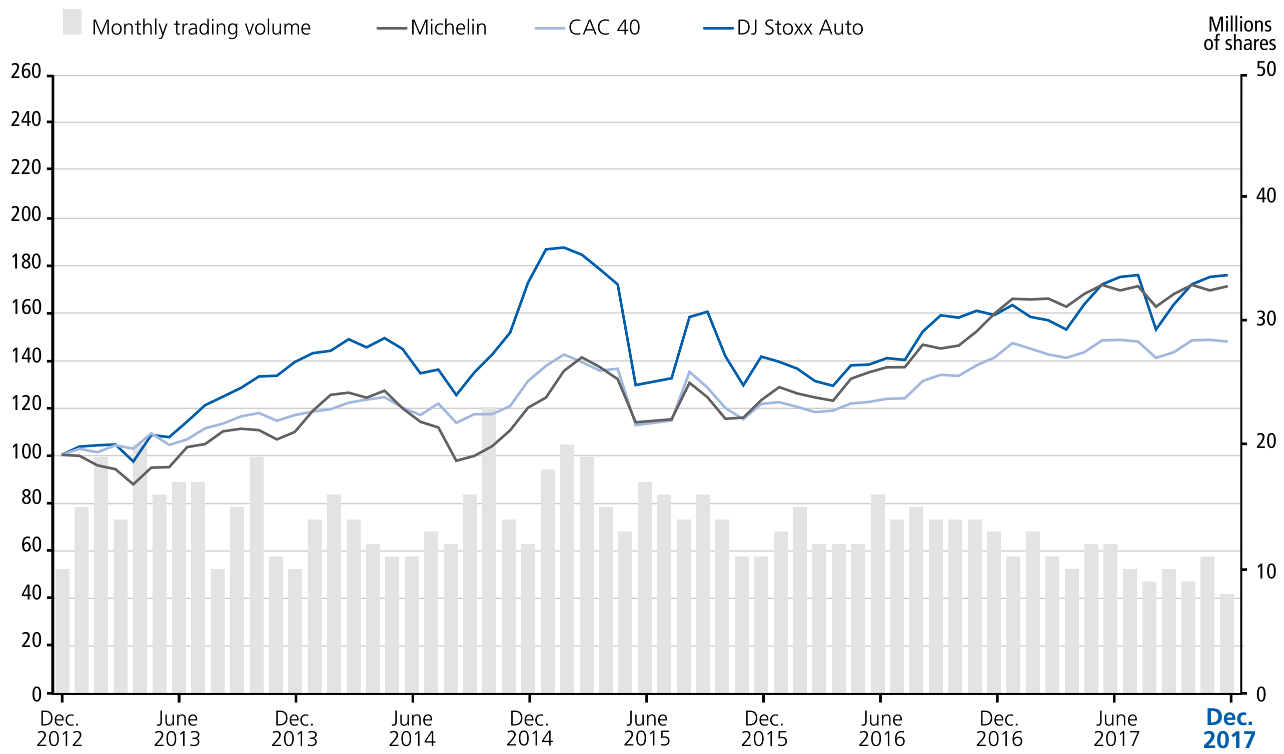
- 1.87% of the CAC 40 index;
- 0.82% of the Euronext 100 index.

Michelin is also included in the main Socially Responsible Investing (SRI) Indices:

- Dow Jones Sustainability Index (DJSI) Stoxx for European sustainability leaders and DJSI World for global sustainability leaders;
- Ethibel Sustainability Index (ESI) Europe.

(1) See also section 4.6 for information on the company's Bylaws.

SHARE PERFORMANCE
(Closing price at December 31, 2017)



5.2.2 SHARE DATA

Share price *(in €)*	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
High	128.40	106.80	103.90	94.33	84.71	72.58
Low	98.93	77.40	71.60	65.10	57.23	45.32
High/low ratio	1.30	1.38	1.45	1.45	1.48	1.60
Closing price, end of period	119.55	105.70	87.90	75.27	77.25	71.59
Average share price over the period	115.65	91.97	90.26	82.10	72.28	57.15
Change over the period	+13.10%	+20.25%	+16.78%	-2.56%	+7.91%	+56.74%
Change in the CAC 40 index over the period	*+9.26%*	*+4.86%*	*+8.53%*	*-0.54%*	*+17.99%*	*+15.23%*
Market value *(at end of period, in € billion)*	**21.45**	**19.03**	**15.98**	**13.98**	**14.35**	**13.07**
Average daily trading volume over the period	503,534	554,262	719,709	662,063	719,464	913,167
Average shares outstanding	182,212,806	182,122,667	185,960,394	185,954,390	184,901,269	181,099,501
Volume of shares traded over the period	128,401,095	142,445,218	184,245,619	168,826,055	183,463,371	233,770,814
Share turnover ratio	**71%**	**78%**	**99%**	**91%**	**99%**	**129%**

5.2.3 PER-SHARE DATA

(in € per share, except ratios)	2017	2016	2015	2014	2013
Net assets per share	62.7	59.1	52.5	51.3	49.8
Basic earnings per share	9.39	9.21	6.28	5.52	6.08
Diluted earnings per share(1)	9.34	9.03	6.19	5.45	5.98
Price-earnings ratio	**12.7**	**11.5**	**14.0**	**13.6**	**12.7**
Dividend for the year	3.55*	3.25	2.85	2.50	2.50
Pay-out ratio	36.0%	36.5%	37.0%	40.6%	35.0%
Yield(2)	3.0%	3.1%	3.2%	3.3%	3.2%

(1) Earnings per share adjusted for the impact on net income and on average shares outstanding of the exercise of outstanding dilutive instruments.
(2) Dividend/share price at December 31.
** To be submitted to shareholder approval at the Annual Meeting on May 18, 2018.*

The goal of the Group's dividend policy is to pay out at least 35% of consolidated net income excluding non-recurring items for the year.

5.2.4 CAPITAL AND OWNERSHIP STRUCTURE

At December 31, 2017, Michelin's share capital amounted to €359,041,974.

<table>
<tr><th></th><th colspan="3">At December 31, 2017</th><th colspan="3">At December 31, 2016</th></tr>
<tr><th></th><th>Number of shareholders</th><th>Shares outstanding</th><th>Voting rights outstanding</th><th>Number of shareholders</th><th>Shares outstanding</th><th>Voting rights outstanding</th></tr>
<tr><td>French institutional investors</td><td rowspan="2">2,923</td><td>25.3%</td><td>27.3%</td><td rowspan="2">5,023</td><td>22.7%</td><td>25.4%</td></tr>
<tr><td>Non-resident institutional investors</td><td>60.3%</td><td>60.3%</td><td>63.1%</td><td>61.4%</td></tr>
<tr><td>Individual shareholders</td><td>94,337</td><td>12.4%</td><td>9.7%</td><td>109,410</td><td>12.1%</td><td>10.6%</td></tr>
<tr><td>Employee Shareholder Plan</td><td>74,397</td><td>2.0%</td><td>2.7%</td><td>79,284</td><td>2.1%</td><td>2.6%</td></tr>
<tr><td>TOTAL</td><td>171,657</td><td>179,520,987 ACTIONS*</td><td>247,029,830 VOTING RIGHTS</td><td>193,717</td><td>180,066,121 SHARES*</td><td>241,849,548 VOTING RIGHTS</td></tr>
</table>

** All fully paid up.*

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

5.3 INVESTOR RELATIONS

Every shareholder has access to clear, comprehensive, transparent information, tailored to his or her individual needs.

In particular, extensive information about our business operations, strategy and financial performance may be found in a wide variety of regulatory filings, such as press releases, the Annual and Sustainable Development Report, the Registration Document, the Interim Financial Report, Letters to Shareholders and the Company Bylaws. All of these publications are readily available in French and English at www.michelin.com in the Finance section and on request from the Investor Relations Department.

In addition, in 2017 six shareholder information meetings were organized in France, in Biarritz, Caen, Grenoble, Lille, Lyon and Rennes, as well as a meeting with shareholders in Paris led by the Chief Executive Officer. Site visits in Roanne and Karlsruhe were also organized for individual shareholders.

During the year, more than 1,400 institutional investors and financial analysts were contacted.

Created in 2003, the Shareholders Consultative Committee is composed of a maximum of 14 members, including two employee shareholders. Through its input and recommendations, it helps to improve the quality of our financial and/or image communication with individual shareholders. In 2017, the Committee met twice and actively participated in the Annual Shareholders Meeting.

Each year, all shareholders and proxy solicitors are notified of the date of the Annual Shareholders Meeting and of the voting procedures.

In accordance with the Company Bylaws, shares held in the same name for at least four years carry double voting rights.

5.4 DOCUMENTS ON DISPLAY

Historical financial information, Registration Documents, Letters to Shareholders, Notices and Minutes of Shareholders Meetings, the Company Bylaws, and all of the regulatory filings within the meaning of Article 221-1 of the AMF General Regulations (particularly press releases, quarterly reports and the Interim and Annual Reports), also available on the French website of record, www.info-financiere.fr, can be viewed in French or English at www.michelin.com or at the Company's registered office.

5.5 SHARE INFORMATION

5.5.1 CHANGES IN SHARE CAPITAL

		Change in capital		
Year	**Transaction**	**Number of shares**	**Par value** *(in €)*	**Share premium** *(in €)*
2012	**At December 31, 2012**	**182,556,713**	**365,113,426**	
2013	Conversion of OCEANE bonds	6	12	527
	Dividend reinvestment	4,467,601	8,935,202	239,776,146
	Exercise of stock options	573,295	1,146,590	26,718,664
	Vesting of performance shares	1,288	2,576	0
	Cancellation of shares	(1,809,260)	(3,618,520)	(132,887,705)
	At December 31, 2013	**185,789,643**	**371,579,286**	
2014	Conversion of OCEANE bonds	2	4	185
	Exercise of stock options	866,320	1,732,640	44,398,643
	Vesting of performance shares	80,571	161,142	0
	Cancellation of shares	(1,010,336)	(2,020,672)	(84,643,593)
	At December 31, 2014	**185,726,200**	**371,452,400**	
2015	Conversion of OCEANE bonds	28	56	2,718
	Exercise of stock options	909,999	1,819,998	64,070,030
	Vesting of performance shares	227,489	454,978	0
	Cancellation of shares	(4,961,534)	(9,923,068)	(441,024,693)
	At December 31, 2015	**181,902,182**	**363,804,364**	
2016	Employee share issue	657,366	1,314,732	48,894,883
	Conversion of OCEANE bonds	7,230	14,460	709,379
	Exercise of stock options	723,420	1,446,840	47,219,717
	Vesting of performance shares	122,963	245,926	0
	Cancellation of shares	(3,347,040)	(6,694,080)	(293,905,884)
	At December 31, 2016	**180,066,121**	**360,132,242**	
2017	Exercise of stock options	308,979	617,958	16,376,110
	Vesting of performance shares	39,084	78,168	0
	Cancellation of shares	(893,197)	(1,786,394)	(98,790,498)
	AT DECEMBER 31, 2017	**179,520,987**	**359,041,974**	

5.5.2 POTENTIAL SHARES

5.5.2 a) Outstanding securities convertible, exchangeable, redeemable or otherwise exercisable for shares

/ OCEANE bonds

In March 2007, the Company issued bonds convertible and/or exchangeable for new or existing shares of common stock (OCEANEs). The issue, which was fully subscribed, was described in a prospectus filed with the French securities regulator (AMF) on March 12, 2007, under No. 07-082.

The main characteristics of this bond issue were as follows:

- listing: Euronext Paris;
- ISIN: FR0010449264;
- issue, cum-interest and settlement date: March 21, 2007;
- term: 9 years and 286 days;
- total nominal value issued: €699,999,913.16;
- number of bonds issued: 6,742,438;
- number of bonds redeemed at January 1, 2017: 5,396,099;
- number of bonds outstanding at December 31, 2017: 0;
- nominal value: €103.82;
- issue price: at par;
- nominal interest rate: none (zero-coupon bonds);
- gross annual yield to maturity: 3.07% (for bonds not converted or exchanged and not redeemed early);
- repayment: in full at maturity on January 1, 2017 at €139.57 per bond;
- early redemption at the Company's option from March 21, 2011 if, over 20 consecutive trading days, the average share price and the average conversion or exchange ratio exceed 1.3 times the early redemption price;
- conversion or exchange ratio (subject to change in line with the provisions for the issue contract):
  - ratio set at the issue date: 1 share for 1 bond,
  - ratio applicable as of the date of filing of this report: 1.036 shares for 1 bond (as adjusted on October 26, 2010 – see Euronext Paris announcement of the same date).

All outstanding OCEANE bonds were redeemed on January 1, 2017 – see press release of December 1, 2016 and information provided pages 279 and 317 of this Registration Document.

/ Options to purchase new shares of common stock

Please refer to the detailed information in section 5.5.3.

/ Performance shares

Please refer to the detailed information in section 5.5.4.

5.5.2 b) Estimated maximum number of potential new shares at December 31, 2017

(in number of shares with a par value of €2)	Maximum number of potential new shares	Issued capital *(in €)*
ISSUED CAPITAL AT DECEMBER 31, 2017		**359,041,974**

/ Stock options outstanding as of December 31, 2017

Grant date	Adjusted exercise price *(in €)*	Vesting date	Expiry date	Number of options outstanding	
November 23, 2009	51.16	November 23, 2013	November 22, 2018	177,748	
May 12, 2010	52.13	May 12, 2014	May 11, 2019	79,963	
May 19, 2011	66.00	May 19, 2015	May 18, 2020	59,127	
June 25, 2012	51.16	June 25, 2016	June 24, 2021	44,113	
TOTAL STOCK OPTIONS OUTSTANDING				**360,951**	**721,902**

/ Performance shares outstanding at December 31, 2017

Grant date	Vesting period ends	Performance shares outstanding	
November 27, 2014 *(Excellence)*	November 27, 2018	276,168	
November 27, 2014 *(Excellence Management)*	November 27, 2018	106,244	
November 25, 2015 *(Excellence Management)*	November 25, 2019	84,140	
November 25, 2016 *(Excellence Management)*	November 25, 2020	120,520	
November 14, 2017 *(Excellence)*	November 14, 2021	296,440	
TOTAL PERFORMANCE SHARES OUTSTANDING		**883,512**	**1,767,024**
MAXIMUM POTENTIAL SHARES AS OF DECEMBER 31, 2017 (+0.69%)			**361,530,900**

5.5.3 STOCK OPTIONS

5.5.3 a) Stock option plans in effect at December 31, 2017[1] (Table 8 of the AFEP/MEDEF Corporate Governance Code)

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5	Plan 6	Plan 7	Plan 8	Plan 9	Plan 10	Plan 11	Plan 12	Plan 13	Plan 14
Date of the shareholder authorization	05/18/2001	05/18/2001	05/18/2001	05/18/2001	05/18/2001	05/14/2004	05/14/2004	05/12/2006	05/12/2006	05/12/2006	05/15/2009	05/15/2009	05/15/2009	05/15/2009
Date granted by the Managing Partners	05/19/2002	05/19/2003	11/24/2003	05/17/2004	07/05/2004	05/23/2005	11/07/2005	05/15/2006	05/14/2007	05/19/2008	11/23/2009	05/12/2010	05/19/2011	06/25/2012
Total number of new or existing shares that may be purchased upon exercise of the options	722,635	245,047	230,386	184,088	132,772	226,057	942,215	141,463	1,230,323	321,095	1,447,372	260,138	252,900	143,276
Of which options granted to:														
▶ Jean-Dominique Senard[2], Managing Partner	0	0	0	0	0	10,359	0	6,216	0	0	0	0	0	0
▶ Michel Rollier[3], Chairman of the Supervisory Board	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Vesting date	05/19/2006	05/19/2007	11/24/2007	05/17/2008	07/05/2008	05/23/2009	11/07/2009	05/15/2010	05/14/2011	05/19/2012	11/23/2013	05/12/2014	05/19/2015	06/25/2016
Expiry date	05/18/2011	05/18/2012	11/23/2012	05/16/2013	07/04/2013	05/22/2014	11/06/2014	05/14/2015	05/13/2016	05/18/2017	11/22/2018	05/11/2019	05/18/2020	06/24/2021
Exercise price	€42.47	€31.13	€32.82	€38.61	€42.96	€46.34	€46.34	€55.99	€87.85	€59.85	€51.16	€52.13	€66.00	€51.16
Number of options exercised as of December 31, 2017	647,332	239,847	207,064	182,088	117,189	223,557	864,725	138,663	798,635	317,539	1,213,698	180,175	99,989	89,156
Number of options cancelled or expired	75,303	5,200	23,322	2,000	15,583	2,500	77,490	2,800	431,688	3,556	55,926	0	93,784	10,007
NUMBER OF OPTIONS OUTSTANDING AS OF DECEMBER 31, 2017	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**177,748**	**79,963**	**59,127**	**44,113**

(1) In compliance with stock option plan rules and prevailing legislation (notably Articles L. 225-181 and R. 225-140 of the French Commercial Code), the number of shares to be issued on exercise of these options and the option exercise price, for all plans in effect as of October 25, 2010, have been adjusted to maintain grantee rights following the share issue with pre-emptive subscription rights placed on record on October 25, 2010.
(2) Prior to his appointment as Managing Partner.
(3) Granted in his capacity as Chairman of the Supervisory Board.

5.5.3 b) Stock options granted and exercised during the year

Stock options granted by CGEM[(1)] to the ten grantees other than Managing Partners who received the greatest number of options and options exercised by the ten grantees other than Managing Partners who exercised the greatest number of options	Number of options granted/ exercised	Exercise price (in €)	End of exercise period	Grant date
Options granted	0	-	-	-
Options exercised (new shares issued)	97,816	59.85 51.16 52.13 66.00	05/18/2017 11/22/2018 05/11/2019 05/18/2020	05/19/2008 11/23/2009 05/12/2010 05/19/2011

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

5.5.3 c) Special report of the Chief Executive Officer

No stock options were granted during the year and no Managing Partner exercised any stock options in 2016.

The ten employees other than Managing Partners who exercised the greatest number of options exercised 97,816 options at a unit price of €59.85 for options granted on May 19, 2008, €51.16 for options granted on November 23, 2009, €52.13 for options granted on May 12, 2010, and €66.00 for options granted on May 19, 2011.

At December 31, 2017, no Managing Partners held exercisable or non-exercisable stock options.

Clermont-Ferrand, February 9, 2018

Jean-Dominique Senard

Chief Executive Officer

5.5.4 PERFORMANCE SHARES

5.5.4 a) Performance share plans in effect at December 31, 2017 (Table 9 of the AFEP/MEDEF Corporate Governance Code)

COMPLETED PLANS

	Plan 1	Plan 2	Plan 3
Date of the shareholder authorization	May 13, 2011	May 13, 2011	May 13, 2011
Date granted by the Managing Partners	November 28, 2011	November 28, 2012	November 29, 2013
Number of rights granted	287,944	371,936	81,400
O/w to:			
▶ Jean-Dominique Senard, Managing Partner	0	0	0
Vesting date *(in years)*	November 28, 2014 (France) (3 years) November 28, 2015 (other countries) (4 years)	November 28, 2015 (France) (3 years) November 28, 2016 (other countries) (4 years)	November 29, 2017 (4 years)
End of lock-up period *(in years)*	November 28, 2016 (France) (2 years)	November 28, 2017 (France) (2 years)	N/A
Performance conditions[1] (period over which criteria are applied: 3 years)	▶ Average annual sales volume growth of at least 3% in 2011, 2012 and 2013 ▶ Average annual consolidated operating income of at least €1.4 billion in 2011, 2012 and 2013	▶ Average annual growth in sales value of at least 3% in 2012, 2013 and 2014 ▶ Average annual consolidated operating income of at least €2 billion in 2012, 2013 and 2014	▶ Average annual growth in sales value of at least 3% in 2013, 2014 and 2015 ▶ Average annual consolidated operating income of at least €2.4 billion in 2013, 2014 and 2015
Number of vested shares at December 31, 2017	195,068	237,243	39,084
Number of cancelled or voided shares	92,876	134,693	42,316
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2017	**0**	**0**	**0**

(1) On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.

PLANS IN EFFECT

	Plan 4 (Excellence)	Plan 5 (Excellence Management)	Plan 6 (Excellence Management)	Plan 7 (Excellence Management)	Plan 8 (Excellence)
Date of the shareholder authorization	May 16, 2014	May 16, 2014	May 16, 2014	May 13, 2016	May 13, 2016
Date granted by the Managing Partners	November 27, 2014	November 27, 2014	November 25, 2015	November 25, 2016	November 14, 2017
Number of rights granted	288,426	108,292	84,892	120,520	296,440
O/w to:					
▶ Jean-Dominique Senard, Managing Partner	0	0	0	0	0
Vesting date *(in years)*	November 27, 2018 (4 years)	November 27, 2018 (4 years)	November 25, 2019 (4 years)	November 25, 2020 (4 years)	November 14, 2021 (4 years)
End of lock-up period *(in years)*	N/A	N/A	N/A	N/A	N/A
Performance conditions[1] (period over which criteria are applied: 3 years)	▶ Average annual growth in sales value of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016	▶ Average annual growth in sales value of at least 2% in 2014, 2015 and 2016 ▶ Average annual growth in consolidated operating income of €150 million in 2014, 2015 and 2016 ▶ Arithmetic average annual return on capital employed (ROCE) of at least 12% in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 72% in 2014, 2015 and 2016	▶ Average annual growth in sales value of at least 2% in 2015, 2016 and 2017 ▶ Average annual growth in consolidated operating income of €150 million in 2015, 2016 and 2017 ▶ Arithmetic average annual return on capital employed (ROCE) of at least 12% in 2014, 2015 and 2016 ▶ Average employee engagement rate of at least 73% in 2015, 2016 and 2017	▶ Michelin share price that outperforms the CAC 40 by at least 15 points, comparing the average closing price between the second half of 2015 and the second half of 2018 ▶ Corporate social responsibility objective: – average MEF[2] of less than 60 in 2016, 2017 and 2018 – and average employee engagement rate of at least 80% in 2016, 2017 and 2018 ▶ Average annual growth in consolidated operating income of €150 million in 2016, 2017 and 2018	▶ Michelin share price that outperforms the CAC 40 by at least 15 points, comparing the average closing price between the second half of 2016 and the second half of 2019 ▶ Corporate social responsibility objective: – average MEF[2] of less than 60 in 2017, 2018 and 2019 – and average employee engagement rate of at least 80% in 2017, 2018 and 2019 ▶ Average annual growth in consolidated operating income of €150 million in 2017, 2018 and 2019
Number of vested shares at December 31, 2017	0	0	0	0	0
Number of cancelled or voided shares	12,258	2,048	752	0	0
NUMBER OF PERFORMANCE SHARES OUTSTANDING AS OF DECEMBER 31, 2017	**276,168**	**106,244**	**84,140**	**120,520**	**296,440**

(1) *On a like-for-like consolidated basis, excluding changes in exchange rates for the financial criteria.*
(2) *Michelin Environmental Footprint (MEF) indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled.*

5.5.4 b) Performance shares granted during the year

Rights to 296,440 performance shares were granted during the year.

	Number of shares granted	Grant date
Performance shares granted by CGEM to the ten grantees other than Managing Partners who received the greatest number of shares	54,075	November 14, 2017

5.5.4 c) Special Report of the Chief Executive Officer

/ November 14, 2017 Plan

The Annual Shareholders Meeting of May 13, 2016 authorized the grant of shares without consideration to employees of the Company (except Managing Partners) and of related companies within the meaning of Articles L. 225-197-1 *et seq.* of the French Commercial Code, with the number of shares that may be granted limited to 0.5% of issued capital.

This authorization was used in 2017 to grant 296,440 rights to one new share of common stock to 1,292 grantees.

Performance shares will vest based on the fulfillment of performance criteria set out under the Michelin Performance and Responsibility Ambitions for 2020.

Fulfillment of three performance criteria is required for all grantees, as set out in the report detailing the related resolution of the May 13, 2016[1] Shareholders Meeting.

The criteria are as follows:

- Michelin's share performance compared with that of the CAC 40 index: based on the average closing price, the Michelin share price must outperform the CAC 40 by at least 15 points between the second half of 2016 and the second half of 2019;
- corporate social responsibility objective: employee engagement and the environmental performance of manufacturing operations. This criterion is based on two indicators: the environmental footprint of Michelin's manufacturing operations and the level of employee engagement.
  - Since 2005, Michelin has measured and published these operations' energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled, using the Michelin Environmental Footprint (MEF) indicator. The average MEF over three years (2017-2019 period) must be less than 60.
  - Since 2013, the annual "Moving Forward Together: Your Voice for Action" survey has measured the employee engagement rate. The average engagement rate over three years (2017-2019 period) must exceed 80%.
- average annual growth in consolidated operating income, before non-recurring income and expenses (on a like-for-like basis and excluding changes in exchange rates), must exceed €150 million a year over the 2017-2019 period.

For all criteria, fulfillment is calculated as followed:

- if the minimum performance condition is not met, no shares will vest;
- if the minimum performance condition is met or exceeded, shares will vest on a gradual and proportional basis up to a certain ceiling.

Provided that the grantee is still employed by the Group at the end of the vesting period (or qualifies for an exemption from this requirement under French law or in exceptional cases at the discretion of the Chief Executive Officer) if the achievement rate for all of the above criteria is 100% then 100% of the performance shares will vest, with the first and third criteria accounting for 35% and the second criterion for 30% (15% per indicator).

(1) Please refer to pages 299 and 300 of the 2015 Registration Document.

/ Fulfillment of performance conditions under performance share plans in effect in 2017

Fulfillment of performance conditions under the November 29, 2013 performance share plan

Criteria		Weighting	Results				Achievement of criteria
			2013	2014	2015	Average	
Growth in sales	Like-for-like growth in consolidated net sales value of **at least an average 3%** a year in 2013, 2014 and 2015	*50%*	-5.71%	-3.43%	8.42%	**-0.24%**	**No**
Operating income/(loss)	Like-for-like consolidated operating income, before non-recurring income and expenses, of **at least an average €2.4 billion** a year over the 2013 to 2015 period	*50%*	2.234	2.545	2.515	**2.431**	**Yes**

In conclusion, one of the performance conditions was not met, and 39,084 of the 81,400 performance shares granted (48%) will vest. Note that the vesting period will end in November 2017 (with no lock-up period) for all grantees.

Fulfillment of performance conditions under the November 27, 2014 performance share plan

Criteria		Weighting		Results				Achievement of criteria
		Excellence	Excellence Management	2014	2015	2016	Average	
Growth in sales	Like-for-like growth in consolidated net sales value of **at least an average 2%** a year in 2014, 2015 and 2016	33%	25%	-1.9%	1.0%	0.4%	**-0.2%**	**No**
Operating income/(loss)	Like-for-like growth in consolidated operating income, before non-recurring income and expenses, of **€150 million** a year over the 2014-2016 period	33%	25%	81	(30)	243	**98**	**No**
Engagement rate of employees	Average employee engagement rate: **at least 72%** a year on a like-for-like consolidated basis over the 2014-2016 period	33%	25%	74%	77%	80%	**77%**	**Yes**
Return on capital employed	Arithmetic average annual return on capital employed (ROCE) of **at least 12%** on a like-for-like consolidated basis for the 2014-2016 period	33%	25%	11.1%	12.2%	12.1%	**11.8%**	**No**

Given that three of the performance conditions were not met, not all of the performance shares will vest.
Note that the vesting period will end in November 2018 (with no lock-up period) for all grantees.

Fulfillment of performance conditions under the November 25, 2015 performance share plan

Criteria		Weighting	Results 2015	Results 2016	Results 2017	Results Average	Achievement of criteria
Growth in sales	Like-for-like growth in consolidated net sales value of **at least an average 2%** a year in 2015, 2016 and 2017	*25%*	1.0%	0.4%	6.3%	**2.6%**	**Yes**
Operating income/(loss)	Like-for-like growth in consolidated operating income, before non-recurring income and expenses, of **€150 million** a year over the 2015-2017 period	*25%*	(30)	243	138	**117**	**No**
Return on capital employed	Arithmetic average annual return on capital employed (ROCE) of **at least 12%** on a like-for-like consolidated basis for the 2015-2017 period	*25%*	12.2%	12.1%	11.9%	**12.1%**	**Yes**
Engagement rate of employees	Average employee engagement rate: **at least 72%** a year on a like-for-like consolidated basis over the 2015-2017 period	*25%*	77%	80%	80%	**79%**	**Yes**

Given that one of the performance conditions was not met, not all of the performance shares will vest.

Note that the vesting period will end in November 2019 (with no lock-up period) for all grantees.

Interim fulfillment of performance conditions under the November 25, 2016 performance share plan

Criteria		Weighting	Interim results		
Share price performance Michelin share price outperforms the CAC 40 by **at least 15 points** for the 2015-2018 period (average closing price for the second half of the two years)				**2017 *vs* 2015**	
		25%		24.1	-
			2016	**2017**	**2018**
Corporate social responsibility	Michelin Environmental Footprint – **MEF** (indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled) average over three years (2016-2018) must be **less than 60**	*15%*	57	53	-
	Average **employee engagement rate:** must be **at least 80%** a year on a like-for-like consolidated basis over the 2016-2018 period	*15%*	80%	80%	-
Operating income/ (loss)	Like-for-like growth in consolidated operating income from recurring activities, of **€150 million a year** over the 2016-2018 period	*25%*	243	138	-

Interim fulfillment of performance conditions under the November 14, 2017 performance share plan

Criteria		Weighting	Interim results		
Share price performance	Michelin share price outperforms the CAC 40 by **at least 15 points** for the 2016-2019 period (average closing price for the second half of the two years)	*25%*	**2017 *vs* 2015** 7.1%		
			2017	**2018**	**2019**
Corporate social responsibility	Michelin Environmental Footprint – **MEF** (indicator: energy use, water withdrawals, CO_2 emissions, volatile organic compound emissions, amount of waste produced and amount of waste landfilled) average over three years (2017-2019) must be **less than 60**	*15%*	53		
	Average **employee engagement rate:** must be **at least 80%** a year on a like-for-like consolidated basis over the 2017-2019 period	*15%*	80%		
Operating income/ (loss)	Like-for-like growth in consolidated operating income from recurring activities[(1)], of **€150 million a year** over the 2017-2019 period	*25%*	145		

(1) Indicator replacing operating income before non-recurring income and expenses.

/ Performance shares vested and delivered

Note that during 2017:

- no Managing Partner of the Company received any performance shares;
- the ten employees other than Managing Partners who were granted the greatest number of share rights:
  - received 54,075 rights to one performance share (one grantee received 8,175, another grantee received 6,290, three grantees received 5,660, two grantees received 5,030, two more grantees received 4,400 and one grantee received 3,770),
  - received 16,052 performance shares (three grantees received 1,754, six received 1,579 and one grantee received 1,316).

Clermont-Ferrand, February 9, 2018

Jean-Dominique Senard

Chief Executive Officer

5.5.5 EMPLOYEE SHARE OWNERSHIP

Following completion of the five employee savings plans set up in 2002, 2003, 2008, 2013 and 2016, 74,397 Group employees and retired employees in 47 countries around the world were shareholders. At December 31, 2017, employees owned 2% of issued capital.

A new global employee share ownership plan is scheduled for 2018.

5.5.6 INFORMATION CONCERNING A SHARE BUYBACK PROGRAM CURRENTLY IN EFFECT

The following information includes the disclosures reported in the Chief Executive Officer's Report in compliance with Article L. 225-211 of the French Commercial Code.

5.5.6 a) Authorizations granted to the Chief Executive Officer

At the Annual Shareholders Meeting of May 13, 2016, shareholders granted the Chief Executive Officer an 18-month authorization to buy or sell shares of Company stock, as part of a new share buyback program. The Company was authorized to buy back up to 10% of the total shares outstanding, at a maximum purchase price of €140 per share, with the requirement that it not hold more than 10% of its own share capital at any time.

The authorization was used in 2016 (please refer to section 5.5.7 a) of the 2016 Registration Document) and in 2017 (please refer to section 5.5.7 b) below).

At the May 19, 2017 Annual Shareholders Meeting, shareholders granted the Chief Executive Officer a new authorization, valid for 18 months or until replaced, to buy or sell shares of Company stock, under the same terms and conditions as the previous authorization, at a maximum purchase price of €160. From its entry into force this authorization has replaced the previous authorization.

The Company signed a share buyback agreement with BNP Paribas to take effect between February 2017 and November 2017.

At the Annual Shareholders Meeting on May 18, 2018, shareholders will be asked to authorize the Chief Executive Officer to buy or sell shares of Company stock as part of a new buyback program, the terms and conditions of which are described below in section 5.5.7 "Description of the share buyback program submitted for shareholder approval at the Annual Shareholders Meeting of May 18, 2018".

5.5.6 b) Transactions in the Company's shares in 2017

The following transactions were carried out under the share buyback programs authorized by shareholders at the May 13, 2016 and May 19, 2017 Annual Shareholders Meetings, for 262,756 and 647,720 shares respectively.

The Company no longer held any shares in treasury at December 31, 2017, as was the case at January 1, 2017. At December 31, 2017, a total of 910,476 shares had been bought back by the Company during the year, of which 893,197 were purchased for cancellation and 17,279 were attributed to the UK shareholders plan.

5.5.6 c) Purpose of shares held in treasury at December 31, 2017

The Company held no shares in treasury at December 31, 2017.

5.5.6 d) Market value of treasury shares at December 31, 2017

No shares were held at December 31, 2017.

	Treasury shares bought back and sold during the year	
	Buybacks	**Sales/transfers**
Number of shares	910,476	17,279
Average transaction price per share *(in €)*	112.17[(1)]	107.17
Average exercise price	N/A	N/A
Total cost of transactions *(in €)*	100,000,000[(1)]	2,036,262

(1) Before transaction costs.

Derivative instruments were not used to buy back shares. The Company did not have any open buy or open sell positions in its own stock at December 31, 2017.

5.5.7 DESCRIPTION OF THE SHARE BUYBACK PROGRAM SUBMITTED FOR SHAREHOLDER APPROVAL AT THE ANNUAL SHAREHOLDERS MEETING OF MAY 18, 2018

The following description has been prepared in accordance with Articles 241-1 et seq. of the General Regulations of the French securities regulator (AMF) and with European Commission regulations.

/ Date of the Annual Shareholders Meeting at which the share buyback program is submitted for approval

May 18, 2018.

/ Purposes of the new share buyback program

- To purchase shares for sale or allocation to employees of Group companies in accordance with the conditions set down by law, including (i) on exercise of stock options, (ii) under performance share plans and (iii) in connection with employee rights issues.
- To maintain a liquid market for the Company's shares through a liquidity agreement complying with a Code of Ethics approved by the AMF.
- To purchase shares for allocation on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company.
- To purchase shares to be held and subsequently sold, exchanged or otherwise transferred in connection with external growth transactions.
- To implement any other market practices that may be authorized in the future by the applicable laws and the AMF.
- To acquire shares for cancellation under a shareholder-approved capital reduction.

/ Maximum percentage of issued capital, maximum number and characteristics of the shares the Company proposes to buy back and maximum purchase price

The Company would be authorized to buy back up to 10% of the total shares outstanding, i.e. 17,952,098 shares at the date of this report. Based on the maximum purchase price of €180 per share, this would correspond to a maximum theoretical amount of €3,231,377,640.

In accordance with the law, when shares are bought back for the second purpose listed above, the number of shares used to calculate the 10% limit is the number bought back less the number sold during the course of the program.

Pursuant to Article L. 225-210 of the French Commercial Code, the total value of shares held in treasury may not exceed the amount of available reserves (other than the legal reserve) recorded in the Company's balance sheet at December 31, 2017.

/ Duration of the share buyback program

Subject to shareholder approval, the shares may be bought back at any time during the 18 months from the May 18, 2018 Annual Shareholders Meeting, *i.e.* until the close of trading on November 18, 2019.

Effective as from the Annual Shareholders Meeting of May 18, 2018, this authorization would replace the similar authorization granted by shareholders at the Annual Shareholders Meeting of May 19, 2017.

2017 EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

(PUBLISHED IN COMPLIANCE WITH ARTICLES L. 225-102-1 AND R. 225-105-1 OF THE FRENCH COMMERCIAL CODE)

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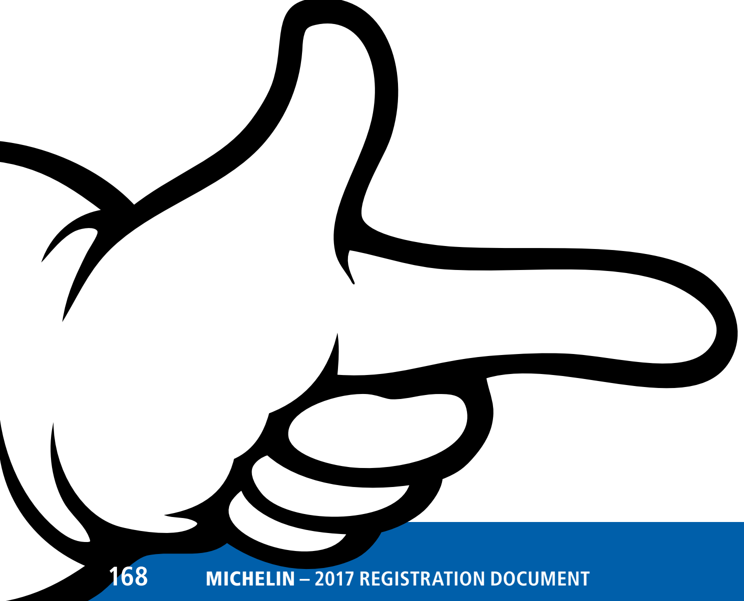

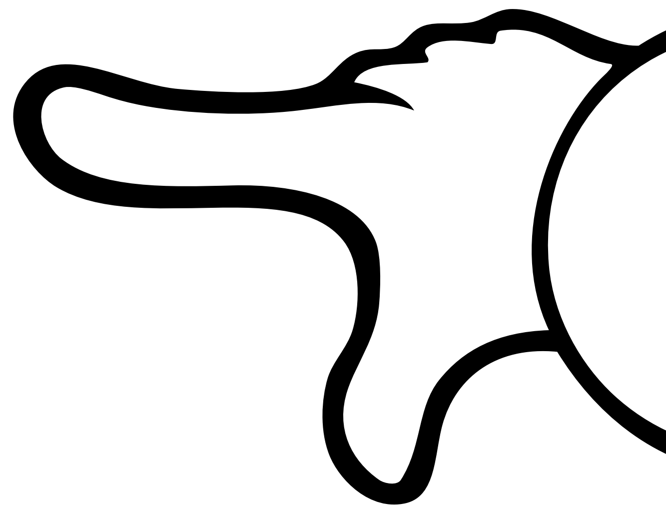

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6.1 CSR REPORTING METHODOLOGY

DEFINITION OF CONTENT AND SCOPE OF REPORTING

Michelin's social responsibility approach, formerly called Michelin Performance and Responsibility and now known as Sustainable Development and Mobility (SDM), informs everything the Group does to fulfill its corporate mission of offering everyone a better way forward. The SDM approach ensures that all of the improvement objectives are addressed at every stage in the definition and deployment of the Group's strategy.

SDM is directly managed by the corporate Brands and External Relations Department, attesting to Michelin's commitment to actively engaging in public debate and the concerted actions being taken by stakeholders to foster mobility that is safer, more efficient and more environmentally sensitive.

In 2013, six ambitious objectives were set for 2020, with targets and performance indicators defined for each one. Managed on an annual basis, these objectives are driving the continuous improvements that will make Michelin the world leader in sustainable mobility, as measured not only by its financial and business performance, but also in environmental and social responsibility terms. In addition to these ambitious objectives, Michelin has long deployed clearly defined processes and meaningful indicators capable of tracking and challenging its corporate social responsibility (CSR) performance.

Michelin is a French *société en commandite par actions* (partnership limited by shares) headquartered in Clermont-Ferrand, France and listed on the Euronext Paris stock exchange. As such, in every host country around the world, it applies the CSR reporting standards defined by French legislation. As a result, both the structure and the content of this report primarily comply with the French legislation applicable to companies like Michelin.

However, as the reporting environment continues to shift under the impact of rising stakeholder expectations, changing legislation and the emergence of international standards, the Group is enhancing its approach by i) gradually incorporating the standards of the Global Reporting Initiative; and ii) measuring its actions against the United Nations Sustainable Development Goals, as expressed in the 2030 Agenda (see the concordance tables on pages 371 and 375 below).

In the following section, the employee, societal and environmental information found respectively in sub-sections 6.2, 6.3 and 6.4 is presented in compliance with Article L. 225-102-1 of the French Commercial Code (see the cross-reference table on page 369). This article was created by Article 116 of the NRE Act and successively amended by Article 225 of the Grenelle II Act of July 2010, the Warsmann IV Act of March 2012, Article 173 of the Energy Transition Act of August 2015 and Government Order No. 2017-1180 dated July 19, 2017. It requires every listed company in France to disclose, in an annual corporate social responsibility report, its commitments to supporting sustainable development and the circular economy, reducing food waste, fighting against discrimination and encouraging diversity. Reporting companies must also disclose the impact their operations and the use of their products and services may have on climate change. These sections further comply with Article R. 225-105-1 of the French Commercial Code, which lists all of the information that must be disclosed in this report.

This year, the new sub-section 6.5 "Due Diligence Plan" reviews all of the risks incurred by the Group and its main subcontractors in three areas – the environment, health & safety and human rights – in compliance with Act 2017-399 of March 27, 2017.

REPORTING CYCLE AND PERIOD

The reporting cycle is annual, with this year's reported data covering the 12 months from January 1 to December 31, 2017. As a result, it continues to comply with the Grenelle II standards, while the 2018 report will include the non-financial information report mandated by Government Order No. 2017-1180 dated July 19, 2017.

MATERIALITY

The Group's materiality analysis was performed in five phases: understanding the environment; identifying the issues; assessing each issue's materiality; positioning key Michelin issues involving an action plan; and finalizing the matrix.

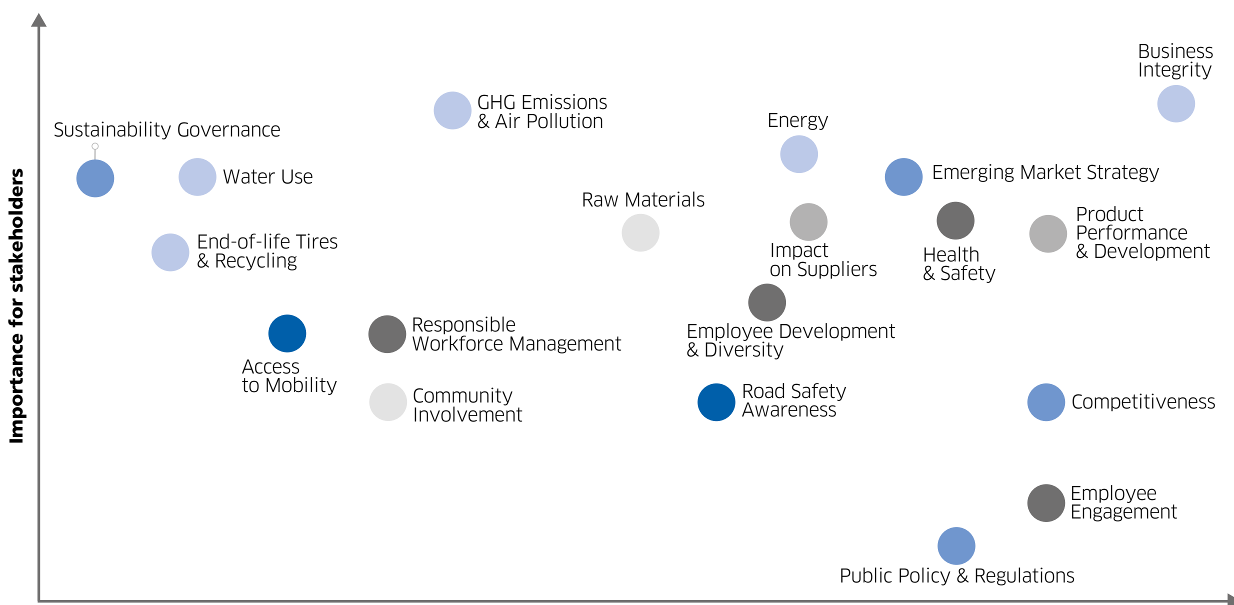
Based on the initial phase and on the issues identified by customers, suppliers and other stakeholders, a comprehensive list of issues was prepared. Each issue's business impact and relevance were then assessed in association with an independent firm, by assigning each one a financial score, an operational score and a reputational score, first from Michelin's viewpoint and secondly from that of its stakeholders. The Group then assessed the degree of control it had over each issue.

These material issues were positioned on the matrix, highlighting the sensitive areas requiring attention and the areas of strategic importance.

Based on the internal matrix showing the areas deemed to be sensitive according to the Group's governance, another matrix was prepared, which more neutrally positioned the issues according to their importance first to all the outside stakeholders and secondly to Michelin.

The resulting materiality matrix revealed three critical methodological vectors: (i) the Group must effectively address the issues raised by its customers, suppliers and non-business stakeholders; (ii) when addressing the non-business stakeholder issues, it is important to identify the ones that have a greater impact or influence on the Group's operations or facilities, or are more representative of them; and iii) subjective aspects concerning how an issue is perceived by a given stakeholder must also be taken into account.

MATERIALITY MATRIX



INDICATORS

The indicators used in this Registration Document have not been materially changed from the prior year, thereby ensuring comparability of data. For the same reason, performance data in the key indicators have been reported over five years.

In addition to the consolidated data, information has also been provided specifically for Manufacture Française des Pneumatiques Michelin (MFPM), which coordinates most of the manufacturing, sales and research operations based in France.

Employee indicators

Michelin has redefined its employee information reporting process in compliance with Articles L. 225-102-1 and R. 225-105-1 of the French Commercial Code. When the Grenelle II Act came into effect in 2012, the Group's reporting systems were optimized, the categories simplified and the scope of reporting broadened.

/ Data collection applications and scope of reporting

PeopleSoft/Oracle human resources management software is used in 13 languages to manage employee data in the consolidated companies. Most of the employee information for 2017 was extracted from the Chorus database associated with this software.

Workforce numbers are consolidated at Group level. Each table specifies the scope of reporting for the data concerned. However, most of the analyzed employee information provided in compliance with Article R. 225-105-1 of the French Commercial Code – workforce numbers, working hours, health & safety data, labor relations, training, equal opportunity – concerns all of the Group's consolidated units except for the dealership networks, Tigar and recently acquired companies, *i.e.* 82.5% of all employees on payroll. Unless otherwise specified, these data cover employees under all types of work contracts, except interns, apprentices, work-study trainees and temp agency workers. This same scope applies to the annual Moving Forward Together survey of Group employees[1].

/ Indicator consolidation method

Data were reported by the country organizations and companies in accordance with corporate guidelines. These guidelines describe, for every Michelin host country and member company, the process for compiling the employee and societal indicators required by Article R. 225-105-1 of the French Commercial Code. They also specify the implementation and outside audit procedures that ensure that the process is managed efficiently and consistently across the organization. Lastly, they define the indicators or cite the registration documents in which they are defined. Each country organization is responsible for the fairness and accuracy of the reported data. As part of a continuous improvement process, Group Human Resources audits the data on a monthly basis to ensure their accuracy and consistency.

Societal indicators

There are two types of societal indicators. The Group's involvement in local communities is designed to meet three objectives: develop the local economy, support the personal growth of people in the community and road safety. For the first objective, the Group's initiatives and outcomes are measured by the financial value of the allocated funding and time. Compliance with values such as human rights and the effective application of responsible procurement practices are assessed by independent organizations specialized in risk analysis (Verisk Maplecroft) and CSR ratings (Ecovadis).

(1) Except employees of Euromaster, TCI, Sascar, IHLE, Blackcircles, Book-a-Table and a few other small units.

Environmental indicators

/ Environmental impact of Michelin facilities

By their very nature, production plants (section 1.6.1) are the Michelin facilities most concerned by the environmental aspects of sustainable development, with the dealerships, offices and other sites having a very small footprint. This is the reporting approach that has been taken year after year in this report.

The Group's primary environmental indicator is the Michelin Environmental Footprint (MEF), which was first defined in 2005 to measure the six environmental criteria deemed to be the most meaningful in addressing medium-term issues: water and energy consumption, carbon dioxide (CO_2) and volatile organic compound (VOC) emissions, total weight of waste produced and total weight of waste landfilled. Each aspect is weighted according to its impact and calculated per ton of tires produced according to the following formula:

MEF site

Component		Weighting
Resource consumption	Energy	15
	Water	15
Air emissions	VOCs*	25
	CO_2	15
Waste	Total weight generated	15
	Total weight landfilled	15

* *VOC: Volatile Organic Compounds.*

By definition, the Group MEF was base 100 in 2005. Each of the six basic components is expressed in units per ton of finished product.

Data are reported in the same format by every site around the world *via* a networked application. The reported indicators are defined and standardized in a reference guide that is used during internal audits and independent reviews.

In 2017, the scope of MEF reporting covered a total of 77 production plants, natural rubber processing facilities and Technology Center sites having a material impact on the environment. Data are collected for the 12 months from January 1 to December 31 of each year.

If a new facility is opened, it tracks MEF data from the first month of reported production. In the case of closure, the facility is removed from the scope at the end of the calendar year in which it closed. The environmental data for these facilities are included in the scope until the last month of reported production.

In 2017, as an exception to this rule, the plants in Manaus and São Paulo were not included in the scope of reporting, but they are now being incorporated into the 2018 process.

Since 2005, MEF performance has been reported every year following an independent audit of the data by a statutory auditor, in accordance with the French Commercial Code.

Three other indicators, measured on the same basis as the MEF, track sulfur dioxide emissions, nitrogen dioxide emissions and the amount of hazardous waste produced, expressed per ton of finished product in the same way as the six basic MEF components. These are used to report on annual performance and the effectiveness of the related compliance measures.

/ The carbon footprint of products and services

Since 2014, Michelin has used the CDP Climate Change questionnaire to disclose its annual Scope 3 GHG emissions from activities in both the upstream and downstream value chain. As in the case of Scope 1 and 2 emissions, they are measured using the guidance published in *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (World Business Council for Sustainable Development and World Resources Institute, revised edition) and its supplement, *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (World Resources Institute and World Business Council for Sustainable Development, September 2011). Scope 3 calculations enable the Group to lead action plans with suppliers to abate carbon emissions and meet the expectations of external stakeholders, such as CDP's institutional investor members and certain Michelin customers who request carbon footprint data.

All of the figures disclosed in this report are estimates, reflecting the 10-30% margin of uncertainty inherent in calculating the various types of Scope 3 emissions. Calculation assumptions, source data and emission factors are reviewed and revised every year to attenuate uncertainty and make the calculation methods for the different value chain activities more robust. All of the 2016 Scope 3 calculations were audited in accordance with ISAE 3000 by an independent third party, which expressed limited assurance that the calculations were made in compliance with the protocols mentioned above.

FAIR, VERIFIABLE DATA

For the twelfth consecutive year, Michelin's CSR data were reviewed by PricewaterhouseCoopers, the Statutory Auditors designated as an independent third party. In 2017, for the fifth year in a row, their review was conducted in accordance with the decree of May 13, 2013 issued in application of the Grenelle II Act, which defines the conditions under which the independent third party performs its engagement. Following the review, a report was issued by PricewaterhouseCoopers attesting to the presence and fairness of the required information.

6.2 EMPLOYEE INFORMATION

Michelin's employee relations are governed by the highest standards in accordance with the universal principles of human rights and international labor conventions.

A FIRM COMMITMENT TO EMPLOYEE WELL-BEING AND DEVELOPMENT

Michelin is a signatory to the United Nations Global Compact and is committed to upholding its ten principles. It also complies with the OECD Guidelines for Multinational Enterprises. Michelin recognizes the Universal Declaration of Human Rights and the conventions of the International Labour Organization, particularly in relation to freedom of association and protection of the right to organize (see section 6.2.5), the elimination of discrimination in employment and occupation (see section 6.2.6 b), and the abolition of forced labor and effective abolition of child labor (see section 6.3.4 *et seq.*).

These principles and guidelines have inspired a number of internal reference documents, particularly the Michelin Performance and Responsibility Charter, the Code of Ethics, the Anti-Corruption Code of Conduct, the *Moving Forward Together, the Trademark of Mutual Commitment* document, the Manager's Guide and the Michelin Purchasing Principles. Widely distributed among employees worldwide, all these documents have been translated into the Group's main working languages and are available for consultation at any time on each country organization's intranet site.

This section describes six major issues addressed by Michelin's HR policies:

1. **Acting as a responsible employer worldwide;**
2. **Fostering workplace well-being;**
3. **Deploying a proactive health and safety policy;**
4. **Managing, developing and empowering people in every job;**
5. **Nurturing dialogue, communication and listening;**
6. **Practicing diversity sustainably, with a practical, structured approach.**

6.2.1 ACTING AS A RESPONSIBLE EMPLOYER WORLDWIDE

In 2017, the number of employees rose slightly over the year, led by increases in South America and, to a lesser extent, Europe. The percentage of women in the workplace has been rising steadily, year after year, and now stands at more than 17% Group-wide.

6.2.1 a) Employee data by geography and gender

In 2017, the workforce totaled **114,069** people[1], of whom 17.5% were women[2].

/ Employees on payroll at December 31, 2017

(Employees on payroll, consolidated companies, under any form of work contract, excluding temp agency workers)

	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total	GRI Indicators
Number of employees	66,598	22,649	7,999	15,078	1,745	**114,069**	GRI 102-07 GRI 102-08
MFPM						***19,301***	

The worldwide workforce rose in 2017, ending the year at an aggregate 114,069 employees, compared with 111,708 at December 31, 2016. Most of the increase came from South America, following the acquisition of Levorin.

/ Full-time equivalent employees on payroll at December 31, 2017

(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)

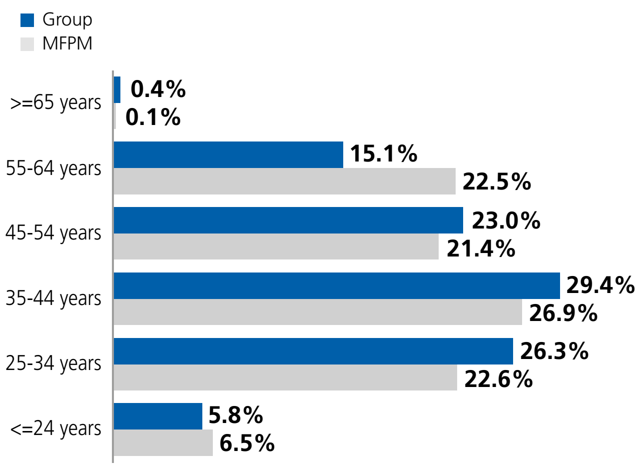
	Europe	North America	South America	Asia (excluding India)	Africa/India/ Middle East	Group Total	GRI Indicators
Number of employees	61,821	21,781	7,415	15,050	1,740	**107,807**	GRI 102-07 GRI 102-08
MFPM						***17,829***	

(1) Including the dealership networks, Tigar and recently acquired companies.
(2) Excluding the dealership networks, Tigar and recently acquired companies.

The breakdown by region remained stable over the year. France again accounted for more than 20% of all full-time equivalent employees, with more than 21,700 people nationwide (including Euromaster and Michelin Travel Partner).

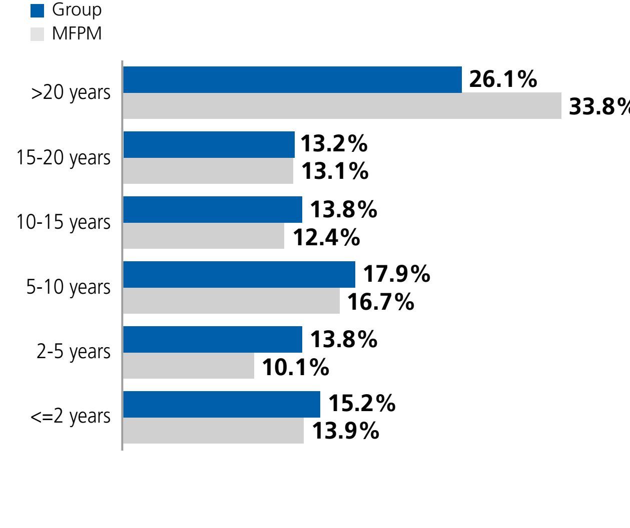
AGE PYRAMID

(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)



SENIORITY

(Full-time equivalent employees of consolidated companies, excluding interns, work-study trainees, apprentices and temp agency workers)



/ Women as a percentage of employees at December 31, 2017

(Employees on payroll, under any form of work contract, excluding temp agency workers)

Percentage of women by employee category and region	Production operators	Administrative employees and technicians	Managers and supervisors(1)	Total	GRI Indicators
Europe	11.1%	33.0%	26.5%	**17.8%**	GRI 102-08
MFPM	*6.1%*	*26.0%*	*26.6%*	***17.1%***	
North America	14.1%	50.9%	23.6%	**18.1%**	
South America	7.1%	23.9%	28.6%	**13.2%**	
Asia, excluding India	10.3%	41.4%	28.6%	**17.6%**	
Africa/India/Middle East	9%	24.7%	14.0%	**12.6%**	
GROUP TOTAL	**11.4%**	**35.0%**	**25.7%**	**17.5%**	GRI 102-08

(1) Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.

The priority focus on feminization can be seen in the year-after-year increase in the percentage of women in the workforce (see section 6.2.6).

/ Contract employees and temp agency workers

In 2017, contract employees represented 5.2% of full-time equivalent employees Group-wide.

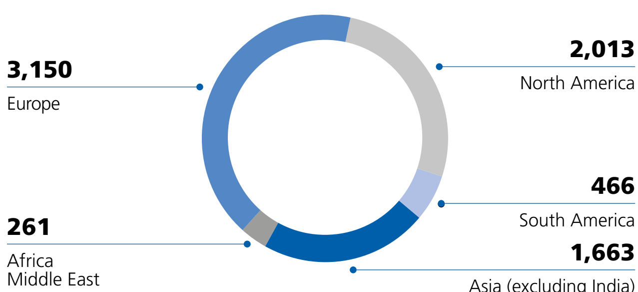
The number of temp agency workers is tracked by the Purchasing Department based on detailed worldwide invoicing data from all of the agencies that have signed global or regional master contracts. In all, the use of temp agency personnel corresponded to **3,700** full-time equivalent jobs on an annualized basis in 2017.

The total number of contract employees and temp agency workers remains low, at much less than 8.5% of the aggregate workforce.

6.2.1 b) Employee movements

Around the world, Michelin is enhancing its appeal among young people.

NEW HIRES IN 2017



New hires under permanent work contracts.
Excluding the dealership networks, Tigar and recently acquired companies.

A total of **7,553** people were hired in 2017, more than in 2016, with women accounting for 21% of the entrants. Hiring increased in every operating region.

MFPM hired 1,144 new people during the year, up from 871 in 2016. Of these, 71% were production operators, reflecting the need to replace retirees and to staff the increase in capacity utilization at several French plants.

/ Separations by reason

Separations in 2017	Resignation	Dismissal/ termination by mutual agreement	Retirement	Death	Total	GRI Indicator
Group	2,682	2,524	2,077	120	**7,403**	GRI 401-1
MFPM	*160*	*262*	*842*	*29*	***1,293***	

Employees under permanent work contracts, excluding the dealership networks, Tigar and recently acquired companies.

Separations tend to occur for three main reasons: (i) retirement, which almost exclusively concerns the mature regions; (ii) resignation, particularly in the Africa/India/Middle East region and to a lesser extent in Asia and North America; and (iii) dismissals and terminations by mutual agreement, which stand at less than 2.5% of employees.

/ Attrition rate

	2017	2016	2015	2014	2013	GRI Indicator
Group	5.9%	5.2%	5.9%	5.5%	5.6%	GRI 401-1
MFPM	*2.5%*	*2.2%*	*2.0%*	*2.1%*	*1.6%*	

Excluding retirements and excluding the dealership networks, Tigar and recently acquired companies.

/ Redundancy plans, job retention initiatives and retraining, placement and support programs during the year

In France, the restructuring programs announced in prior years proceeded as planned in 2017, while in the spring, a Group-wide reorganization plan was unveiled.

1. **Termination of Truck tire production at the Joué-lès-Tours plant, as announced in June 2013**

   Of the 706 jobs eliminated, 380 people took phased retirement or another form of late-career arrangement, 159 accepted a transfer and 167 were outplaced.

   The career transition workshops set up in 2014 to assist the 167 outplaced employees in building new career paths were closed in late June 2016 and, in July 2016, support was transitioned to individual counseling by an outside firm. At present, two people are still being counseled.

   As of end-2017, 70% of the people opting for outplacement had found a job, of whom 64% had been hired under a permanent contract, 18% had set up their own company and 18% had found employment under a six-month or longer temporary contract.

2. **Reorganization of the supply chain in France, as announced in 2015**

   The closure of six logistics hubs in France between late 2015 and late 2016 as part of an employment protection plan impacted 95 employees.

   Of these, 46 were furloughed until retirement, 37 transferred to another Michelin facility, and 12 opted for outplacement. Of the latter, seven found employment under a permanent contract and three others found employment under a six-month or longer temporary contract. One person left retraining leave without a solution and another is still being counseled by an outside firm.

3. **Reorganization of the Pneu Laurent business in France, as announced in 2015**

   Reorganization of the Pneu Laurent plant in Avallon (PLA) led to the elimination of 38 jobs, with 13 people furloughed, 11 transferred to other positions at Pneu Laurent, nine transferred from Pneu Laurent to Michelin positions (of whom two in other parts of France), and five outplaced. Of these last, four have found jobs under permanent contracts (one of whom having set up his own company) and one is still seeking employment.

4. **Termination of the Truck tire retreading operations at the Combaude plant in Clermont-Ferrand, as announced in 2016**

   Of the people impacted by the elimination of 330 jobs, 92 took early retirement, eight volunteered for outplacement, 228 others are pursuing their careers with the Group in France (most of them at another facility in Clermont-Ferrand and 20 elsewhere in France or abroad), and two were dismissed after refusing all of the proposed transfer opportunities.

   Of the ten people who left the Group, five have found a new job under a permanent contract, one created his own company, two are enrolled in a vocational training program and two are seeking employment, leaving four people still being counseled by an outside firm.

5. **Reorganization of the Process Engineering operations in Clermont-Ferrand, as announced in 2016**

   For this reorganization, the employment protection measures were undertaken as part of a voluntary separation plan that avoided any forced layoffs. A total of 123 people were declared redundant in the unit covered by the employment protection plan at the Clermont-Ferrand facility.

   By the end of the voluntary period, 80 people had opted for early retirement; 26 had accepted outplacement, either to a job under a permanent contract (14 people) and or to their own company after their project was validated by the outplacement agency (11 people); one had found employment under a six-month minimum temporary contract; four had transferred to another Group position in France; and 13 had accepted a position in another unit at the Clermont-Ferrand facility.

   Today, there are still two people on training leave who are completing their career transition projects.

6. **The new Michelin Group organization, as announced in 2017**

   In France, the impact of the Group's reorganization project led to the announcement of 970 redundancies among administrative employees and managers, all at the Clermont-Ferrand facility.

   A voluntary separation plan was negotiated and an agreement was signed by a majority of employee representatives on December 4, 2017. The agreement's main measure concerns a voluntary early-retirement plan which, depending on its take-up, will be followed by a program of transfer opportunities to other MFPM facilities or other Group companies in France.

   The early-retirement option period opened on December 18, 2017 and will run until March 31, 2018.

In Europe, support programs for people concerned by the measures announced in late 2015 were pursued, and in some cases, phased out during the year.

In Italy, the restructuring programs announced in prior years continued to be deployed.

1. **Fossano**

   The announced plan, which impacted 406 people, involved transferring the bead wire production facility to the Cuneo plant, which in turn offered a certain number of jobs in logistical and other operations. Positions were also proposed outside Italy. The introduction of CIGS short-time working arrangements was authorized and career transition workshops were deployed. Production operations were finally terminated on May 19, 2017. As of year-end 2017, 326 solutions had been found, with 245 people transferring to other jobs with Michelin Italia, 25 taking an expatriate position, eight people choosing early retirement and 48 leaving the company as part of a support program.

   Given the forecast separations at the end of the CIGS period on June 15, 2018 and the already scheduled inplacements, 36 of the remaining 80 people are still looking for a solution.

2. **Alessandria**

   The plan called for closure of the retreading facility, expansion of the new Truck tire production operations and the construction of additional plant warehouse space. Of the 48 people concerned by the project, 24 retreading employees were transferred to other plant units, but the productivity gains led to other redundancies, so that 37 people are still in need of support, of whom 14 have already requested outplacement assistance.

3. **TIB**

   The TIB warehouse was officially closed on December 15, 2017. All of the 28 people concerned at the time of the announcement were offered a position at another warehouse in Italy. However, those who did not want to relocate were able to explore retraining opportunities with the support of an outplacement agency, notably in connection with the site's re-industrialization. As of year-end 2017, nine people had accepted a transfer to another Michelin facility in Italy and one person had taken early retirement. All of the others have found solutions outside the Group.

4. **Turin Stura**

   Initiated in March 2017, the reorganization of the supply chain operations reduced the number of jobs from 120 to 82, making 38 people redundant. As of December 31, 2017, 23 people had found a solution, of which five had been outplaced as part of a support program and 18 had been transferred to positions in the rest of Italy. The facility is confident that solutions will be found for the remaining 15 people by January 2019, when government unemployment insurance payments expire for the supply chain operations.

In Germany, all of the restructuring projects described in the 2016 report were completed during the year. All of the employees impacted by the plans have found a solution, whether by transferring within the Group, taking supported outplacement or retiring.

1. Launched in 2017, the *Fit for the Future* project is reorganizing the original equipment call center and customer service department. Of the 11 people concerned, four have been inplaced, four others are negotiating the terms of their outplacement, and three have already negotiated an outplacement solution (one left in 2017 and the two others will leave in 2018).

2. Also rolled out in 2017, the *New Game* project concerns the replacement car tire sales operations in Germany. The eight people concerned were or are being supported by outplacement and other general programs, with the result that one person has been outplaced and seven have agreed to leave in 2018 (five have left and two are negotiating their separation).
3. The *Oststeinbek* project impacted five people, one of whom has left the Group after finding another job on his own. The other four are being supported in view of a separation in 2018.

In the United Kingdom, the closure of the Ballymena plant was announced in November 2015. Given the features of the region's social and economic environment, the programs to support the plant's 840 employees as they transition to new jobs have been scheduled over a long period.

The plant is still in operation, but its output is dwindling as employees leave. Industrial performance remains high however, reflecting the remarkable state of employee morale.

As of year-end 2017, a total of 378 people had left the plant, accounting for 41% of operators and 62% of administrative employees and managers. Of these, 265 were dismissed outright, 70 retired and 43 transferred to another Michelin facility (26 in the UK, three in France, three in Spain, two in Germany and nine in North America).

In 2018, plans are already in place whereby 22 people will be outplaced, 110 will retire and 40 will set up their own business, in most cases with the support of Michelin Development (see section 6.3.1).

This leaves 290 people still in need of a solution, or 48 per month until the plant is completely closed.

In North America, there were no restructuring programs implemented in the manufacturing operations during the year. On the other hand, the rebound in earthmover tire demand spurred the Group to prepare the Starr, SC plant to restart production in 2018. This initial phase led to the hiring of 75 operators and 15 administrative employees and managers.

Between 2018 and 2021, the Group's new organization will entail the elimination of around 450 jobs for administrative employees and managers in the North American corporate organization. The process will not involve any layoffs and will be managed by job transfers to replace employees as they retire.

6.2.1 c) Offering fair compensation and benefits

Michelin offers every employee a fair pay package that reflects his or her contribution to the Group's performance, aligned with the local practices and conditions in each host country. All employees receive supplementary compensation in forms that vary by country. They are also protected from the financial consequences of an accident or illness and offered opportunities to save for retirement.

	Total employee benefit expenses in 2017 *(in € millions)*	Production operators	Administrative employees and technicians	Managers	Provisions and provision reversals for pension obligations	Taxes, provisions and advances
Group	5,871	2,395	2,094	1,049	14	319
MFPM	*1,425*	*387*	*455*	*455*	*5*	*117*

"Taxes, provisions and advances" include taxes, provisions for pension obligations, variable compensation advances, stock-option advances and other long-term advances.

/ Compensation, payroll taxes and other employee benefits

Employee benefit expenses amounted to €5,871 million or 26.7% of net sales in 2017, of which €1,134 million in employer payroll taxes.

The total may be analyzed as follows:

(in € millions)	
Wages and salaries – Group	4,623
MFPM	*969*
Employer payroll taxes	1,134
MFPM	*366*
Benefit contributions, pensions, severance and retraining costs	106
MFPM	*89*
Share-based payments	6
MFPM	*0*
TOTAL	**5,871**
MFPM	***1,425***

/ Ensuring that compensation reflects each employee's performance and level of responsibility

Michelin is committed to offering every employee compensation that is personalized, fair and market-competitive, and that reflects his or her individual performance and level of responsibility. Compensation policies are implemented with a long-term view, taking into account each person's professional development, so as to enable people to advance according to their abilities and the needs of the Group. They are also carefully aligned with evolving market conditions and local practices.

In every host country, compensation is set and adjusted as competitively as possible, with a constant eye on achieving **the right balance between employee satisfaction and financial performance.**

An array of profit-sharing and bonus systems are in place, which vary by country and employee category. All employees, regardless of their level of responsibility, receive an individual or group bonus designed to incentivize them to deliver their results and thereby help to meet Group targets. At MFPM, for example, all categories of employees have been eligible for individual performance bonuses since 2016.

Discretionary and non-discretionary profit-sharing systems have also been deployed, in accordance with each country's practices and legislation.

To ensure cross-border consistency, these bonus and profit-sharing systems are all governed by similar rules and procedures. However, they are aligned with local job markets and conditions, and the pay-out levels are set to remain competitive in the local market environment.

Because pay scales are pegged to criteria specific to each country, in order to reflect local conditions, the average Group-wide pay rise for the year would not be a meaningful indicator.

In France, the year-on-year pay increases at MFPM were as follows in 2017:

Production operators	2.2%
Administrative employees, technicians and supervisors	2.2%
Managers	3%

Data for France.

Employee benefit policies, in such areas as post-retirement benefits, insurance and health care coverage, reflect Michelin's social responsibility commitment. National benefit systems are supplemented to ensure that employees enjoy competitive benefits in most of the Group's host countries.

Benefit policies and plans are continually updated in response to changes in the economic and legal environment and to take into account the findings of the Moving Forward Together survey (see section 6.2.5 c).

Protecting employees from the consequences of an accident or illness

Michelin has introduced systems to safeguard employees, as well as their spouses and children, against the potentially significant financial consequences of an illness or an accident. Health care plans cover medical expenses and insurance coverage guarantees an income in the case of short- or long-term disability or death.

Since 2014, MFPM's death and disability insurance agreement has significantly improved coverage for every employee category, offering supplemental compensation in the event of long-term illness or severe disability and a death benefit in the event of death while still an employee.

A wide range of proactive workplace health and safety initiatives are being assertively deployed (see section 6.2.3) and public health campaigns on such topics as nutrition and vaccinations are regularly conducted on-site.

Supplementing national pension systems

With life expectancy on the rise, a growing number of countries have national pension systems that may not be sufficient to meet employees' expectations. In response, Michelin has implemented systems that provide employees with additional post-retirement income, in accordance with their length of service.

These systems are generally funded pension plans that allow employees to contribute a percentage of their pay, in addition to the funds paid in by the employer. In certain countries, Michelin also recognizes provisions for post-retirement benefit obligations relating to previous pension plans. At December 31, 2017, these obligations amounted to €2,149 million, of which €600 million for MFPM.

Total payments under defined benefit plans amounted to €343.9 million in 2017, of which €154.1 million in benefits paid directly to employees and €189.8 million in contributions to the funds.

When legislation allows, Michelin offers retirement savings plans with matching employer contributions. The invested funds are managed by a fund manager or insurance company that has been carefully selected for its solidity and performance. As part of the project to upgrade the supplementary pension system, the PERCO retirement savings plan agreement, which covers all of the French companies, was revised and the matching employer contribution increased to 100% of the employee investment, up to an amount equal to 2.5% of the employee's prior-year gross salary. Another agreement has introduced a new supplementary pension plan in France, co-financed by the Group (in an amount equal to 1% of gross salary) and the employee (0.2%). This plan has been deployed at Manufacture Française des Pneumatiques Michelin and Compagnie Générale des Établissements Michelin, with the possibility of other French companies joining in the future.

/ Offering a variety of supplementary compensation

In addition to salary, performance-based bonuses (for meeting individual and/or group objectives and/or corporate targets), overtime pay and compensation directly related to the nature of work performed, employees are also offered supplementary compensation in forms that vary widely depending on local legislation. These include discretionary profit sharing, non-discretionary profit sharing, contributions to supplementary health insurance, retirement savings plans and employee savings plans.

In France, the 2017-2019 discretionary profit-sharing agreement renegotiated with the trade unions is comprised of three components: i) a financial component based on the operating income before non-recurring items of the French companies; ii) a component defined company by company with criteria closely aligned with each one's business (for example, one of Manufacture Française des Pneumatiques Michelin's criteria concerns the number of Progress Ideas and another the "on-time delivery" customer service indicator); and iii) a local component with criteria specific to each plant, such as the achievement of production targets, the reduction in material waste, the digital certification rate, etc. This discretionary profit-share, which is paid in the first quarter of the following year, can amount to up to 10% of salary.

In 2017, for example, nearly €60 million was paid out of 2016 net income to MFPM employees in the form of discretionary profit-shares, non-discretionary profit-shares and profit-sharing bonuses.

In France, the individual and/or group performance bonus program was successfully extended to all production operators in 2017, so that every employee is now eligible for these bonuses, in addition to the across-the-board discretionary profit-shares.

Moreover, all employees are offered opportunities to purchase shares of Michelin stock under preferential terms through an employee share ownership plan, which, as announced in 2016, is now opened for new investment every even-numbered year. During the 2016 round, 48.7% of the 107,000 eligible employees in 46 countries invested in their Company. The next plan is scheduled for 2018.

6.2.2 FOSTERING WORKPLACE WELL-BEING

Michelin wishes to create working conditions that foster a sense of balance and personal well-being. Initiatives are being deployed to improve the workplace environment and organization. In addition, the country organizations and plants have been empowered to make headway on local priorities, in accordance with the needs expressed by their employees.

6.2.2 a) Improving work-life balance

The Moving Forward Together survey (see section 6.2.5 c) continues to demonstrate that employees would generally like to enjoy a better balance between their personal lives and work, as well as greater personal fulfillment in their jobs.

/ Adjusting office work schedules

Local initiatives to encourage telecommuting are still being promoted, with a growing number of employees taking advantage of them. Teleworkers feel that one of the main benefits is the significant reduction in their weekly commute, particularly in Brazil, Romania, the United States and other countries where traffic congestion is on the rise. Operations in Germany, Canada, Spain, France and the Nordic countries have introduced work-at-home options in response to employee aspirations for a better work-life balance.

As part of its commitment to diversity, special attention is paid to requests from disabled employees, pre- and post-maternity leave employees, seniors and people working part-time after sick leave (see section 6.2.6).

/ Initiatives for production operator work schedules

While more challenging to implement for operators working in a variety of shifts to keep production plants running around the clock (3x8 hours, 4x8 hours, 5x8 hours, 2x12 hours), a number of shop floor work-life balance initiatives have been deployed, in particular as part of the empowerment process. Any adjustments to production schedules are announced as far in advance as possible.

6.2.2 b) Offering more flexible part-time options

Michelin continues to encourage part-time working, which plays an important role in improving quality of life by facilitating a better work-life balance and opening up job opportunities for people from diverse backgrounds.

Procedures for implementing these arrangements vary by country, depending on local legislation, expectations and practices. To the extent possible, they also reflect input from employee representatives.

PART-TIME EMPLOYEES BY GENDER AND JOB CATEGORY AS A PERCENTAGE OF TOTAL EMPLOYEES AT DECEMBER 31, 2017

Group *MFPM*	Women	Men	Total
Production operators	6.3%	4.4%	**4.6%**
MFPM	*7.4%*	*2.7%*	***3.0%***
Administrative employees, technicians and supervisors	9.0%	2.6%	**4.4%**
MFPM	*16.9%*	*4.8%*	***8.3%***
Managers	7.1%	1.1%	**2.4%**
MFPM	*13.1%*	*1.3%*	***4.0%***
GROUP TOTAL	**7.7%**	**3.7%**	**4.4%**
MFPM TOTAL	***14.6%***	***3.2%***	***5.2%***

Employees on payroll under any form of work contract, excluding temp agency workers and excluding the dealership networks, Tigar and recently acquired companies.

In 2017, the percentage of employees choosing to work part-time continued to increase Group-wide, to 4.4% from 3.6% the year before. The option was particularly attractive to production operators, where the percentage rose to 4.6% from 3.3% as men increasingly opted for part-time arrangements (4.4% compared to 2.9% in 2016). The percentage of women operators working part-time rose more slowly, to 6.3% from 6.2%. The proportion of MFPM employees choosing to work part-time edged back slightly, to 5.2% from 5.8% in 2016, primarily among administrative employees and managers, with the percentage of part-time operators holding steady at 3.0%.

6.2.2 c) Initiatives undertaken to address employee needs

In a large majority of plants and offices worldwide, initiatives to improve the quality of worklife (QWL) are underway with the active participation of employees and, whenever possible, their representatives.

In 2017, these improvement plans were expanded to address certain issues identified thanks to employee input, such as:

- foodservices, which have been significantly upgraded with a wide range of new projects, notably in Thailand and Brazil. In Brazil, India, China and other countries, teams on most sites can now get a hot meal on any shift, at a price that has deliberately been kept low to encourage take-up;

- in France, a program is underway to provide foodservices in every plant and office, so that as many employees as possible can get a hot meal on-site.

These and other programs to enhance the quality of worklife are being incorporated into each facility's improvement action plans by on-site Health, Safety and Quality of Worklife Steering Committees.

6.2.2 d) Positive quality-of-worklife scores in the engagement survey

In 2017, 73% of the 87,000 people who participated in the Moving Forward Together survey were satisfied with their quality of worklife. While these overall scores cannot be compared with those of the previous round due to changes to some of the questions, they do reflect how employees feel about their work-life balance and personal job fulfillment, their workplace environment and workstation safety issues. Work-life balance and fulfillment remain a priority for employees.

The highest levels of satisfaction were reported in China, Mexico and Thailand.

6.2.2 e) Aligning psychosocial risk prevention with local cultures

In a commitment to safeguarding employees from the effects of stress and harassment, a variety of programs aligned with local needs and legislation have been deployed to provide:

- **primary prevention,** through reviews, sensitivity training and initiatives to improve the quality of management. Deployed in most of the Group's host countries (North America, Spain, France, Hungary, Poland, Romania, the United Kingdom and Serbia), these measures are helping employees to protect themselves, while improving the ability of managers to detect and respond to at-risk situations;
- **secondary prevention,** through training and organizational improvement initiatives, particularly in at-risk segments/jobs. Programs to **prevent stress** with new workplace organization practices have been introduced in Germany, North America, South America, China, Spain, France, Hungary, Poland, Romania and the United Kingdom;
- **tertiary prevention,** through coaching, relaxation therapy, support groups and individual counseling by a psychologist or occupational physician.

Almost all of the plants and offices are leading quality-of-worklife programs that help to **attenuate stress** or facilitate access to medical or psychological assistance for people seeking support.

6.2.2 f) Tracking production operator absenteeism

Unforeseeable leave Production operators *(% of scheduled hours worked)*	**Sick leave and other short-term absences**	**Lost time of fewer than 61 days due to occupational injury or illness**	**Long-term leave**	**Total 2017**
United States and Canada	1.6	0.1	1.9	**3.7**
Europe (excluding Russia)	3.6	0.2	1.7	**5.5**
MFPM	*3.5*	*0.5*	*2.6*	***6.7***

The absenteeism rate was stable in North America, as a slight 0.1% decline in short-term absences was offset by a similar increase in long-term leave-taking.

The overall 0.2% increase in absenteeism in Europe was primarily led by a rise in long-term absences. Short and long-term absenteeism rates were higher than the European average in the countries with the most employees (France, Spain and Germany). By country, short-term absenteeism declined a significant 0.8% in France, but rose in Germany and Spain.

6.2.3 DEPLOYING A PROACTIVE HEALTH AND SAFETY POLICY

Michelin pays especially close attention to the health and safety of both its employees and suppliers, in full alignment with its fundamental value of respect for people, by pursuing the proactive health and safety policies described in:

- the 2011 Health and Safety Declaration;
- the 2015 Environment and Prevention General Policy Statement;
- the 2017 Health, Safety and Quality of Worklife Policy, the updated version of the Health Policy.

These commitments are based on the recommendations issued by key international organizations, such as the UN, the ILO and the OECD, and prevailing standards and legislation, including ISO 26000 and the French Commercial Code. The Environment and Prevention General Policy Statement defines the fundamentals and vision, specifies the objectives in alignment with Michelin's Sustainable Development and Mobility Ambitions for 2020 and sets the guidelines that every unit must follow.

The policies are being implemented through the Environment and Prevention Management System, which is based on the international ISO 14001 and OHSAS 18001 standards. It is being applied in every facility to **capitalize on best practices and embed them across the organization to drive consistent, continuous improvement.** The system is auditable and audited.

Every Michelin facility is staffed with risk prevention professionals, such as OSH experts, ergonomists and hygienists, and health care providers, like doctors and nurses.

These professionals share best practices and leverage acquired experience **at a regional, national and Group-wide level,** as part of a continuous improvement process.

In the production operations, the Environment and Prevention Management System is an integral part of the 64 fundamentals of the Michelin Manufacturing Way (MMW) management system, which identifies and promotes best practices in manufacturing excellence. Every year, production plants conduct a self-assessment of how well these fundamentals were being applied by auditing:

- management's engagement over time;
- the management of skills and organizations;
- the application of job basics and compliance with standards;
- the management of performance and the continuous improvement process.

The findings revealed that, thanks to the dedication of all of the process stakeholders, the eight health and safety fundamentals were very well applied in the plants, with a score of 9.1 out of 10. These self-assessments are supported by sampling-based internal audits.

6.2.3 a) Safeguarding employee health

Deployment of the Group Health, Safety and Quality of Worklife Policy is improving the performance of individual and general prevention programs, in particular by instilling a common vision and aligning medical practices.

/ Systematically monitoring employee health

A majority of employees are under the care of an occupational physician, in accordance with local legislation. **Medical check-ups** are offered to employees in the few countries, in Africa and the Middle East, that do not require companies to monitor employee health and lack the appropriate medical resources.

In the geographic zones and the leading European countries, health coordination committees are helping to align care systems and the deployment of Group health policy recommendations.

/ Preventing and monitoring occupational illnesses

Initiatives to prevent and detect occupational illnesses primarily concern the risks related to lifting, repetitive stress, physical exertion, noise exposure and chemicals.

Occupational illnesses are reported every year to help guide remedial action plans.

A full 90% of the recognized occupational illnesses occurring Group-wide are associated with job-related physical activity. The program to improve workstation ergonomics is helping to reduce the occurrence of musculoskeletal disorders. To supplement the general protection measures, employees systematically wear personal protective equipment at workstations deemed at risk.

/ Safeguarding health and ability to work

To further protect employees from impairments in health or the inability to work, the programs to attenuate occupational risks are also supplemented **with local health education initiatives and public health campaigns.**

These programs are designed to instill healthy behavior in employees, both on and off the job.

Examples include:

- medical check-ups offered to employees in countries where access to healthcare is difficult or expensive (*e.g.* **China, India, Thailand, Russia and Poland**), to provide care and enable early diagnosis of disease;
- encouraging employees to engage in physical activities and sports by installing fitness and athletic equipment and paying a portion of the registration fees for sports activities;
- awareness-building and prevention training concerning addictive behavior, nutrition, cardiovascular disease and other issues that may be defined in connection with local priorities. In some countries, these programs are organized as part of quality-of-life initiatives, such as "Balance" in Germany, "De Bem Com a Vida" in Brazil, "Oxygène" in France and "Choose Well Live Well" in the United States.

/ Obtaining independent guidance from the Medical Advisory Committee

Since 2010, **the Medical Advisory Committee,** comprised of eight outside experts, has helped to foresee and prevent health risks, based on the latest advances in science. Its independent opinions assist Group management in addressing the health risks specific to tire manufacturing. In 2017, the Committee issued opinions concerning preventive measures to protect against exposure to electromagnetic fields and psychosocial risks in the Group.

/ Protecting employees during a crisis

Michelin is ready with a full array of responses to protect employees in emergencies.

- security surveillance has been heightened in response to the ever-present threat of terrorist attacks and, more generally, to the increasingly unpredictable, highly volatile nature of international events;
- employee travel to countries at risk is now subject to prior authorization and travelers are issued security guidelines and data sheets;
- europe remains a priority target for terrorist groups, and specific recommendations have been issued to employees in the United Kingdom, Spain and Germany;
- alert levels are still being raised on sites that Michelin considers sensitive;
- in South Korea, special measures have been taken to protect travelers and expatriates in response to the extremely tense, uncertain environment created by North Korea's provocative actions on the world stage;
- the rapidly deteriorating security situation in Brazil prompted Michelin to raise the country's risk level and reassess conditions, leading to the deployment of special measures to keep employees safe;
- similarly, a dedicated action plan was initiated in Mexico, following the very sharp increase in insecurity in the state of Guanajuato, where Michelin is building a new plant;
- measures continued to be taken to protect employees from the effects of **air pollution** in large Asian cities particularly in India and China.

6.2.3 b) Assessing and preventing risks

The **Health and Safety Declaration** states that "above all else, Michelin's wish is to ensure safe and healthy conditions for everyone working in the Group." To embed a culture of safety and prevention in every aspect of the Group's business, three essential principles are being instilled across the organization:

- correct behavior begins with compliance with safety guidelines;
- through their active commitment, employees are responsible for everyone's health and safety, both their own and that of others;
- personal engagement drives continuous improvement.

This process emphasizes risk prevention, compliance, employee empowerment and management involvement, so that the Declaration is effectively demonstrated in daily work practices.

In recent years, a comprehensive, prioritized risk map has been created, based on data from standardized risk assessments conducted for every workstation. These data are also being used to set priorities in the annual or multi-year action plans. In the case of France, they are consolidated into the comprehensive risk assessment review *(Document Unique),* which addresses all of the possible risk factors.

/ Managing workplace safety

A culture of safety at work embraced by employees across the organization, as seen in:

- the corporate communication media issued by the Group;
- the initiatives designed to get management, employees and other stakeholders involved;
- the promotion of strong managerial leadership, from the executive suite to the shop floor;
- the sharing of best practices.

Two indirect yardsticks attest to the importance of safety for Michelin employees:

- 31,702 Progress Ideas were submitted by employees in 2017 to address safety issues (45%) and working conditions (55%);
- 84% of the 86,145 employees who responded to the 2017 Moving Forward Together survey felt that "we never compromise safety to meet other targets (costs, deadlines, etc.)."

/ Improving production workstation ergonomics

Most occupational illnesses are the result of musculoskeletal (MSK) disorders, which are also the cause of some of the accidents recorded in certain types of production activities. Since 2002, improving ergonomics has been a major focus of Michelin's health and safety policies.

The prevention of MSK disorders is designed into every industrial project, so as to attenuate any potentially negative impact on working conditions over the medium term.

All of the production facilities and certain logistics hubs regularly update their workstation maps to identify action priorities and deploy standard solutions.

Every year, ergonomic issues across the business base **are addressed by a dedicated capital budget,** totaling €14 million in 2017.

Projects to improve ergonomics are implemented by ergonomist-led multidisciplinary teams comprised of managers, operators, prevention specialists and physicians. Each plant is deploying a five-year improvement plan.

In addition to protecting employee health, reducing ergonomic hardship is also making the workstations more accessible and appealing to a wider range of people. In turn, this is supporting diversity, making workstations a more attractive job option, and enhancing people's well-being and motivation.

/ Managing industrial hygiene risks to protect employee health

Chemical risks are an important focus of policies to protect employee health and safety, both on the shop floor and in research and development facilities. These risks stem not only from chemicals, but also from harmful process fumes and the asbestos previously used as insulation or friction material.

Before any new chemical substance may be used, its possible risks are managed through a dedicated assessment procedure performed prior to issuing an authorization for use. The procedure gauges the substance's potential impact on human health and, if deemed hazardous, defines the conditions for its safe use. In some cases, its use may be prohibited.

Every workstation features a product data sheet written in the local language and approved by industrial hygiene experts. Based on safety data sheets, these documents are managed by a global information system, which enables real-time document sharing among experts and ensures compliance with REACH standards in Europe and the Global Harmonized System (GHS) standards in the Group's other geographic zones. The sheets describe the potential hazards and conditions for safe use of products used at the workstation.

Group tires are entirely asbestos-free and procurement contracts explicitly prohibit the presence of asbestos in any sourced object or machine. In addition, in recent years, procured machines and spare parts have been inspected to ensure that asbestos has not been reintroduced. Special checks are performed on products sourced from countries where asbestos use is permitted.

6.2.3 c) Measuring and tracking occupational accidents and illnesses

Since 2013, Michelin's worldwide health and safety performance has been measured using the **Total Case Incident Rate** (TCIR), which is based on the US Occupational Safety & Health Administration (OSHA) indicator. On the basis of every 200,000 hours worked, TCIR records the number of lost-time accidents, accidents without lost time but requiring medical treatment, incidents requiring workstation adjustments (*e.g.* due to ergonomic issues, and involving musculoskeletal disorders), or occurrences of an illness recognized as work-related. In this way, it takes into consideration not just accidents but every type of health and safety-related incident.

The Group also continues to track the lost-time incident frequency rate (LTIFR), which corresponds to the number of incidents resulting in at least one day's lost time per million hours worked, and the lost-time incident severity rate (LTISR), which corresponds to the number of working days lost to accidents per thousand hours worked.

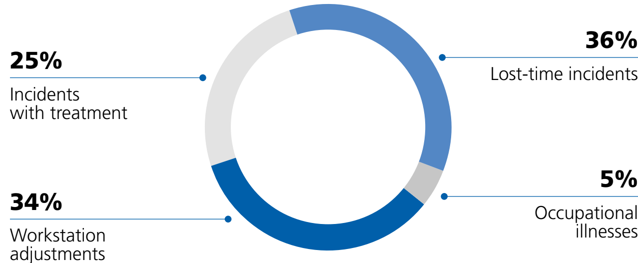
The HSER information system rolled out in 2014 is capable of reporting every incident as it occurs, including commuting accidents, minor accidents and even near-accidents, where the sharing of feedback is useful.

The HSER system also records incidents involving temporary workers and contractor employees. Such incidents are then reviewed with the companies concerned to help them prepare improvement action plans.

In 2017, a review of the consolidated, Group-wide data for the year enabled management, the ergonomist and the occupational medicine team to prepare effective health and safety improvement plans. To improve the reliability and global consistency of TCIR data, information, awareness-building and training programs continued to be conducted for the designated health and safety experts in every geographic zone.

The Michelin community was saddened during the year by two fatal travel-related accidents involving an employee at the Prime plant in the United States and a sub-contractor at the Campo-Grande plant in Brazil. There were no directly work-related fatalities in 2017.

ANALYSIS OF TCIR



(1) Treatment represents more intensive medical care than first aid, which involves stabilizing victims by cleaning their wounds or keeping them cool or warm. The various types of first aid have been identified in a list.

Consolidated TCIR declined to 2.1 in 2017 from 2.6 the year before, led by a sharp improvement in the dealership networks.

The Michelin Safety Award is presented to **operations without a single lost-time incident for at least four years,** so as to celebrate long-term safety performance (one to three million hours worked, depending on the size of the facility).

In 2017, it was presented to the Lexington and Anderson, SC plants in the United States, the Bad Kreuznach plant in Germany, the OTA research center in Japan and the Bahia facility in Brazil.

In all, **19 manufacturing facilities did not have a single lost-time workplace accident during the year,** compared with just eight in 2005.

6.2.4 MANAGING, DEVELOPING AND EMPOWERING PEOPLE IN EVERY JOB

In line with its deep dedication to sustainable employee growth and development, Michelin has reaffirmed its goal of enabling everyone to take an active role in building his or her personal career path. The transformation of the Human Resources Department that got underway in 2017 is designed to support the Group's empowerment process, while also enhancing transparency and revitalizing management practices, as expressed by employees in the Moving Forward Together survey.

6.2.4 a) Reaffirmed management fundamentals

Hired with the prospect that they will grow with the Group, employees are guided in developing their careers by their line and career managers. Their professional and personal growth is further supported by a variety of induction, integration and training programs aligned with each of their individual needs and aspirations.

More than 7,500 people were hired under permanent contracts in 2017, each of whom attended an induction program that guided them through their first days on the job and gave them hands-on insights into Michelin's culture and history. The program is also designed to deepen both their knowledge of the Group's values and their understanding of its strategy, organization and operating procedures. Experienced through seminars tailored to each employee category, the induction process encourages the development of communities and the ability to work collaboratively.

People are managed in accordance with their expressed aspirations, accumulated experience and performance in the positions held over the years. Each position is attached to one of the 700 jobs defined by the Competency Departments in charge of managing the Job Reference Standards.

To help people envision their future career paths, in 2017, the Group spotlighted opportunities for transitioning between job families and positions on a "Jobs Hub" website directly accessible by every employee. In this way, each one could proactively explore the possible pathways from their current situation to other positions in the Group, either in their own or another of the Group's 26 job families.

In 2017, the centralized human resources planning process, which is led by management in each geographic zone, continued to ensure that the right skills are available at the right time and the right place to meet the Group's future needs. In particular, it effectively planned for the hiring needed to manage turnover, which currently stands at 6.15%, and retirements.

Michelin strongly emphasizes promoting from within. As of 2017, 76% of managers had come up through the ranks after being promoted one or more times after their induction period. In addition, potential reviews serve as a basis for dynamically managing the people most likely to progress within the organization.

6.2.4 b) Sustained education and training

To support this individual and centralized management, Michelin offers every employee access to a particularly broad training catalog. Investment in employee growth and development remained strong in 2017, at a significant 5.1 million hours of training. This is reflected in the percentage of training hours per total hours worked, which stood at an estimated 3.2% for the year, in line with the 3.3% reported in 2016.

To deliver this average investment of 54 hours of training per person on payroll (excluding the dealership network), the Learning & Development function comprises 1,045 full-time trainers, including 562 production monitors.

TRAINING HOURS BY EMPLOYEE CATEGORY

Group (excluding Euromaster and TCI)	Production operators	Administrative employees, technicians and supervisors	Managers	Total
Number of training hours	3,665,826	1,195,676	246,304	**5,107,806**
Percentage	72%	23%	5%	

Scope: Employees on payroll, excluding temp agency workers and excluding the dealership networks, Tigar and recently acquired companies.

Since 2015, Michelin has been aware of the need to (i) increase use of the 9,500 modules in the employee training catalog; and (ii) intensify the training opportunities that would enable people to enhance their current job skills and acquire new ones.

In response, two major initiatives launched in 2015 and 2016 were pursued in 2017:

- the Learning Management System (LMS) was fully deployed during the year and now offers direct, personal access to training opportunities;
- digitization of the training catalog has been transformed and stepped up.

The MyLearning@Michelin LMS, which replaced the training module management and administration system still being used in 2016, now lets employees directly access locally-activated training courses *via* the connected Sub Learn System in their language of choice. Managers are automatically alerted when one of their employees signs up for a course. Everyone is therefore free to choose the courses he or she needs, in compliance with local rules.

Highlights of the transformation of the training catalog included:

- the revamp of the maintenance training unit, kicked off with a pilot project in China;
- the partial revamp of the marketing & sales and supply chain modules, to meet a need for upgraded skills;
- the revamp of a small number of quality, finance, management and other training programs.

These revamps were overseen by the job families in seamless alignment with the training catalog digitization process. By year-end 2017, employees were able to access nearly 10% of their total training hours in digital formats (e-learning, distance learning, COOCs, etc.).

6.2.4 c) Transforming the Human Resources Department

As redefined in 2016, the Human Resources Department has been tasked with fostering an environment conducive to:

- the development and fulfillment of every employee;
- the performance of responsible, capable teams across the organization;
- the fulfillment of Michelin's social responsibility vision.

This new mission is driving a gradual shift in roles and responsibilities that will empower employees, managers and teams to become fully engaged in deploying initiatives related to managing, developing and compensating people and to hiring new team members from within the organization.

In this new configuration, the Human Resources Department's role will be to (i) advise, support and act as the last resort, by deepening its close relationship with the teams; and (ii) oversee the application of its policies and deployment of the "Managing and Developing People" process.

Since early 2017, the function has therefore gradually introduced such new management practices as:

- "frequent feedback" interviews conducted regularly throughout the year between team members and their managers. Discussions draw on a variety of sources and focus on performance and development, with the outcomes recorded in a single, shared tracking system;
- personnel reviews conducted by the direct manager, other managers and the Human Resources Department. These discussions foster an all-round view of an employee, to broaden and enhance the assessment of his or her performance and development prospects;
- empowering the management chain in setting raises and bonuses to recognize each employee's personal contribution to team performance.

These three new practices have replaced the previous system of annual and long-term performance reviews, as well as the periodic development reviews conducted every three years on average.

6.2.4 d) Encouraging employees to share their ideas

Michelin has long supported participatory innovation practices, introducing the "Suggestions" process back in 1927. Since renamed InnovaGo, this system offers every employee the opportunity, spontaneously and at any time, to get more involved in Michelin's operations, growth and business. **Anyone can suggest a Progress Idea or an Innovation Idea.** A Progress Idea helps to solve a problem or improve working methods; it has an impact within the organization. An Innovation Idea opens the path to a new service or product; it benefits customers and outside stakeholders. Managers are expected to encourage their team members to suggest these ideas.

The results attest to the steady increase in the number of employees participating in the Progress Ideas program. In 2017, for example, 24,787 people expressed at least one idea, or 36.5% of all employees in facilities where the process is in place.

More than **59,000** ideas were submitted Group-wide in 2017.

Worldwide, 27,275 ideas were implemented, helping to drive progress in a wide variety of areas, including safety, quality and working conditions. **They delivered an estimated annual net savings of €24.5 million for the Group and earned the submitting employees an unprecedented €2.1 million in bonuses.**

In 2017, the initiative celebrated its **90th anniversary** with a gala ceremony at the Progress Ideas Awards on June 1 in Clermont-Ferrand, which was attended by 250 people from all of the participating plants. The members of the Executive Committee and the **Chief Executive Officer** also attended, to demonstrate their commitment and support for the process. The Awards were an opportunity to recognize the engagement of all the participants (submitters, managers, experts, correspondents, facilitators) and to honor the best ideas in each category: working conditions, diversity, finance, the environment, quality, safety, customer service and non-manufacturing operations.

6.2.5 NURTURING DIALOGUE, COMMUNICATION AND LISTENING

Michelin is giving new impetus to the social dialogue process, in order to make it a key driver of sustainable performance. Backed by a wide variety of corporate media, the Group is communicating more extensively with all employees about its strategy and the sharing of best practices. This dialogue is being nurtured by a global opinion survey measuring employee engagement and feelings about their jobs.

6.2.5 a) Social dialogue: the new labor relations policy is increasingly embraced in the different host countries

After initiating a new vision of social dialogue during a number of major collective bargaining rounds in 2016 (see the 2016 Registration Document), Michelin led the process to maturity in 2017. While these initial milestones have helped to nurture a climate of trust around the method, the Group is aware that extensive informational outreach is still needed to overcome cultural misgivings in some countries.

The current labor relations policy explicitly upholds freedom of association in every country, where allowed by law, and the right to organize, with around 80% of the workforce covered by collective agreements or contracts. It bans discrimination against employee representatives and takes the capabilities demonstrated in serving as representatives into account in the skills assessment and career management process. In the same spirit, the policy recommends that in each country agreements should stipulate "the staff representatives' means of action in accordance with the spirit of the Company's labor relations concept." As an example, these resources (offices, time allocated to representative duties, information meetings with management, etc.) are clearly in place and acknowledged by employee representatives in countries like China and Brazil.

Although market conditions forced the Group to negotiate fluctuations in output and the deployment of new competitiveness drivers in 2017, workplace sentiment remained calm and peaceful over the year. There were no strikes, except for short (often two hours) stoppages in some plants, usually to show solidarity with national calls for action by certain unions.

In addition, a top-to-bottom reorganization of management structures was announced in the spring, with impacts on staffing levels and skills management in France and the United States (see section 6.2.1). This did not cause any strikes, and the negotiations that followed to define the support measures were remarkably constructive.

The quality of social dialogue was maintained in Brazil and further improved in Thailand, especially after a study tour organized in Europe for the country's leading union leaders. In Italy and France, for example, the Thai delegates were able not only to meet with shop floor and Human Resources Department managers, but also to freely exchange views with their Italian and French counterparts, without an employer representative in the room. The trip had a profound impact on people who had previously not had the opportunity to experience a labor relations environment different from their own.

In every country, this form of social dialogue is getting management involved in increasingly spontaneous ways. In line with standard French practices, meetings are periodically organized to share detailed financial and social information among local executives, line managers and employee representatives. Transparently explaining the issues so that they are understood by all parties creates conditions conducive to much more responsible dialogue during negotiations.

Early in the year, for example, the latest collective bargaining round at the ASRC synthetic rubber plant in Louisville, Kentucky led to the signing of an agreement that met the Group's need for a dynamic balance between safeguarding its long-term interests and meeting the legitimate aspirations of its employees. After tight negotiations with national and local representatives of the United Steelworkers union (USW) and a number of the plant's representative trade unions, a fair, honest agreement was approved by employees without the slightest interruption in operations. The stakes were high, in particular because the agreement broke with the tradition of job demarcation, which the unions previously defended in opposing any form of multi-tasking that could have had a positive impact on performance. In exchange, a training and support plan was negotiated for the people concerned. Improvements are already apparent, even though the agreement represented, in the particular case of this plant, a significant break with historical practice.

In France, the FCI industrial competitiveness project described in the 2016 Registration Document continues apace and similar agreements could be signed in 2018. This way of making a country organization more competitive by working together to identify new approaches instead of just restructuring is attracting attention from other companies, and Michelin is regularly contacted to participate in benchmarking studies.

In a similar vein, the pact for the future *(Zukunftspakt),* signed early in the year in Germany, was extended at year-end by the negotiation of a *Zukunft durch Wettbewerbsfähigkeit Pakt,* which has transposed the FCI concept to Germany. These negotiations, which concerned a country-wide agreement, will be pursued in each facility in January 2018. The round once again underscored the maturity of the social dialogue process in Germany.

The progress made in labor relations in the United States, described above and in the 2016 report, offers the promise that ongoing talks with the IndustriALL Global Union in view of a global framework agreement should proceed smoothly, especially since Michelin was one of the first French companies to join the Global Deal partnership, on December 21, 2017.

Lastly, the Group's reorganization has given new impetus to the empowerment process, which is one of the new organization's three bedrock principles. In 2018, for example, the process will be deployed in twelve more plants. Moreover, the success of the process, which profoundly transforms the organization of work and the related management model, is attracting wider attention, and Michelin is increasingly being contacted for input by academics, think tanks and government representatives or for benchmarking by other major corporations. Empowerment is based on the idea that you can make work more meaningful by giving people and teams responsibility for dealing with issues that they can decide and resolve for themselves. In this model, management is much less prescriptive and much more focused on increasing people's ability to assume greater responsibilities on their own. Even though implementation of the model is still far from widespread – and it is more advanced in the production plants than in other Group units – the engagement rate among operators has already moved up in line with that of administrative employees and managers. While empowerment is not the only explanation for the improvement, it appears that it has played a major role.

6.2.5 b) Providing ample opportunity for information, dialogue and engagement

Michelin's labor relations policy reflects the wide diversity of legislation governing the social dialogue process in its host countries around the world. The Group provides all the information stakeholders need to form an objective, reasoned opinion and express it with confidence as part of the social dialogue process. The structure and content of this information are negotiated with employee representatives and complies with legal obligations in each country.

As a result, to the extent defined by a local agreement or permitted by law, employee representatives are informed and consulted in the event of any transformation or significant change in their unit's organization or working conditions, as well as of any project to introduce new technology that could alter employee jobs, working conditions, qualifications, training or compensation.

In the same way, internal communication provides managers and every other employee with the information they need to learn about and to understand changes in the business and market environment, and then to engage in informed discussions on the issues they raise.

Because Michelin believes that restructuring is an exceptional, yet in certain circumstances inevitable, decision that must be made to keep the organization competitive, Group policy specifies that should it be necessary, the project must be announced as soon as possible and carried out in accordance with the procedures negotiated with employee representatives.

In 2017, the Group announced its intention to start rolling out a new organization, designed to drive faster growth by aligning its operating processes with the emerging expectations of its customers and employees.

This in-depth transformation required the deployment of a far-reaching communication and change support plan to encourage employees across the Group to embrace the significance and benefits of the new organization. The major thrusts of this vast deployment plan were to build awareness of the need to improve customer satisfaction, increase team empowerment, simplify operating procedures and speed up the Group's digitalization.

6.2.5 c) Listening to employees *via* the annual engagement survey

Employee engagement is an important driver of operational excellence and the ability to meet the Group's performance objectives. Michelin has set the particularly ambitious objective of becoming a world-class leader in this area by reaching and maintaining an 85% employee engagement rate by 2020. The annual "Moving Forward Together: Your Voice for Action" survey measures the engagement rate and employee feelings about their work, in light of the seven aspects of the Group's employee value proposition. It was conducted across the Group for the fifth year in a row in 2017, with the massive 91% response rate among employees underscoring their confidence in the process and ensuring the credibility of the findings.

The overall employee engagement rate was stable for the year, at 80%, of which **81%** for managers, technicians, administrative employees and supervisors and **78%** for operators.

The survey is stimulating the exchange of views and ideas across the Group, with managers sharing the findings to initiate dialogue and teams working together to identify their priorities, determine the measures to be taken in the short term and recommend action plans for the longer term. In all, 83% of the **2017** respondents said that they had been able to share and discuss their team's **2016** findings, and 63% already felt that the survey is leading to positive changes.

In line with the Group's commitments, this simple, agile process is driving a cycle of annual improvement and empowering employees at every level of the organization. Following release of the findings, employees had the opportunity to meet with their managers to discuss what the conclusions meant for their unit and to define effective pathways to improvement.

6.2.6 PRACTICING DIVERSITY SUSTAINABLY, WITH A PRACTICAL, STRUCTURED APPROACH

Michelin has made diversity a driver of performance, and maintaining a high sensitivity to the risk of discrimination is a priority.

For the past 12 years, the Diversity process has been delivering steady progress, driving continuous improvement in the diversity indicators and addressing such specific issues as the hiring of more female sales representatives in 2017, the signature of new partnerships with Agefiph in France in 2017 and the distribution of anti-discrimination awareness tools, such as the "stereotypes and sexism kit" developed this year.

Michelin remains attentive to emerging expectations, in matters of religion, for example, and offers solutions that meet managers' needs.

6.2.6 a) Managing diversity seamlessly around the world

Structured around **four priority issues** – gender, nationalities and cultures, age and disabilities – the Group's approach to diversity is based on recognizing the unique worth of every individual.

In a business environment and markets that are becoming more complex by the day, a diversity of personalities enables Michelin to respond faster and more effectively to change. It also helps to accelerate innovation in every aspect of the business, from products and services to management, employee relations and organization.

In 2016, the Group's **Diversity and Workplace Equality Policy** was prepared and widely distributed in all of the geographic zones. It reaffirms a number of fundamental principles and defines a number of indicators and **guidelines, particularly in the area of non-discrimination.**

Diversity is governed by a global, multi-level organization led by the Group Diversity Director. Its objectives and guidelines are approved by the Geographic Zone Directors and the Group's Director of Human Resources, who is also a member of the Group Executive Committee. Each Geographic Zone Director sets specific annual targets for his or her region, backed by action plans. Progress on these plans is continuously tracked by management using appropriate indicators.

Host country diversity managers are organized into the international diversity network, led by the Group Diversity Director. They support the managers and Human Resources Department employees, especially career managers and recruiters, who are responsible for promoting and enhancing diversity. Employees are encouraged to submit Progress Ideas that would stimulate diversity. Diversity managers share their news through the *"BUZZ and News"* internal newsletter launched in 2016, whose three or so issues a year keep everyone up-to-date on the latest news both from around the world *(the BUZZ)* and Michelin *(the News).*

6.2.6 b) Continually developing programs and tools to attenuate the risk of discrimination

/ Systematic awareness raising for managers

To reduce the risk of discrimination, training courses have been developed to raise manager awareness. Corrective measures are taken whenever indicated by the results of internal audits. Awareness campaigns and special training programs are used to instill **an effective culture of diversity** throughout the organization and at every level of management. Country organizations are also encouraged to develop their own local initiatives for managers and employees. In Europe, programs in 2017 focused on gender stereotypes, sexism and religion.

Before taking up their position, all line and career managers participate in a training program concerning discriminatory behavior and diversity issues, which helps them to avoid stereotyping, understand diversity legislation and anticipate high-risk situations. By improving practices and attitudes, they also encourage participants to take action to promote diversity within their units. After partnering with the University of Auvergne in 2016 to develop an on-line questionnaire to help employees understand their own gender bias, in 2017, Michelin designed a stereotype diagnostic application for the Human Resources Department in Europe. Based on this pilot stereotype and sexism awareness module, each country organization will prepare its own application aligned with the local culture.

/ Annual internal audits of gender pay gaps and the wording of recruitment and hiring documents

Audits are also regularly performed to ensure that human resources processes are non-discriminatory and that action plans have been effectively implemented to address the risks identified. Audited risks include discriminatory wording in individual recruitment files (job offers, applicant interview reports, etc.) and pay gaps based on identified discriminatory criteria. Action plans are prepared and implemented to remedy any violations of Group policy. These internal audits act as a continuous diagnostic system, backed by mandatory action plans.

In addition, an ongoing **international internal control procedure** regularly verifies non-discrimination compliance around the world.

/ Religious issues

In 2017, particular attention was paid to religious issues, an area where many production plant employees have requested information and guidance. To provide managers with appropriate responses and minimize the risk of discrimination, a guide to religion in the workplace was designed in France this year, with the support of a specialized French law firm. It will be adapted for use in Germany, in accordance with national law and the specific concerns of German employees.

/ Employee engagement

Michelin encourages its country organizations to sign a European Diversity Charter, as Poland did in 2016. Operationally, however, what is really important is the engagement of human resources departments and employees, which is encouraged through such vectors as gender diversity and disability agreements in France and the creative event workshops in France and the United States that bring employees together to find solutions to increase diversity in hiring.

The challenge is also to foster the emergence of networks to support them, as is the case in the United States, which has eight community-based business resource groups, as well as women's networks. Created three years ago and supported by the Chief Executive Officer, the Women Forward network offers training, coaching, mentoring and co-development opportunities. It has also been tasked with conducting a study of the feminization of the workforce, particularly in sales and production.

In 2017, as part of fifth annual worldwide "Moving Forward Together: Your Voice for Action" survey (see section 6.2.5 c), employees were able to express their opinions about two diversity issues. The first, concerning Michelin's ability to create "an environment where people with diverse backgrounds can succeed," increased its favorable score to 79%, while the second, concerning the feeling that "people are treated with respect, regardless of who they are or their position," was stable with 80% of respondents agreeing.

6.2.6 c) Making all positions accessible to women and ensuring gender wage parity

Mirroring the automotive industry as a whole, Michelin has always had few women among its production employees. However, while women still accounted for just 11.4% of operators in 2017 (excluding the dealership networks), the percentage of women employees Group-wide has been steadily rising year after year, led by hiring programs and upgraded workstation ergonomics. The ratio is more balanced among technical staff (35%) and, to a lesser extent, among managers and supervisors (25.7%, up steadily from 22.5% in 2013).

For the seventh year in a row, women accounted for one-third of all administrative employees, technicians, supervisors and managers hired worldwide in 2017. In Europe, 43% of people hired in these categories were women. **Michelin is committed to having women account for 30% of all managers by 2020.** To support this goal, an audit of women in the sales force was performed in 2017 under the aegis of an Executive Committee member. It revealed a number of actionable ideas, particularly in terms of new career paths for women. The Group is currently defining a new target for the percentage of women in the echelons from middle to top management.

/ Enhancing manufacturing's appeal to women

Michelin is striving to **increase manufacturing's appeal to women** by working with schools to develop programs that will ultimately help to improve gender balance in production jobs. One example is the plant visits organized for high school teachers and their students.

The production plants are encouraged to increase the percentage of women hires at all levels, starting with operator positions. This often requires adjusting workstation ergonomics.

In 2017, the FACE Foundation's **Fondation Égalité Mixité,** which comprises four founding members (Michelin, AXA, Orange and Engie), managed the 11 innovative projects underway to improve gender balance in the workplace that had received total funding of €500,000 in 2016. These concerned such issues as access to jobs and starting a business, encouraging gender balance and university research in management practices.

/ The representation of women in management

Diversity*	2017	2016	2015	2014	2013	GRI Indicator
Percentage of women managers and supervisors[(1)] *(%)*	**25.7%**	24.8%	24.2%	23.5%	22.5%	GRI 405-1
MFPM	***26.8%***	*26.1%*	*24.9%*	*24.3%*	*23.3%*	
Percentage of women among top managers[(2)] *(%)*	**18.1%**	17.3%	16.4%	15.7%	14.9%	
MFPM	***18.3%***	*17.3%*	*15.7%*	*14.7%*	*13.8%*	
Percentage of women among executives[(3)] *(%)*	**11.6%**	11.1%	9.9%	9.1%	8.6%	
MFPM	***12.7%***	*11.3%*	*10.2%*	*9.2%*	*8.2%*	

* *Michelin Group, excluding the dealership networks, Tigar and companies acquired during the year.*
(1) *Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.*
(2) *Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.*
(3) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

To fulfill Michelin's commitment to hiring and promoting more women managers, a dedicated action plan has been deployed in every geographic zone. With the Group's proprietary method for **detecting high-potentials,** particular attention is being paid to the defining criteria.

In Europe, women managers identified as having top 500 potential are supported by a dedicated program comprising six months of coaching, both individually and as a group, followed by a year of mentoring. Since 2010, the program has helped women to move more quickly and easily into high-level positions. It was introduced in China in 2013 and has been deployed through an inter-company project in the United States since 2014. In 2017, more than 50 women in Europe participated in this widely acclaimed program.

Around the world, Michelin is committed to facilitating **work/life balance** with a variety of supportive benefits, including flextime arrangements, telecommuting (see section 6.2.2), daycare facilities and nursing rooms, financial aid for childcare, service centers and "Family Day" events.

/ Ensuring wage equality worldwide

Michelin applies a policy of non-discrimination and equal pay for equivalent profiles and positions. The same audited method for calculating wage data has been used worldwide since 2012, enabling comparisons between the pay levels of men and women in positions of equivalent responsibility. In 2017, the exercise covered more than a third of total employees (excluding the dealership networks, Tigar and companies acquired between 2014 and 2017). The job categories analyzed were managers, administrative employees, technicians and supervisors, for which a sufficient volume of data was available. The exercise is designed to identify the reasons behind any pay gaps among people with equivalent responsibilities, and then to close them with individual adjustments to compensation.

Closing these gender pay gaps is one of the objectives assigned every year to the Human Resources Department managers in the countries concerned. **Since 2011, the gender wage gap has steadily narrowed year after year, settling at 2.8% in 2017**[(1)].

As part of the gender diversity agreement negotiated in France by the unions and MFPM, the gender wage gap in the Company was assessed by independent researchers at the National Institute of Demographic Research (NIDR). The study reviewed comprehensive compensation data for all MFPM employees, looking at both base salary and base salary plus additional compensation for 2013, 2014, 2015 and 2016. After factoring out such variables as age, seniority and level of responsibility, the study showed that the residual value of difference in compensation between women and men was 0 for operators and administrative employees and 1.4% for managers. It also showed that promotion rates are the same or slightly more favorable for women, regardless of employee category. By comparison, according to statistics published in *Femmes et Hommes, l'égalité en question* (INSEE Références: 2017), in 2014, women earned an average 17% less income per year than men in the French public and private sectors (in full-time equivalents, without factoring out other variables like age, seniority and education).

6.2.6 d) Promoting employment for people with disabilities and retaining employees who become disabled

Defined in 2006, policies governing the employment of disabled people are designed to offer jobs to the disabled or to retain employees who become disabled at some point in their career. In addition, Michelin systematically strives to meet or exceed legally mandated quotas wherever they exist.

In 2015, this commitment was taken to the next level with the signing of the International Labour Organization's new Global Business and Disability Network Charter.

In addition to combating discrimination, Human Resources Department teams are made aware of the need to support the disabled in keeping their jobs. In France, a network of advisors has been set up in the production plants to work with occupational physicians and career managers. In response to a given case, they meet as a commission to devise a solution for adjusting the workstation or proposing an alternative career path. In 2017, an agreement was signed with Agefiph to co-finance ergonomic improvements to enable the Group to retain disabled employees, with Agefiph contributing a grant of €446,825 to a total budget of €1,671,350.

The Human Resources community regularly meets with national stakeholders working on disability issues to improve its understanding of the different forms of disability, particularly of a psychological nature.

In Germany, as part of the collective bargaining round, a plan to support and retain the disabled in shop floor jobs offers plant employees the possibility of volunteering to reduce their workweek from 39 to 37.5 hours, with a margin of flexibility. The employee would receive the same salary and time-off would be adjusted.

Hiring the disabled is governed by legal standards that vary widely by country. Some, like Canada, Russia, Serbia, the United Kingdom and the United States (where it is against the law to disclose information about a disability), do not require companies to hire a certain percentage of disabled people, while others, such as the Netherlands, have only incentive-based policies, and still others have imposed quotas.

These legal and cultural differences mean that almost every situation is unique, making it difficult to consolidate worldwide data on disabled employment. At MFPM, the legally mandated quota was once again exceeded in 2017.

6.2.6 e) Focusing on local management sensitive to host community cultures

Michelin is committed to nurturing the emergence of a highly skilled global corps of local managers, while respecting local cultures. The guiding principle is to hire and employ people on the basis of their capabilities and potential, rather than to practice any form of discrimination.

Since 2013, Michelin has been aiming for a target of 80% local management[(2)] in the growth regions. **In 2017, the percentage was 74%,** up from 72% in 2016. Particular attention is paid to fostering the emergence of local managers in the growth regions of South America, Southeast Asia, China, India, the Middle East and Russia.

Diversity issues related to ethnic origins are amply addressed by programs underway in North America and in Europe, particularly as part of the hiring and induction process. In the United States, to ensure equal treatment, performance review results are reported for women, African Americans, Asian Americans and Latinos. Any wage or job differentials are systematically analyzed and appropriate corrective measures are taken when necessary.

(1) Based on a representative sample covering 33% of Group employees on record.

(2) Calculated as follows: number of employees with a level of responsibility from A to I (top management) present in the region whose "home region" is a Growth Business Zone/total number of employees with a level of responsibility from A to I present in the region.

6.2.7 SUMMARY TABLE OF 2017 EMPLOYEE DATA

	2017	2016	2015	2014	2013	GRI Indicators
Workforce at December 31 *(Full-time equivalent employees of consolidated companies, excluding interns, apprentices, work-study trainees and temp agency workers)*	**107,807**	**105,654**	**105,798**	**106,696**	**105,724**	**GRI 102-07**
Employees on payroll at December 31 *(Consolidated companies, under any form of work contract, excluding temp agency workers)*	114,069	111,708	111,681	112,306	111,190	GRI 102-7
Europe	66,598	65,859	65,885	65,569	66,147	
MFPM	*19,301*	*19,349*	*19,658*	*19,712*	*19,979*	
North America	22,649	22,841	22,598	22,741	22,274	
South America	7,999	6,475	6,544	6,752	5,518	
Asia (excluding India)	15,078	14,835	14,977	15,431	15,458	
Africa/India/Middle East	1,745	1,698	1,677	1,813	1,793	
Employees by gender* *(Employees on payroll, under any form of work contract, excluding temp agency workers)*						GRI 102-08
Men	82.5%	82.9%	83.2%	83.7%	84.0%	
MFPM	*82.9%*	*83.1%*	*83.5%*	*83.9%*	*84.4%*	
Women	17.5%	17.1%	16.8%	16.3%	16.0%	
MFPM	*17.1%*	*16.9%*	*16.5%*	*16.1%*	*15.6%*	
Employees by category* *(full-time equivalent employees, as a %)*						GRI 102-08
Production operators	62.2%	61.9%	62.1%	62.4%	61.4%	
MFPM	*44.8%*	*45.1%*	*46.9%*	*47.4%*	*48.4%*	
Administrative employees, technicians and supervisors	29.4%	29.9%	30.0%	30.0%	30.9%	
MFPM	*39.4%*	*39.6%*	*38.6%*	*38.7%*	*38.1%*	
Managers**	8.4%	8.2%	7.9%	7.6%	7.7%	
MFPM	*15.8%*	*15.3%*	*14.4%*	*13.9%*	*13.5%*	
Employees by age* *(full-time equivalent employees, as a %)*						
24 and under	5.8%	5.3%	5.3%	5.5%	5.5%	
MFPM	*6.5%*	*5.7%*	*5.8%*	*5.3%*	*5.2%*	
25-34	26.3%	26.6%	27.2%	27.3%	27.2%	
MFPM	*22.6%*	*22.7%*	*22.8%*	*22.4%*	*21.8%*	
35-44	29.4%	29.1%	28.6%	27.9%	27.4%	
MFPM	*26.9%*	*26.2%*	*25.1%*	*24.5%*	*23.3%*	
45-54	23.0%	22.6%	22.3%	22.5%	23.1%	
MFPM	*21.4%*	*20.2%*	*20.2%*	*21.7%*	*24.4%*	
55-64	15.1%	15.9%	16.2%	16.5%	16.4%	
MFPM	*22.5%*	*25.1%*	*26.2%*	*26.0%*	*25.3%*	
Over 65	0.4%	0.5%	0.4%	0.4%	0.4%	
MFPM	*0.1%*	*0.1%*	*0.1%*	*0.1%*	*0.1%*	
Employees by length of service* *(full-time equivalent employees, as a %)*						
Less than 2 years	15.2%	21.5%	18.7%	18.3%	19.7%	
MFPM	*13.9%*	*16.7%*	*14.4%*	*13.1%*	*15.4%*	
2-5 years	13.8%	14.4%	15.4%	14.1%	11.8%	
MFPM	*10.0%*	*13.0%*	*13.6%*	*12.3%*	*8.5%*	
5-10 years	17.9%	15.1%	14.8%	16.6%	16.5%	
MFPM	*16.7%*	*12.4%*	*12.1%*	*13.1%*	*13.1%*	
10-15 years	13.8%	13.6%	13.5%	13.1%	14.8%	
MFPM	*12.4%*	*13.5%*	*13.1%*	*13.1%*	*13.3%*	
15-20 years	13.1%	10.8%	11.6%	10.7%	7.8%	
MFPM	*13.1%*	*9.6%*	*9.5%*	*8.1%*	*5.6%*	
More than 20 years	26.1%	24.5%	25.9%	27.1%	29.3%	
MFPM	*33.8%*	*34.7%*	*37.4%*	*40.3%*	*44.0%*	

	2017	2016	2015	2014	2013	GRI Indicators
Employee movements* *(permanent work contracts)*						
New hires	7,553	6,456	6,057	6,948	5,869	
MFPM	*1,144*	*871*	*750*	*606*	*588*	
Resignations	2,682	2,185	2,390	2,514	2,452	
MFPM	*160*	*129*	*100*	*119*	*112*	
Dismissals and terminations by mutual agreement	2,524	2,364	2,843	2,400	2,658	
MFPM	*262*	*244*	*250*	*255*	*185*	
Retirement	2,077	1,871	2,115	1,976	2,332	
MFPM	*842*	*794*	*710*	*827*	*1,070*	
Death	120	99	116	128	116	
MFPM	*29*	*26*	*27*	*30*	*33*	
Contract employees* *(excluding temp agency workers, as a %)*	5.2%	4.4%	4.4%	4.0%	3.9%	
MFPM	*6.2%*	*5.9%*	*5.9%*	*4.6%*	*3.3%*	
Part-time employees*	4.4%	3.6%	3.1%	2.8%	3.3%	
Training hours* *(Employees on payroll, under any form of work contract, excluding temp agency workers)*						
Percentage of training hours per total hours worked	3.2%	3.3%	3.5%	4.1%	4.4%	
MFPM	*2.5%*	*2.0%*	*2.7%*	*3.0%*	*2.9%*	
Percentage of employees who received training	85%	93%	93%	96%	94%	
Number of training hours per employee per year	54	56	59	70	76	GRI 404-1
Training hours *(excluding temp agency workers and the dealership networks)*	5,107,806	5,300,000	5,635,657	6,628,184	7,167,926	
MFPM	*835,966*	*795,956*	*923,174*	*951,707*	*987,773*	
Production operator absenteeism* *(excluding dealership networks and Russia)* **Europe**	5.5%	5.3%	5.4%	5.3%	5.4%	
Occupational accidents *(including the dealership networks and Tigar; excluding recently acquired companies, excluding temp agency workers)*						
Number of lost-time incidents, Group-wide	725	796	740	671	659	
Lost-time incident frequency rate	3.8	4.1	3.9	3.6	3.5	GRI 403-2
Lost-time incident severity rate	0.19	0.25	0.24	0.21	0.23	
Number of plants with zero recordable incidents	19	22	27	25	20	
TCIR, Michelin Group, excluding Euromaster, TCI, Tigar and companies acquired over the past two years	1.5	1.6	1.7	1.7	N/A	GRI 403-2
TCIR, entire Group	2.1	2.5	2.7	2.8	N/A	
Number of Progress Ideas*	59,082	59,601	58,980	56,372	50,462	
Diversity* *(Employees on payroll, under any form of work contract, excluding temp agency workers)*						
Percentage of women in extended management[(1)]	25.7%	24.8%	24.2%	23.5%	22.5%	
MFPM	*26.8%*	*26.1%*	*24.9%*	*24.3%*	*23.3%*	
Percentage of women among top managers[(2)]	18.1%	17.3%	16.4%	15.7%	14.9%	GRI 405-1
MFPM	*18.3%*	*17.3%*	*15.7%*	*14.7%*	*13.8%*	
Percentage of women among executives[(3)]	11.6%	11.1%	9.9%	9.1%	8.6%	
MFPM	*12.7%*	*11.3%*	*10.2%*	*9.2%*	*8.2%*	
Percentage of local top managers in growth-region countries*	74%	72%	68%	65%	62%	GRI 202-2
Percentage of management positions held by employees promoted or transferred from within*	76%	76%	75%	73%	72%	
Employee engagement rate*	80%	80%	77%	74%	72%	

* *Unless otherwise specified, employee-related figures (except headcount) concern the entire Michelin Group, excluding the dealership networks, Tigar and recently acquired companies.*
** *Management defined as employees with a level of individual responsibility of A to K, according to the Hay method used by the Group.*
(1) *Employees with a level of individual responsibility of A to N, according to the Hay method used by the Group.*
(2) *Employees with a level of individual responsibility of A to I, according to the Hay method used by the Group.*
(3) *Employees with a level of individual responsibility of A to G, according to the Hay method used by the Group.*

6.3 SOCIETAL INFORMATION

SOCIAL ENGAGEMENT FOUNDED ON RESPECTING ETHICAL PRINCIPLES AND IMPROVING COMMUNITY WELL-BEING

Michelin believes that its relationship with all its stakeholders, especially the communities near its facilities, are of paramount importance. The Group is formally committed to respecting ethical standards and fighting corruption. Moreover, as a leading sustainable mobility enabler, it plays a key role in promoting road safety through a wide variety of initiatives worldwide. Today, Michelin is broadening the scope of its community engagement by encouraging suppliers to share its social responsibility commitments and supporting them in their outreach.

6.3.1 CREATING LOCAL JOBS AND BUSINESSES

Supporting local companies with expertise and funding

Michelin is actively involved in creating jobs in its plants' host communities through its **Michelin Development** subsidiary. The only organization of its kind, Michelin Development takes a highly flexible approach to providing local companies with expertise and technical support in a wide variety of areas, including industrial organization, workplace safety, energy efficiency, quality management, sales and marketing, finance, hiring, international expansion, information technology, the supply chain and export sales.

This support can be backed by funding in the form of subsidies and five-year, low-interest, collateral-free loans, designed to create leverage with individual or institutional investors, thereby kick-starting a dynamic process of local job creation.

The start-ups supported in 2017 covered a very diverse array of businesses. Indeed, projects in any industry are eligible for support as long as they are sound and their champion is competent and motivated.

Over the past 27 years, Michelin Development has helped to create more than 34,500 jobs in France, Spain, Italy, the United Kingdom, Canada and the United States.

A sustained, active presence in local labor markets in France

Since it was formed in 1990, Michelin Development has helped to create more than **24,000 jobs in France.** Formerly known as SIDE, it operated as a subsidiary before being merged into MFPM in 2015.

In 2017, **Michelin Development France** signed 77 new agreements that committed Michelin to supporting around 1,300 jobs in local companies, backed by more than €3.9 million in financial aid.

Most of Michelin Development's activities in France involve spontaneous support for local jobs. In 2017, a third of its efforts were dedicated to plants being reorganized that were covered by a voluntary or mandated revitalization agreement. This was the case in Tours following the partial closure of the plant in 2014, then in the Beauvais, Lyon and Metz labor markets (see 6.2.1 b) following the reorganization of supply chain operations in Europe, and lastly in Clermont-Ferrand, with the closure of the Combaude retreading unit and the restructuring of the process engineering operations in 2016.

Projects involving French SMEs and SOHOs supported in 2017 included (i) a frozen snack foods manufacturer in the Aube department that has created more than 60 jobs; (ii) a start-up in the Vendée region that transforms collector cars into electric vehicles; and (iii) three of the ten Ministry of Labor pilot facilities participating in the Zero Long-Term Unemployment project, which creates a structure offering service jobs under permanent contracts that do not compete with other services offered in the local community.

Applying a similar approach in many countries

Since 2002, similar business development organizations have been set up in other European countries, such as **Spain, the United Kingdom and Italy,** where Michelin Development has helped to create a total of 454 jobs. Michelin Development's operations in Spain are managed by *Fundación Michelin España Portugal,* which helped to create nearly 180 jobs in 45 companies in 2017. Since 2004, Michelin Development has committed €7 million locally, enabling the creation of more than 3,700 jobs in 573 companies based around the Group's four Spanish plants. In Italy, Michelin Development actively supported the required outplacement of employees impacted by the closure of two facilities. This helped to create nearly 140 jobs during the year, bringing the total number created with the unit's support to more than 2,200 since 2005. In the United Kingdom, the measures taken to broaden the scope of the Ballymena program helped to double the number of grants, from 15 to 30, and drive the creation of 95 jobs. In addition, 18 employees were assisted in setting up their own businesses. Similarly, the Stoke-on-Trent program led to five grants that enabled the creation of 41 jobs.

In all, nearly 2,800 jobs have been created in the UK with Michelin Development's backing since 2002.

Since 2006, **Michelin Development North America** has invested more than $12.1 million in a wide range of small local businesses under four community outreach programs that have spurred the creation of nearly 1,850 jobs. In 2017, the program underway in Nova Scotia granted 15 loans and free-of-charge access to small business expertise to a variety of local companies, including a mobile truck repair shop, a large number of landscaping companies, a seafood distributor and several suppliers of goods and services.

6.3.2 NURTURING RELATIONS WITH STAKEHOLDERS AND NEIGHBORING COMMUNITIES

6.3.2 a) Stepping up dialogue with stakeholders

Michelin has long nurtured broad-based dialogue with all its stakeholders, regularly organizing meetings and contacts every year and assigning one or several engagement managers for each category, including customers, investors, employee representatives, suppliers, public authorities, local communities, international organizations and, since 2014, NGOs.

In addition to these channels, in 2016 Michelin also set up a dedicated Corporate Stakeholders Committee that meets with the Executive Committee at least once a year. Its 12 members were selected so as to represent (i) the Group's host regions, with members from four continents; (ii) core stakeholder categories, such as suppliers, investors, unions and customers; and (iii) organizations involved in the various employee, societal and environmental aspects of sustainable development, such as the WWF, the Global Compact, an urban planner and a human rights activist. After each meeting, a report is drafted to present the stakeholders' recommendations, some of which are then selected by the Group for further discussion or incorporation into its action plans. Following the November 2016 meeting, Michelin extended its programs addressing tire performance over time, organized a working session on the Group's balanced scorecard and benchmarked its subcontractor chain management process against BMW.

The Committee met twice in 2017. Some of the members first met in Montreal in June, during the Movin'On sustainable mobility summit, to discuss lobbying and the Group's balanced scorecard with members of the Executive Committee. Then on December 7, the entire Committee participated in the annual plenary meeting in Roanne, which was attended by Jean-Dominique Senard and six other members of the Executive Committee. Top management listened to the societal expectations expressed by the Committee and responded to comments on the Group's sustainability strategy, its proposed due diligence plan, its sustainable mobility initiatives and the project to update the materiality matrix. Sub-groups were formed to explore issues concerning the Group's response to climate change and its management of the subcontractor chain. The day before, the stakeholders had visited the Roanne tire plant and met with management and four union representatives, who talked to them about how management had worked hand-in-hand with the unions to forge an agreement to secure the plant's future. The stakeholders' recommendations concerned a wide array of issues, such as building a consistent narrative around mobility and sustainable development, Michelin's positioning as a provider of solutions for a carbon-neutral world, and the Group's engagement with "sustainable cities". These suggestions, which were summarized in a report, will be further examined in 2018.

Each year, one or two country organizations also identify their key stakeholders and bring them together to discuss various topics. Operations in the United Kingdom hosted their first stakeholder meeting in Stoke-on-Trent in July 2017. Plant and country management teams met with 12 representatives from the world of business, politics, culture, education and the voluntary sector to explore two issues: "How can Michelin contribute to enhancing the skills and employability of young people in the region?" and "How could Michelin's initiatives for the local community be as beneficial as possible with limited resources?".

Following an initial meeting with stakeholders in 2014, management teams from Michelin North America and the Greenville, SC plant got together with local stakeholders for a second time at an all-day event in November 2017. Three roundtables were organized with 33 outside stakeholders on the following topics: what does sustainability leadership mean for a tire company?; what can be done to bring the business community and educational institutions together to create a career-ready workforce?; and how can a strategy for sustainable mobility be developed?

/ Human Rights

Michelin has supported the UN Global Compact since 2010 and upholds both the United Nations Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises. In line with this commitment, a multi-disciplinary working group has been leading a human rights continuous improvement process since 2015. In 2017, Michelin also became a member of Businesses for Human Rights (EDH), a French association that supports companies in their human rights commitment with training, advisory and benchmarking services.

Preparation of the Group's first due diligence plan following the passage, in March 2017, of France's duty of care law offered an opportunity to describe the main human rights risks incurred by the Group and its suppliers and the measures taken to prevent them (see section 6.5). The draft plan was submitted to the Corporate Stakeholders Committee for review in December.

Every year, Michelin assesses the human rights risks faced by its operations in one or two host countries, either because they are a new market for the Group or because they have been flagged by the Verisk Maplecroft organization for their possible human rights risks. Since 2013, impact studies have been conducted in six of the 18 countries (33%) where Michelin has production plants, including India (2014), Indonesia (2014), Mexico (2015), Brazil (2016), Thailand (2016) and lastly Romania, where Group operations were audited by the BSR NGO in the fall of 2017. After each study, recommendations are issued in a report and backed by an action plan. For example, following the Indian impact study, a CSR committee was set up at the Chennai plant, which now meets three times a year with plant managers, several local NGOs and local stakeholder representatives.

Special scrutiny is paid for the respect of human rights in the supply chain. Raw materials suppliers operating in countries at risk of human rights abuses have been identified. In addition, Michelin's policies to ensure that subcontractors demonstrate socially responsible practices were discussed at the annual meeting with the Corporate Stakeholders Committee.

Child labor was also examined in more detail in 2017, with a review of the legal working age in each of the 18 countries where Michelin has manufacturing facilities. In-country human rights impact studies systematically analyze the potential risks of employing minors, and based on their findings to date, there is a very little risk of children being employed in Michelin-managed operations. Group suppliers operating in countries where children are at risk of child labor have been identified. A program more particularly focused on natural rubber producers has also been implemented. It uses the Rubberway® application (see section 6.3.4) to track rubber plantation working conditions (hours, compensation, etc.) and possible child labor violations.

6.3.2 b) Participating harmoniously in local community life

Michelin has a long tradition of social engagement, with a wide range of philanthropic and community outreach initiatives conducted locally and regionally by the plants, the country organizations, the geographic zones, the regions and, since January 2014, the Michelin Foundation. Deployed since late 2013, the local community engagement program encourages employees to get involved in their communities. In 2017, its guidelines were applied by plants and offices in 25 host countries (see the 2014 Registration Document).

One of the Michelin Sustainable Development and Mobility Ambitions for 2020 is to increase to 30,000 the number of employee working days a year devoted to community engagement activities. In 2016, the number of days topped 31,600 Group-wide, demonstrating the maturity of the recent system. Note, however, that in some countries, like the United States, the total includes hours spent on personal as well as company volunteer work, without distinction. **In 2017,** in this same scope of reporting, more than 33,800 days were dedicated to personal and company volunteer work, and nearly 25,700 working days alone. Operations in North America contributed the most volunteer days, followed by China and Europe in equal proportions.

Giving back to Michelin's host communities enhances the Group's appeal as an employer. In addition, volunteer work enables employees to develop their capabilities in areas different from their daily jobs.

In 2017, nearly €8.9 million was allocated to outreach initiatives in the communities around the Group's plants and offices. The decline compared with 2014 reflects the transfer of some of these initiatives to the Michelin Foundation (see section 6.3.2 c).

Because they are aligned with local needs, community engagement initiatives vary widely, as seen in the following examples.

- Employees in **South America** are especially involved in education, diversity (with the "Beaches for Everyone" project) and the environment (reforestation of Rio de Janeiro's Sugarloaf Mountain), most often in close cooperation with local NGOs.
- In **India,** health and hygiene issues attract nearly half of all volunteers, while a significant share of resources is allocated to programs that enhance the employability of young people.
- In **Southeast Asia,** a very wide variety of projects are underway, with an emphasis on road safety (particularly with the Safety Academy in Indonesia) and outreach to the neediest cases.
- Employees in **China** also take part in environmental conservation programs, helping to clean up contaminated or flooded land, maintain wilderness areas and plant new trees.
- In the **United States** and **Europe,** initiatives to support education and attract young people to technical and scientific jobs remain popular, as do charity-related sports events.

In general, and in alignment with the Group's business, road safety programs remained an important focus of commitment in 2017, particularly those aimed at children (see section 6.3.3 c).

6.3.2 c) A new chapter in corporate philanthropy

Created in January 2014 with the goal of helping people move forward, the Michelin Foundation is committed to taking action in every host country in five major areas: sustainable mobility, sports and health, community engagement and education, environmental stewardship, and culture and heritage.

It supports outstanding, innovative projects that are aligned with **Michelin's humanist culture and values of respect,** consistent with its business and meaningful to its employees and operating units.

The Foundation is governed by a Board of Directors and a Selection Committee. The Board defines the overall priorities and rules on projects valued at more than €100,000. Chaired by Jean-Dominique Senard, it includes four Executive Committee members, an employee representative and three outside experts. The Selection Committee validates projects valued at between €5,000 and €100,000. It is comprised of ten members who are representatives of the Group's operations or major corporate functions. Projects valued at less than €5,000 may be directly approved by the General Delegate, who manages the Group's philanthropic programs with the support of the Assistant General Delegate and a small team.

The combined value of the 78 projects financed by the Foundation in 2017 came to more than €13 million.

Among the year's beneficiaries were:

- A road safety program aimed at young South Africans, launched in Limpopo province by the Michelin Foundation and the South African Department of Transport in association with the Global Road Safety Partnership **(GRSP).**
- The Foundation is partnering a study by the Institute for Sustainable Development and International Relations (*Institut du Développement Durable et des Relations Internationales* – **IDDRI**) on the potential for transforming mobility in order to achieve a resilient, carbon-free national economy in France, Japan and Mexico. The study is being conducted by the Deep Decarbonization Pathways Project (DDPP), IDDRI's network of research teams brought together since 2013 in 16 of the G20 countries.
- The Michelin Foundation is also working with the **Pasteur Institute** to further scientific research. In emerging nations, there has been an increase in the number of mosquitoes carrying life-threatening diseases, such as malaria or dengue fever. To contain this health threat, in early 2015, the Institute undertook a three-year international research project conducted by its research teams in Laos and Côte d'Ivoire.
- The Michelin Foundation is helping to assist the victims of the October 2017 wildfires in Northern California, in partnership with **United Way Bay Area,** which is providing emergency relief and basic needs services to the most vulnerable families who have lost everything.
- By becoming a founding partner of the **Insula Orchestra** in Boulogne-Billancourt, France, the Michelin Foundation has agreed to provide funding during the orchestra's first three seasons on Île Seguin. It is supporting the orchestra's artistic vision and programming, helping to broaden its activities and enhance its national and international reputation, and spurring the development of bold projects capable of appealing to a wide audience.

6.3.2 d) Deepening Michelin's relationship with environmental protection associations

Whenever appropriate, Michelin fosters close ties with environmental protection associations and organizations. These initiatives concern not only the production facilities or the Technology Center but also office facilities. Partnerships are also being created with local, national and international associations, in particular to support biodiversity (see section 6.4.5).

The cooperation agreement signed in 2015 with the World Wildlife Fund (WWF) to promote sustainable natural rubber around the world was further expanded in 2017, in particular through the organization of several working meetings with the national offices of WWF USA, France, Indonesia, Japan and the Netherlands, as well as a multi-stakeholder initiative in Washington in December. During the year, Michelin worked with the Tire Industry Project (see section 6.3.3 c) to set up a global multi-stakeholder platform on natural rubber, in a commitment to building awareness of the environmental and social impacts of the natural rubber chain.

In addition, reforestation programs on the islands of Sumatra and Borneo continued to be developed as part of a joint venture with Indonesian partner Barito Pacific.

6.3.3 FAIR, HONEST BUSINESS PRACTICES

6.3.3 a) Establishing a global ethical framework

Michelin's business practices are governed by a Code of Ethics, applicable across the entire Group, although certain member companies, like Euromaster, have their own Code. Practical guidelines, in particular as concerns bribery and purchasing, have also been issued. Compliance information and training sessions have been organized for all employees worldwide.

Reflecting a deep commitment to the values of respect and responsibility, the Michelin Code of Ethics defines standards of behavior to help employees make the right decisions when confronted with an ethical issue. Published in 2010 and updated in 2014, it builds upon the Performance and Responsibility Charter and the Group's compliance guidelines and policies. **To help employees identify ethically suspect situations, it covers 17 issues:** support for the international principles in the UN Global Compact and respect for human rights; compliance with laws and regulations; conflicts of interest; gifts and invitations; government relations and anti-corruption; donations and political contributions; confidentiality; competition and fair dealing; insider trading; protection of the Group's assets; fraud; relations with suppliers; trade and export issues; fairness in financial reporting; health and safety; discrimination and harassment, and protection of employees' privacy.

Translated into 13 languages, the Code of Ethics is readily available to employees, who can download it from the intranet. Team managers have also received a print copy.

The Code of Ethics was deployed first by region, then by country and lastly by facility, with managers involved at every level. Information and training sessions are regularly conducted on-site and/or online, depending on local needs, so that every employee is capable of understanding and complying with the Code and its guidelines.

The deployment and diligent application of the Code and its guidelines are managed and controlled by a **governance** system comprising Ethics and Compliance Committees at the Group, region and sometimes country levels.

Their members include representatives from the Audit, Finance, Legal Affairs, Personnel, Security and Sustainable Development Departments, as well as the Regional Directors.

Compliance is ensured through a system of **regular controls,** based on an ethical risk map, integrated reporting systems, an internal control manual and internal audits.

Anonymous, protected **whistle-blowing procedures** enable employees to report possible infractions of the Code of Ethics as well as suspected failures to apply the Michelin Performance and Responsibility Charter. In every region, ethical violations may be reported via an ethics hotline or to occupational physicians, employee representatives, local legal affairs teams, career managers or direct managers.

When **ethics violations** are observed, they are analyzed according to a Group-wide process defined by the Security Department, which decides, based on the reports, the best way to lead the in-house investigations. The findings may then give rise to action plans, corrective measures and/or disciplinary sanctions depending on the circumstances and the seriousness of the violation.

Of the violations reported in 2017[1], around 40% concerned the protection of Group assets, 14% fraud, 1% confidentiality, 4% compliance with laws and regulations, 3% conflicts of interest and bribery, a little over 24% issues involving people, and the remaining 14% other categories in the Code of Ethics. Following the investigations conducted in 2017 and prior years, disciplinary measures (warnings, unpaid leave and dismissals) were applied and legal action was taken to enforce the law, bring charges for fraud and, in certain cases, bring civil proceedings to recover Michelin's assets.

(1) Across the entire Group, including the dealership networks. Reported violations occurring at year-end are all recorded, but may still be under investigation or awaiting resolution.

6.3.3 b) Taking an active approach to corruption prevention

The process for combating corruption is based on prevention programs, training, internal control and disciplinary measures.

In 2010, the Michelin Code of Ethics specified the fundamental rules and guidelines that must govern every employee's decisions with regard to preventing corruption.

To strengthen this system, an easy-to-understand, practical **Anti-Corruption Code of Practice was published in 2015** for all employees, demonstrating the Group's commitment to building its sustained growth on fair and ethical business practices.

The new Code is designed to raise manager and employee awareness of the actions that may indicate an attempt at corruption, by providing examples and offering advice on how to counter such attempts. More specifically, it deals with such typical cases as bribes, kickbacks and payoffs, the use of agents and intermediaries, payments for favors, inducements, charitable or political contributions, gifts and invitations.

Since September 2015, the Code has been gradually deployed in every operating region, in compliance with local legislation and employee representative consultation procedures.

/ Special measures governing procurement

As part of the internal control process (see section 6.3.4 b), the Purchasing Department has implemented a number of dedicated measures.

The rules of professional conduct in supplier relations and anti-corruption guidelines are communicated to all of the Department's employees and contacts across the Group. They form an integral part of the Michelin Purchasing Principles document, which governs supplier relations and is included in every contract. It may also be downloaded from the **Purchasing Department's website.**

All new hires in the Purchasing Department must participate in a **dedicated ethics and anti-corruption training module** before taking up his or her position. In addition, to support compliance with the ethical guidelines specified in the Code of Ethics and the Anti-Corruption Code of Practice, the Group's reference documents, an online training module was developed in 2017 and, starting in November, deployed in the Purchasing organization and among internal partners in contact with Group suppliers.

In the event of difficulties in their relationship with Michelin that cannot be resolved through their usual contacts, suppliers may use a form on the Purchasing Department's website to contact the Group's **customer-supplier relations mediator,** to find a quick, mutually acceptable solution.

The supplier may also use the website to request information about compliance with the Purchasing Principles.

Suppliers' social responsibility performance is assessed by EcoVadis, an independent company. Depending on the review findings, certain suppliers may be asked to deploy an improvement plan to bring their performance up to Michelin standards (see section 6.3.4).

A **dedicated supplier relationship management application** enables Michelin to collect and administer the full range of supplier data.

6.3.3 c) Stepping up initiatives to protect consumer health and safety

/ The Michelin Quality Process

Since its founding, Michelin has always nurtured a powerful culture of responsibility. Enhancing the mobility of people and goods requires an uncompromising attitude towards the safety and quality of every product and service, and one of the Group's characteristic features is the organization and independence of its quality assurance.

In this way, the Michelin Quality Process is instilled into every aspect of the business through a customer-centric organization and a quality management system designed to manage and improve the way the Group does things, guarantee the quality of its products and services and, more generally, fulfill its customer promises. This process defines the practices that play a fundamental role in satisfying Michelin's customers, nurturing their trust and addressing their issues, while driving the Group's performance, reputation and progress. These practices are integrated into employee training so that they are understood and applied by everyone in their respective area of responsibility.

Products and services are defined in specifications that cover customer demands and expectations, the intended conditions of use in a given country and all of the applicable standards and regulations.

Every manager is expected to implement the Michelin Quality Process in his or her unit, so as to guarantee that its products and services are safe, aligned with customer expectations, suitable for the intended use and compliant with applicable regulations.

/ An active role in safeguarding consumers and the environment

Tire wear particles

Since 2006, Michelin has been actively involved in the Tire Industry Project (TIP)[1] and more specifically in issues surrounding the potential impact of tire wear particles on both human health and the environment. The TIP first clarified that the particles themselves are not simply worn pieces of tire rubber, but rather an agglomeration of material from the tire combined with materials from the road, including metal particles, oil, dust, pollen, etc. These particles are referred to as "tire and road wear particles", or TRWP.

The TIP then initiated a research project to collect, characterize and understand both the composition and flow of these particles, as well as their potential impact on human health and the environment. Part of the program included the production, collection and analysis of TRWPs from a variety of road surfaces in a controlled laboratory environment. Still other studies collected particles by sampling the air, water and soil near high-traffic roadways. The research to date has led to the following conclusions:

- The air sampling conducted thus far has provided much more definitive information about how TRWPs contribute to urban and suburban air pollution. The subsequent testing found that they did not exceed 3% of total particles in the air. Following extensive air sampling in and around roads in the United States, Japan and Europe, tests on the samples were unable to prove that, at this time and based on the current state of scientific knowledge, TRWPs pose a specific risk to humans or the environment. For example, a study of inhalation of airborne TRWPs in rats showed no adverse effects due to exposure.

(1) Launched in 2005, the Tire Industry Project is a voluntary initiative dedicated to addressing the tire industry's sustainability challenges and issues. It currently comprises 11 of the world's leading tiremakers: Bridgestone Corporation, Continental AG, Cooper Tire & Rubber Company, The Goodyear Tire & Rubber Company, Hankook Tire Company, Kumho Tire Company, Inc., Groupe Michelin, Pirelli Tyre SpA, Sumitomo Rubber Industries, Ltd, Toyo Tire & Rubber Company Ltd, and Yokohama Rubber Co., Ltd. The TIP is pursuing its work under the aegis of the World Business Council for Sustainable Development (WBCSD).

- TRWPs collected by a German government research facility showed no evidence of acute or chronic toxicity in fresh water, whether the particles were fresh or aged.

The TIP's ongoing commitment to understanding TRWPs entered a new phase in November 2017 when the Chairmen of its member companies decided to deepen current knowledge of:

- The dispersion of wear particles generated during tire use, on roadsides and in fields, sediment, sewage treatment plants, rivers, lakes, estuaries and oceans.
- The physical/chemical phase transfer and flow processes in different environments, with more extensive toxicological and eco-toxicological studies of the long-term aging of TRWPs and their possible toxicity in a marine environment.

Minimum performance standards

European legislators have introduced minimum tire-performance standards, as specified in Regulation (EC) No. 661/2009 and United Nations' ECE Regulation R117. Michelin supported the drafting and introduction of this type of regulation, offering data and other input to help define the minimum performance levels. These standards cover:

- Rolling resistance.
- Noise.
- Wet grip.

They are designed to limit a tire's environmental impact and improve road safety. Introduced in 2012 for all new products, the legislation has been gradually extended, in precisely defined phases, to products already on the market. Compliance of new Passenger car/Light truck and Truck tires is verified by government technical services when the product is certified. Stricter rolling resistance thresholds derived from Regulation No. 117 have been applied in the European Union since November 2016. All of the tires currently sold by the Michelin Group in the EU comply with the new regulations. Standards setting an even higher level of performance in each of the three factors have been proposed for the EU and are under study for application in 2020-2024.

The setting of regulated performance levels, which was originally a European initiative, is now being extended via UNECE Regulation No. 117, in legislation passed by countries that signed the UN's 1958 agreement concerning uniform technical prescriptions for wheeled vehicles. Examples include Turkey in 2012, Norway and South Korea in 2013 and Israel in 2014. Brazil introduced similar legislation in 2015 and Japan is planning to do the same between 2018 and 2024. The UN regulation came into effect in Russia in 2017.

The United States has decided to introduce at some future date the same type of standards to protect the environment and improve consumer safety. Other countries, like China and India, are also discussing such measures. In each of these countries, Michelin has been favorable to the application of these standards and when requested, is helping to define the minimum requirements.

Tire labeling

In its Communication of October 19, 2006 entitled "Action Plan for Energy Efficiency: Realising the Potential", the European Commission demonstrated the possibility of reducing the region's total energy consumption by 20% by 2020 by presenting a list of targeted actions, including an energy performance labeling system for tires. Introduced by Regulation (EC) No. 1222/2009, such a system became mandatory in 2012 for passenger car and van tires.

Michelin supported and helped to shape the regulation, which also sets standards for tire rolling resistance, noise and wet braking performance.

It is designed to give tire users, fleet managers and trucking companies more information about fuel efficiency and other tire parameters, so that they can easily compare different makes of tires based on a harmonized labeling and testing system.

Moreover, the regulation provides for compliance testing of its performance standards, in order to sustain the system's reliability and credibility. A review procedure of the regulation began in 2016. Other countries have passed similar legislation for certain tire categories, including Turkey in 2012, Norway and Israel in 2013, Saudi Arabia in 2015, South Korea in 2012 and 2014, and Brazil in 2015 and 2016. Japan introduced a voluntary system in 2010. In late 2007, the United States decided to implement a labeling system in the future. Other countries, such as China and India, are also examining the possibility. In each one, Michelin, when requested, is helping to define the regulation.

The impact of tires on vehicular carbon emissions

The rolling resistance of Passenger car/Light truck or Truck tires accounts for 15% to 30% of a vehicle's fuel consumption and CO_2 emissions, depending on its size, use and how it is driven. This is why Michelin is encouraging the use of vehicular carbon emission assessment methods that are precise enough to accurately ascertain the contribution of the various non-powertrain factors, including tire rolling resistance (see the discussion on climate change in section 6.4.4). This approach would encourage greater transparency by suppliers and more competition on technical issues.

Passenger and freight carrying vehicles

In the United States, the Environmental Protection Agency (EPA) and the National Highway Traffic Safety Administration (NHTSA) have issued Phase 2 of their greenhouse gas emissions and fuel efficiency standards for medium- and heavy-duty engines, which will come into effect in 2021. Even stricter standards are being planned for 2024 and 2027. These standards stipulate that, before certification, a new vehicle must be tested for compliance using the Greenhouse Gas Emissions Model (GEM) simulation tool, one of whose variables is the tires' rolling resistance.

In Europe, the Vehicle Energy Consumption Calculation Tool (VECTO) developed for the European Commission serves as the basis for Regulation (EU) No. 2017/2400 on the determination of CO_2 emissions and fuel consumption of heavy-duty vehicles. The regulation, which will be gradually applied to heavy trucks manufactured after

January 1, 2019, takes into account the energy performance of a vehicle's components, including tire rolling resistance. The latter will be certified by approval authorities and regularly measured during the production conformity testing process. European authorities are now working on legislation regulating the carbon emissions determined on the basis of these initial standards.

By participating in a technical capacity in the different working groups, Michelin is facilitating the introduction of calculation models and procedures that accurately reflect vehicle fuel efficiency in actual use by taking into account the impact of tires and a range of other variables.

Passenger car tires

The level of CO_2 and harmful emissions from light vehicles can also be measured by the new Worldwide harmonized Light vehicles Test Procedures (WLTP), defined by the United Nations with input from India, Japan, Russia, the European Union and many other countries. Michelin encouraged the working group to factor in the influence of tire rolling resistance in ways as close as possible to actual driving conditions. The new procedures, whose phase-in across the EU began in September 2017, will provide a more accurate measurement of carbon emissions from vehicles in actual use.

Winter tires

Many countries, particularly in Europe, now require drivers to fit winter tires on their vehicles, either for a given period or when demanded by weather conditions, or else in particular regions or at particular times. However, while these rules generally stipulate that only manufacturer-marked Mud and Snow (M+S, M.S or M&S) tires may be mounted, such markings do not correspond to the tire's demonstrated performance in snowy conditions. Michelin is urging that national highway codes be amended with an obligation to fit only winter tires marked with the Three-Peak Mountain Snow Flake (3PMSF) symbol, which means that they have demonstrated minimum required snow grip. Germany introduced this rule in March 2017.

Worn tire performance

The existing minimum standards for rolling resistance, noise and wet grip concern the measured performance of new tires. However, newness is fleeting and a tire's performance evolves as it wears. In the case of rolling resistance and noise, for example, performance actually improves with wear, so it makes sense to define their minimum standards on the basis of a new tire, as is currently the case. Wet or snow grip, on the other hand, decreases with wear. Michelin is therefore examining the technical feasibility of introducing a minimum performance standard for wet grip and snow grip on worn tires still within the legal wear limit, so as to ensure that tires deliver at least minimum acceptable performance throughout their useful lives.

Compliance with materials standards

A multidisciplinary team of experts continuously tracks changes in regulations governing chemicals, the environment and health, enabling the Group to factor them into its strategic planning process.

/ An active private-sector stakeholder in road safety partnerships

While the number of worldwide traffic fatalities continued to rise in 2017 to a historic high of 1.3 million, the ambitious goal of halving the number of global deaths and injuries from road traffic accidents by 2020 has been included in the UN Sustainable Development Goals (SDG 3.6).

Michelin remains deeply engaged in the global fight against traffic accidents with a commitment built on three pillars: its products and services, its internal road safety management processes and its external programs to promote safe driving practices. A partnership approach involving governments, businesses and communities is encouraged as the best way to maximize the benefit of these projects for all of society. To help deploy more effective real-world programs and share best practices, Michelin has built global partnerships with such organizations as the United Nations Road Safety Collaboration (UNRSC), the Global Road Safety Partnership (GRSP), the FIA High Level Road Safety Panel and Youth for Road Safety (YOURS).

Working with these partners, Michelin successfully implemented a number of programs in 2017. In the United States, the "Beyond the Driving Test" program was successfully completed nearly two and half years ahead of schedule. In all 50 states, legislation has now been passed to teach tire safety basics in driver's education classes. China took to the stage, combining road safety and theater with "In The Name Of Love, On The Way Of Safety," directed by a famous Chinese director. The play, which was intended to be disruptive in its dramatization of the many unnecessary risks people take while traveling, was watched live by 190,000 people. During the year, the Michelin Foundation (see section 6.3.2 c) also debuted as an active new partner to road safety initiatives in France, South Africa and Brazil. In Brazil, the Foundation joined with the Vale Foundation in a first-of-its-kind, four-year partnership to help educate children and young adults in Brazilian cities about road safety risks. In South Africa, a new community program has been introduced to train 20 Youth Ambassadors for Road Safety. Supported by the South African government and funded by the Michelin Foundation, it hopes to reach 1,600 young adults aged 16 to 25 over a period of three years. The Ambassadors will return to their communities and encourage young people to create peer groups to educate each other about the importance of personal decisions while driving and to minimize risk-taking while on the road.

6.3.4 SUBCONTRACTOR AND SUPPLIER RELATIONSHIPS

6.3.4 a) Supporting responsible purchasing

Michelin also demonstrates its corporate social and environmental responsibility in managing supplier relationships. In 2017, Michelin had 52,000 active suppliers based in more than 50 countries on every continent around the world, including nearly 400 covered by the supplier relationship management (SRM) process. At €13.1 billion, purchases represented close to 60% of consolidated net sales for the year. In recent years, the Group has assertively pursued a responsible purchasing commitment with suppliers, who not only meet its quality, cost, deadline and reliability standards but also pledge to continuously improve their human rights and environmental performance.

The Purchasing Department is applying the Group's social responsibility principles to its operations. **First published in 2012** and further updated in 2017, **the Michelin Purchasing Principles** are grounded in Michelin's values and international commitments through the fundamental conventions of the International Labour Organization, the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises. They provide a foundation for the relationships of trust that must exist between Michelin, its purchasing teams and its suppliers around the world.

Available in 12 languages on the www.purchasing.michelin.com website, the document specifies the rules of professional conduct for the Group's purchasing teams and describes the supplier approval process, the Group's quality standards and the environmental, social and ethical performance expected of Group suppliers. It is an integral component of the contract binding Michelin and its suppliers.

Following its CSR audit by EcoVadis, in January 2017, Michelin was awarded an overall score of 77/100 and **80/100 in Responsible Purchasing,** ranking the Group among the top 0.3% of suppliers rated in that category.

Lastly, Michelin participated in the definition of the new international standard "ISO 20400 – Sustainable Procurement" published in April 2017, alongside a large number of experts in the French delegation, including the supply dispute mediators from the Ministry of Economy and Finance. The actions implemented or initiated within the purchasing organization comply with the standard's recommendations.

/ Growing professionalism

Considerable resources have been deployed to enhance the professionalism of the procurement teams and to make purchasing processes more efficient. The training program for the purchasing teams comprises a separate, mandatory Sustainable Purchasing module intended for all buyers, technical specifiers and key internal partners, which has been completed by **502 people** since 2011.

To ensure compliance with the ethical guidelines specified in the Code of Ethics and the Anti-Corruption Code of Practice, the Group's reference documents, an online training module was developed in 2017 and, starting in November, deployed in the Purchasing organization and among internal partners in contact with Group suppliers. It reviews current legislation and expected behavior, in line with the Michelin Purchasing Principles, and offers certain recommendations.

The responsible purchasing process is led in each purchasing category and each geographic zone with the support of a global network.

6.3.4 b) Addressing social responsibility and environmental issues in purchasing policy

/ Helping suppliers to meet Michelin standards

As part of the Michelin Sustainable Development and Mobility Ambitions for 2020, the Purchasing Department is committed to assessing the CSR performance of the Group's 400 leading suppliers, with the goal of enabling 70% of them to be confirmed as compliant with Group standards. Since 2012, a total of 706 suppliers (representing 86% of the base) have submitted desktop reviews of their social and environmental performance based on risk assessments conducted by CSR rating agency EcoVadis. Suppliers who fall short of standards implement an action plan whose progress is tracked by the purchasing teams, and which is systematically followed by a new review to ensure that it was effectively implemented. Very poor results or failure to meet a commitment with regard to sustainable development issues may lead the Purchasing Department to remove a supplier. This decision is always made by consensus, after discussing all of the potential impacts on jobs, the supply chain and other factors.

As of year-end 2017, **547 suppliers,** including 108 newcomers, **had submitted a CSR review** and **77% of them had already complied with Michelin standards.**[1] By category, compliance stood at 77% for environmental issues, 78% for fair working conditions, 63% for business ethics and 49% for the supply chain. By year-end, suppliers representing more than 55% of Group purchases had been assessed.

As part of the risk management process, 66% of raw material supplier facilities have been certified to ISO 14001 standards.

/ Category management

Raw materials procurement

More than 90% of Michelin's raw materials purchases are covered by EcoVadis' CSR desktop reviews.

In 2017, the Group assessed the maturity of the desktop review process used to assess the CSR practices of raw materials suppliers in countries at risk, identified on the basis of data from Verisk Maplecroft's database.

The findings demonstrated that EcoVadis desktop reviews of raw materials suppliers cover:

- 94% of Michelin's spending in countries that pose a medium risk with regards to environmental protection. Michelin does not have any suppliers based in countries that pose a high risk with regards to environmental protection.
- 93% of Michelin's spending in countries that pose a high or medium risk with regards to child labor and other human rights abuses.

(1) These suppliers have all scored at least 45 on the EcoVadis review, corresponding to confirmed compliance with Michelin CSR practices.

Conflict minerals

Michelin diligently tracks the origin of certain minerals used in its products. Gold, tin, tantalum and tungsten are commonly referred to as "conflict minerals", given their role in some African guerrilla wars, particularly in the Democratic Republic of Congo.

To ensure that its minerals are sourced from supply chains that meet its standards and do not finance any hostilities, Michelin requires suppliers exposed to this risk to fill out the Conflict Minerals Reporting Template developed by the Responsible Minerals Initiative (RMI), a business platform that promotes the sustainable sourcing of gold, tin, tantalum and tungsten.

For all these minerals, the submitted templates attest that the reporting supplier works with RMI-approved smelters. In 2017, Michelin had only eight suppliers of conflict minerals.

Chemicals

The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation, which the European Union introduced to attenuate the adverse impact of chemical substances on human health and the environment, stipulates that manufacturers and importers of more than one tonne of a given chemical per year must register the substance with the European Chemicals Agency (ECHA).

Michelin fulfills this registration requirement as a chemical manufacturer or importer and verifies that the chemicals it uses have been registered by the suppliers, thereby ensuring that its uses comply with the risk management measures defined by these suppliers in compliance with REACH.

Paying special attention to natural rubber suppliers

Natural rubber is a critical raw material in tire manufacturing

As the world's leading buyer of natural rubber and therefore a key market player, Michelin is deeply committed to ensuring that rubber tree farming is managed responsibly and sustainably.

To preserve this resource and manage its impacts, the WWF and Michelin have been working together since 2015 to transform the natural rubber market by instilling more sustainable practices across the entire value chain.

To support the **Natural Rubber Procurement Policy** published in 2015, the Group has formalized its public commitments in a **Sustainable Natural Rubber Policy.**

This policy was drafted with input from stakeholders, particularly environmental and human rights NGOs, and is now a contractual reference document for suppliers. Downloadable from the Michelin purchasing website (www.purchasing.michelin.com), the policy precisely defines the conditions for farming natural rubber, both in terms of the environment (zero deforestation, protection and preservation of peatlands, High Conservation Value areas and High Carbon Stock areas), and in terms of social responsibility and human rights (working conditions, free, prior and informed consent of the local communities, etc.). Michelin encourages every stakeholder across the supply chain to embrace socially and environmentally responsible practices, so as to maintain rubber tree farming in a virtuous cycle of progress.

The Group's natural rubber suppliers have been participating in EcoVadis audits of their social responsibility and environmental performance since 2013, and by 2017, audited suppliers accounted for more than **86% of Michelin's natural rubber purchases.**

In a commitment to driving continuous improvement in its CSR performance, Michelin is increasingly investing in digital technology to develop innovative new applications to support its sustainable development and social responsibility vision.

In 2017, this commitment led to the deployment of the **Rubberway® mobile application** to map the CSR practices of the various stakeholders in the natural rubber supply chain (raw rubber processing plants, brokers, large plantations and smallholders). They can use the app to input their CSR data, which are then analyzed on a web platform to create a map highlighting the areas of potential social and environmental risk. The Group plans to **map 80% of its sourced natural rubber volumes by 2020.**

In 2017, Rubberway® was gradually rolled out to certain stakeholders in the natural rubber value chain in Indonesia, Thailand and Ghana, which together supply 11% of the Group's natural rubber inputs by volume. Mapping the natural rubber supply chain promises to be a long-term exercise that will be both ambitious and challenging.

For more than two years, Michelin and its partner WWF have been working together to encourage key rubber-tree farming stakeholders to embrace forward-looking sustainability policies so that responsible natural rubber production becomes the norm. As part of this process, talks were initiated to set up a multi-stakeholder platform in 2018, enabling manufacturers to pledge to uphold and promote the principles of sustainable natural rubber.

Michelin supports the Sustainable Natural Rubber Initiative (SNR-i) led by the International Rubber Study Group (IRSG), as a member of the Working Group that has governed the initiative since it was launched in 2012. Michelin was naturally one of the very first global natural rubber industry stakeholders to be officially registered with SNR-i in late 2015.

At the same time, Michelin is continuing to consult with the leading civil society organizations involved in this issue.

Purchases of production inputs and services

In addition to the CSR desktop reviews conducted with EcoVadis, in 2017, the Group began mapping the CSR risks in its purchasing families. Using the Verisk Maplecroft database, Michelin identified suppliers in countries with high environmental and human rights risks. This mapping exercise will help to define ambitious 2020 objectives for the CSR performance assessment process as applied to suppliers of manufacturing inputs and services.

/ Awards for Michelin

Responsible Supplier Relationships Label

A signatory of France's **Responsible Supplier Relationships Charter** in October 2012, Michelin was awarded the French government's label of the same name in June 2014 by the government's supply dispute mediator (*Médiation Inter-Entreprises,* part of the Ministry for the Economy and Finance) and the French purchasing association (*Compagnie des Dirigeants et Acheteurs de France* – CDAF). The distinction was a high honor, but it also holds Michelin to a high standard.

- It was an honor, because the label underscores the Group's commitment to outstanding practices in all its interactions with suppliers, in accordance with the Michelin Sustainable Development and Mobility approach.
- It sets a high standard because Michelin teams are working hard to demonstrate these principles in their actions in Asia, North America and Europe.

The label recognizes French companies that have demonstrated the ability to foster balanced, sustainable relations with their suppliers by successfully applying the Charter's ten responsible purchasing commitments.

Following the annual review in February 2017, the Label Award Committee unanimously voted to renew Michelin's label for another year.

Gold Award in the CSR category

On February 23, 2017, Michelin's sustainable procurement dynamic was honored at the *Décision Achats* Awards ceremony in Paris, attended by 400 stakeholders in the French purchasing ecosystem.

This distinction attested to the Group's outstanding commitment to responsible purchasing and celebrated the engagement of its purchasing teams in the initiatives underway worldwide.

EcoVadis award for "Best Supplier CSR Performance Improvement"

At the international Sustain conference on May 9, 2017 in Paris, French CSR ratings agency EcoVadis awarded Michelin top honors in the "Best Supplier CSR Performance Improvement" category.

Michelin has used the EcoVadis platform to assess its suppliers' CSR performance since 2012. Over the past five years, **78% of suppliers have improved their CSR ratings**[1] by working in effective partnership with Michelin purchasing teams.

Invoice Settlement Award

At the fourth annual Invoice Settlement Conference held on November 13, 2017 at the French Ministry of the Economy's offices in Paris, Michelin was presented with the Invoice Settlement Award in the large corporations category.

Created in 2014, the Invoice Settlement awards are designed to celebrate private sector companies and public sector organizations that are deploying new processes and initiatives to meet invoice payment deadlines.

The 2017 Award honors all the teams and initiatives engaged in recent years in shortening the invoice processing cycle, a major source of progress that the Group is tracking very closely.

It also recognizes the Group's ongoing commitment to sustainable development, and in particular the continuous improvements being driven with its suppliers.

6.3.4 c) Sharing outcomes and listening to suppliers

In accordance with the Michelin Purchasing Principles, the results of the supplier CSR reviews are posted on the Purchasing website each year.

Since 2012, suppliers can also use the website to contact the customer-supplier relations mediator in regards to any alleged or observed violation of the Michelin Purchasing Principles.

Contacted once in 2016 and not at all in 2017, the mediator intervenes only when suppliers have failed to resolve an issue with their usual contacts.

(1) Source: EcoVadis.

6.4 ENVIRONMENTAL INFORMATION

Respect for the environment is one of Michelin's five core values, as expressed in 2002 in the Michelin Performance and Responsibility Charter and reaffirmed in 2012 in "Michelin Performance and Responsibility Charter: A Better Way Forward". In exercising its social responsibility with regard to the environmental impact of its areas of activity, Michelin has long focused on the entire life cycle of its products, from the extraction and processing of raw materials to end-of-life recycling and reuse. More recently, in 2014 it responded to the challenge of resource depletion by expressing its contribution to the circular economy, which has since evolved into the "4R Strategy" based on four actionable levers: Reduce, Reuse, Recycle and Renew. In 2015, the Group defined a carbon strategy covering its operations, products and services. Implementation of these strategies is supporting the progress being made in products and manufacturing, the two main traditional vectors of improvement.

6.4.1 A GLOBAL ENVIRONMENTAL STEWARDSHIP PROCESS

Global improvement objectives have been defined in two areas: products and manufacturing operations. Reducing tire rolling resistance is one of the key goals of the research and development program. At the same time, the manufacturing facilities are deploying an environmental strategy based on an environmental management system (EMS) and an overall indicator. To further heighten the visibility of these commitments, since 2013 two of the six sustainable development ambitions have concerned the Group's environmental footprint (see section 2.1.8), one for products and the other for the manufacturing and logistics operations.

This section presents the outcomes of the environmental strategy deployed across the Group. The scope of reporting also includes the Manufacture Française des Pneumatiques Michelin (MFPM). The dealership networks, which do not have any manufacturing operations and which have an estimated impact of less than 2% with regard to the leading environmental indicators (water consumption, energy consumption, CO_2 and volatile organic compound emissions and waste), are not covered in the section below.

Product-related initiatives

Life cycle assessments (LCAs) of a Passenger car tire measure its environmental impact *via* such indicators as global warming potential, resource depletion, photochemical oxidation and water acidification and eutrophication. LCAs conducted in Europe have shown that more than 80% of a car tire's environmental impact occurs during use. This proportion rises to more than 95% for a Truck tire in Europe. In normal conditions of use, tires account for a significant proportion of a vehicle's fuel consumption, which is currently estimated at one-fifth for passenger cars and one-third for trucks.

To better understand a tire's potential environmental impacts and how tire design choices can be made to attenuate them, Michelin has been involved since 2012 with eight other international corporations to support the International Life Cycle (ILC) Chair, the primary research unit of the International Reference Center for the Life Cycle of Products, Processes and Services (*Centre international de référence sur le cycle de vie des produits, procédés et services* – CIRAIG). In 2017, a new five-year funding agreement was signed with the ILC Chair, which is addressing such urgent issues as the decarbonization of power generation and use, the efficient use of resources and energy, the circularity of material flows, planetary limits, the optimal integration of complex systems, ecosystem services and the need to harmonize economic growth and social needs.

Michelin has also worked with other tire manufacturers in the Tire Industry Project (TIP) (see section 6.3.3 c) to draft product category rules (PCRs) defining a set of industry-specific, ISO 14025-compliant guidelines that manufacturers can apply to determine the environmental impact of their products with a view to creating Environmental Product Declarations (EPDs). The TIP has developed a PCR that is technically comprehensive, global in scope and capable of supporting consistent assessments.

Lastly, in 2017, Michelin joined ScoreLCA, a French association that conducts research commissioned by the 12 active members and partners. Like those pursued by the ILC Chair, its research programs are helping to enhance the methodological skills used by Michelin's LCA expertise unit.

Michelin's primary objective is to increase the energy efficiency of tires while simultaneously improving their other performance factors, especially safety, rolling noise and durability. Reducing a tire's rolling resistance also helps to improve a vehicle's fuel efficiency, which in turn reduces both ambient air pollutants, such as NOx and SO_2, and carbon emissions during use. In addition, extending tread-life enables more efficient use of raw materials and amortizes the energy used during the manufacturing process over a larger number of kilometers traveled. This is why, to design tires that meet the challenge of sustainable development, Michelin has chosen to focus on guaranteeing their performance over time.

Invented in 1992 and now on their fifth generation, Michelin's highly energy-efficient MICHELIN Energy™ Saver+ Passenger car tires can reduce the amount of fuel consumed by an average, equivalent-size European car by 0.2 liters/100 km compared with the first generation, corresponding to an average 4 g/km reduction in CO_2 emissions. This performance has been widely recognized by the market, as attested by the hundreds of certifications of MICHELIN Energy™ tires as new car original equipment. Michelin is also committed to enabling consumers to use their tires as safely and as long as possible. By rejecting planned obsolescence, Michelin is leveraging its technology to support a more sustainable economy and attenuating the excessive use of raw materials and energy. This commitment was already demonstrated in 2016 with products, like the MICHELIN CrossClimate+, that guarantee safe driving in all weather conditions, in every season, throughout their entire lives. It was further manifested in 2017 with the announcement of the MICHELIN Primacy 4, offering by far the longest tread life in its segment – lasting more than 18,000 km longer than the average competitor – while delivering outstanding wet grip performance, whether new or worn.

In Truck tires, the technological innovations collectively known as MICHELIN Durable Technologies deliver a significant improvement in fuel efficiency and with it a reduction in CO_2 emissions. Illustrating these gains, the MICHELIN X® LINE™ ENERGY™ tires for large-volume trucks, brought to market in January 2016, are the first set of big rig tires to be rated A in energy efficiency, on any axle, under EU tire-labeling rules. These technological advances are also increasing load capacity, making trucking more efficient, especially as tire life continues to improve. In fact, the useful lives of Michelin's long-haul Truck tires have doubled since 1980. At the same time, as with Passenger car tires, grip performance has also improved, in all types of weather conditions, throughout the life of the tire, thanks to the Regenion technology supported by the Group's 3D metal printing expertise. In addition to bringing new tire solutions to market, Michelin has long championed retreading, with enabling technology built into every tire to deliver all of retreading's benefits for the environment, the economy and society. In the same way, the Group's service solutions offer its trucking customers and supply chain stakeholders environmental benefits by optimizing the maintenance of their tire fleets in ways that improve safety performance and lengthen tread life.

These product examples demonstrate Michelin's commitment to offering tire buyers superior performance over time and, therefore, longer lasting tires.

A reaffirmed environmental commitment in the production plants

Since the 2000s, Michelin has been leading a continuous improvement process based primarily on an Environmental Management System and on performance improvement targets measured with a Group-wide indicator, the Michelin Environmental Footprint (MEF), as described below.

In 2015, an Environment and Prevention General Policy Note re-specified the standard methods and tools to be used to assess risks at existing facilities and new projects, along with the related guidelines. In particular, the environmental guidelines cover the procedures for assessing environmental risks, preventing soil contamination, managing waste treatment and performing renewable energy opportunity studies. They also deal with the quality of environmental data and indicators.

In 2016, the General Policy Note was supplemented by a dedicated Environmental Guidebook specifying all of the environmental policies applicable to every facility. It also describes the Group's medium and long-term ambitions and identifies the main action levers to fulfill them. Applicable by every unit on every industrial, research, logistics and office site around the world, these policies manifest the Group's dedication to safeguarding the environment at every stage in the tire life cycle and, more broadly, its Michelin Performance and Responsibility commitments.

In 2017, to drive faster progress and prepare for the long term, four MEF programs (Volatile Organic Compounds, Waste, Energy/CO_2 and Water) were created, each with two objectives:

- Secure the achievement of the MEF 2020 target, in particular by sharing best practices.
- Prepare for the future by defining ambitious improvement targets for 2050, as well as effective intermediate milestones.

Each program is managed by a program leader, with the support of a multi-disciplinary team of experts who perform medium and long-term opportunity and feasibility studies.

Each one is also overseen by a member of the Group Executive Council.

/ Providing a solid foundation with the EMS and a network of experts

Based on ISO 14001, Michelin's EMS is designed to enable each plant to manage its impact on the environment, on both a day-to-day and long-term basis. It comprises a process to track compliance with legislation and Michelin standards, as well as an obligation to define and meet, every year, improvement targets aligned with local issues and Group commitments. It also specifies procedures to reduce the risks of accidental pollution.

Group guidelines dictate that every new production facility must earn ISO 14001 certification within five years of start-up. The percentage of certified facilities (including production plants, natural rubber processing facilities and Technology Centers having a material impact on the environment) temporarily declined to 92% in 2017 from 95% in 2016 because the Manaus and São Paulo plants in Brazil, acquired in 2016, have not yet earned certification. Nevertheless, nearly 99% of Michelin tires were still manufactured in ISO 14001-certified facilities during the year.

To ensure the effectiveness of both the system's operating procedures and the implemented solutions, a network of around 100 specialists is based in the host countries, the Product Lines and every plant. Its manager reports to the members of the Group Executive Committee.

In early 2016, a cross-functional, international project team, supported by an outside service provider, began to upgrade the EMS to ensure compliance with the revised ISO 14001:2015 standard. The new version, which was also aligned with the ISO 9001 upgrade, was tested and validated in November 2016 at a large production facility in Vitoria, Spain. These developments have been or are being deployed in every plant concerned, so that their certifications can be renewed in 2018. One plant, in Resende, Brazil, has already earned ISO 14001:2015 certification, confirming the effectiveness of the upgraded features.

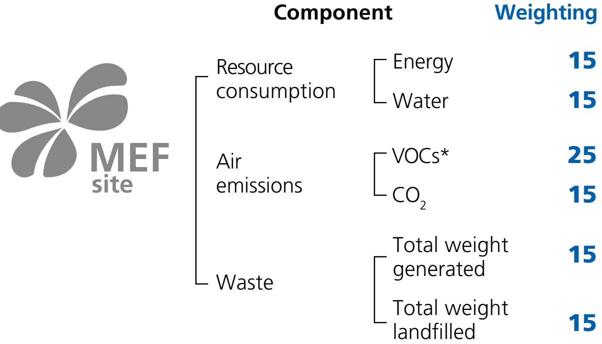
/ Reducing the environmental footprint of the production plants

Life-cycle assessments have shown that production, from raw materials to finished product, accounts for only 6% to 10% of a tire's environmental impact, compared to more than 80% for the in-use phase. To make mobility more sustainable and widely accessible, innovations in new products and services are designed

to shrink this in-use footprint. In the same way, the manufacturing side is reducing its footprint by measuring, since 2005, its six key impacts: energy consumption, water withdrawals, CO_2 emissions, VOC emissions, amount of waste generated and amount of waste landfilled (*i.e.* not recovered or reused).

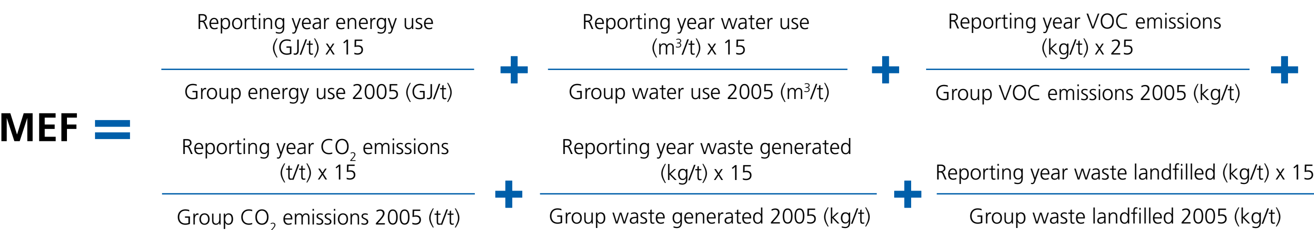
Improvements are planned, driven and tracked at every level, from the shop floor to the boardroom, through an indicator comprising these six variables, known as the Michelin Environmental Footprint (MEF). The MEF is included in the Group's balanced scorecard and is one of the eight strategic indicators that every plant must track to measure its operational excellence.

COMPONENTS AND WEIGHTING OF THE MICHELIN ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR



* *Volatile organic compounds.*

/ Formula for calculating the MEF



By definition, the Group MEF was base 100 in 2005.

/ Methodological note

Each of the six basic components is expressed in units per tonne of finished product.

Data are reported in the same format by every site around the world *via* a networked application. The reported indicators are defined and standardized in a reference guide that is used during internal audits and independent reviews.

In 2017, the scope of MEF reporting covered 77 production plants, natural rubber processing facilities and Technology Centers having a material impact on the environment. Data are collected for the 12 months from January 1 to December 31 of each year.

If a new facility is opened, it tracks MEF data from the first month of reported production. In the case of closure, the facility is removed from the scope at the end of the calendar year in which it closed. The environmental data for these facilities are included in the scope until the last month of reported production.

In 2017, as an exception to this rule, the plants in Manaus and São Paulo were not included in the scope of reporting, but they are now being incorporated into the 2018 process.

/ Developing indicators representative of the tire industry

In 2017, the TIP working group, which Michelin co-leads (see section 6.3.3 c), prepared and validated the publication in 2018 of environmental performance indicators for energy consumption, CO_2 emissions, water withdrawals and ISO 14001 certification. A methodological framework was defined to collect and compile these data over the 2009 to 2015 period.

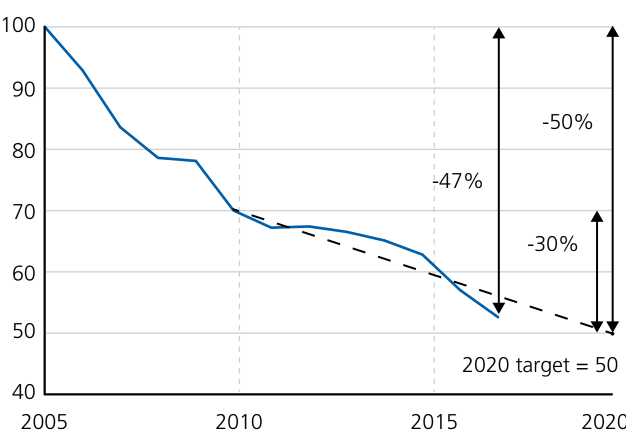
/ 2020 objectives and progress to date

To fulfill the ambition of "setting the industry standard for responsible manufacturing" (see section 1.1.2), the target for 2020 is to reduce the MEF by 30% compared with 2010 and by 50% compared with 2005, while using 25% less energy over the first period and 38% over the second.

Although the MEF expresses the Group's impact per tonne of tire produced, this target is consistent with the Michelin Performance and Responsibility approach, which is designed to deliver industrial performance while reducing the overall environmental footprint.

In fact, even ambitiously assuming that tire output increases by 25% over the 2010-2020 decade, lowering the MEF by 30% would correspond to a more than 10% reduction in the Group's environmental footprint in absolute terms.

IMPROVEMENT IN THE MEF SINCE 2005 AND 2020 OBJECTIVE



Between 2005 and 2017, environmental performance, as measured by the MEF, improved by more than 47%, putting the Group ahead of schedule to meet the 2020 target. This should facilitate the integration of new plants by 2020 without having to adjust the objective.

The 2017 performance is analyzed in the following tables.

PERFORMANCE OF THE MICHELIN ENVIRONMENTAL FOOTPRINT (MEF) INDICATOR

Ambitions for 2020	2020 ambition compared with 2005	2005	2010	2016	2017	2020 target	% change vs. 2005	% change vs. 2016
MEF	-50%	100	70	57	52.7	50	-47.3%	-7.5%
Energy consumption in GJ/t of finished product (FP)	-38%	17.4	14.4	12.46	12.11	10.8	-30.4%	-2.8%

Performance by MEF component – Group	Unit	2010	2016	2017	2017 target	2018 target
Energy consumption	GJ/t FP	14.4	12.46	12.11	12.34	12.10
Water consumption	m^3/t FP	11.8	9.25	8.60	9.10	8.06
VOC emissions	kg/t FP	2.89	2.31	2.07	2.17	1.97
CO_2 emissions	t/t FP	1.28	0.99	0.89	0.92	0.89
Waste generated	kg/t FP	109.5	106.0	102.2	104.0	100.50
Waste landfilled	kg/t FP	10.2	4.95	4.20	4.50	3.35
MEF		**70**	**57**	**52.7**	**55**	**51.0**

MEF ratios and absolute values – Group	2017 ratio	Change vs. 2010	Unit	2017 absolute value	Change vs. 2010	Unit	GRI indicators*
Energy consumption	12.11	-15.9%	GJ/t FP	41,485	-4,097	x10^3 GJ	GRI 302-1 GRI 302-3 GRI 302-4
Water consumption	8.60	-27.1%	m^3/t FP	29,474	-7,848	x10^3 m^3	GRI 303-1
VOC emissions	2.07	-28.4%	kg/t FP	7,092	-2,063	t	GRI 305-7
CO_2 emissions	0.89	-30.7%	t/t FP	3,039	-1,029	x10^3 t	GRI 305-1 GRI 305-2 GRI 305-4 GRI 305-5
Waste generated	102.2	-6.7%	kg/t FP	350,128	1,666	t	GRI 306-2
Waste landfilled	4.20	-58.8%	kg/t FP	14,380	-18,181	t	
MEF	**52.7**	**-24.7%**					

* *Consolidated Set of GRI Sustainability Reporting Standards 2016, Global Reporting Initiative, 2016.*

PERFORMANCE OF THE MEF INDICATOR FOR THE MANUFACTURE FRANÇAISE DES PNEUMATIQUES MICHELIN (MFPM)

MFPM	2010	2016	2017	Change vs. 2010	Change vs. 2016
MEF	65.1	63.1	62.7	-3.7%	-0.6%

Performance by MEF component – MFPM	Unit	2017	Change vs. 2010
Energy consumption	GJ/t FP	19.20	-2%
Water consumption	m^3/t FP	11.17	+22.7%
VOC emissions	kg/t FP	2.14	-13.7%
CO_2 emissions	t/t FP	0.5	-39.8%
Waste generated	kg/t FP	162.62	+12.9%
Waste landfilled	kg/t FP	0.14	-93%

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE GROUP

Consolidated environmental data	2017	2016	Change vs. 2016	2010	GRI Indicators
Water consumption *(m^3/t FP)*	8.60	9.25	-7.0%	11.8	
Energy consumption *(GJ/t FP)*	12.11	12.46	-2.8%	14.4	GRI 302-3 GRI 302-4
Michelin point sources	6.27	6.50	-3.5%	8.0	
Steam purchased, net	0.97	1.02	-5.2%	1.2	
Electricity purchased, net	4.87	4.97	-2.0%	5.2	
CO_2 emissions *(t/t FP)*	0.89	0.99	-10.7%	1.28	GRI 305-4 GRI 305-5
of which:					
direct emissions from Michelin point sources (Scope 1*)	0.44	0.46	-4.2%	0.58	
indirect emissions, steam generation (Scope 2*)	0.04	0.05	-12.5%	0.12	
indirect emissions, electricity generation (Scope 2)	0.41	0.49	-16.4%	0.58	
Total Michelin direct and indirect emissions avoided *(tonnes of CO_2)*	44,750	41,650	+7.4%	24,000	GRI 305-5
Sulfur dioxide emissions *(kg/t FP)*	0.38	0.28	+35%	0.96	GRI 305-7
Nitrogen dioxide emissions *(kg/t FP)*	0.37	0.48	-23%	0.83	GRI 305-7
VOC emissions *(kg/t FP)*	2.07	2.31	-10.4%	2.89	GRI 305-7
Waste generated *(kg/t FP)*	102.2	106.0	-3.6%	109.5	
Waste landfilled *(kg/t FP)*	4.20	4.95	-15.2%	10.2	
Hazardous waste generated *(kg/t FP)*	7.55	7.74	-2.4%		GRI 306-2
Number and total surface area of facilities located less than one kilometer from a protected area	27 sites totaling 6,400 ha	27 sites totaling 6,400 ha	–		GRI 304-1

* *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, World Business Council for Sustainable Development and World Resources Institute, revised edition.*

The MEF was 52.7 in 2016, representing a 7.5% reduction compared to 2016 that exceeded the target for the year (55).

As was the case in 2016, all six components improved year-on-year, with the strongest gains in waste landfilled, volatile organic compound emissions and CO_2 emissions.

- **Waste landfilled** showed the greatest improvement over the year, exceeding the objective, with a more than 15% decrease per tonne of finished product. Today, nearly 96% of all waste is recovered or reused, with 57 of the 77 facilities recovering more than 95% and 34 reporting zero waste landfilled during the year. The total volume of **waste generated** per tonne of finished product declined by 3.6% year-on-year.
- Thanks to sustained initiatives to reduce withdrawals, **water** consumption declined per tonne of finished product by 7% over the year.
- **CO_2** emissions showed a year-on-year decline of 10.7%, more than a quarter of which was attributable to improvements in energy efficiency, with a 2.8% decline in **energy consumed** per tonne of finished product. The rest primarily reflected the efforts to shift to a less carbon-intensive energy mix, in particular by purchasing electricity generated from renewable sources (see section 6.4.4 on increasing the use of renewable energies).

Compared with 2010, when output was slightly less than in 2017, the MEF has been reduced by 24.7%, with improvements in every component, including waste generated. Energy consumption was down by 15.9%, CO_2 emissions by 30.7%, water consumption by 27.1%, VOC emissions by 28.4%, waste generated by 6.7% and waste landfilled by 58.8%.

Over the year, these significant improvements from the 2010 reference year helped to avoid:

- The use of 4,097,000 GJ of **energy,** or the amount of energy consumed by more than 40,000 people in France (based on the 98 GJ used per person in 2014, according to 2015 INSEE SOeS statistics published in *Chiffres clés de l'environnement,* 2015).
- The use of 7,848,000 cubic meters of **water,** or the amount of drinking water used by more than 145,000 people in France (based on 53 cubic meters used per person per year, according to the 2012 SOeS-SSP water survey published in *Chiffres clés de l'environnement,* 2015).
- The emission of 2,063 tonnes of **VOCs,** or the equivalent of nearly 2,380,000 cars in France (based on the Euro VI standard for gasoline vehicles, which is a maximum of 68mg of non-methane hydrocarbons per kilometer, and on 12,753 kilometers driven per vehicle per year, according to INSEE's 2014 statistics).
- The emission of 1,029,000 tons of **CO_2,** or the equivalent of more than 575,000 cars in France (based on a maximum of 140 g of CO_2/km from a car rated class C under the European Union energy labeling system and driven 12,753 kilometers per year, according to INSEE's 2014 statistics).
- The **landfilling** of 18,200 tonnes of **waste,** or the amount of household waste produced by nearly 40,000 people in France (based on 458 kg of household waste per person per year in 2012, according to Eurostat – RSD statistics published in *ADEME Déchets* – 2015 edition – Key figures).

Total **waste generated** rose by 1,666 tonnes compared with 2010, or the amount of household waste produced by 3,500 French people (based on 373 kg of household and similar waste produced per person per year in 2009, as published in *ADEME Déchets* – 2012 edition – Key figures).

SUMMARY TABLE OF ENVIRONMENTAL DATA FOR THE MFPM

MFPM	2017	2016	Change vs. 2016	2010
Water consumption *(m^3/t FP)*	11.17	10.38	+7.6%	9.1
Energy consumption *(GJ/t FP)*	19.20	19.06	+0.7%	19.6
Michelin point sources	9.10	8.87	+2.6%	11.3
Steam purchased, net	1.08	1.18	-8.5%	0.1
Electricity purchased, net	9.02	8.88	+1.6%	8.2
CO_2 emissions *(t/t FP)*	0.500	0.65	-23.1%	0.83
of which:				
direct emissions from Michelin point sources (Scope 1)	0.506	0.50	+1.2%	0.63
indirect emissions, steam generation (Scope 2)	-0.002	-0.033	-94%	0.02
indirect emissions, electricity generation (Scope 2)	-0.004	0.16	-98%	0.18
Sulfur dioxide emissions *(kg/t FP)*	0.01	0.02	-50%	0.04
Nitrogen dioxide emissions *(kg/t FP)*	0.54	0.65	-16.9%	0.57
VOC emissions *(kg/t FP)*	2.14	2.10	+1.9%	2.48
Waste generated *(kg/t FP)*	162.62	162.13	+0.3%	144
Waste landfilled *(kg/t FP)*	0.14	0.40	-65%	2
Hazardous waste generated *(kg/t FP)*	12.42	11.96	+3.8%	
Number and total surface area of facilities located less than one kilometer from a protected area	7 facilities totaling 624 ha	7 facilities totaling 624 ha		

/ Training and informing employees about environmental stewardship

Dedicated training courses to support EMS deployment have raised environmental awareness among all of the 80,000 or so employees working on certified sites, along with a varying number of subcontractors and temporary workers. The courses, which are tailored to each workstation, focus on the main impacts from the facility's operations. In accordance with system requirements, employees are kept informed of environmental issues and encouraged to attend regular refresher courses.

/ Allocating resources to prevent environmental risks and pollution

In 2017, €59.3 million (14% more than in 2016) was committed to projects to enhance the environmental performance of the production facilities. These outlays primarily funded projects to improve air pollution prevention systems, increase energy efficiency, improve water quality and reduce water use. The nearly €5.2 million increase in waste expenditure mainly reflected the programs deployed in the North American plants to increase the percentage of waste that is recovered and reused.

At the Manufacture Française des Pneumatiques Michelin, environmental spending came to €17.2 million for the year, a 19% increase led by three major projects to improve energy performance (combustion plant, heat pump heat recovery unit), reduce VOC emissions, detect and repair leaks and scale back the use of ozone depleting gases (CFC, HCFC and FM200).

These budget amounts are based on the definition recommended by the French Accounting Board (CNC recommendation 2003-R02 of October 21, 2003), which covers only outlays that are "supplementary" (*i.e.,* excluding routine maintenance, operating, waste management and similar expenses) and "exclusively environmental" (*i.e.,* excluding the environmental aspects of capital expenditure projects).

Budget allocation is analyzed in the two tables below.

Group	Total expenditure		
(in € thousands)	2017	2016	2015
Air pollution prevention	17,704	9,522	24,897
Surface water pollution prevention	2,819	3,045	3,323
Soil and groundwater pollution prevention	2,122	9,346	3,060
Waste reduction and recycling	5,179	6,609	2,498
Sustainable use of water resources	2,210	2,265	3,032
Sustainable use of energy resources	24,704	15,018	19,097
Reduction of greenhouse gas emissions	1,652	2,341	644
Other	2,956	3,709	3,265
TOTAL	**59,347**	**51,856**	**59,817**

MFPM	Total expenditure		
(in € thousands)	2017	2016	2015
Air pollution prevention	4,899	5,487	3,473
Surface water pollution prevention	87	411	362
Soil and groundwater pollution prevention	635	3,393	128
Waste reduction and recycling	217	148	69
Sustainable use of water resources	485	309	260
Sustainable use of energy resources	10,051	3,857	3,053
Reduction of greenhouse gas emissions	127	114	0
Other	691	670	1,832
TOTAL	**17,192**	**14,389**	**9,177**

/ Provisions and guarantees for environmental risks

As of December 31, 2017, total consolidated provisions for environmental risk amounted to €11.8 million, of which 95% covered site assessment and remediation issues. In the case of the MFPM, a provision of €40,000 was recorded as of December 31, 2017.

6.4.2 REDUCING DISCHARGES, MANAGING WASTE AND ABATING ENVIRONMENTAL NUISANCES

Michelin is committed to carefully managing its releases into the air, water and soil, while steadily reducing the amount of landfilled waste. It also seeks to limit odors and noise generated by its facilities.

Deploying measures to prevent, abate or remediate air, water and soil pollution

/ Greenhouse gas emissions

For the Group, a decline in emissions

Total CO_2 emissions amounted to 0.89 tonnes per tonne of finished product in 2017, a reduction of 30.7% compared with 2010 and of 10.7% compared with 2016. More than a quarter of the year-on-year decrease stemmed directly from the improvement in energy efficiency (see section 6.4.3 on reducing energy consumption), while the rest primarily resulted from efforts to shift to a less carbon-intensive energy mix, in particular by purchasing electricity generated from renewable sources (see section 6.4.4 on increasing the use of renewable energies).

The reduction also reflected a strategy to reduce the carbon footprint of the production operations, as expressed in a Group internal policy. Applicable in every Michelin facility, the strategy is designed to drive progress on two fronts, (i) reducing energy use (see section 6.4.3) and (ii) shifting to a less carbon-intensive energy mix. To meet the second objective, the carbon emissions factor is being reduced by activating both **structural levers** (upgrading energy supply infrastructure to use less carbon-intensive energies) and **market levers** (**purchasing** less carbon-intensive energies (see section 6.4.4).

Carbon quota systems

In European Union countries, direct carbon emissions from the 22 Group facilities that operate boilers with over 20 MW capacity are subject to allowances issued under the EU's Emissions Trading Scheme (ETS). These allowances continued to decline in 2017 under the impact of the cross-sectorial correction factor, but the emissions were still covered by the credits accumulated between 2008 and 2016. To cover its projected needs for 2019, Michelin has started to purchase allowances on the open market.

In China, carbon emissions trading schemes were introduced in 2013 in seven cities and provinces. The one in Shanghai, covering an initial three-year period until 2015, involved both direct and indirect emissions. It has been renewed for the 2016-2018 period. Over the 2013-2017 period, emissions from the two plants concerned were covered by the allowances. China has announced that in 2018 it will introduce a national cap-and-trade program that will initially concern only the power generation sector.

In 2005, the multidisciplinary Carbon Quota Management Committee was created to track legislation governing carbon markets and taxes in all of the Michelin plants' host countries. Comprising specialists in greenhouse gases (GHG), energy buying, energy efficiency, finance and accounting, its role is to define carbon quota management principles and guidelines, ensure their proper application and conduct the necessary forecasting studies.

For MFPM, production plant emissions predominate

The second review of GHG emissions conducted in late 2015, in compliance with French legislation, demonstrated that the production plants accounted for the bulk of the MFPM's carbon emissions.

DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS BY MFPM

Tire production plants	Storage warehouses, Technology Center and headquarters	MFPM vehicles and other mobile sources
88.2%	8.6%	3.2%

The review also showed that direct emissions from fuel use represented 75% of total MFPM greenhouse gas emissions, with indirect emissions from the purchase of electricity accounting for the remaining 25%. In compliance with French legislation, the next GHG review will be conducted in 2019.

/ Other air emissions

A decline in VOC emissions

Volatile organic compound emissions declined by 10.4% year-on-year in 2017 to 2.07 kg per tonne of finished product. The action plans undertaken in every plant to reduce solvent use and VOC emissions continued to be deployed, along with the search for and implementation of innovative technical solutions. In 2017, for example, European Passenger car tire plants deployed a VOC-free non-stick curing material and now have a solvent-free tire-building adhesive in the form of a thin, rubber mix band. At the same time, the plants have tightened the management guidelines designed to minimize the use of VOCs, which were described in the VOC Good Practices Guide, distributed across the Group in 2013. The Guide also contains a diagnostics tool to help production facilities identify opportunities to reduce solvent use and VOC emissions and then design appropriate action plans.

In all, VOC emissions per tonne of finished product fell by 28.4% between 2010 and 2017 and by 51.5% between 2005 and 2017.

Nitrogen oxide (NOx) and sulfur oxide (SOx) emissions

NOx emissions amounted to 0.37 kg per tonne of finished product, versus 0.62 kg in 2015 and 0.83 kg in 2010.

SOx emissions from Group boilers stood at 0.38 kg per tonne of finished product, compared with 0.54 kg in 2015 and 0.96 kg in 2010.

In general, these data can vary widely from year to year, because (i) they are calculated based on the periodic (often quarterly) measurement of their concentration in emissions and (ii) they depend on the mix between generated steam and purchased steam, with the latter not included in the calculation.

In 2017, SOx emissions rose to 0.38 kg per tonne of finished product from 0.28 kg the year before, due to the first-time inclusion of emissions from the Pirot plant in Serbia. This situation was remedied following a detailed review of the plant's indicators and its SOx calculation method conducted on-site during an energy audit.

In 2015 and 2016, four upgrades helped to significantly reduce NOx and SOx emissions by: (i) replacing the use of fuel oil with natural gas at three production facilities in Canada; (ii) closing the former Shenyang plant in China, which used a coal-fired boiler; (iii) replacing the on-site coal-fired steam generation facility at the Shanghai plant with the purchase of steam from a gas-fired CHP power station; and (iv) fitting a DeSOx/DeNOx scrubber on the coal-fired boiler at the Bassens plant in France.

/ Discharges to surface water

Most plants are equipped with appropriate facilities to treat the effluent produced by their particular operations. After proper treatment, process water is discharged either to the environment or to local wastewater treatment plants. Examples of progress in managing wastewater effluent include:

- Since 2016, assessments of environmental issues in the production plants are expected to include an ecotoxicological analysis of the released pollutants. Following this recommendation gives the plants a clearer understanding of the real impacts of their releases, while enabling them to plan for forthcoming legislation and identify new opportunities for improvement.
- A continuous improvement process initiated in 2015 with water treatment service providers was extended to all of the production facilities in 2017. It involves working together, first to define best practices aligned with each plant's local challenges, with more than 20 recommended during the pilot phase, and second, to optimize the sharing of identified pathways to progress.

/ Releases to soil and groundwater

To prevent the risk of chronic or accidental spills, the EMS includes a dedicated process based on three fundamentals: (i) clearly defined operating procedures, (ii) environmental impact awareness raising; and (iii) results-oriented actions. Standard operating procedures, which were updated in 2016 and apply to all of the Group's property assets, demand that risks and opportunities be very robustly managed. They were inspired by the strictest legislation prevailing in this area, in particular EU directives, and regularly exceed any existing local standards.

In addition to preventive measures, all of the Group's plants are expected to follow the regularly updated contaminated sites and soil (CSS) procedures first issued in 2006, which enable them to detect potential contamination and devise appropriate, state-of-the-art remediation solutions. The procedures are especially applied when any excavation works are performed at existing sites, when an accidental spill requires analysis to manage or confirm a potential risk or when requested by local authorities, in the event of a change in legislation, for example, or the occurrence of a possible on-site risk. They are also applied in the case of an acquisition, the creation of a joint venture or a new company, or the purchase, lease or sale of all or part of a site or a property asset. This process requires disciplined oversight, particularly the use of qualified service providers managed through framework agreements and the tracking of open cases by local coordinators. Ten cases were closed in 2017.

Other highlights of 2017 included (i) the definition of indicators to measure CSS risks and opportunities. This exercise, undertaken in response to the latest version of the ISO 14001 standard, was managed by the local coordinators and outside service providers, with input from internal and external stakeholders; and (ii) the creation of a CSS Industry Club in association with other manufacturers, in order to improve awareness and practices both inside and outside the organization.

Abating odors and noise pollution

Although entirely innocuous, odors are nonetheless an issue for Michelin plants, some of which are located in built-up areas. These odors may be generated by the process used to produce certain types of natural rubber components used in tire manufacturing.

The standard solution, based on the thermal oxidation of effluents, has now been retrofitted at several European facilities and at the plant in Shenyang, China. New technologies are also being explored.

In the case of noise pollution, manufacturing operations, whose noise levels are not particularly significant, consistently comply with local legislation in every host community. When designing new facilities or extensions, guidelines are followed to ensure that noise-generating equipment, such as fans and other auxiliary systems, are installed far from the property boundaries.

More generally, the on-site teams work with Group experts to abate the odors, noise and other potential environmental disamenities that manufacturing operations may cause local residents.

6.4.3 SUPPORTING THE CIRCULAR ECONOMY

Michelin's approach to innovation, development and bringing products and services to market fits seamlessly into a circular economy. Since 2014, Michelin has been a member of the Ellen MacArthur Foundation's "Circular Economy 100" initiative, which is dedicated to developing capabilities, removing barriers or driving joint circular economy initiatives, and identifying favorable conditions for its emergence. In 2017, Michelin became a founding member of Factor10, the WBCSD's circular economy initiative dedicated to centralizing critical knowledge, developing collaborative solutions and acting as the voice of companies in partnerships and multi-stakeholder platforms.

The Michelin 4R strategy for a circular economy

The tire industry uses around 32 million tonnes of materials every year, three-quarters of which are fossil-based. At the same time, road mobility will at least double and maybe quadruple between 2010 and 2050. This poses a variety of challenges in securing supply, reducing the impact of mobility on health, ecosystems and natural resources, and limiting its effects on climate change.

The impact on energy, raw materials, water and other natural resources has to be improved throughout a tire's life cycle by taking a circular economy approach. Between 80% and 95% of a tire's environmental impact occurs during use.

Michelin is simultaneously activating four levers to ensure that resources are used more wisely, in what is known as the 4R strategy: Reduce, Reuse, Recycle and Renew.

/ Reduce

This aspect involves using fewer raw materials and less energy to make tires that are lighter, longer-lasting and more energy efficient, all while delivering the same safe driving experience and ever-improved performance. This commitment, known as MICHELIN Total Performance, has been expressed as a measurable objective in the Group's 2013-2020 Sustainable Development Ambitions (see sections 1.1.2 and 1.1.9).

Michelin does not just set objectives for new tires, it also takes a stand against planned obsolescence by extensively testing worn tires, so as to demonstrate that tires can and should deliver very high performance until the tread wear indicators appear. Based on European data, recommending the scrapping of tires worn down to the minimum legal tread depth of 1.6 mm would avoid the unnecessary use of 400 million tires a year worldwide, while reducing carbon emissions by 35 million tonnes a year.

The principle of shrinking the Group's environmental footprint is being applied both in the tire production phase (see section 6.4.1) and the semi-finished and finished product supply chain (see section 6.4.4), as well as in products (see sections 1.1.2 and 1.1.9), vehicle fleet services and hydrogen mobility (see section 6.4.4). Michelin attaches particular importance to reducing the waste generated in tire manufacturing (see paragraph below).

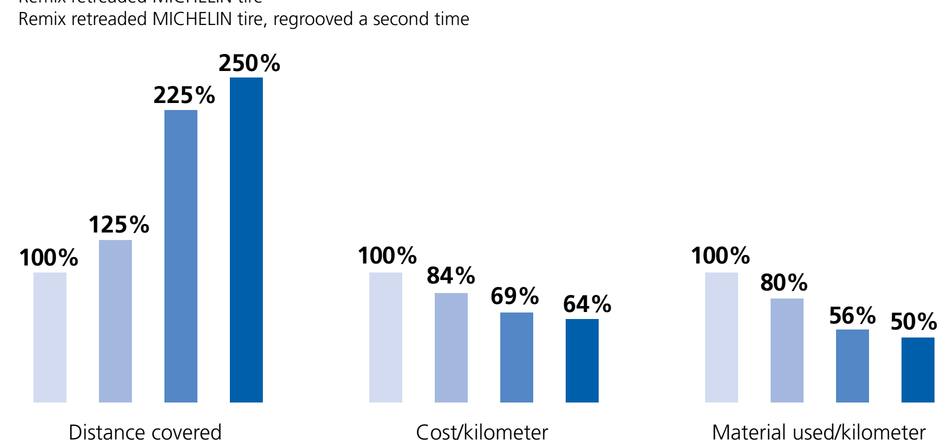
/ Reuse

Raw materials can also be saved during the in-use phase by repairing, regrooving and retreading tires. Michelin offers retreading solutions for Truck, Aircraft and Earthmover tires.

Michelin Truck tires can be regrooved when the tread is worn, then mold-cure retreaded using the Remix process, and regrooved a second time before the components are reused in end-of-life tire recovery solutions. Assuming the tire has a theoretical lifespan of 100 units, regrooving can add 25 units without any additional material; retreading then adds a further 100 units using four times less raw material than it takes to make a new tire; and lastly, the final regrooving increases total tread life by another 25 units.

In all, with one retreading and two regroovings, a Michelin Truck tire can last 2.5 times longer than a new Michelin tire with just an additional 25% of material.

These benefits are illustrated in the following chart, based on European data:



In other words, Michelin's retreading/regrooving solutions can keep truckers on the road 2.5 times longer on the same tire, or up to one million kilometers for certain long-haul tires with an initial lifespan of already 250,000 km. This offers three benefits compared with a non-retreadable, non-regroovable tire, whether premium or budget:

- A financial benefit thanks to the lower cost per kilometer.
- Environmental benefits, by considerably reducing raw materials use and sharply improving the carbon footprint.
- Social benefits, by creating more jobs. Everywhere that retreading/regrooving is practiced, the logistics operations and related services (collection, inspection, maintenance, retailing, etc.) help to stimulate the local economy.

/ Recycle

Short loop

In 2014, Michelin launched the Tire RECycling (TREC) project to pursue an innovative means for recovering end-of-life tires. Based on the maturity of the technologies involved, Michelin, in partnership with SD Tech and with the support of France's Agency for the Environment and Energy Management (*Agence de l'Environnement et de la Maîtrise de l'Énergie* – ADEME), focused on the Regeneration part of the project, which hoped to develop and test micronized rubber powders that could be reinjected into the new-tire production process, without diminishing tire performance and life-cycle impacts.

Although the TREC Regeneration project demonstrated the technology's viability, it was unable to produce micronized rubber powder that was significantly different from what was already on the market. The partners therefore decided not to launch the pre-manufacturing phase and discontinued the project in early 2017.

As part of its strong commitment to recycling end-of-life tires, in October 2017, Michelin acquired US-based Lehigh Technologies, a world-class expert in micronized rubber powder technologies. The acquisition will enable the Group to drive technological synergies, supply micronized powders for its own tire and non-tire applications and position itself as a global innovator in the development of high-tech recycled materials for use in a wide range of applications and industries.

Manufacturing waste

For more than ten years now, Michelin has been committed to recycling all of its tire manufacturing waste (see paragraph below).

End-of-life tires

The deployment of technically and economically viable systems to recycle and dispose of end-of-life tires is a major challenge – one that Michelin is determined to address, in every country, in cooperation with all of the stakeholders concerned. Indeed, for many years, the Group has been encouraging the introduction of effective solutions and continues to play a leading role.

The studies conducted in 2017, and particularly the one mentioned below, showed that 69% of tires sold by Michelin and other tire makers were collected at end-of-life and processed in a large number of countries in authorized recycling facilities in compliance with local legislation. During the year, the Group continued to participate in end-of-life tire recycling programs through its active membership in a variety of industry associations, including in particular:

- The Tire Industry Project (TIP), which commissioned a global study from Deloitte with the intention of eventually developing the most promising recycling technologies in each region of the world.
- The European Tyre and Rubber Manufacturers Association (ETRMA), the United States Tire Manufacturers Association (USTMA) and the Japan Automobile Tyre Manufacturers Association (JATMA). By working with these industry associations, Michelin is making every effort to ensure that the use of its tires at every stage, including the end, is totally safe for the environment and human health. This is also deepening the Group's commitment to the concept of extended producer responsibility.

/ Renew

With renewable materials like natural rubber and some plant-based oils and resins now accounting for more than 30% of its inputs, Michelin is moving to the next level with two new major projects:

- BioButterfly, in partnership with Axens and IFPEN, is developing a bio-butadiene production process using ethanol derived from biomass. The ethanol will be supplied by another partner, sugar cooperative Tereos. Development got underway in late 2015, with the goal of starting up a pilot plant by 2020.
- Bio-Isoprene, in partnership with Amyris and Braskem, aims to manufacture isoprene from biomass feedstock. Now that the laboratory phase has identified a probable pathway, the 2016-2019 objective is to demonstrate its viability as a production process.

In 2017, Michelin joined BioSpeed, a consortium of companies committed to accelerating the market uptake of next generation bio-based materials.

At the same time, Michelin is sustainably and responsibly developing its natural rubber supply (see section 6.3.2 d and the information about the Sustainable Natural Rubber Policy in section 6.3.4 b).

Avoiding and managing waste

Michelin's waste management policies are based on three principles: (i) reducing the amount of waste produced (in particular through reuse); (ii) recovering and reusing all of the waste produced; and (iii) recovering at least 70% of waste materials by developing innovative outsourced recycling solutions. These policies are seamlessly aligned with a circular economy approach.

During the year, the gross amount of waste generated per tonne of finished product declined by 3.6% to 102.2 kg, while the volume of waste landfilled also decreased by 15.2% to 4.2 kg per tonne of finished product from 4.95 kg in 2016. Since 2005, the volume of waste generated per tonne of finished product has been reduced by around 27%, from 140 kg to 102 kg, and the volume of waste landfilled has fallen by more than 85% from 33 kg to 4.2 kg.

In 2017, two more plants reached the goal of recovering more than 95% of their waste, bringing the total to 57 out of the 77 facilities worldwide. The number of facilities reporting "zero waste landfilled" rose to 34 from 32 in 2016.

In 2017, an aggregate 95.9% of all waste was recovered or reused (for materials or energy). The percentage of material recovery and reuse (*versus* energy recovery) has held stable at 65-70% in recent years. Around 7% of total waste generated in 2017 was classified as hazardous under local legislation.

The decline in **waste generated** during the year was primarily attributable to (i) growing employee awareness of waste management issues; and (ii) the review of end-of-waste criteria and the increasing application of best practices, particularly those that facilitate the in-house reuse of materials and products (repair, regeneration, decontamination). The leading factor driving the Group-wide reduction in waste landfilled was the sustained implementation of the "zero waste landfilled" program in North America.

Using resources sustainably

In addition to using materials efficiently, guided by the 4R strategy, Michelin is working hard to ensure the sustainable use of its water, energy and soil resources.

/ Reducing water withdrawals

Michelin plants use water mainly to cool installations and to produce steam and hot water, although certain production operations also use it in the surface treatment of steel cables. In 2017, a total of 8.6 cubic meters was withdrawn per tonne of finished product, down 7% compared with 2016. Since the introduction of a new water resource management system in 2014, water withdrawals (in cubic meters per tonne of finished product) have fallen by 26%, or seven million cubic meters less in 2017 than in 2013. All of the Geographical Zones have seen declines, led by the new method of assessing water issues rolled out in the production facilities in 2016. Based on sustainability principles, particularly the ISO 14046 and ISO 14044 and ISO 14001:2015 standards, the method enables on-site specialists to (i) measure business continuity, community reputation and other risks, (ii) identify the impacts related to the quantity of water withdrawn and each facility's potential water stress, (iii) assess the quality of water withdrawn and discharged, and (iv) calculate the related operating costs, all with the goal of implementing risk abatement initiatives.

Currently, around 30% of production facilities are using the method with the support of the Group's team of water experts. Made up of environmental, maintenance and engineering specialists, the team also provides support in designing new industrial projects, identifying opportunities and sharing best practices (25 new practices). It is backed by an in-house expert community of more than 80 people and by external networks to capture best practices, particularly through the Water Industry Club founded by the Group on World Water Day 2016 and currently comprised of eight other international manufacturers.

The launch of the Water Program (see section 6.4.1 – A reaffirmed environmental commitment in the production plants), whose roadmap specifies the improvements needed to reduce the MEF by 50% between 2005 and 2020, has given new momentum to existing programs and is preparing pathways for improvements beyond 2020. Its roadmap is now being deployed by 25 departments representing the leading internal and external stakeholders, all working as a team. Thanks to this multi-disciplinary work, the six main uses of water in the Group have been identified and energy audits now reflect a clearer understanding of the relationship between water and energy (see section 6.4.3 – Reducing energy consumption). The program's outcomes may be seen in the following achievements reported in 2017.

- Technical upgrades: year-on-year performance gain in cubic meters per tonne of finished product:
  - Ladoux – France: a 17% or 40,000 cubic-meter improvement following deployment of leak-reduction initiatives and a stricter monitoring plan.
  - Avallon – France: a 7% improvement thanks to the installation of a closed-loop system at the high-pressure washing station for tires prior to retreading, and a leak-detection system with real-time phone alerts.
  - Davydovo – Russia: a 7% improvement after vacuum water pumps were replaced by air-powered models, coupled with heightened surveillance to detect leaks in the preparation process.

- Alessandria – Italy: the amount of water used on a production line was reduced by 80% by a new type of ultrasonic water treatment. It immediately paid for itself and offers demonstrated potential for installation in other Group facilities.
- Queretaro – Mexico: a 9% improvement thanks to optimization of the cooling tower water treatment process.

- Awareness raising – recovery and reuse:
  - Chennai – India: as part of World Water Day, the plant held a contest to encourage employees to identify how to use water more efficiently at home. The three winners were offered equipment to implement their proposed solutions.
  - Pirot – Serbia: during an open house day, the plant organized a series of presentations on how to address water issues in daily life, which were attended by more than 6,000 adults and children.
  - Plants in Germany: by year-end, all of the German plants were using the new method for assessing water issues, which has raised awareness of these issues across the organization, from water technicians to plant executives.
  - Group-wide: a quarterly internal newsletter helped to illustrate real-world initiatives and highlight testimonials from plant executives.

In recognition of its understanding of water issues, its strategy and governance and its management of risks and opportunities, Michelin earned an "A-" rating from the CDP[1] in 2017, a clear improvement over its previous ratings of "B-" in 2015 and "B" in 2016.

/ Reducing energy consumption

In 2017, the Group's energy consumption stood at 12.11 GJ per tonne of finished product, down 2.8% year-on-year and 15.9% since 2010. The 2020 target of a 25% reduction since 2010 is within reach.

Initiated Group-wide in 2004, the commitment to diligently manage energy use is demonstrated every year in every production plant through energy audits, the identification and application of best practices and the setting and tracking of in-plant energy use reduction targets. These actions are coordinated by a Group-level team of experts working with a network of on-site energy experts. In 2013, Michelin set the goal of reducing specific energy consumption by 25% between 2010 and 2020.

From 2014 to 2017, every plant undertook action plans to align energy use with changes in output, in particular by reducing consumption during periods of downtime. In 2017, the two-part energy efficiency program undertaken in 2016 continued apace to drive improvements both in technical performance and in methods and working procedures. In all, 16 initiatives have been launched.

- To drive technical improvements, for example, projects were undertaken to make gas-fired boilers at least 90% efficient.
- To enhance methods and procedures, the Energy Improvement program was revised and is now aligned with lean manufacturing principles. The in-plant diagnostics application was expanded to include the use of energy in the production workshops. The Energy Improvement Agent internal training module was revised with new topics, such as green energies and the environmental impact of boilers and utilities.

The Energy Network is being enlarged with the appointment of an energy expert in the leading countries and Geographic Zones where Michelin has extensive operations. They lead their local network and perform energy audits. The Europe region is covered by ten experts who were trained in energy audit practices in compliance with the EN 16247-3 standard. The organization of Energy Network meetings has been upgraded to improve communication between the production plants and the corporate teams, for example, by conducting "virtual plant visits." This is already the practice in North America, and will be applied in Europe in 2018.

The energy efficiency improvement program was supported by nearly €16 million in capital expenditure.

***Renewable energies** are discussed in section 6.4.4.*

/ Optimizing land use

Production facilities

Michelin's production operations occupy much the same surface area as facilities in any other manufacturing industry. Because the plants are located in pre-existing industrial parks, environmental impact studies must be performed in compliance with local legislation prior to applying for an operating license and construction permit. This process also includes public hearings.

In India, the construction in 2011 of a new plant in an industrial park created by the Tamil Nadu government in 2007 caused a controversy over the issue of land use. In accordance with the recommendations of the OECD Guidelines for Multinational Enterprises, the Group conducted a human rights impact assessment and initiated a supplemental environmental impact study. Following completion of the human rights study in 2015, Michelin prepared a ten-year 2016-2025 sustainable social development plan built on the four pillars of its presence in Tamil Nadu: jobs, healthcare, education and the management of natural resources. Completed in 2016 after a 12-month cycle of additional studies, the environmental impact report recognized that the management systems already implemented by the Michelin plant have greatly attenuated its impact. Nevertheless, the residual impacts are being addressed by an action plan in line with the measures recommended in the report. In 2017, the Tamil Nadu government presented the Green Award to Michelin's Chennai plant, in recognition of excellence in environmental management practices.

Testing facilities

The only operations that use large areas of land are test tracks such as the ones in Ladoux, France and Almeria, Spain. They do not conflict with any other land uses and help to preserve the environment with programs to support biodiversity (see section 6.4.5).

Michelin agricultural tires

For more than ten years, Michelin has been improving farming practices with its MICHELIN UltraFlex technology, a breakthrough innovation that protects cropland by enabling farm equipment to run on low-pressure tires that limit compaction and maximize yields. A 2013 study conducted by Harper Adams University in the United Kingdom demonstrated that the technology can increase wheat crop yields by 4%. This means that if all the farm equipment in the world's leading wheat producing regions (European Union,

(1) *A London-based international non-profit organization that is helping to accelerate the transition to sustainable economies. In particular, CDP asks several thousand companies around the world to complete an annual questionnaire, whose answers are shared with the organization's more than 800 institutional investor members.*

United States, South America and China[1]) were equipped with MICHELIN UltraFlex technology, the global wheat harvest would increase by 23 million tonnes, or enough wheat to feed all of the nearly 319 million people in the United States for a year.[2] In November 2016, Michelin was awarded the gold medal at the 2017 SIMA Innovation Awards for its two-in-one tire technology, which transforms the tire's shape and footprint depending on its use. At ultra-low pressures, for example, the contact patch lengthens and widens to reduce soil compaction and increase traction.

In November 2017, Michelin entered the market for non-tire related soil protection solutions by acquiring two manufacturers of tire pressure control systems – PTG and Téléflow – and creating the first end-to-end tire pressure management system for farm tractors, known as Zen@Terra[3]. By facilitating tire pressure management, Michelin is helping farmers improve yields and productivity while minimizing the impact on crop soil.

The Group's commitment to improving farming practices is aligned with the UN's sustainable development goal of promoting sustainable agriculture while doubling farm productivity by 2030.

6.4.4 HELPING TO MITIGATE CLIMATE CHANGE

Michelin is helping to fight against climate change by deploying programs defined in 2015 to meet four priority objectives: (i) reduce the amount of energy used by a tire per kilometer by 20% by 2030 compared to 2010; (ii) reduce the carbon emissions of the Group's manufacturing operations by 50% in absolute value in 2050 compared to 2010 (provided that 65% of purchased energy is from renewable sources); (iii) capitalize on its expertise and culture of innovation towards the development of long-range electric vehicles and integrates its products and services in the new forms of mobility for people and goods; and (iv) support the introduction of a global carbon pricing system.

Since inventing the MICHELIN Energy™ tire in 1992, the Group has continuously innovated to improve fuel efficiency with each new generation of its tires. The future is being prepared in research programs underway with a variety of outside partners to develop breakthrough technologies that will define the performance of the next generations of tires. To ensure that the improvements delivered by these R&D programs also drive a reduction in CO_2 emissions consistent with a below 2°C climate change scenario, in 2017 Michelin joined a WWF-led working group supporting the Science Based Targets initiative. The group, which brings together eight leading corporations in the transport sector, is refining methodologies to determine effective pathways to decarbonization across the transportation value chain.

In 2005, Michelin began to measure carbon emissions from all of its production facilities, under an emissions reduction program based on improving energy efficiency and shifting to a less carbon-intensive energy mix. This commitment is being deployed not only in the production units, but also in the supply chain operations and the business fleet services, as well as in the development of fuel-cell based mobility solutions.

At the core of these policies is the belief that neither Michelin nor any company can fight climate change by itself, and that creating the mobility of the future demands partnerships, collaborative platforms and synergies among stakeholders up and down the transportation chain. Michelin is taking the lead in this cross-stakeholder process by getting deeply involved in the Conference of the Parties (COP) on climate change, bringing together new mobility ecosystems at its annual Movin'On international summit and promoting innovative ideas through its Open Lab Mobility collaborative platform.

This vision is being supported by an experimental internal carbon pricing program for large capital projects, investment in carbon credits and a risk management process that addresses the possible impact of climate change, both at the Group level and for each plant or facility.

In 2017, CDP ranked Michelin among the most forward looking companies in the areas of transparency and combating climate change. The Group's A- score was a reflection of its strategy, the reduction in its CO_2 emissions and its long-term commitment to further reducing its carbon footprint. For more than ten years now, the Group has disclosed data on the questionnaire intended for CDP's institutional investor members and for the past five years it has responded to the supplementary supply chain questionnaire requested by certain customers.

Reducing the carbon footprint of production operations

Carbon emissions from all of the manufacturing operations, per tonne of finished product, were **30.7% lower in 2017** than in 2010 and 42% lower than in 2005. The improvement was led by the activation of two levers: improving energy efficiency and using less carbon-intensive energies (see section 6.4.2 – Greenhouse gas emissions).

/ Optimizing the energy efficiency of production facilities

Energy efficiency initiatives are being pursued across the organization, led by the new improvement program described in section 6.4.3.

(1) OECD-FAO Agricultural Outlook 2015-2024, June 5, 2015.
(2) U.S. Department of Agriculture.
(3) Announced on November 12, 2017 at a press conference during the AGRITECHNICA trade show.

/ Increasing the use of renewable energies at production facilities

In a commitment to sustainably reduce the Group's carbon footprint, policies have been in place since 2008 to increase the use of renewable energies. These biomass, solar power and wind power projects often have long maturity cycles.

On-site installations

The rated output of photovoltaic roof panels installed at several facilities in Germany (in Bad Fallingbostel, Bad Kreuznach, Bamberg, Homburg, Karlsruhe, Landau and Ulm) was raised from 9 MWp in 2006 to 21.5 MWp in late 2013. In 2016 and 2017, an additional 5.2 MWp was installed, increasing total rated output to 27 MWp. In Valladolid, Spain, 31,000 square meters of solar panels with peak capacity of 3.3 MWp were commissioned in 2010 and 2011. In France, the rooftop solar power panels on the Le Puy-en-Velay plant began generating their first electricity in September 2011. Covering three hectares, or three-quarters of the roof's surface, the panels are generating between 3,000 and 3,500 MWh of power a year. Electricity generated by these three solar plants is sold back by the operators to the national grids, helping to reduce their country's electricity emission factor.

Other installations are directly reducing the Group's CO_2 emissions.

Wind turbines have been generating roughly 20% of the electricity used by the Dundee plant in Scotland since 2007. The two wind turbines installed near the Ballymena plant in Northern Ireland in late 2012 provided 20% of the plant's electricity in 2017.

Commissioned in 2010, two biomass-fired boilers installed to replace natural gas-fired systems at the Bourges and Cholet plants in France avoided the emission of more than 12,000 tonnes of CO_2 in 2017.

Since 2013, the plant in Vannes, France has used steam generated from a boiler fired by biogas derived from the methanation of household waste.

In Canada, a solar wall has replaced heavy fuel as a source of heat for the Waterville plant since late 2010.

Compared with the emissions from previously used energy sources, these on-site renewable energy installations avoided the emission of nearly 45,000 tonnes-equivalent of CO_2 in 2017, of which nearly 32,000 tonnes directly reduced the Group's total carbon emissions.

Facility	Technology	Tonnes of CO_2 emissions avoided in 2017(*)
Bassens, France	Purchase of heat generated by a waste incinerator	11,000 t (direct CO_2)
Cholet, France	Biomass-fired boiler	5,550 t (direct CO_2)
Bourges, France	Biomass-fired boiler	6,750 t (direct CO_2)
Vannes, France	Purchase of household waste methanation heat	350 t (direct CO_2)
La Combaude, France	Purchase of heat from biomass-fired facilities	2,250 t (direct CO_2)
Waterville, Canada	Solar wall	100 t (direct CO_2)
Dundee, United Kingdom	Wind turbines	2,750 t (direct CO_2)
Ballymena, United Kingdom	Wind turbines	3,000 t (direct CO_2)
Germany, seven facilities	Photovoltaic panels	11,750 t (power sold back to the grid)
Valladolid, Spain	Photovoltaic panels	1,100 t (power sold back to the grid)
Le Puy, France	Photovoltaic panels	200 t (power sold back to the grid)

(*) Based on emissions factors for the substituted energies published by the International Energy Agency in CO_2 Emissions from Fuel Combustion, 2016 edition.

Today, 17 facilities use renewable energy solutions.

In 2017, one project was discontinued but two others were undertaken during the year:

- In Clermont-Ferrand, France, the cost of using geothermal heat proved to be too high, primarily because the Michelin facilities were located too far from the heat source. The project remains operative, but Michelin is no longer a potential customer.
- In Chennai, India, a feasibility study is being performed for the installation of photovoltaic panels on the plant's grounds or rooftops.
- In Nongkae, Thailand, photovoltaic panels with peak capacity of 0.88 MWp will be installed on the parking lot shade roofs. While relatively small, the project is the Group's first solar farm whose power will be directly used on-site.

Other on-going projects continued to progress during the year, with commissioning scheduled between now and 2020. These include the purchase of biomass-sourced steam in Golbey, France and the purchase of power and heat from the incineration of household waste in Dundee, United Kingdom and Troyes, France.

Purchasing electricity from certified renewable sources

The 2016 study conducted in every host region around the world showed that a mature supply of green electricity exists only in Europe, either in the form of direct purchase contracts or of guarantees of origin, as defined by Directive 2009/28/EC.

During that year, the Group purchased 330,000 MWh of electricity from renewable sources in six of the eight European Union countries where it has production facilities, thereby avoiding the emission of 135,000 tonnes of CO_2, or the equivalent of 4% of total consolidated emissions in 2016.

In 2017, green electricity was purchased in all eight countries, with the total of around 1,583,000 MWh representing 34.5% of all of the electricity used by the Group in the region. This avoided the emission of 387,000 tonnes of CO_2, the equivalent of 13% of total consolidated emissions in 2017.

In all, 15% of the electricity used by the Group in 2017 came from renewable sources.

/ Replacing fuel oil with natural gas

One way to reduce carbon emissions is to replace heavy fuel oil with natural gas, which when burned emits more than 25% less carbon dioxide (202 kg/CO_2 per MWh LHV versus 278 kg).

In Canada, the boilers at the Pictou, Bridgewater and Waterville facilities were upgraded in late 2014 to enable them to run on natural gas as well as the traditional fuel oil. At a time of low natural gas prices, these dual-fuel boilers only need to be fuel oil-fired part of the year. In 2017, as in 2016, natural gas replaced more than 230,000 MWh of fuel oil-fired power generation at the three plants, helping to avoid the release of 17,500 tonnes of CO_2.

In China, in the final quarter of 2015, the Shanghai plant replaced its steam generated on-site in a coal-fired boiler with steam purchased from a gas-fired CHP power station. This avoided the emission of approximately 14,000 tonnes of CO_2 in 2016 and 2017.

The carbon footprint of products and services

Life cycle assessments show that more than 90% of a tire's environmental impact occurs during use, due to the fuel that has to be burned to overcome rolling resistance. In the same way, depending on the tire, 85% to 98% of its life cycle GHG emissions are released during use. Tire carbon footprints are being reduced through research and development focused on improving energy efficiency while delivering the same or better performance in such key areas as grip, longevity and quiet ride (see sections 2.1.8 and 6.4.1).

For the past four years, Michelin has calculated its annual Scope 3 indirect GHG emissions from activities in both the upstream and downstream value chain. As is the case for Scope 1 and 2 emissions, they are measured using the guidance published in *The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard* (see section 6.4.1 for the summary table of environmental data for the Group) and its supplement, *Corporate Value Chain (Scope 3) Accounting and Reporting Standard* (World Resources Institute and World Business Council for Sustainable Development, September 2011).

Based on the 2016 data disclosed in the 2017 CDP Climate Change questionnaire, Scope 3 emissions came to around 140 million tonnes of CO_2, of which some 124 million were attributable to Michelin tires in use. The second largest source of Scope 3 emissions was purchased raw materials, which accounted for around nine million tonnes. Lastly, Michelin services generated less than 1% of Scope 3 emissions.[1]

These figures are all estimates, reflecting the 10-30% margin of uncertainty inherent in calculating the various types of Scope 3 emissions. Calculation assumptions, source data and emission factors are reviewed and revised every year to attenuate uncertainty and make the calculation methods for the different value chain activities more robust. All of the 2016 Scope 3 calculations were audited in accordance with ISAE 3000 by an independent third party, which expressed limited assurance that the calculations were made in compliance with the protocols mentioned above.

Enhancing the sustainability of logistics operations

Reducing greenhouse gas emissions from logistics operations is a major priority for Michelin. This process involves developing new synergies among shippers and carriers, in a commitment to improving the efficiency of volumes carried and mutually reducing emissions.

Action levers are gradually being activated both inside and outside the organization:

- **Optimizing transportation distances depending on transportation mode.**
  - Michelin is continuing to expand its plant-to-customer direct delivery capabilities.
  - A new warehouse in northern Vietnam is being supplied primarily by direct sea link from the producing countries, driving a 50% reduction in the volume of freight carried overland from the southern Vietnam warehouse.
  - A new warehouse in southern Japan is helping to reduce and optimize truck deliveries from the country's central warehouse.
  - In Rio de Janeiro state, Brazil, the new finished product storage capacity that came on stream at the Campo Grande plant has reduced the need to transport Truck tires to the Resende plant for storage.
- **Increasing load factors.** Optimizing load capacities, in accordance with local legislation, helps to reduce empty miles and backhaul costs.
  - The more systematic use of compactors, for example, means that 15% more tires can now be loaded in containers exported from Thailand to Indonesia, Vietnam and South Korea.
  - In South America, the growing use of herringbone loading rather than stacking is increasing the number of car tires carried per truck for delivery to automakers.
- **Favoring multimodal solutions and modal shifts while reducing the use of air freight.** Michelin is working with carriers to explore the technical and financial feasibility of multimodal solutions (overland/rail, overland/waterway or overland/sea) or modal shifts. This would help to reduce not only GHG emissions but also noise and air pollution, while also preserving public infrastructure, reducing the number of accidents and easing traffic congestion.
  - In 2017, the use of multimodal arrangements increased significantly in North America.
  - Truck, Passenger car and Light truck tire exports from Brazil to Chile are now carried by ship rather than overland.
  - Across the Group, the use of air freight is kept to a strict minimum.
- **Developing partnerships with trucking companies concerned about their energy efficiency.** Michelin offers a wide range of tools and systems to optimize truck performance by ensuring that the vehicle is recent and regularly maintained; the engine is suited to the distance and the average load carried; the vehicle has a speed-limiting device, accessories that reduce aerodynamic resistance and tires with low rolling resistance; and the tires are retreaded and regrooved to extend tire life and increase fuel efficiency.

(1) GRI 305-3: Other indirect (Scope 3) GHG emissions.

- **Encouraging eco-driving practices.** When correctly implemented and followed-up, driver training and management can improve fuel efficiency by up to 10%. For trucking companies, this represents a potential increase in operating margin of 2% to 5%, depending on the country. Eco-driving also reduces the number of road accidents by instilling defensive driving habits.

In 2017, energy efficiency was reaffirmed as the decisive environmental criterion for logistics purchases around the world.

Improving the energy performance of business fleets

Another pathway to reducing the Group's carbon emissions concerns the product-service economy, which involves either (i) the combined supply of a product and a service to manage tires in ways that optimize their energy efficiency and other performance features; or (ii) the provision of a single service that streamlines certain cumbersome fleet processes to make driving fleet vehicles cheaper, safer and greener. This is illustrated by the partnership with IVECO, whereby Michelin will supply three innovative services for the new Stralis NP460 natural gas heavy truck. Michelin has been a pioneer in offering innovative services for fleets, introducing per-kilometer tire invoicing back in the late 1990s. Michelin's services and solutions business line designs, develops and prototypes new mobility solutions for the managers of all types of vehicle fleets. Under the MICHELIN® solutions brand, these solutions are then marketed and supported close to customers in the Geographical Zones, enabling them to optimize fleet management, improve margins and reduce their carbon footprint. Today, MICHELIN® solutions are addressing a number of challenges faced by customers:

- Some concern **tires and trucks,** such as EFFITIRES™, Michelin Tire Care and EFFITRAILER™ (optimized semi-trailer management).
- Others help to **improve business performance,** such as MyBestRoute, which optimizes fuel consumption by choosing the most efficient route, MyInspection, which supports methodical vehicle inspections, and MyTraining, which facilitates driver training and encourages more environmentally friendly driving.
- Others improve **employee motivation,** such as the MyRoad-Challenge, a fun game that rewards good driving practices.

Hydrogen, a key technology for carbon-free transportation

By eliminating CO_2 emissions, improving air quality and supporting energy transition, while being suitable for every use, hydrogen offers the promise of sustainable mobility as Michelin sees it. To deliver these benefits, Michelin has been exploring this pathway for more than 15 years. However, for the hydrogen fuel cell to become a viable mobility solution, several conditions must be met. The technology is mature but it needs further development to become more efficient and reliable. Moreover, making hydrogen fuel widely accessible and usable in every mode of transport will require the active commitment of businesses and institutional stakeholders across the entire value chain. Lastly, there has to be a sufficient number of hydrogen recharging stations on the road.

Through its involvement and engagement in this ecosystem, alongside public and private stakeholders, Michelin has been working simultaneously on all these aspects. Backed by the 15 years of expertise acquired by its R&D teams, Michelin's proficiency in hydrogen fuel-cell technology makes it a strong, credible partner in this field. As a shareholder since 2014, Michelin supports Symbio FCell, an innovative French SME, which has invented the world's first hydrogen-powered range extender. This technology converts an electric vehicle into an electric/hydrogen hybrid, which could spur faster take-up without waiting for the release of new models. Michelin's subsidiary IMECA is assisting Symbio FCell in the process engineering phase. In 2016, French power and gas utility Engie invested in Symbio FCell, contributing its expertise in carbon-free hydrogen production and its distribution infrastructure.

More broadly, Michelin is an engaged, unifying stakeholder in the hydrogen fuel chain. As part of the Fuel Cells and Hydrogen Joint Undertaking (FCH JU), Michelin is a member of (i) Hydrogen Europe, an umbrella organization for European manufacturers, researchers and national associations; (ii) the French Association for Hydrogen and Fuel Cells (*L'Association Française pour l'Hydrogène et les Piles à Combustible* – AFHYPAC); (iii) AVERE, an association that supports the deployment of electric mobility systems; and (iv) Tenerrdis, a competitiveness cluster that includes a wide range of stakeholders in the hydrogen power industry. Michelin has also fully supported the Zero Emission Valley project in France's Auvergne-Rhône-Alpes region, which is committed to leveraging the project to drive improvements in the technology and spearhead the development of hydrogen mobility across Europe. As part of the project, the regional government plans to deploy 20 hydrogen stations and a fleet of 1,000 vehicles by 2020. From a business standpoint, the project will proactively prepare solutions for the future that can then be deployed in other countries.

Leading the way together in sustainable mobility

/ Involvement in the 23rd Conference of Parties (COP23)

In 2017, Michelin stepped up its commitment to sustainable mobility in the international arena, in particular as part of Paris Process on Mobility and Climate (PPMC), the transport sector coalition formed in 2015 under the auspices of the French president of the COP21 conference. One of PPMC's missions is to express the views of non-government stakeholders – *particularly companies through Michelin's involvement* – in the implementation of the Paris Agreement. In 2017, PPMC pursued two main courses of action. At the COP23 conference in Bonn, it presented the final version of the Global Macro Roadmap for the decarbonization of transportation by 2050, which is designed to apply the Paris Agreement to the mobility sector. Then in December, at the One Planet Summit organized in Paris by the office of the French president in liaison with the United Nations and the World Bank to spur the transition to sustainable transport, PPMC helped to launch the Transport Decarbonization Alliance (TDA) in four countries (France, the Netherlands, Portugal and Costa Rica), four companies (including Michelin) and the city of Paris.

/ Michelin Challenge Bibendum evolves into Movin'on

For almost 20 years, Michelin Challenge Bibendum was the oldest and largest global forum dedicated to sustainable mobility and its challenges. In 2017, the prestigious gathering reinvented itself under a new name, Movin'On. The first edition of this major revitalized event brought together thousands of participants who sought to inspire, share and explore innovative ideas to make the mobility of tomorrow a reality. In Montreal, in June 2017, industry

and government leaders came together to create a better world by proposing innovative mobility solutions capable of benefiting both the planet and the world economy. With the stated goal of moving from "ambition to action," the event sought to convince today's leaders to lay the groundwork for better and more sustainable mobility in the future and, most importantly, to do so together. One of the six main themes of the 2017 edition was "Decarbonization Commitments", with 14 workshops and presentations covering the initiatives launched by the CoPs, several viewpoints on short and medium-term carbon reduction strategies in the value chain, the right price for carbon, and the social and environmental implications of a low-carbon economy.

/ Open Lab Mobility

Open Lab Mobility is a Think and Do Tank deeply rooted in innovation and creation, dedicated to promoting better quality of life through sustainable mobility. It is a collaborative platform that welcomes debate, discussion and expertise sharing about mobility issues. It also provides news and the possibility for experts and opinion leaders to connect with each other in communities of interest. Over the past two years, 200 companies have taken part in these communities.

In 2017, Open Lab Mobility took the opportunity to contribute to the "Shaping the Future of Mobility" initiative at the 2018 Annual Meeting of the World Economic Forum, providing concrete recommendations for policy makers on the implementation and scale-up of innovative clean mobility solutions. The ideas and recommendations of the Beyond 2°C community of interest were presented in a position paper, *Speeding Up to <2°C: Actionable clean mobility solutions,* published in January 2018. In all, 15 companies, including Michelin, a research organization, a non-governmental organization and two mobility associations, participated in the Beyond 2°C community and contributed to the paper.

Carbon pricing

As part of its commitment to significantly, yet cost-effectively reduce its CO_2 emissions, Michelin supports the introduction of an international carbon pricing system. Today, there is no global carbon market or price, but only fragmented and uncoordinated systems in the European Union, certain Chinese provinces, California, Quebec, etc. Michelin, however, is strongly encouraging public stakeholders to support the development of a more structured market. This is why it has been a member of the World Bank's Carbon Pricing Leadership Coalition since 2015. Since 2016, the Group has also been preparing for the emergence of a global carbon market by experimenting with an internal carbon price for its capital projects, set at €50 per tonne of CO_2.

Since 2016, this price has been incorporated into the method of calculating return on investment for projects requiring major capital expenditure, such as production capacity increases, boiler upgrades and supply chain improvements. For projects designed to increase the energy efficiency of existing installations (curing press insulation, lighting upgrades, etc.), which require more modest outlays, the internal carbon price is now integrated into a new project consolidation application developed in 2016 as part of the new energy efficiency improvement program (see section 6.4.3).

Since 2016, each project leader is expected to submit two scenarios, one conventional and the other based on carbon costing €50 a tonne. In this way, each project sponsor can compare the payback calculated with a carbon market price (now zero in every host region except Europe and Shanghai) and the payback calculated with the projected carbon price over the lifetime of the equipment being purchased today.

Investing in socially responsible carbon credits

Since 2014, Michelin has invested in the Livelihoods Carbon Fund, which supports reforestation, agroforestry and low-carbon cookstove projects on three continents. Conducted in collaboration with local NGOs, its projects help to reduce GHG emissions, while offering investors a return in the form of carbon credits with high environmental and social value. So far, Michelin has committed €3.4 million of the pledged €10 million investment, of which half in the initial fund and half in the new Livelihoods 2 fund.

In 2017, three projects in Africa generated 35,672 carbon credits for the Group, corresponding to 35,672 tonnes of avoided CO_2 emissions. Two of them have installed several tens of thousands of energy-efficient cookstoves in village homes, which eliminate harmful smoke and cut GHG emissions in half. To date, 30,000 families have been equipped with these ovens in Burkina Faso and 60,000 in Kenya, avoiding the release of more than two million tonnes of CO_2 over a ten-year period.

In 2017, Michelin used its carbon credits to offset the carbon footprint of its Movin'On international sustainable mobility summit held in Montreal in June, whose emissions had been calculated by an independent agency at 2,182 tonnes of CO_2.

Adapting to the impact of climate change

Michelin's production plants are located in 17 countries. In line with the recommendations issued by the Group's risk managers, risks associated with climate change have been reviewed and business continuity plans in the event of extreme weather events have been assessed. These events concern only a few facilities, which have all devised the appropriate business continuity plans. In 2015, for example, a severe drought in Brazil drained the reservoirs for the hydroelectric power stations that provide much of the country's electricity, causing a fear of blackouts. In response, Michelin took action to ensure that its two Brazilian plants could continue operating in the event of power rationing.

Since 2015, Michelin has not experienced any new climate-related events that had a material impact on its production facilities. In early 2017, its natural rubber input deliveries were disrupted by the combined impact of a prolonged drought in Indonesia, which hindered river transport, and the closure of roads and a major port following floods in Thailand. Measures have been taken in the supply chain operations to reduce the Group's exposure to this type of event.

In addition to assessing the risks of rarely occurring extreme climate events, the Group's vulnerability to energy supply has also been reviewed. It was found that climate change would only have a moderate impact, because operations are well distributed, both geographically and by business.

These reviews are also conducted when selecting new business locations.

The natural rubber needed to make tires is produced only in the planet's intertropical convergence zone, which is exposed to the impact of climate change and the growing scarcity of arable land.

To address this challenge, Michelins' agronomists and scientific partners are selecting productive, disease-resistant varieties and encouraging innovative farming practices that improve yield. The Group is also diversifying sources of supply in every production basin and pursuing research programs to optimize the quantity of natural rubber used per thousands of kilometers traveled.

Certain raw materials suppliers deemed to be exposed to climate risks have been asked to take steps to protect their operations from the impact of extreme weather events.

6.4.5 PROTECTING BIODIVERSITY NEAR MICHELIN FACILITIES

Michelin is particularly committed to attenuating the impact of its facilities on biodiversity by leading initiatives to protect fragile environments, such as those in Almeria, Spain, Bahia, Brazil, Ladoux, France, and Louisville, KY, or through programs that simply support the everyday biodiversity present in and around facilities. At the same time, two methods of identifying ecosystem impacts and dependencies have been tested, all of the protected areas near Michelin plants have been inventoried and, more recently, a method for inventorying their on-site biodiversity has been devised.

For more information on Michelin's programs to support biodiversity in natural rubber producing regions, see sections 6.3.2 c and 6.3.4 b above.

Protecting neighboring ecosystems

To conduct its business sustainably, Michelin, like other companies, relies on the benefits provided by natural ecosystems and biodiversity, such as plant-based raw materials, water provisioning and climate regulation.

Between 2008 and 2010, two methods of identifying a production plant's impact and dependence on ecosystems were tested. The first was the Corporate Ecosystem Services Review (ESR) developed by the World Business Council for Sustainable Development (WBCSD) and the World Research Institute (WRI). The second, designed by an independent organization, also measured a plant's ecological vulnerability, determined by its proximity to areas of environmental concern.

Based on the tests findings, the Group decided that instead of identifying impacts and dependencies, it should continue to assess the proximity of its production facilities to protected areas.

Inventorying nearby protected areas

In 2012, Michelin began preparing an **inventory of the areas classified as protected** under supranational, national or local regulations and located within a 15 kilometer radius of its plants or research centers. In places with surface or subsurface waterways, the inventory was extended where necessary to include protected areas downstream.

By end-2015, the review had been carried out by 68 of the 71 sites concerned, in 18 countries, revealing the presence of a total of 389 protected areas. When the data was analyzed with regard to the GRI 304-1[1] indicator, the review also revealed that 27 facilities in seven countries, representing a total surface area of around 6,400 hectares, are located less than a kilometer from one or more protected areas.

In the years ahead, the inventory used to compile the GRI 304-1-compliant indicator for all of the plants and research facilities will be updated every five years.

Enabling the plants to address biodiversity issues

In 2014, two initiatives were undertaken in response to the protected area inventory. First, the ISO 14001-based application used to analyze a facility's environmental aspects and impacts was upgraded so that the presence of neighboring ecosystems and biodiversity can be identified more consistently in the prioritization of environmental issues. Second, protected areas are being more systematically taken into account during impact studies on projects to build new facilities or extensions.

Achieving a balance between operations and environmental stewardship in Almeria, Spain

Created in 1973 and certified ISO 14001 since 2005, the Almeria Test Center covers 4,500 hectares, of which 1,500 lie in the heart of the Cabo de Gata-Níjar Natural Park in Andalusia, in southern Spain. The park is located in an arid region with the lowest rainfall in Europe and is home to a number of plant and animal species, including many found only in the park. The Group's initiatives have helped to preserve, for example, a specimen of the Canary Islands Dragon Tree *(Dracaena draco)* that is more than 500 years old.

From the design phase, Michelin's objectives for the CEMA were not only to build the test center and efficiently use its capabilities but also to preserve the site's ecosystems. Environmental conservation targets were therefore included in the center's day-to-day operating indicators. When the Andalusia government decided to protect the area's seacoast and landscape by creating the Cabo de Gata-Níjar Natural Park in 1987, Michelin also began working with park authorities to share best practices and enhance the conservation measures in place.

(1) GRI 304-1: Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

Initiatives under way at the Almeria Test Center (CEMA) in Spain were presented by the WBCSD at the International Union for Conservation of Nature (IUCN) Congress devoted to preserving biodiversity and ecosystems, held in Jeju, South Korea, in September 2012.

Group efforts on the Almeria site are regularly commended by the government and by academics. Working hand in hand with local authorities – even well before the official agreement was signed in 1995 – Michelin successfully achieved a balance between its operations and commitment to environmental stewardship.

Protecting a special habitat at the Ladoux Technology Center in France

In July 2011, an agreement was signed with the Auvergne Regional Nature Conservancy to ensure protection of a 3.5 hectare area containing continental salt meadows on the grounds of the Ladoux Technology Center. Extremely rare in Europe, this type of habitat is home to protected maritime species in the Auvergne region (such as the sea plantain and *Juncus gerardii* black grass) and has been designated as a priority for conservation.

Supporting the Michelin Ecological Reserve in Bahia, Brazil

The more than 3,000-hectare Michelin Ecological Reserve (*Réserve Écologique Michelin* – REM) in Bahia, Brazil celebrated its 11th anniversary in 2017, having become one of the best-protected areas of the Atlantic Forest, one of the most species-rich, yet most endangered biomes in the world. The Reserve's program builds on the work of both in-house researchers and outside scientists, whose input helps to shape decisions on how to manage the area.

To date, Michelin has sponsored 96 research projects on various species of mammals, birds, amphibians, reptiles, fish, plants and fungi. With more than 2,000 identified species, ten of which are newly discovered, the REM is a refuge for biodiversity in a region where almost all of the forest has been destroyed. Research conducted in the Reserve has resulted in the publication of 94 scientific papers.

As part of the reforestation program, 100,000 trees spanning 215 species have been planted, enlarging the forested area by 270 hectares. Since the Reserve opened, hunting has fallen off sharply, spurring a 117% increase in the mammal and large bird population, including certain species threatened with extinction like the yellow-breated capuchin monkey *(Sapajus xanthosternos)* and the red-billed curassow *(Crax blumenbachii)*.

The REM also protects the Pancada Grande waterfalls, which are visited by more than 60,000 people a year. In addition, an environmental awareness program is being conducted to help local communities manage the day-to-day environmental obligations associated with living so close to a reserve.

In 2017, it was decided to add another 350 hectares to the reserve, making the Pacange River valley the only valley in the region to be totally free of any farming or other economic activity. The additional land, which was previously part of the Michelin rubber tree plantation, has now been cleared and will be transferred to the Reserve in 2018.

Earning Wildlife at Work certification at the Louisville plant in the United States

The Louisville, KY facility joined forces with two other local companies to transform two nearby landfills into a 30-hectare wildlife refuge with forests, prairies, wetlands and wildflowers. Volunteers participated in a replanting campaign and the site now attracts birds, foxes, deer and other wild animals. The three-year project was completed in late 2011 and has earned Wildlife at Work certification from the Wildlife Habitat Council.

Participating in the Wildlife and Industry Together program in the United States

Since 1998, the Laurens Proving Grounds in South Carolina has partnered with the South Carolina Wildlife Federation to manage a protected nature area certified by Wildlife and Industry Together (WAIT). The facility has implemented various programs to protect the region's natural habitats, in particular by getting local schools involved to encourage environmental awareness among children. Michelin employees have also volunteered on several occasions to participate in such projects as maintaining walking trails around the site.

A number of other Michelin facilities in South Carolina have also obtained WAIT certification, including Sandy Springs, Starr, Lexington and the Research Center in Greenville.

6.5 DUTY OF CARE PLAN

INTRODUCTION

In compliance with Act 2017-399 of March 27, 2017, Michelin has prepared a duty of care plan that reviews all of the risks incurred by the Group and its main subcontractors[1] in three areas, the environment, health & safety and human rights. For Michelin, the plan is a means to consolidate and strengthen its risk prevention and management processes in these three areas, as well as an opportunity to deepen its duty of care process with subcontractors. The plan draws and expands on the information presented in the Group's core documents, its annual sustainable development reports, its Health & Safety Declaration, its Health Policy, its Code of Ethics and its Purchasing Principles.

As its business base has expanded, the Group has defined standards of compliance that meet or exceed the rules and regulations applicable in its host countries. Even when local legislation is not as strict as its own, Michelin continues to require compliance with its highly demanding environmental, health & safety and human rights standards.

The duty of care plan was prepared with input from stakeholders. It helped to broaden and deepen Michelin's relationship with these partners during the annual meeting of the Corporate Stakeholders Committee on December 7, 2017.

6.5.1 ENVIRONMENTAL RISKS (SEE ALSO SECTION 2.9.3 c)

Michelin is committed to acting as a key enabler of sustainable development and mobility. This naturally entails properly identifying and effectively managing the environmental risks inherent in its business operations.

6.5.1 a) Manufacturing operations

For its manufacturing operations, the Group has developed an ISO 14001-certified Environment and Prevention Management System (SMEP), based on a process that verifies compliance with local and Group standards. It is enabling each plant to manage its environmental impacts, on both a day-to-day and a long-term basis. Taking a holistic approach, the SMEP not only identifies environmental risks but also recommends mitigation and prevention processes for each one. The Group has also deployed an environmental performance indicator, known as the Michelin Environmental Footprint (MEF), which is measured according to six criteria: energy consumption, water consumption, VOC emissions, CO_2 emissions, amount of waste generated and amount of waste landfilled.

/ Air and soil releases

Michelin has diligently measured the issues and risks arising from releases into the air and soil, with a particular focus on volatile organic compounds (VOCs) and greenhouse gases. To continue driving the steady reduction in its CO_2 emissions, the Group is increasingly shifting to a less carbon-intensive energy mix. Total CO_2 emissions amounted to 0.89 tonnes per tonne of finished product in 2017, a reduction of 30.7% compared with 2010 and of 10.7% compared with 2016. Volatile organic compound (VOC – 2.07 kg/t of finished product) declined in 2017 by 10.4% compared to 2016, and by 28.4% compared to 2010.

Through the SMEP, Michelin is also working to prevent the risk of chronic or accidental soil spills.

/ Energy and water consumption

Improving the Group's overall energy performance and managing its water use is helping to shrink its environmental footprint. A new method of assessing water issues, based on ISO 14046 and ISO 14001:2015 principles, was rolled out in 2016. The Group is deploying, plant by plant, appropriate measures to reduce its water use.

/ Waste management

Waste generated by the Group's operations is also managed through the SMEP. Michelin is striving to minimize the amount of this waste, with the goal of reaching the point where none of it is landfilled or incinerated without heat recovery. The Group supports the development of a so-called "circular" economic model, in which recovering waste for recycling or reuse becomes a source of added value. The Group is committed, now and in the future, to managing its waste responsibly from production to end-treatment, regardless of the outsourced solution.

(1) Subcontractors with whom Michelin maintains an "established business relationship".

6.5.1 b) Products: distribution, use and end-of-life

/ Accidental spills resulting from the transport of finished and semi-finished products

Finished and semi-finished products are shipped by sea and overland to and from the various production facilities. The trucks involved in these operations are inspected as part of the SMEP process, which has found them in compliance with accidental spill prevention standards.

/ Tires in use

Michelin addresses a tire's impact on natural resources throughout its life cycle, taking a circular economy approach. More than 90% of a tire's environmental impact occurs during use, when it heats up as its structure is deformed, causing the vehicle to burn more fuel. Since 1992, Michelin has been working to increase the energy efficiency of its tires so that vehicles fitted with them burn less fuel and therefore emit less CO_2. Since 2006, Michelin has been actively involved in the Tire Industry Project (TIP), with a particular interest in the issue of tire and road wear particles (TRWP), which are an agglomeration of tire material stuck together with road materials, including metal particles, oil, dust and pollen. TIP research has helped to deepen our understanding of TRWPs, including their contribution to urban and suburban air pollution. Their tests showed that TRWPs did not account for more than 3% of the total particle content of a sample of urban air. Other studies have been conducted on the contribution of TRWPs to water pollution.

/ Recovering and recycling end-of-life tires

Michelin pays special attention to the recovery and reuse of its end-of-life tires. In 2017, 70% of the tires sold by the tire industry were ultimately recovered and recycled by authorized or certified facilities in compliance with local legislation. In the case of its own tires, the Group is committed to taking this recovery and reuse process to next level, as can be seen in its support for the Tire Industry Project (TIP), under the auspices of the World Business Council for Sustainable Development (WBCSD). Michelin also belongs to all of the regional trade organizations that deal with end-of-life tire recovery and reuse, including the European Tyre and Rubber Manufacturers Association (ETRMA). As part of these organizations, Michelin is working to develop sustainable solutions to make end-of-life tires an important link in a circular economy chain.

6.5.2 HEALTH & SAFETY RISKS (SEE SECTION 2.9.3 b)

Michelin deeply believes that organizational efficiency and profitable growth go hand in hand with the health and safety of its employees and their sense of well-being at work. For many years, Michelin has assertively deployed an ambitious health and safety policy, which has been instilled across the organization.

Chemical risks

Exposure to chemicals is one of the Group's main risks and before a new chemical substance may be used, an authorization for use must be issued. This can result in a ban on the use of certain products. Every workstation features product data sheets in the local language, based on safety data sheets that comply with REACH standards in Europe and the Global Harmonized System (GHS) standards everywhere else.

Asbestos

Group facilities and installations contain only residual amounts of asbestos, a legacy from its former use as insulation and in friction materials. Michelin tires are entirely asbestos-free. Procured machines and spare parts are diligently inspected to prevent asbestos from being reintroduced. Every year, the plants undertake capital projects to attenuate any identified material health risks and, at the same time, eliminate any materials containing legacy bonded asbestos.

Workstation ergonomics

Workstation ergonomics is one of Michelin's core health and safety concerns. The prevention of MSK disorders is designed into every industrial project, so as to attenuate any negative impact as far upstream as possible. Every year, capital expenditure is committed to projects to improve ergonomics. In 2017, these outlays amounted to €14 million. Ergonomics improvement plans are being deployed in every plant and facility.

Occupational accidents

In response to the risk of accidents in the production operations, in other operations or during commutes or other Group-related business travel, as well as the threats of natural disaster, fire or explosion, Michelin has undertaken a program to assess, manage and mitigate the health and safety risks faced by all its employees.

Since 2013, Michelin's worldwide performance has been measured using the Total Case Incident Rate (TCIR), which is based on the US Occupational Safety & Health Administration (OSHA) indicator. It records the number of incidents[1] per 200,000 hours worked. The HSER information system implemented in 2014 is capable of recording every incident, even the most minor, as it happens. It also records incidents involving temporary workers and contractor employees that occur in Michelin facilities.

(1) The term "incident" is understood in the broadest sense, from a lost-time accident to a musculoskeletal disorder, for example.

Psychosocial risks

Michelin takes care to provide employees with a quality of worklife conducive to their positive engagement in the corporate community and their general sense of well-being. A program to periodically assess psychosocial risks is being deployed in every plant and office, with the subsequent implementation of an improvement plan overseen by the on-site Health, Safety and Quality of Worklife Steering Committee. In the event of a project to build, transform or reorganize a plant, psychosocial risks and change support measures are taken into account far upstream, in the opportunity studies phase. Group managers are trained to recognize latent psychosocial risks potentially affecting their team members and to respond appropriately.

Improving the quality of worklife also involves taking steps to foster a better balance between an employee's work and his or her personal life. Well-appointed break rooms are available to employees and Group policy is to offer as many employees as possible on-site access to hot meals at affordable prices. In 2017, 73% of the 87,000 people who responded to the Moving Forward Together engagement survey were satisfied with their quality of worklife.

Managing health & safety risks

The Group's commitment to health and safety is embodied in the Environment and Prevention Management System (SMEP), which is based on the ISO 14001 and OHSAS 18001 standards. It is also expressed in the 2011 Health & Safety Declaration, which has been translated and distributed in every host country, and in the Health, Safety and Quality of Worklife Policy, which was updated in 2017. The Policy calls for the creation, on every site, of a Health, Safety and Quality of Worklife Steering Committee, with members drawn from management and every category of personnel. Now in process of deployment, the Committees are responsible for leading their previously defined improvement action plans.

Since 2010, Michelin is one of the rare large French corporations to have a Medical Advisory Committee. Composed of outside experts and meeting twice a year, the Committee issues opinions on health issues specific to the Group's business operations. In this way, it is heightening corporate management's sensitivity to the Group's health issues, while providing outside validation of its internal health and safety procedures.

6.5.3 HUMAN RIGHTS RISKS (SEE SECTION 2.9.3 a)

Michelin is positioned as a leader in responsible growth, with a deep commitment to upholding the fundamental rights of all its employees. In response to the new challenges posed by economic globalization, Michelin recognizes the United Nations Guiding Principles on Human Rights, and supports the Global Compact, a United Nations-led initiative that encourages private businesses to deploy sustainable and socially responsible policies. The Group ensures that (i) it is not complicit in violating anyone's human rights; (ii) it respects freedom of association and the right to collective bargaining; (iii) it avoids any form of forced and compulsory labor; (iv) it is helping to abolish all forms of child labor; and (v) it refuses to practice any form of discrimination in respect of employment and occupation. Michelin also supports international human rights law by recognizing the fundamental conventions of the International Labour Organization and the OECD Guidelines for Multinational Enterprises.

Ethics and Human Rights

Translated into thirteen languages and distributed in every host country, the Michelin Code of Ethics describes how the above-mentioned commitments are to be demonstrated in the Group's business operations.

A human rights risk assessment based on the Danish Institute for Human Rights questionnaire, conducted in the Personnel, Purchasing, Safety, Legal and Environment and Prevention departments, showed that the vast majority of human rights-related risks were already addressed, at least in part, by existing corporate prevention procedures. Those that were not will be covered by measures scheduled for gradual implementation.

In recent years, Michelin's human rights risk assessment process has been expanded by local audits in a number of host countries, including Brazil and Thailand in 2016 and Romania in 2017. Countries are selected for audit as objectively as possible, based on data published by the British-American risk analysis company Verisk Maplecroft, ranking human rights risks by country. In addition, new plant construction projects always include a human rights impact study conducted by an independent agency. The ones performed in India, Indonesia and Mexico, for example, led to recommendations that were followed by the Group.

The Corporate Ethics and Compliance Committee meets twice a year and similar committees have been set up in each Geographic Zone. A new ethics and human rights risk management system will be rolled out in 2018. Created in 2015 with members from a variety of corporate departments, a working group dedicated to human rights is devising an action plan to drive continuous improvement across the Michelin community. In addition, more specialized presentations are given to Group Executive Committee members, to build their awareness of the underlying issues in the area of human rights.

Harassment and discrimination

Michelin is particularly attentive to any attempt to harass or discriminate against its employees in the workplace. Issued in 2016 and widely distributed across the organization, the Diversity and Workplace Equality Policy is intended to prevent all forms of inappropriate behavior. The fight against discrimination is impelled by an assertive governance system based on the international Diversity network, which is comprised of the host country diversity managers and led by the Group Diversity Director. Managers are trained in non-discrimination policies and practices when they take up their position. Compliance with non-discrimination procedures is also audited as part of the internal control process.

Labor relations

In 2015, Michelin issued its Labor Relations Policy, which "recognizes the positive contribution of staff representation independent of management, which is a source of proposals and ensures that employees' fundamental needs are taken into account" in every host community. In it, Michelin pledges to respect employee representatives "who agree to take on this responsibility and to include this in staff potential assessments and career management." The policy has been explained to the Group's 7,500 managers, from Executive Committee members to plant supervisors. Its application around the world is overseen by a Group Director of Employee Relations, who is also tasked with improving social dialogue where it falls short of Group standards. As a result of these efforts, significant improvements have been made in recent years in several host countries, particularly Thailand and Brazil. In addition, every manager receives training in the legal aspects of labor relations.

6.5.4 SUPPLIERS

6.5.4 a) General approach

The primary conduit for expressing Michelin's commitments to its suppliers is the Purchasing Department, which is structured around four procurement sections: **raw materials, natural rubber, industrial inputs** and **services.**

Every year, the Department sources €13 billion worth of goods and services from around 52,000 suppliers. It has around 700 employees based across the Group's different geographies.

/ Michelin Purchasing Principles

The Michelin Purchasing Principles, the reference document for the Michelin Purchasing Department, describe the fundamental principles governing the Group's supplier relationships. In working with Michelin, suppliers agree to comply with:

- International human rights law, particularly the Universal Declaration of Human Rights, the ten principles of the Global Compact and the OECD Guidelines for Multinational Enterprises.
- Labor laws and regulations in force in their host country (compensation, working hours, freedom of association, etc.).
- The fundamental conventions of the International Labour Organization (ILO), notably as concerns the abolition of child labor, the abolition of forced labor and the elimination of discrimination.
- The principle of respecting human dignity, by providing acceptable working conditions for their employees.
- Occupational safety, health and hygiene regulations, so as to limit the impact of their operations on the health and safety of their employees and their host communities.
- The safety rules applied at Michelin sites where they work.

Incorporated into every supplier contract, the Purchasing Principles act as a firm underpinning for the trusting relationships nurtured among Michelin, its purchasing teams and its suppliers around the world. They may be downloaded in any one of 12 languages from https://purchasing.michelin.com/espace-documents.

/ Assessing supplier quality systems

To support supplier compliance with the Purchasing Principles, Michelin has developed a supplier quality system audit procedure (*Évaluation du Système Qualité Fournisseur* – ESQF) to assess application of the health, safety, environmental and human rights standards stipulated in or derived from the Michelin Purchasing Principles.

In performing an ESQF, Michelin auditors go on-site to assess the following aspects:

a. General compliance

- The supplier is implementing policies with respect to quality, safety and the environment that are appropriate to the organization, clearly deployed and understood by employees.
- The supplier complies with all applicable laws and regulations.

b. Compliance with environmental standards

- A process is in place to identify all of the applicable regulatory and/or legal requirements with regards to the environment.
- The supplier's compliance with these requirements has been officially certified.
- The supplier's quality practices are designed to attenuate potential risks to the environment.
- A process is in place to minimize scrap and waste, including packaging.

c. Compliance with health & safety standards

- A process is in place to identify all of the applicable regulatory and/or legal requirements with regards to safety, including standards for the handling, recycling and disposal of hazardous materials.
- Safety programs are in place to identify and implement a process to drive continuous improvement in safety performance.
- Programs are in place to improve ergonomics and industrial hygiene, while addressing the impact of the supplier's operations on the health and safety of its employees and host communities.
- Programs are in place to assess and improve the quality of worklife.

d. Respect for human rights

- Processes are in place to ensure that every workstation complies with applicable local, national and international laws and regulations governing child labor, forced labor and respect for minorities.
- Systems and procedures are in place to foster effective dialogue with employees.
- Actions have been taken to create working conditions that encourage equal opportunity for everyone across the organization.
- Actions have been taken to help develop local communities by providing support in the areas of education, training, quality of life, health or safety.

Following an ESQF, Michelin auditors assign the audited supplier a score. If it is less than 80%, the supplier is deemed to have failed the audit and is required take the identified corrective measures and improve overall performance with a continuous improvement process. The initial score will later be reassessed in light of the actions

implemented by the supplier. Depending on the audit findings, Michelin may terminate the supplier's contract. In addition to ensuring compliance with the Purchasing Principles, the audit is intended to help suppliers to drive sustainable improvement over time.

/ Assessing supplier CSR responsibility

Since 2012, Michelin has assessed its key suppliers' CSR performance through desktop reviews conducted by EcoVadis, which measure how they stand in 21 CSR indicators covering the environment, labor relations, business ethics and the supply chain.

In 2017, of the 547 key suppliers who were reviewed, 77% earned an EcoVadis score of at least 45, corresponding to confirmed compliance with Michelin CSR practices. Suppliers who scored less than 45 were asked to deploy a CSR performance improvement plan. These under-performers will be systematically re-assessed and, if there has been no progress, their contracts may be terminated.

6.5.4 b) Category management

/ Raw materials procurement

Analysis by country of origin

Around 80% of Michelin's raw materials purchases are covered by EcoVadis' CSR desktop reviews.

In 2017, the Group assessed the maturity of the desktop review process used to assess the CSR practices of raw materials suppliers *via* the EcoVadis ratings platform, based on the Verisk Maplecroft database.

EcoVadis' desktop reviews of raw materials suppliers cover:

- 94% of Michelin's spending in countries that pose a medium risk with regards to environmental protection. Countries at risk are ranked according to Verisk Maplecroft data. Michelin does not have any suppliers based in countries that pose a high risk with regards to environmental protection.
- 93% of Michelin's spending in countries that pose a high or medium risk with regards to human rights abuses. Countries at risk are ranked according to Verisk Maplecroft data.
- 93% of Michelin's spending in countries that pose a high or medium risk with regards to child labor. Countries at risk are ranked according to Verisk Maplecroft data.

Conflict minerals

Michelin diligently tracks the origin of gold and tin used in its tire production processes, which, depending on their origin, can be classified as conflict minerals. To ensure that its gold and tin are sourced from supply chains that meet its standards and do not finance any hostilities, Michelin requires suppliers exposed to this risk to fill out the Conflict Minerals Reporting Template developed by the Responsible Minerals Initiative (RMI), a business platform that promotes the sustainable sourcing of gold, tin, tantalum and tungsten. For all these minerals, the submitted templates attest that the reporting supplier works with RMI-approved smelters. If this is not the case, the supplier is requested to take remedial action, with the threat that, in the absence of improvement, the supply contract would be canceled. In 2017, Michelin had only eight suppliers of conflict minerals.

Chemicals

The Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation, which the European Union introduced to mitigate the adverse impact of chemical substances on human health and the environment, stipulates that manufacturers and importers of more than one tonne of a given chemical per year must register the substance with the European Chemicals Agency (ECHA). Producers must identify and manage the risks associated with the chemicals they make and market in the EU, demonstrating to the ECHA how the substance can be safely used and informing users of the proper risk management procedures.

Michelin fulfills this registration requirement as a chemical manufacturer or importer and verifies that the chemicals it uses have been registered by the suppliers, thereby ensuring that its uses comply with the risk management measures defined by these suppliers in compliance with REACH.

/ Natural rubber procurement

As one of the world's leading purchasers of natural rubber, Michelin is especially attentive to its rubber supply chain. Of the 30 million people who depend on rubber-tree farming for a living, six million work on plantations, 85% of which are smaller than four hectares and belong to smallholders.

Responsible natural rubber procurement policy

Michelin respects and promotes five core commitments expressed in the Group's Purchasing Principles and stipulated in its natural rubber sustainable purchasing policy.

In 2016, these public commitments were reaffirmed in the Responsible Natural Rubber Policy, which was drafted with input from stakeholders, particularly environmental and human rights NGOs, and is now a contractual reference document for suppliers.

- **Respect all stakeholders in the natural rubber production chain,** by promoting conflict resolution related to land ownership and improving working conditions and living environments.
- **Make rubber tree farming environmentally friendly,** by combating deforestation and controlling the potential impact of rubber cultivation on fauna and flora.
- **Take action to improve farming practices,** by helping to instill more efficient practices across the natural rubber production chain, in a commitment to increasing agricultural yields.

- **Encourage the careful use of natural resources** by increasing the material efficiency of natural rubber used in tires. Michelin is constantly developing new technical processes that optimize the use of rubber in its products.
- **Make rubber tree farming a source of better governance practices.** Michelin is an engaged stakeholder in the rubber tree farming industry, communicating transparently, refusing all forms of corruption and interacting with local stakeholders.

Partnership with the WWF

In addition, Michelin has formed a close partnership with the WWF, structured around three avenues to progress:

- The first involves defining sustainable natural rubber and promoting best practices across the international bodies representing the natural rubber industry, from plantation to end-use.
- The second concerns the development and deployment of the best possible solutions in Indonesia's rubber producing regions, starting with the ones managed by the Michelin-Barito joint venture. This local cooperation also aims to safeguard the Bukit Tigapuluh National Park and Limau Protected Forest, two forests with very high environmental value that are home to certain endangered species.
- The third partway is a partnership with the WWF France Foundation involving the protection, conservation and restoration of the fauna and flora in and around the concessions in Indonesia.

Assessing CSR practices in the Group's natural rubber supply chain in two separate channels

- **Direct suppliers, using the EcoVadis platform.** In 2016, the vast majority of the Group's natural rubber suppliers, accounting for more than 80% of its sourced natural rubber volumes, were reviewed by EcoVadis. In 2017, 86% of natural rubber purchases will be covered by an EcoVadis review.
- **The upstream supply chain,** with the Rubberway® traceability application.

  In 2017, Michelin pursued its commitment to sustainable natural rubber with the roll-out of the Rubberway® mobile application, in association with suppliers. Stakeholders across the natural rubber supply chain (smallholders, large plantations, brokers, raw rubber processing plants) can use the app to input their CSR data, which are then analyzed on a web platform to create a map highlighting the areas of potential social and environmental risk. The data are shared with suppliers and can be used to prepare improvement plans. By 2020, the Group expects to have mapped 80% of its sourced natural rubber volumes.

/ Production inputs procurement

In 2017, the Group began mapping the CSR risks in its purchasing families using the Verisk Maplecroft database to identify suppliers in countries with high environmental and human rights risks.

This mapping exercise will help to define ambitious 2020 objectives for the CSR performance assessment process as applied to suppliers of manufacturing inputs.

/ Services procurement

In 2017, CSR risks in the services procurement chain were mapped, first to identify the purchasing families incurring environmental and human rights risks, and second to define a supplier CSR performance review roadmap for 2020.

6.5.4 c) An assertive sustainable purchasing process

The Group's assertive commitment to sustainable procurement is reflected in the continuous training buyers receive in CSR issues. Since 2013, Michelin has been awarded the Responsible Supplier Relationships label by the French government's supply dispute mediators *Médiation Inter-Entreprises* (MIE) and *Médiation des Marchés Publics* (MMP) and the French purchasing association *Compagnie des Dirigeants et Acheteurs de France* (CDAF).

In addition, in 2017, French CSR ratings agency EcoVadis presented Michelin with its "Best Supplier CSR Performance Improvement" award, in recognition of the fact that, over the past five years, 78% of suppliers have improved their CSR ratings by working in partnership with Michelin purchasing teams.

Michelin also encourages emulation among suppliers, by honoring one with a CSR Award at the Michelin Supplier Awards ceremony.

6.5.5 EARLY WARNING AND REPORT COMPILATION MECHANISMS

An anonymous, protected alert mechanism enables employees to report possible infractions of the Code of Ethics as well as any failure to uphold the plan's environmental, health, safety and human rights commitments. After being gradually deployed since 2011, an ethics hotline can now be used by any Group employee anywhere in the world and will be opened to all stakeholders, including suppliers and subcontractors, in 2018. The new mechanism will be introduced and deployed in consultation with the Group's employee representatives in France.

When violations are reported, they are analyzed and investigated internally by the Security Department, in the Geographical Zones and within the Group. The findings are then shared during the meetings of the Corporate Ethics Committee and the Geographic Zone Ethics Committees, which may decide, if necessary, to implement action plans, corrective measures and/or disciplinary sanctions depending on the findings, the seriousness and the circumstances of the violation.

Since 2012, suppliers can email or use the purchasing.michelin.com website to contact the customer-supplier relations mediator, who examines any alleged or observed violation of the guidelines in the Michelin Purchasing Principles. The mediator intervenes only when suppliers have failed to resolve an issue with their usual contacts in the Group.

6.5.6 MONITORING THE PLAN – AREAS OF IMPROVEMENT

Results of the plan will be reported in the 2018 Registration Document.

6.6 REPORT BY ONE OF THE STATUTORY AUDITORS, APPOINTED AS AN INDEPENDENT THIRD PARTY, ON THE CONSOLIDATED HUMAN RESOURCES, ENVIRONMENTAL AND SOCIAL INFORMATION INCLUDED IN THE MANAGEMENT REPORT

For the year ended December 31st, 2017

To the Shareholders,

In our capacity as Statutory Auditor of Compagnie Générale des Établissements Michelin (the "Company"), appointed as independent third party and certified by COFRAC under number 3-1060 (whose scope is available at www.cofrac.fr), we hereby report to you our report on the consolidated human resources, environmental and social information for the year ended December 31st, 2017, included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Commercial Code (Code de commerce)..

/ Company's responsibility

The Management Board is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French Commercial Code in accordance with the procedures used by the Company (hereinafter the "Guidelines") and available on request from the company's head office.

/ Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (Code de déontologie) of our profession and the requirements of article L.822-11-3 of the French Commercial Code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements and applicable legal and regulatory requirements.

/ Statutory Auditor's responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French Commercial Code (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

However, it is not for us to express an opinion on the compliance with the other legal provisions applicable, in particular those set out by the article L. 225-102-4 of the commercial code (plan of vigilance) and by the law n ° 2016-1691 of December 9, 2016 known as Sapin II (fight against corruption).

Our work involved 6 persons and was conducted between October 2017 and February 2018 during about 25 week period. We were assisted in our work by our CSR experts.

We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and with the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000 concerning our conclusion on the fairness of CSR Information (Assurance engagements other than audits or reviews of historical financial information).

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French Commercial Code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French Commercial Code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French Commercial Code within the limitations set out in the methodological note, presented in "Methodology of CSR reporting" section of the management report.

Conclusion

Based on the work performed, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted about 20 interviews with about the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices

Regarding the CSR Information that we considered to be the most important and whose list is given in annex:

- at parent entity, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of sites, Bad Kreuznach (Germany), Bassens (France), Dothan (United-States), Dundee (United Kingdom), Euromaster France (France), Greenville (United-States), Homburg (Germany), La-Roche-Sur-Yon (France), MFPM (France), Montceau-Les-Mines (France), Nongkae (Thailand), Shanghai (China) and Waterville (Canada), selected by us on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. This work represents 21% of headcount considered as typical size of the social component, and in average 22% of environmental data considered as characteristic variables of the environmental component

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines..

Neuilly-sur-Seine, February 12th, 2018

One of the Statutory Auditors

PricewaterhouseCoopers Audit

Éric Bulle	Sylvain Lambert
Partner	Partner of the “Sustainable Development” Department

Appendix: CSR Information that we considered to be the most important

Human resources

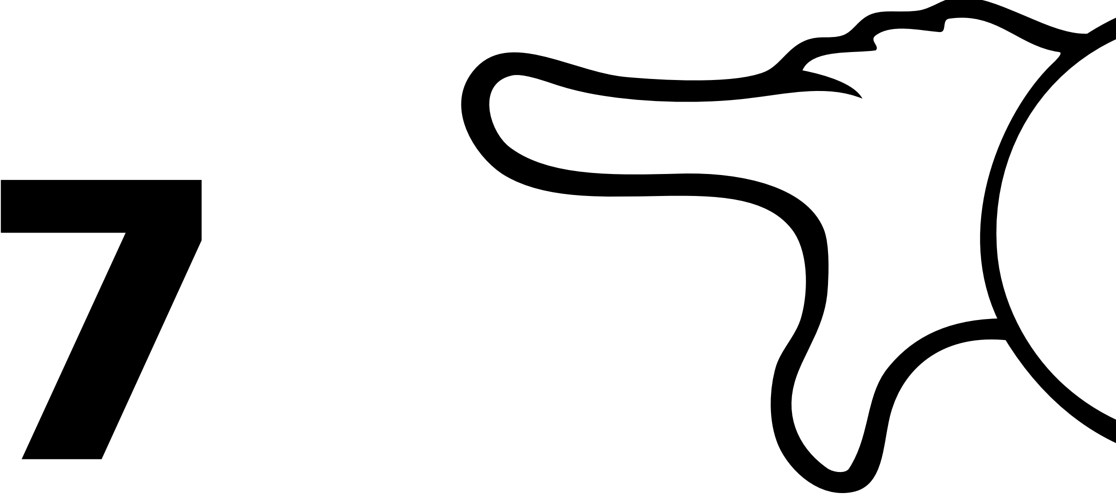
- Total workforce and split by gender, age and geographical area (headcount and FTE with breakdown per responsibility level and geographical area, and breakdown women/men per responsibility level and geographical area);
- Absenteeism;
- Organization of social dialogue;
- Health and safety conditions at work;
- Workplace accidents, and more specifically frequency and severity rates (frequency rate, severity rate, Total Case Incident Rate);
- Training policy;
- Training hours (training access rate);
- Implemented policy and measures taken in favor of the equality between the women and the men;
- Policy against discrimination.

Environmental information

- Organization of the company to take into account the questions of environment (particularly rate of ISO 14 001 certified sites);
- Preventive, reduction or remedial measures against discharges to air, water and land use affecting severely the environment (Greenhouse gas emissions (scope 1 & 2), VOC emissions, SOx emissions, NOx emissions, discharged water volume and its COD, solid content, zinc concentration, hydrocarbons concentration);
- Measure of prevention, recycling and elimination of waste (generated waste amount, landfilled waste amount, hazardous waste amount);
- Water consumption and water supply according to the local constraints;
- Energy consumption, measures taken to improve the energy efficiency and resort to the renewable energies;
- Significant greenhouse gases emissions contribution generated due to the company activity, including the use.

Social information

- Territorial, economic and social impact in respect of employment and regional development;
- Territorial, economic and social impact on the waterside and nearby populations;
- Conditions of the dialogue with the stakeholders;
- Actions of partnerships or sponsorship;
- Taken into account the social and environmental issues in the policy purchase;
- Importance of the subcontracting and taken into account in the relations with the suppliers and the subcontractors of their corporate social responsibility;
- Actions committed to prevent the corruption.
- Measures taken in favor of the health and of the security of the consumers.



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CONSOLIDATED FINANCIAL STATEMENTS

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7.1 CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2017

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CONSOLIDATED INCOME STATEMENT

(in € million, except per share data)	Note	Year ended December 31, 2017	Year ended December 31, 2016
Net sales	5	21,960	20,907
Cost of sales		(14,815)	(13,810)
Gross income		**7,145**	**7,097**
Sales and marketing expenses		(1,861)	(1,907)
Research and development expenses		(641)	(718)
General and administrative expenses		(1,866)	(1,759)
Other operating income and expenses from recurring activities	8	(35)	(21)
Operating income from recurring activities	5	**2,742**	**2,692**
Operating income/(loss) from non-recurring activities	9	(111)	99
Operating income/(loss)		**2,631**	**2,791**
Cost of net debt	10	(176)	(203)
Other financial income and expenses	10	-	20
Net interest on employee benefit obligations	27.1	(115)	(139)
Share of profit/(loss) from associates		14	(5)
Income/(loss) before taxes		**2,354**	**2,464**
Income tax	11	(661)	(797)
NET INCOME/(LOSS)		**1,693**	**1,667**
▶ Attributable to the shareholders of the Company		1,700	1,676
▶ Attributable to the non-controlling interests		(7)	(9)
Earnings per share *(in €)*	12		
▶ Basic		9.39	9.21
▶ Diluted		9.34	9.03

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in € million)	Note	Year ended December 31, 2017	Year ended December 31, 2016
Net income/(loss)		**1,693**	**1,667**
Post-employment benefits	27.1	266	(194)
Tax effect – Post-employment benefits	18	(135)	(8)
Other items of comprehensive income that will not be reclassified to income statement		**131**	**(202)**
Available-for-sale financial assets – Change in fair values	15.1	10	57
Tax effect – Available-for-sale financial assets – Change in fair values	18	3	(9)
Available-for-sale financial assets – Gain)/loss recognized in income statement		-	-
Currency translation differences		(532)	317
Other		(1)	-
Other items of comprehensive income that may be reclassified to income statement		**(520)**	**365**
Other comprehensive income		**(389)**	**163**
COMPREHENSIVE INCOME		**1,304**	**1,830**
▸ Attributable to the shareholders of the Company		1,315	1,838
▸ Attributable to the non-controlling interests		(11)	(8)

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in € million)	Note	December 31, 2017	December 31, 2016
Goodwill	13	1,092	963
Intangible assets	13	785	630
Property, plant and equipment (PP&E)	14	10,883	11,053
Non-current financial assets and other assets	15	479	323
Investments in associates	17	356	309
Deferred tax assets	18	890	1,191
Non-current assets		**14,485**	**14,469**
Inventories	19	4,508	4,480
Trade receivables	20	3,084	3,042
Current financial assets	21	285	303[1]
Other current assets	22	1,132	1,202
Cash and cash equivalents	23	1,773	1,826[1]
Current assets		**10,782**	**10,853**
TOTAL ASSETS		**25,267**	**25,322**
Share capital	24	359	360
Share premiums	24	2,942	3,024
Reserves	25	7,925	7,215
Non-controlling interests		35	47
Equity		**11,261**	**10,646**
Non-current financial liabilities	26	2,366	1,773
Employee benefit obligations	27.1	3,969	4,763
Provisions and other non-current liabilities	29	1,676	1,604
Deferred tax liabilities	18	113	117
Non-current liabilities		**8,124**	**8,257**
Current financial liabilities	26	493	1,320
Trade payables		2,501	2,364
Trade payables under factoring contracts	3.26	503	339
Other current liabilities	30	2,385	2,396
Current liabilities		**5,882**	**6,419**
TOTAL EQUITY AND LIABILITIES		**25,267**	**25,322**

(1) See note 21.

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in € million)	Share capital (note 24)	Share premiums (note 24)	Reserves (note 25)	Non-controlling interests	Total
At January 1, 2016	**364**	**3,222**	**5,903**	**53**	**9,542**
Net income/(loss)	-	-	1,676	(9)	**1,667**
Other comprehensive income	-	-	162	1	**163**
Comprehensive income	**-**	**-**	**1,838**	**(8)**	**1,830**
Issuance of shares	3	96	-	-	**99**
Purchase of shares	-	-	(301)	-	**(301)**
Cancellation of shares	(7)	(294)	301	-	**-**
Dividends and other allocations	-	-	(538)	-	**(538)**
Share-based payments – Cost of services rendered	-	-	5	-	**5**
Other	-	-	7	2	**9**
At December 31, 2016	**360**	**3,024**	**7,215**	**47**	**10,646**
Net income/(loss)	-	-	1,700	(7)	**1,693**
Other comprehensive income	-	-	(385)	(4)	**(389)**
Comprehensive income	**-**	**-**	**1,315**	**(11)**	**1,304**
Issuance of shares	1	16	-	-	**17**
Purchase of shares	-	-	(101)	-	**(101)**
Cancellation of shares	(2)	(99)	101	-	**-**
Dividends and other allocations	-	-	(612)	-	**(612)**
Share-based payments – Cost of services rendered	-	-	7	-	**7**
Other	-	1	-	(1)	**-**
AT DECEMBER 31, 2017	**359**	**2,942**	**7,925**	**35**	**11,261**

The notes 1 to 37 are an integral part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(in € million)	Note	Year ended December 31, 2017	Year ended December 31, 2016
Net income		1,693	1,667
Adjustments			
▶ Cost of net debt	10	176	203
▶ Other financial income and expenses	10	-	(20)
▶ Net interest on benefits	27.1	115	139
▶ Income tax	11	661	797
▶ Amortization, depreciation and impairment of intangible assets and PP&E	6	1,345	1,392
▶ Operating income/(loss) from non-recurring activities	9	111	(99)
▶ Share of loss/(profit) from associates		(14)	5
EBITDA from recurring activities	3.7.2	**4,087**	**4,084**
Operating income and expenses from non-recurring activities (cash) and change in provisions	31	(346)	(206)
Cost of net debt and other financial income and expenses paid	31	(373)	(146)
Income tax paid	18.2	(563)	(765)
Change in working capital, net of impairments	31	(64)	(202)
Cash flows from operating activities		**2,741**	**2,765**
Purchases of intangible assets and PP&E	31	(1,668)	(1,815)
Proceeds from sale of intangible assets and PP&E		65	89
Equity investments in consolidated companies, net of cash acquired		(396)	(2)
Disposals of equity investments in consolidated companies, net of cash sold		28	-
Purchases of available-for-sale financial assets		(91)	(25)
Proceeds from sale of available-for-sale financial assets		5	11
Cash flows from other financial assets	31	(3)	(159)[1]
Cash flows from investing activities		**(2,060)**	**(1,901)**
Proceeds from issuances of shares	24	17	99
Purchase of shares	24	(101)	(301)
Dividends paid to the shareholders of the Company	24	(584)	(515)
Cash flows from financial liabilities	31	(68)	(19)
Other cash flows from financing activities		17	(63)
Cash flows from financing activities		**(719)**	**(799)**
Effect of changes in exchange rates		**(15)**	**4**
INCREASE/(DECREASE) OF CASH AND CASH EQUIVALENTS		**(53)**	**69**
Cash and cash equivalents at January 1		**1,826**	**1,757**[1]
Cash and cash equivalents at December 31	23	**1,773**	**1,826**[1]

(1) See note 21.

The notes 1 to 37 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 GENERAL INFORMATION

Compagnie Générale des Établissements Michelin (CGEM or the "Company") and its subsidiaries (together "the Group") manufacture, distribute and sell tires throughout the world.

The Company is a *société en commandite par actions* (Partnership Limited by Shares) incorporated in Clermont-Ferrand (France).

The Company is listed on Euronext Paris (Eurolist Compartment A).

After a review by the Supervisory Board, these consolidated financial statements were authorized for issue by the Managing Chairman on February 9, 2018.

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

NOTE 2 BASIS OF PREPARATION

2.1 Statement of compliance

The consolidated financial statements:

- are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union at closing date with a mandatory application (available on the internet website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm);
- are also in accordance with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB); and
- 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 or other items of comprehensive income.

2.2 Accounting policies

The accounting policies applied in the preparation of the Group consolidated financial statements are set out in note 3 "Accounting policies". These policies have been consistently applied to all the years presented with the exception of the change in estimate described in note 2.6.

2.3 New standards, amendments and interpretations to existing standards effective from January 1, 2017 in the European Union

The Group adopted IAS 7's amendments, which require more detailed disclosures of the evolution of financial liabilities included in the financing activities of the cash-flow statement. This information is presented in note 26 "Financial liabilities".

There are no other new standards or major amendments, applicable for the accounting periods beginning on January 1, 2017 having an effect on the consolidated financial statements of the Group.

2.4 Newly published standards, amendments and interpretations to existing standards that are not yet effective

/ 2.4.1 IFRS 9

IFRS 9, "Financial instruments", published in July 2014, endorsed by the European Union in November 2016, is applicable from accounting period beginning on January 1, 2018 and replaces IAS 39. The new standard contains the requirements for the classification and measurement of financial assets, including the introduction of a new expected loss impairment model for financial assets. For financial liabilities, the standard retains most of the requirements of IAS 39. IFRS 9 also sets new principles for the use of hedge accounting. For the Group the changes will impact mainly the accounting of Equity instruments and the evaluation of the trade receivable impairments.

According to the analysis performed, the implementation of IFRS 9 will not have any significant impact on the consolidated financial statements of the Group.

The Group will classify its financial assets in the "fair value" or "amortized cost" categories according to the business model used to manage those financial assets and their contractual cash flows.

Non-consolidated investments in equity instruments need to be measured at fair value through Profit and Loss. However, there is an irrevocable option, for each investment, to account for the fair value variations in the other comprehensive income. At transition date, the Group will choose this option for most of the non-consolidated equity investments.

Due to the restrictive investment criteria used by the Group and as described in the note 4 "financial risk management", the implementation of the expected credit loss model will not generate any significant change in value on the financial assets of the Group.

For the trade receivables, due to the risk management procedures put in place by the Group, the implementation of the expected loss model will not have any significant impact.

Finally, the implementation of the new hedge accounting model will not have any impact as the operations qualifying for hedge accounting under IAS39 will continue to be qualified for hedge accounting under IFRS 9.

/ 2.4.2 IFRS 15

IFRS 15, "Revenue from Contracts with Customers", published in May 2014 and endorsed by the European Union in October 2016 as well as the amendment "Clarifications to IFRS 15" are applicable from accounting period beginning on January 1, 2018. Their scope includes all the contracts with customers, except leases, insurance contracts and financial instruments, which are covered by other standards. The standard defines new revenue recognition principles and disclosure requirements. It establishes the fundamental principle that the revenue recognition must depict the transfer of the promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group prepared to apply the standard from January 1, 2018 and kept following the structured approach started in 2016 with the objective of assessing the potential impacts of the standard on the consolidated financial statements. Based on 2016 net sales total amount, a typology of activities and contracts with customers has been drawn up. The analysis has allowed splitting the contracts contributing to the Group net sales into several categories with common characteristics for the purpose of this standard. For each category, a representative sample of contracts has been defined and each contract has been analysed using a tool that reflects the five steps of the comprehensive model outlined by the standard. The objective was to identify potential differences with the current accounting policies, assess them, and define the new accounting principles.

Sales of tires on the replacement market or to vehicle manufacturers constitute the major part of the revenue for the Group. In this kind of commercial relationship, the Group is acting as a principal and not as an agent. Furthermore, supply of tires constitutes the single or the main performance obligation in these contracts. As sales conditions include payment terms which are less than one year, promised amounts of consideration will not need to be adjusted for the effects of a significant financing component. The warranties provided to buyers of tires and the management of deferred rebates granted notably to tires dealers on the replacement market were also assessed under the requirements of the standard.

Thus, the analysis for sales of tires on the replacement market or to vehicle manufacturers is completed and the Group concluded that the implementation of the standard will not have any significant impact.

The other categories of revenue include mainly management of tires for fleets of vehicles and provision of telematics solutions for commercial fleets, improving fuel management and enhancing fleet productivity. For these categories of clients, the Group has not identified any provision of the standard that might have a significant impact on the revenue recognition.

As a consequence, the Group considers that the implementation of IFRS 15 will not have any significant impact on the consolidated financial statements.

With regard to the transition requirements, the Group will apply IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognized as at January 1, 2018 as an adjustment to the opening balance of retained earnings.

/ 2.4.3 IFRS 16

IFRS 16 "Leases", published in January 2016, endorsed by the European Union in November 2017, is applicable at the latest from accounting period beginning on January 1, 2019. It provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. It supersedes IAS 17 Leases and its associated interpretative guidance.

The new standard applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

Significant changes to lessee accounting model are introduced as the current distinction between operating and finance leases will disappear. The lessee must recognize an asset, corresponding to the right of use, and a liability corresponding to the lease commitment. Limited exceptions for short-term leases and/or leases of low value assets are allowed. The Group will adopt it from the accounting period beginning on January 1, 2019.

The project launched in 2016 to assess the impacts of this standard and manage all aspects of the transition will continue until the end of 2018. The Group is progressing with the identification and analysis of its contracts in order to collect the necessary information, to be ready to comply with the requirements of the new standard.

/ 2.4.4 IFRIC 22

According to IFRIC Interpretation 22 "Foreign currency transactions and advance consideration", purchase or sale transactions must be translated at the exchange rate prevailing on the date the asset or liability is initially recognized. In practice, this is usually the date on which the advance payment is paid or received. In the case of multiple advances, the exchange rate must be determined for each payment and collection transaction.

The interpretation is mandatory for financial years beginning on or after January 1, 2018, subject to its adoption by the European Union. Its implementation is not expected to have a significant impact on the Group's consolidated financial statements.

/ 2.4.5 IFRIC 23

IFRIC Interpretation 23 "Uncertainty over income tax treatments" clarifies the recognition and valuation principles applicable to income tax risks. These risks arise when there is uncertainty related to a tax position adopted by the Group that could be challenged by the tax administration.

This interpretation is applicable for financial years beginning on January 1, 2019, subject to its adoption by the European Union and subject to retrospective application, with or without comparative information restatement for the first year of application. Studies are underway to analyze the possible impacts of this interpretation.

There are no other new standards, updates and interpretations published but not yet effective whose impact could be significant for the Group.

2.5 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires that management use assumptions and estimates reflected in the value of assets and liabilities at the date of the consolidated statement of financial position and in the amount of income and expenses for the reporting period. The actual results could differ from those estimates.

The main critical accounting estimates requiring key assumptions and judgments are the impairment of non-financial assets, the employee benefit obligations and the income taxes.

/ 2.5.1 Impairment of non-financial assets

The cash generating units' (CGU) future cash flows used in the calculation of value in use (note 3.17 "Impairment of non-financial assets") are derived from the Group's five-year strategic plan. The construction of the strategic orientations is an exercise involving the various actors within the CGUs and the projections are validated by the Managing Chairman. It requires critical estimates and judgments, especially in the determination of market trends, raw material costs and pricing policies. Consequently, the actual cash flows may differ from the estimates used in the calculation of CGU's value in use.

Quantitative information is provided in note 13.2 "Goodwill".

/ 2.5.2 Employee benefit obligations

The Group plans are defined contribution plans which generally require, on top of the part financed by the Group, a contribution from each salaried employee defined in percentage of the compensation.

Some subsidiaries also book in their accounts liabilities for various pension plans, jubilees and other post-employment benefits linked to rights acquired by the employees in these subsidiaries pension plans or to some legal obligations.

The valuation of these benefits is carried out annually with the assistance of independent actuaries. The actuarial method used is the Projected Unit Credit Method.

According to this method, statistical information and various assumptions are used in calculating the expense, the liability and the asset related to the benefit plans. Assumptions include mainly the discount rate, the inflation rate, the long term salary increase rate and the expected rate of growth in future medical costs. Statistical information is mainly related to demographic assumptions such as mortality, employee turnover, disability and retirement age.

Assumptions and statistical information are determined according to internal guidelines in consultation with the actuaries.

The discount rates are determined using tools from the actuaries having the same maturity as the liabilities.

The rate of salary increases is determined by each country based on a long term salary policy and includes all elements related to market practices as well as career development, promotion and seniority.

The inflation rates having standard maturities are determined using several methods:

- by using the tools from the actuaries based on target rates published by Central Banks, forecasts from the Consensus Economics organization and inflation swap curves;
- by taking the spread between inflation-linked bonds and conventional securities. The rates are then adjusted with a spread which represents the liquidity and risk premium embedded in the inflation-linked bonds;
- based on historical averages.

The other assumptions (retirement age, employee turnover, health care cost trend, mortality, disability) reflect the demographic and economic situation of the countries and subsidiaries in which the plans are in force.

The actual data (such as inflation, mortality and real return on assets) may differ from the long term actuarial assumptions used. The resulting difference is recognized as a gain or loss in other comprehensive income.

Quantitative information is provided in note 27 "Employee benefit obligations".

/ 2.5.3 Income taxes

Significant judgment and estimates are required in determining the income tax expense.

The expected reversal of tax losses is based on the forecast of future results validated by the local management and reviewed by the Group Tax and Accounting Departments. The analyses are also performed in order to ensure the coherence of these forecasted future results with the strategic plans of the Group, validated by the Managing Chairman. Analyses to support the deferred tax positions are performed periodically, at a date as close as possible to closing.

The period of reversal of tax losses carried forward is based on a reasonable horizon taking into account the specific circumstances of each Group company, such as:

- the origin of the historical tax losses (generally exceptional and non-recurrent: restructuring, significant increases in production capacity...);
- the forecasted future results;
- the tax planning opportunities;
- the possibility of internal reorganizations; and
- the time limit for the recovery of historical losses.

Quantitative information is provided in note 18 "Taxes".

2.6 Change in accounting estimates

The Group has changed in 2017 the expected useful life of the curing molds. These pieces of equipment are used in the final stage of production, during which the tires acquire their final shape and technical properties.

Recent and gradual technological improvements in the design and manufacturing process of the curing molds have contributed to increasing the useful life of this type of equipment. Conversely, the economic life of tires ranges, in particular for Passenger Car tires, is becoming shorter. Consequently, the life cycle of the different ranges of tire products is becoming a key factor in assessing the useful life of curing molds assets.

From January 1, 2017, based on the studies carried out in light of economic factors described above, the useful life of the curing molds has been increased from two to three, five or seven years, depending on the type of tires to which they are destined.

The Group assesses this change as a change in accounting estimate, as defined by IAS8, and therefore recognizes its impacts prospectively.

The effect, for the year 2017, represents a reduction in depreciation costs of around €80 million.

NOTE 3 ACCOUNTING POLICIES

3.1 Consolidation

The Group consolidated financial statements include all subsidiaries, joint arrangements and associates of Compagnie Générale des Établissements Michelin.

The Group treats transactions with non-controlling interests, as long as they do not result in a change of control from the Group over the entities (no loss or gain of control), as equity transactions having no impact on the comprehensive income. Expenses occurring from these operations are directly accounted for in equity. At the date the Group gains control of an entity, the carrying amount of previously held non-controlling interests, if any, is adjusted to fair value and the difference is recognized in the income statement. All other related items that were recognized in the comprehensive income are reclassified in the income statement. When the Group loses control over an entity but keeps some non-controlling interests in the entity, such a transaction is analyzed as an exchange, *i.e.* the disposal of a controlling interest and the acquisition of a non-controlling interest.

Shareholdings in companies which are not subsidiaries, joint arrangements or associates are not consolidated. They are accounted for as non-derivative financial assets (note 3.18 "Non-derivative financial assets").

/ 3.1.1 Subsidiaries

Subsidiaries are all entities (including structured entities) that the Group controls. The Group controls an entity when it has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee;
- the ability to use its power over the investee to affect the amount of the investor's returns.

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

Intercompany transactions and balances as well as unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

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

/ 3.1.2 Joint ventures and associates

Joint ventures are joint arrangements (arrangements of which the Group has control jointly with one or more other parties) in which the Group has rights to the net assets. Joint control is defined as the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Associates are all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Generally, associates are entities in which the Group has a shareholding between 20% and 50% of the voting rights.

Investments in joint ventures and associates are accounted for using the equity method and are initially recognized at cost. The Group investment in joint ventures and associates includes goodwill identified at acquisition date and are presented net of any accumulated impairment losses.

The Group share of its joint ventures' or associates' post-acquisition profits and losses is recognized in the income statement and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income until the date that significant influence ceases. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group share of losses in an associate or a joint venture equals or exceeds its interest in the investee, 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 joint ventures and associates are eliminated to the extent of the Group interest in the investee. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Management.

The Managing Chairman regularly examines segment operating income to assess their performance. He has therefore been identified as the chief operating decision maker of the Group.

3.3 Foreign currency

/ 3.3.1 Presentation and functional currency

The financial statements of the Group entities are measured using their functional currency, which is the currency of the primary economic environment in which they operate and corresponds for most of them to their local currency.

The consolidated financial statements are presented in €, which is the Company's functional currency.

/ 3.3.2 Transactions

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Exchange differences on equity investments classified as available-for-sale financial assets are included in other items of comprehensive income until the investment is sold.

/ 3.3.3 Translation

The financial statements of the Group entities whose functional currency is different from the Group's presentation currency are translated into Euros as follows: assets and liabilities are translated at the closing rate at the date of the consolidated statement of financial position, income and expenses are translated at the average rate of the period (as it is considered a reasonable approximation to actual rates at transaction date), and all resulting exchange differences are recognized in other items of comprehensive income.

Cash flows are also translated at the average rate of the period. When an entity is disposed of, the translation differences accumulated in other items of comprehensive income are recycled in the income statement as part of the gain or loss on disposal.

On the acquisition of an entity, goodwill and fair value adjustments recognized are treated as assets and liabilities of the acquired entity and translated at the spot rate on the transaction date.

/ 3.3.4 Exchange rates of major currencies

	Closing rates		Average rates	
Against €:	**2017**	**2016**	**2017**	**2016**
US dollar (USD)	1.193	1.046	1.129	1.107
Canadian dollar (CAD)	1.505	1.415	1.465	1.466
Mexican peso (MXN)	23.502	21.628	21.307	20.615
Brazilian real (BRL)	3.956	3.436	3.601	3.841
British pound (GBP)	0.888	0.854	0.877	0.816
Chinese yuan (CNY)	7.808	7.275	7.631	7.351
Indian rupee (INR)	76.579	71.225	73.522	74.389
Thai baht (THB)	38.917	37.614	38.311	39.070

3.4 Derivative financial instruments

Derivative financial instruments are used to manage financial exposures.

All derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (see hedging policy below).

All changes in fair value of derivatives not designated as hedging instruments are recorded as financial income or expense in the period in which they arise.

Fair values are based on market values for listed instruments or on mathematical models, such as option pricing models and discounted cash flow calculations for unlisted instruments. These models take into account market data.

Embedded derivatives are recognized separately if not closely related to the host contract.

3.5 Hedging

Some derivative financial instruments are eligible for hedge accounting and are therefore designated as either:

- hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedges); or
- hedges of highly probable forecast transactions (cash flow hedges).

Some other derivatives, while providing effective economic hedges under the Group financial policies, cannot qualify or have not been designated for hedge accounting (see derivatives policy above). Fluctuations of these derivatives' fair values are therefore accounted for in the income statement. For example, foreign currency derivatives that are used to hedge the currency exposure of financial assets and liabilities are not designated as hedging instruments.

At the inception of the transaction, the Group documents the relationship between the hedging instrument and the hedged item, as well as its risk management objectives and strategies. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives are accounted for differently depending on the type of hedge:

/ 3.5.1 Fair value hedges

Changes in fair value of derivatives are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

/ 3.5.2 Cash flow hedges

The effective portion of changes in the fair value of derivatives is recognized in other items of comprehensive income. The ineffective portion of the gain or loss is recognized immediately in the income statement. Amounts accumulated in other items of comprehensive income are recycled in the income statement in the period when the hedged item affects the income statement. 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 other items of comprehensive income at the time is immediately recognized in the income statement.

3.6 Fair value of financial instruments

The fair value measurements are disclosed by level of the following fair value measurement hierarchy:

- Level 1: Quoted prices in active markets. The fair value of financial instruments traded in active markets is based on quoted market prices at the date of the consolidated statement of financial position. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments (essentially cash and cash equivalents as well as quoted available-for-sale financial assets) are included in level 1.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value these instruments are observable, these instruments (essentially cash management financial assets and derivative instruments) are included in level 2.
- Level 3: Inputs for assets or liabilities that are not based on observable market data (that is, unobservable inputs). If one or more of the significant inputs is not based on observable market data, the instrument (essentially non-quoted available-for-sale financial assets) is included in level 3.

Specific valuation techniques used to value, generally internally, financial instruments include:

- quoted market prices or dealer quotes for similar instruments (level 1);
- the fair value of interest rate swaps calculated internally as the present value of the estimated future cash flows based on observable yield curves (level 2);
- the fair value of forward foreign exchange contracts determined internally using forward exchange rates at the date of the consolidated statement of financial position, with the resulting value discounted back to present value (level 2).

Other techniques, such as discounted cash flow analysis, are used internally to determine fair value for the remaining financial instruments (level 3).

When observable yield curves include negative interest rates, those are used without change to determine the fair value of derivatives.

The Group assesses the counterparty risk included in the fair value of its OTC (over-the-counter) derivatives for which there is no exchange of collaterals. The Group includes the effect of its exposure to the credit risk of the counterparty or the counterparty's exposure to the credit risk of the Group. The valuation for long term derivatives with no exchange of collaterals is based on discounted cash flows using a rate including the counterparty credit risk.

3.7 Definition of certain indicators presented in the consolidated financial statements

/ 3.7.1 Net debt

Net debt is made up of current and non-current financial liabilities as they appear on the consolidated statement of financial position less:

- cash and cash equivalents as they appear on the consolidated statement of financial position;
- derivative instruments included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position;
- cash management financial assets included in "Current financial assets" on the consolidated statement of financial position (these assets are highly liquid, little affected by the interest rate risk and by the foreign currency risk); and
- borrowing collaterals included in "Current financial assets and Non-current financial assets" on the consolidated statement of financial position.

/ 3.7.2 EBITDA from recurring activities

The Group defines EBITDA from recurring activities as operating income from recurring activities less depreciation of property, plant and equipment and amortization of intangible assets.

3.8 Revenue recognition

Revenue is measured at the fair value of the consideration received, or receivable, taking into account the amount of any trade discounts allowed by the Group entities or any commercial incentives linked to sales. Deferred rebates are accrued based on past experience and expected payments.

Sales are recognized as follows:

- Revenue from sales of goods is recognized when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold and will receive the economic benefits associated with the transaction. Due to the nature of the products, the general sales conditions, the logistics incoterms and the insurance contracts, revenue is usually recognized when the goods leave the Group premises.
- Revenue from sales of services is recognized by reference to the stage of completion of the transaction at the date of the consolidated statement of financial position, to the extent that this stage can be measured reliably and the economic benefits associated with the transaction will flow to the Group.

Financial income is recognized as follows:

- Interest income is recognized on an accrual basis using the effective interest method.
- Dividend income is recognized when the right to receive payment is established.

3.9 Cost of sales

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

It includes the purchase cost of raw materials, production costs directly related to the manufactured products and all production overheads, based on the normal capacity of production facilities.

Production overheads include depreciation of property, plant and equipment, amortization of intangible assets relating to production and write-downs of inventories.

Cost of sales also includes a relevant portion of general overheads to the extent that they are directly attributable to bringing the manufactured products to their present location and condition.

3.10 Research and development

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

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

3.11 Operating income from recurring activities

In order to improve the understanding and the analysis of its operational performance, the Group has decided in 2016 to display the "Operating income from recurring activities" balance. It includes all the incomes and expenses which are directly related to the recurring activity of the Group.

3.12 Operating income/(loss) from non-recurring activities

"Operating income/(loss) from non-recurring activities" includes unusual, abnormal or non-frequent significant items of income and expenses that are not considered inherent to the Group's recurring activity. The balance includes, in particular, costs for reorganizations and adaptation of activities and costs relating to major litigations (as well as adjustments in the corresponding provisions), in addition to impairment of goodwill. Furthermore, are included gain/loss on disposals and changes in impairment of tangible and intangible assets, acquisition price adjustments as well as the cost of benefits for retired personnel. They are detailed in note 9 "Operating income/(loss) from non-recurring activities".

3.13 Income tax

Current and deferred taxes, plus any withholding tax on royalties and on distributions of retained earnings within the Group, are included in the income statement except if they relate to items recognized either in other comprehensive income or directly in equity, in which case they are also recognized, respectively, in other comprehensive income or directly in equity.

Current tax is based on the results of Group companies and is calculated according to local rules, including any adjustments to tax payable in respect of previous years.

Deferred tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements, using enacted or substantially enacted tax rates that are expected to prevail when the temporary differences reverse.

A deferred tax asset or liability is recognized on initial recognition of transactions arising from business combinations and impacting the accounting or taxable result.

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the tax losses carried forward and the temporary differences can be offset.

Deferred tax is calculated on temporary differences arising from investments in subsidiaries, joint ventures, and associates: deferred tax assets are recognized if the reversal is both under the entity's control and it is probable. Deferred tax liabilities are recognized unless their reversal is controlled and not probable.

3.14 Business combination and goodwill

When the Group obtains control of an entity, the business combination is valuated and accounted for by applying the acquisition method. Goodwill is computed at acquisition date as the difference between:

- the fair value of the consideration transferred including, if any, the fair value of contingent consideration;
- the fair value at the acquisition date of the identifiable acquired assets, the liabilities and contingent liabilities assumed.

Goodwill is carried at cost less any accumulated impairment losses.

Costs directly attributable to the business combination are expensed as incurred and booked as other operating income and expenses from recurring activities in the consolidated income statement.

The valuation period for a business combination does not exceed twelve months after acquisition date.

Goodwill is allocated to cash-generating units (CGUs) or groups of CGUs for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of CGUs that are expected to benefit from the synergies of the combination and that reflect the level at which the Group manages goodwill. Goodwill is tested for impairment annually.

3.15 Intangible assets

Intangible assets are recognized at cost. The cost of an intangible asset acquired as part of a business combination is its fair value at the acquisition date.

Intangible assets with indefinite useful lives are not amortized but are tested annually for impairment. Those with finite useful lives are amortized on a straight-line basis over their estimated useful life. Software are amortized over three or seven years.

3.16 Property, plant and equipment

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

The gross carrying amount includes the cost of acquisition or production cost and other costs directly attributable to the acquisition or the construction of the asset (including borrowing costs). Investment 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 costs are expensed as incurred. Other subsequent expenditures are included in the asset's carrying amount or recognized as a separate asset if the recognition criteria are met.

Property, plant and equipment are depreciated on a straight-line basis, except land which is not depreciated. Depreciation on property, plant and equipment reflects the pattern in which the asset's future economic benefits are expected to be consumed. Depreciation is allocated to cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

The following depreciation periods, based on the expected useful lives of the respective assets, are applied throughout the Group:

- Buildings and general installations of land and buildings: 25 years
- Industrial and commercial equipment: 2-12 years
- Computer and telecommunication equipment: 5 years
- Vehicles: 5 years
- Other: 5-12 years

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

When assets are sold or otherwise disposed of, the difference between the net proceeds and the net carrying amounts of the assets is recognized in operating income/(loss) from non-recurring activities.

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 asset and the present value of the minimum lease payments at the inception of the lease. The leased assets are depreciated over the shorter of the lease term and the useful life of the leased assets if the transfer of ownership of the leased assets is uncertain.

The obligations arising from future finance lease payments are discounted and recognized as a financial liability in the consolidated statement of financial position. The payments related to operating leases are expensed on a straight-line basis over the lives of the contracts.

3.17 Impairment of non-financial assets

When there is any indication that the recoverable amount of an asset (goodwill, intangible assets or property, plant and equipment) may be lower than its carrying amount, the recoverable amount of the asset is measured and if needed, an impairment is recognized.

Whether there is an indication of impairment or not, an annual impairment test for goodwill, intangible assets with indefinite useful life and intangible assets not ready for use is performed by comparing their carrying amount with their recoverable amount.

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

At Group level, non-financial assets are combined for impairment testing purposes at the lowest level for which there are separately identifiable cash flows (Cash Generating Units – CGUs).

The CGUs are defined according to the way the Group operations are managed: it could be the crossings of Product Lines and Geographic Zones (for example: CGU North America Passenger car and light truck), the Distribution Networks (for example: CGU Euromaster) or the Business Subsidiaries (for example: CGU Michelin Travel Partner). This approach allows having CGUs with cash flows that are separately identifiable from cash flows of other CGUs.

CGUs to which goodwill have been allocated are tested annually or more frequently if events or changes in circumstances indicate a potential impairment. Those without goodwill are tested if there is a specific indication of impairment.

The recoverable amount is the higher of the value in use and the fair value less cost of disposal.

For most CGUs or group of CGUs, recoverable amount is based on value in use, which is equal to future discounted cash flows using the Weighted Average Cost of Capital (WACC) as a discount rate. Future cash flows are mainly based on the CGU's five-year cash flow forecasts plus a terminal value, measured by dividing projected cash flows by the WACC. The discount rate is based on the cost of equity capital derived from the market-expected return on the Company's shares, the cost of financial debt and a risk premium reflecting the risks of the countries where the assets are located. The gearing and the beta are based on data from comparable segments and take into account specificities of certain activities.

The recoverable amount of the distribution CGUs on the other hand is measured at fair value less costs of disposal. Since most of these assets are land and buildings, external appraisals or other real estate valuation techniques are applied to measure their fair value.

Any impairment loss is recognized first against goodwill and any remaining amount is allocated among the other non-current assets, based on their net carrying amounts at the closing date.

When the circumstances which previously caused non-financial assets to be impaired no longer apply, the impairment losses are reversed accordingly. However, goodwill impairment can never be reversed.

Changes in impairment losses are recognized in operating income/(loss) from non-recurring activities.

3.18 Non-derivative financial assets

/ 3.18.1 Asset categories

The Group classifies its non-derivative financial assets in one of the following categories: loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss. The classification depends on the purpose for which the assets are acquired as well as its nature. The Group determines the classification of its non-derivative financial assets at initial recognition and reviews this designation at every reporting date.

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the date of the consolidated statement of financial position.
- Available-for-sale financial assets are usually non-monetary securities. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the date of the consolidated statement of financial position.
- Financial assets at fair value through profit or loss have two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of being sold in the short term or if it is so designated by the Group. 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 date of the consolidated statement of financial position.

/ 3.18.2 Transactions

Purchases and sales of non-derivative financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Non-derivative financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Non-derivative financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value gains or losses, including the fair value adjustments previously recognized in other comprehensive income, are included in the income statement.

/ 3.18.3 Measurement

Available-for-sale financial assets are measured at fair value determined essentially by reference to a published price quotation in an active market. Loans and receivables are measured at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in other items of comprehensive income unless these assets are part of fair value hedges and therefore included in the income statement for the hedged risk in the period in which they arise.

/ 3.18.4 Impairment

The Group assesses at each consolidated statement of financial position 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 other items of comprehensive income and recognized in the income statement. Impairment losses on equity instruments recognized in the income statement cannot be reversed.

3.19 Inventories

Inventories are carried at the lower of cost and net realizable value.

The cost of raw material, supplies and purchased finished goods includes the purchase price and other costs directly attributable to the acquisition. The cost of work in progress and manufactured finished goods comprises direct labor cost, other direct costs and production overheads based upon normal capacity of production facilities. Borrowing costs are expensed as incurred. The measurement of inventories and of cost of sales with the standard cost method put in place by the Group is close, after taking variances into account, to what would be obtained using the actual cost method.

Net realizable value is the estimated selling price less the estimated costs of completion and sale.

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

3.20 Trade receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment.

When payment terms are shorter than one year, the initial fair value and the subsequent amortized cost are considered as being equal to the nominal amount.

An impairment loss is recognized when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bankruptcy, legal creditor protection processes, manifest insolvency of the debtor, disappearance of the debtor, more than six months overdue, economic or political risk in the debtor country, adverse change in the debtor's credit situation are considered indicators that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Prior to recognizing an impairment loss, the quality of any guarantees, as well as the ability to realize them, have to be assessed. The impairment charge is recognized under sales and marketing expenses.

When a trade receivable is uncollectible, it is written off against the corresponding previously recognized impairment. Subsequent recoveries of amounts previously written off are credited against sales and marketing expenses in the income statement.

3.21 Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less. Term deposits maturing in more than three months, but with early withdrawal terms of less than three months with guaranteed capital and negligible withdrawal costs are also classified as cash and cash equivalents.

3.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

Treasury shares are presented separately in reserves. The amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. When treasury shares are sold, the amount received is recognized as an increase in equity and the resulting surplus or deficit on the transaction is presented within retained earnings.

3.23 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 consolidated statement of financial position date.

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability at amortized cost. The remainder of the proceeds is allocated to the conversion option. This is recognized in equity, net of income tax effects.

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

3.24 Employee benefits

Wages, salaries, social security contributions, payments to defined contribution plan, annual leave and sick leave payments, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by the employees.

Where employee benefits, such as pension, other post-employment benefits and other long-term benefits, are provided by the Group, a liability or an asset and the related costs are recognized.

/ 3.24.1 Pension and other post-employment benefits

Post-employment benefits are benefits payable after the completion of employment. The Group provides retirement benefits for most of its employees, either directly or by contributing to independently administered funds. The benefits provided by the Group vary according to the legal, tax and economic situation in each country and are usually based on one or more factors such as employees' remuneration, age and years of service. The obligations relate both to current retirees and to entitlements of future retirees.

The Group provides post-employment benefits under defined contribution plans and defined benefit plans.

In the case of defined contribution plans, the Group pays fixed contributions to fund managers or insurance companies. Once the contributions have been paid, the Group has no legal or constructive obligation to make further contributions if the fund does not hold sufficient assets to pay the benefits expected by the beneficiaries.

The regular contributions are recognized as an expense for the year in which they are due and, as such, are included in cost of sales, sales and marketing expenses, research and development expenses or general and administrative expenses.

Group management policies regarding post-employment benefits have led to the transformation of defined benefit plans to defined contribution benefit plans since the early 2000's. Nevertheless a significant part of the post-employment benefit plans are still defined benefit plans. They are either externally funded plans (mainly pension plans), for which the plan assets are held separately in independently administered funds, or unfunded plans such as healthcare benefit plans and retirement bonus plans.

The post-employment benefit liabilities, and the related current service cost, are measured using the Projected Unit Credit Method.

A defined benefit plan is a plan that defines an amount of benefits that the Group is committed to pay to current and former employees.

All defined benefit plans are subject to actuarial calculations carried out annually for the largest plans and on a regular basis for other plans. These actuarial valuations are carried out with the help of independent actuaries. Actuarial assumptions, primarily discount rates, projected rates of remuneration growth, inflation rates and expected increase of healthcare costs are incorporated in the actuarial valuations and reviewed annually.

The liability or the asset recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. They take into account any unrecognized assets not available in form of refunds or reduction in future contributions.

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 currency of the obligation that have maturities approximating the duration of the related benefit liability.

A net asset is recognized only to the extent that it represents a future economic benefit which is actually available to the Group in the form of refunds from the plan or reductions in future contributions to the plan.

When a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group determines whether paying these contributions may give rise to a surplus in that defined benefit plan. To the extent that the surplus in the plan exceeds the economic benefits available, the Group recognizes immediately a decrease in the defined benefit asset or an increase in the defined benefit liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise.

Past service costs may arise when new defined benefit plans are set up, when changes to benefits payable under an existing defined benefit plan are introduced or when curtailments occur. They are recognized immediately in the income statement.

The Group net benefit plan cost recognized in operating income consists of current service cost, curtailment and settlements gains and losses, past service cost as well as actuarial gains and losses arising under other long term benefit plans. Net interest on the net defined benefit liability (asset) is recognized outside the Operating Income.

/ 3.24.2 Share based payments

Employee share option plans

Benefits related to share options which can be granted to some Group employees are measured at grant date using a binomial model.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of options granted to them.

The binomial model is based on the spot price for Company shares, the exercise price, the historical volatility (over a period equal to the expected lifetime of the option), a risk-free interest rate (zero coupon government bonds with a maturity equal to the expected lifetime of the option), and a dividend stream based on market expectations.

Benefits are spread over the period during which the services are rendered. They are recognized in Other operating income and expenses from recurring activities.

Performance share plans

The Group may adopt plans to grant free shares of the Company to certain of its employees.

The grant date is the date when the Managing Chairman decides on the plan list of beneficiaries and the number of performance shares granted to them.

The fair value of the performance shares is based on the spot price of the Company's share at grant date, less the present value of expected dividends that will not be received by grantees during the vesting period.

The number of shares that will finally be issued at the end of the vesting period depends on the realization of Group performance and service conditions.

The total compensation cost is based on the fair value of the performance shares and the estimated number of shares that will finally be issued. This cost is recognized over the vesting period and is booked in Other operating income and expenses from recurring activities.

Employee share purchase plans

The Group may offer to most of its employees the opportunity to subscribe to a share purchase plan that allows them to purchase Company shares.

These shares, which are subject to certain restrictions relating to their sale or transfer, are purchased by the employees at a subscription price based on the market prices of the Company shares set with a discount. The benefit of the employees equals the difference between the fair value of the purchased shares (after allowing for the five-year lock-up cost) and the price paid by the employee, multiplied by the number of shares subscribed.

The benefit granted to the employees is immediately expensed by the Group, as no vesting period applies, and is booked under Employee benefit costs – Share-based payments, within the Operating income from recurring activities.

3.25 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.

The provisions for reorganizations and adaptation of activities are recognized when the Group has a detailed formal plan that has been announced.

Provisions are recorded at the net present value of the estimated cash outflows.

3.26 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The Group has put in place paying agent contracts with some financial institutions. Under these agreements, the financial institution acts as a paying agent with respect to invoices due to our suppliers who have entered into a bilateral agreement with the financial institution in order to be in position to factor their trade receivables from the Group.

Given the nature of these contracts, the total balance of trade payables to such suppliers is presented on a separate line of the consolidated statement of financial position "Trade payables under factoring contracts".

In the consolidated cash flow statement, these operations are included in operating activities.

NOTE 4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk management policy

/ 4.1.1 Organization of financial risk management

Financial risk control, measurement and supervision are carried out under the responsibility of the Corporate Financing Department, at the subsidiary, geographic zone level as well as at the Group level. It reports directly to the Group Financial Department.

One of the Corporate Financing Department's ongoing missions is the formulation of financial risk management policies, monitored on the basis of a full array of internal standards, procedures and authoritative literature. Geographic zone finance managers oversee the implementation of the Group's financial risk management policies by the finance managers of the companies in their zone. In addition, compliance with financial risk policies is assessed through internal audit reviews to evaluate risk control efficiency and identify means of improvement.

All strategic decisions regarding Group financial risk hedging policy are taken by the Group Financial Department. As a general rule, the Group strictly limits the use of derivatives to the sole purpose of hedging clearly identified exposures.

A Financial Risks Committee has for mission the establishment and the validation of policies governing the management of financial risks, the identification and evaluation of these risks and the validation and control of financial hedging instruments. The Financial Risks Committee meets on a monthly basis and includes members of the Group Financial Department and of the Corporate Financing Department.

/ 4.1.2 Liquidity risk

4.1.1.1 Risk factors

Liquidity is defined as the ability to repay borrowings when they fall due and to find new stable sources of financing so that there is always sufficient money to cover expenses. In the course of its business, the Group is exposed to the risk of having insufficient liquid resources to finance its operations and make the investments needed to drive its growth. It must therefore manage its cash reserves and committed lines of credit on a continuous basis.

4.1.1.2 Risk management processes

The Corporate Financing Department is responsible for the Group's financing and liquidity at the lowest cost. The Group raises financing on the capital markets through long-term financial instruments (bond issues), as well as through bank resources (loans and credit lines), commercial paper programs and securitization of accounts receivable. The Group has also negotiated committed back-up credit lines and maintains cash reserves that are calibrated in order to ensure the refinancing of the short term debt. Long term financing and committed back-up credit lines are essentially concentrated at the level of the financial holding companies, in particular the Compagnie Financière Michelin SCmA, which acts as the financing hub for the Group.

Except in the case of particular obligations related to the specific features of local financial markets, the Group companies are financed in accordance with the following model:

- cash pooling with the Group for the management of day to day liquidity requirements;
- intercompany credit lines and loans to meet medium and long term requirements.

Short term financing for subsidiaries that do not participate in the cash pooling is under the responsibility of the local treasurer.

The management of liquidity risk is supported by a forecasting system of short and long term financing requirements based on business forecasts and the strategic plans of the operating entities.

As a matter of prudent financial policy, the Group guards against the inclusion in its financial contracts of covenants providing for ratios or "material adverse change" clauses that could affect its ability to mobilize credit lines or affect their term. At closing date no such clause featured in Group loan agreements. With regard to clauses in financial contracts relating to default or acceleration, the probability of such circumstances arising is low and their possible impact on the financial situation of the Group is not significant.

/ 4.1.3 Currency risk

4.1.3.1 Risk factors

Currency risk is defined as the impact on financial indicators of fluctuations in the exchange rates of foreign currencies used in the normal course of business. The Group is exposed to currency risks on its foreign currency transactions (transaction risk) and also on the translation of its net investment in foreign subsidiaries (translation risk).

Foreign currency transaction risk arises from the monetary assets and liabilities of the Group and its subsidiaries (mainly cash and cash equivalents, receivables, payables and borrowings) that are denominated in foreign currencies. It corresponds to the risk of a change in the exchange rate between the date when these monetary assets and liabilities are recorded in the accounts and the date when they are recovered or settled.

Foreign currency translation risk arises from the Group's net investment in foreign subsidiaries. It corresponds to the risk of a change in the exchange rate used to translate the net investment in the foreign subsidiary into Euros during the consolidation process.

4.1.3.2 Risk management processes

Currency transaction risk

Foreign currency transaction risk is monitored by the Corporate Financing Department.

Each Group companies continually calculate its accounting foreign exchange exposure in relation to its functional currency and hedges it systematically. A number of temporary exemptions can, however, be granted by the Group Financial Department when it is not possible to hedge a currency or when it is justified under exceptional market conditions.

Foreign currency payables and receivables of the same type and with equivalent maturities are netted off and only the net exposure is hedged. This is normally carried out through the financial holding company, or, alternatively, through a bank. The financial holding

company in turn assesses its own resulting exposure and hedges it with its banking partners. The main hedging instruments used are forward currency contracts. The structural part of the exposure is hedged with long term instruments (ten years maturity maximum) and the operating part is hedged with short term instruments (generally maturity is shorter than or equal to three months). Currency risk monitoring and hedging is based on Group internal standards and procedures. A transactional currency risk alert system is implemented throughout the Group under the responsibility of the Corporate Financing Department. These exposures are tracked on a monthly basis on a detailed management report.

Currency translation risk

The Group does not use hedging instruments to actively manage this risk.

Investments in foreign subsidiaries are booked in the functional currency of the parent company and are not included in the latter's foreign exchange position.

/ 4.1.4 Interest rate risk

4.1.4.1 Risk factors

The Group's income statement may be affected by interest rate risk. An unfavorable change in interest rates may adversely affect future finance costs and cash flows. The Group is in a net debt position and is exposed to the risk of an increase in interest rates on the portion of debt at variable rate. It may also be exposed to an opportunity risk in the case of a fall in interest rates, if too great a proportion of debt is at fixed rates, as well as on financial investments, depending on their interest terms.

4.1.4.2 Risk management processes

The objective of interest rate management is to minimize financing costs whilst protecting future cash flows against unfavorable movements in interest rates. For this purpose, the Group uses various derivative instruments available in the market, but restricts itself to the use of "plain vanilla" instruments (interest rate swaps, caps, collars, etc).

Interest rate exposure is analyzed and monitored by the financial risks committee using monthly performance indicators and management reports.

The interest rate position is centralized by currency by the Corporate Financing Department that is the only department permitted to undertake hedging operations. Interest rate hedging is concentrated on the main currencies. The Financial Risk Committee determines the limits for hedging by currency, by taking into consideration the Group debt ratio (hedging needs evolving in line with the level of the debt).

/ 4.1.5 Equity risk

4.1.5.1 Risk factors

The Group owns shares in listed companies whose share price fluctuates, among other things, in line with changes in the global stock markets, the multiples applied by the markets to the industries in which these companies operate and their specific economic and financial metrics.

Equity investments are made for strategic rather than trading purposes. Equities are held under a medium or long term strategy, and not for short term trading portfolio management.

4.1.5.2 Risk management processes

The Group Investment Committee, which includes representatives of the Financial, Legal and Corporate Finance Departments, is responsible for the application of the investments' monitoring rules. It therefore makes an annual review of the investments to assess the risk level and the evolution of the results compared to defined targets.

/ 4.1.6 Counterparty risk

4.1.6.1 Risk factors

Counterparty risk is the risk of a debtor refusing or being unable to fulfil all or part of its obligations. The Group is exposed to counterparty risk on its contracts and financial instruments. Counterparty risk may lead to an impairment loss or a loss of liquidity. The Group is exposed to the risk of impairment losses arising from the investment of available cash in money market instruments and other marketable securities, as well as on finance receivables, derivative instruments and third party guarantees. It is exposed to the risk of a loss of liquidity on its undrawn committed lines of credit.

4.1.6.2 Risk management processes

The Group chooses its banks extremely carefully, particularly when it comes to the management of its cash investments. As it would be inappropriate to add financial risk to the industrial and commercial risks that are associated with its operations, the Group gives priority to the security and the liquidity of all its cash investments. Cash investments consist of (i) financial instruments that are subject to no risk or an insignificant risk of changes in value purchased from a sufficiently diversified group of leading banks, and (ii) unrestricted units in diversified money market funds or short-term bond funds.

As well as cash investments, counterparty risk is borne on the value of the assets of derivative instruments used for hedging purposes. These amounts and their distribution by bank are tracked weekly by the Group Treasury and monitored monthly by the Financial Risks Committee.

In order to mitigate the counterparty risk on its derivatives instruments, the Group realizes exchange of collaterals with its main banks.

/ 4.1.7 Credit risk

4.1.7.1 Risk factors

Credit risks may arise when the Group grants credit to its customers. If a customer becomes insolvent or files for bankruptcy, it may default on the receivables held by the Group and this may have a negative impact on the Group's income statement.

4.1.7.2 Risk management processes

The Credit Department, which is part of the Group Financial Department, sets the maximum payment terms and customer credit limits to be applied by the operating companies. It manages and controls credit activity, risk and results, and is also responsible for credit and collection. The main policies and procedures are defined at Group level and are monitored and controlled at both the geographical zone and Group level. A monthly credit reporting system operates within the Group.

4.2 Financial risk data

/ 4.2.1 Liquidity risk

At December 31, 2017, the repayment schedule of financial debts (interest included) as well as the ageing balance of undrawn confirmed credit lines are as follows:

(in € million)	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 and beyond**
Bonds	199	415	16	16	780	14	832
Loans from financial institutions and other	286	3	7	6	5	91	117
Obligation under finance lease	20	29	29	29	29	29	83
Derivative instruments	-	(12)	(9)	-	56	(1)	(2)
Repayment schedule of financial debts	**505**	**435**	**43**	**51**	**870**	**133**	**1,030**
Long-term undrawn confirmed credit lines	**-**	**-**	**-**	**1,500**	**-**	**-**	**-**

This table shows debt principals plus interests according to their payment date, as projected with available market data at closing date (interests are computed in each currency on the basis of the market rates, and converted in Euros at closing rates). Thus displayed amounts are not discounted.

The refinancing risk of the Group short term debt is covered by the amount of the undrawn confirmed credit lines (€1,500 million), cash available (€1,773 million) as well the cash management financial assets (€180 million).

In 2014, the Group renewed its syndicated credit line with a maturity of five years. In 2015 and 2016 the Group exercised its two extension options, extending the maturity from 2019 to 2021.

/ 4.2.2 Currency risk

Transactional currency risk

The following table set forth the Group transactional foreign currency accounting exposures (when a monetary asset or liability is denominated in a currency other than the functional currency), before and after hedging:

	December 31, 2017						**December 31, 2016**					
(in € million)	**AUD**	**EUR**	**SEK**	**HUF**	**CNY**	**Other**	**AUD**	**EUR**	**SEK**	**HUF**	**CNY**	**Other**
Monetary assets	223	659	148	26	774	6,243	226	719	121	6	869	6,418
Monetary liabilities	(105)	(1,681)	(117)	(38)	(113)	(5,347)	(117)	(1,687)	(79)	(4)	(102)	(5,420)
Net position before hedging	**118**	**(1,022)**	**31**	**(12)**	**661**	**896**	**109**	**(968)**	**42**	**2**	**767**	**998**
Hedges	(104)	1,032	(39)	(4)	(679)	(926)	(106)	857	(49)	(1)	(766)	(1,082)
NET POSITION AFTER HEDGING	**14**	**10**	**(8)**	**(16)**	**(18)**	**(30)**	**3**	**(111)**	**(7)**	**1**	**1**	**(84)**

At December 31, 2016, a subsidiary had net exposure in EUR for €107 million, due to the change of its functional currency as of January 1, 2017. This exposure is being hedged from the beginning of January 2017.

An unfavorable change in each of the foreign currencies mentioned in the table above against the functional currencies of the companies which have the currency transaction exposure would have a negative aggregate impact, after hedging, of less than €1 million (2016: €1 million) in the consolidated income statement for every cent change. A favorable change would have a totally symmetrical impact. This relatively low sensitivity to the transaction currency risk is due to the objective described in paragraph 4.1.3 "Currency risk".

Because of the low volume of cash flow hedge derivatives (note 16 "Derivative financial instruments"), the equity sensitivity to currency risk is not significant.

Currency translation risk

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

(in € million)	December 31, 2017	December 31, 2016
EUR	6,400	5,429
USD	1,962	1,760
BRL	979	1,063
THB	526	661
CNY	407	430
CAD	333	417
INR	236	252
GBP	121	(137)
Other	297	771
TOTAL	**11,261**	**10,646**

/ 4.2.3 Interest rate risk

Net debt at December 31, 2017 by type of hedges and currencies can be detailed as follows:

	Net debt before hedging			Currency hedging	Net debt after currency hedging but before interest rate hedging			Interest rate hedging		Net debt after hedging		
(in € million)	Fixed	Variable	Total		Fixed	Variable	Total	Fixed	Variable	Fixed	Variable	Total
EUR	1,155	(1,267)	**(112)**	(2,044)	1,658	(3,814)	**(2,156)**	(354)	354	1,304	(3,460)	**(2,156)**
CNY	-	(37)	**(37)**	885	-	848	**848**	380	(380)	380	468	**848**
USD	465	143	**608**	(171)	(38)	475	**437**	323	(323)	285	152	**437**
THB	-	68	**68**	329	-	397	**397**	226	(226)	226	171	**397**
BRL	6	44	**50**	307	6	351	**357**	225	(225)	231	126	**357**
MXN	-	(1)	**(1)**	168	-	167	**167**	-	-	-	167	**167**
Other currencies	16	92	**108**	526	16	618	**634**	146	(146)	162	472	**634**
Total before derivatives	**1,642**	**(958)**	**684**	**-**	**1,642**	**(958)**	**684**	**946**	**(946)**	**2,588**	**(1,904)**	**684**
Fair value of derivatives included in net debt			**32**				**32**					**32**
NET DEBT (NOTE 26)			**716**				**716**					**716**

A 1-point parallel shift in the yield curves applied to the net debt components would represent as at December 31, 2017:

		Fair value impact			
(in € million)	Annualized cash impact booked in income statement	Booked in income statement[(1)]	Booked in other comprehensive income[(2)]	Not booked[(3)]	Total
1-point downward shift	(19)	(26)	(2)	113	**85**
1-point upward shift	19	25	2	(113)	**(86)**

(1) The Group interest rate policy aims at hedging perfectly identified future cash flows. However, some derivative instruments do not qualify for a hedge accounting under IFRS rules and are measured at fair value through profit or loss.
(2) For derivatives qualifying for hedge accounting (cash flow hedges).
(3) Some fair value impacts are not accounted for since the underlying net debt component is not booked at fair value but at amortized cost.

/ 4.2.4 Equity risk

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

(in € million)	December 31, 2017	December 31, 2016
Carrying amount (note 15.1)	285	208
Impact on equity of a 10% unfavorable change in the price of the Group investment portfolio	**(20)**	**(13)**

/ 4.2.5 Counterparty risk

At December 31, 2017, 54% of cash and cash equivalents (including cash management financial assets) is invested in money market or short term bond funds to allow for a maximum diversification of the counterparty risk. The balance is invested directly in international bank institutions which meet the counterparty risk management criteria defined by the Group.

Furthermore, most of the derivatives are contracted with the same banking groups.

/ 4.2.6 Credit risk

At December 31, 2017, net receivable balances from the ten largest customers amounted to €543 million (2016: €572 million). Seven of these customers are located in Europe and three in North America.

At the same date, 67 customers (2016: 64) have been granted credit limits in excess of €10 million. Out of these, 32 are located in Europe, 20 in North America, 4 in Asia, 10 in Africa, India or Middle-East and 1 in South America. There was no significant collateral received to limit credit risk. In 2017, credit losses represented 0.09% of sales (2016: 0.07%).

/ 4.2.7 Commodities derivatives

In 2017, the Group did not have any significant hedges of commodities purchases (note 16.3 "Derivative contractual amounts").

4.3 Capital risk management

The Group's objectives when managing its capital is to safeguard its ability to continue as a going concern and to ensure its development, so that it can provide returns for shareholders and benefits for other stakeholders.

The Group monitors its capital on the basis of the gearing ratio, corresponding to the ratio of net debt to total equity.

(in € million)	December 31, 2017	December 31, 2016
Net debt (note 26)	716	944
Total equity	11,261	10,646
GEARING RATIO	**0.06**	**0.09**

4.4 Fair value measurement hierarchy

The following tables present the Group assets and liabilities that are measured at fair value at December 31, 2017 and 2016 by level of the fair value measurement hierarchy:

(in € million)	Level 1	Level 2	Level 3	Total 2017
Cash and cash equivalents	1,323	-	-	**1,323**
Deposits borrowing collaterals	42	-	-	**42**
Derivatives (note 16.1)	-	148	-	**148**
Available-for-sales financial assets (note 15.1)	32	-	253	**285**
TOTAL ASSETS	**1,397**	**148**	**253**	**1,798**
Derivatives (note 16.2)	-	180	-	**180**
TOTAL LIABILITIES	**-**	**180**	**-**	**180**

(in € million)	Level 1	Level 2	Level 3	Total 2016
Cash and cash equivalents[(1)]	1,293	-	-	**1,293**
Deposits borrowing collaterals	77	-	-	**77**
Derivatives (note 16.1)	-	84	-	**84**
Available-for-sales financial assets (note 15.1)	43	-	165	**208**
TOTAL ASSETS	**1,413**	**84**	**165**	**1,662**
Derivatives (note 16.2)	-	181	-	**181**
TOTAL LIABILITIES	**-**	**181**	**-**	**181**

(1) See note 21.

There has been no significant transfer during these two years between level 1 and level 2.

The following table presents the changes in level 3 instruments for the year ended December 31, 2017:

(in € million)	
At January 1, 2017	**165**
Additions[(1)]	118
Disposals[(2)]	(41)
Transfers from other level to level 3	-
Transfers from level 3 to other levels	-
Gains or losses for the year included in net income	1
Gains or losses for the year included in other comprehensive income	21
Others	(11)
AT DECEMBER 31, 2017	**253**

(1) Of which €55 million correspond to the acquisitions described in note 33.1.2.
(2) Of which €12 million correspond to the 2016 acquisitions consolidated in 2017 (note 13.1).

NOTE 5 SEGMENT REPORTING

The Group is organized into Product Lines, each one dedicated to an area of activity, with its own marketing, development, production and sales resources. The Group has three operating segments as follows:

- Passenger car and Light truck tires and related distribution;
- Truck tires and related distribution; and
- Specialty businesses.

Specialty businesses include the Specialty tire business activities (Earthmover, Agricultural, Two-wheel and Aircraft tires) and the activities Michelin Travel Partner, Michelin Lifestyle and BookaTable.

The operating segments performance is measured on operating income from recurring activities and it is based on the same principles applied to the Group's consolidated income statement.

This measurement basis excludes the effects of income and expenses from non-recurring activities from the operating segments. Group financing (including the cost of net debt and other financial income and expenses), result sharing from associates and income tax are managed on a Group basis and are not allocated to operating segments.

Segment assets consist of goodwill, intangible assets, property, plant and equipment, trade receivables and finished products inventories. Corporate intangible assets and property, plant and equipment are allocated to each segment in proportion of directly attributed assets. The amounts provided to the Managing Chairman with respect to segment assets are measured in a manner consistent with that of the consolidated financial statements. Capital expenditure consists of additions of property, plant and equipment and intangible assets.

No operating liabilities are allocated to the segments in the Group internal reporting.

The segment information is as follows:

	2017				2016			
(in € million)	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total	Passenger car and Light truck tires and related distribution	Truck tires and related distribution	Specialty businesses	Total
Profit and loss information								
Net sales	12,479	6,123	3,358	**21,960**	12,105	5,966	2,836	**20,907**
Operating income from recurring activities	1,552	497	693	**2,742**	1,585	580	527	**2,692**
In percentage of net sales	*12.4%*	*8.1%*	*20.6%*	***12.5%***	*13.1%*	*9.7%*	*18.6%*	***12.9%***
Depreciation and amortization	(760)	(362)	(223)	**(1,345)**	(778)	(383)	(231)	**(1,392)**
Segment assets								
Goodwill, Intangible assets and PP&E	6,974	3,821	1,965	**12,760**	6,935	3,648	2,063	**12,646**
Finished products inventories	1,495	896	490	**2,881**	1,508	839	477	**2,824**
Trade receivables	1,653	998	433	**3,084**	1,666	1,048	328	**3,042**
Total of segment assets	**10,122**	**5,715**	**2,888**	**18,725**	**10,109**	**5,535**	**2,868**	**18,512**
Other information								
Capital expenditure	1,080	476	215	**1,771**	1,080	520	211	**1,811**

In 2017, the impairment recognized in the operating income amounts to €54 million (2016: €158 million), of which €10 million (2016: €27 million) pertaining to the Passenger car and Light trucks tires and related distribution operating segment, €5 million (2016: €66 million) to the Truck tires and related distribution operating segment and €39 million (2016: €65 million) to the Specialty businesses. Note 9 provides further details on these impairments.

Segment reporting assets are reconciled to total Group assets as follows:

(in € million)	December 31, 2017	December 31, 2016
Segment assets	**18,725**	**18,512**
Non-current financial assets and other assets	479	323
Investments in associates and joint ventures	356	309
Deferred tax assets	890	1,191
Other net inventories (raw materials and supplies, work in progress)	1,627	1,656
Current financial assets	285	303(1)
Other current assets	1,132	1,202
Cash and cash equivalents	1,773	1,826(1)
TOTAL GROUP ASSETS	**25,267**	**25,322**

(1) See note 21.

The geographic information is broken down by zone hereunder:

	2017				2016			
(in € million)	Europe	North America	Other	Total	Europe	North America	Other	Total
Net sales	8,315	8,056	5,589	**21,960**	8,101	7,792	5,014	**20,907**
Goodwill, Intangible assets and PP&E	5,804	3,217	3,739	**12,760**	5,674	3,036	3,936	**12,646**
Capital expenditure	866	533	372	**1,771**	943	413	455	**1,811**

Europe includes western and eastern European countries. North America includes Mexico. Asian, South-American, Middle-Eastern, Oceanic and African countries are included in Other.

The Group sales information is based on the location of the customer.

The net sales in France amounted to €1,984 million (2016: €1,917 million). The intangible assets and PP&E located in France amounted to €2,298 million (2016: €2,164 million).

Approximately 80% of the North American net sales are done in the United States of America during these two years.

No single external customer amounted to 10% or more of the Group net sales in 2017 and 2016.

NOTE 6 EXPENSES BY NATURE

The following operating costs from recurring activities are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Raw materials and consumables used and changes in finished products inventories	(8,072)	(7,130)
Employee benefit costs	(5,909)	(5,814)
Transportation of goods	(1,183)	(1,152)
Depreciation and amortization	(1,345)	(1,392)
Other expenses	(2,709)	(2,727)
EXPENSES BY NATURE	**(19,218)**	**(18,215)**

NOTE 7 EMPLOYEE BENEFITS COSTS

The charges for employee benefits are allocated to the appropriate headings of expenses by function in the income statement:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Wages and salaries	(4,617)	(4,529)
Payroll taxes	(963)	(950)
Defined benefit plan costs (note 27.1)	(64)	155
Defined contribution plan costs (note 27.2)	(220)	(213)
Share-based payments – Cost of services rendered (note 25)	(7)	(5)
EMPLOYEE BENEFIT COSTS	**(5,871)**	**(5,542)**

The average number of employees in 2017 is 114,438 (2016: 112,088).

NOTE 8 OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES

Other operating income and expenses from recurring activities are recognized within in the income statement:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Acquisition costs linked to business combinations	(10)	-
Employee shareholder plan cost	-	(16)
Share-based payments – Cost of services rendered (note 25)	(7)	(5)
Other operating income/(expenses)	(18)	-
OTHER OPERATING INCOME AND EXPENSES FROM RECURRING ACTIVITIES	**(35)**	**(21)**

NOTE 9 OPERATING INCOME/(LOSS) FROM NON-RECURRING ACTIVITIES

The income and expenses from non-recurring activities are detailed in the table below:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Reorganization and adaptation of activities (note 9.1)	(55)	(80)
Impairment of fixed assets (note 9.2)	(54)	(129)
Retiree benefit costs (note 9.3)	37	272
Other operating income/(expenses) (note 9.4)	(39)	36
NON-RECURRING INCOME AND EXPENSES	**(111)**	**99**

9.1 Reorganizations and adaptation of activities

On June 22, 2017, the Group announced the project of the new global organization to better serve its customers. In France, the implementation of this new organization will have repercussions on the workforce headcount, especially within the Clermont-Ferrand sites. A voluntary pre-retirement scheme for managers and employees of the sites concerned has been proposed and has been agreed with the unions. In addition, for those employees who cannot enter this pre-retirement scheme, the Group has extended by one year the term of the GPEC agreement concluded in 2016 and increased the possibility to be eligible to the scheme. The result of these two schemes is a net cost of €27 million, taking into account the amounts already provisioned for retirement benefits of the populations concerned.

In Germany a competitiveness improvement plan has been announced in December concerning passenger car tire, truck tire and semi-finished production activities within five industrial sites. To support the consequent reductions in workforce, some departure assistance measures have been put in place which resulted in a provision of €16 million.

In 2016, the Group announced the reorganization of the Process engineering function and the closure, before the end of 2017, of a retreading facility in Clermont-Ferrand. A provision covering the social costs as well as the impairment of non-reusable equipment had been recorded for a total amount of €45 million.

A three-year agreement, known as the GPEC, was concluded in September 2016 with the unions, in anticipation of a large number of employees' retirements in the coming years within some of the Group's French subsidiaries. In return for better visibility provided

by the employees on the expected date of their retirement, the companies concerned will grant them specific benefits. A provision of €30 million had been set aside to cover the cost of this agreement.

9.2 Impairment of fixed assets

Impairment losses on previously recognized goodwill totaled €36 million in 2017. They concern mainly the BookaTable CGU.

Impairment losses on non-reusable assets, due to the competitiveness improvement plan in Germany and the ongoing restructuring in Italy, amount to €12 million.

In 2016, the fixed assets impairments were mainly due to the equipment of the Tweel CGU for €45 million, some semi-finished production capacity of the Chennai site in India for €54 million and the land right-of-use, as well as the site preparation investments already undertaken, in China for an amount of €25 million.

9.3 Retiree benefit costs

In 2017, an income amounting to €62 million is generated by evolution of provisions for employee benefits and is related to the pension plans in the United Kingdom and the healthcare plan in the United States of America.

Additional disclosure on this topic is provided in note 27. The income is partially offset notably by the introduction of new plans in Hungary and in Canada and by the retirees' benefits costs in the United States of America.

In 2016, a change in the American medical cover for the Group's retired employees has reduced significantly the present value of the obligation, allowing a provision reversal for €271 million.

9.4 Other operating income and expenses

A French subsidiary of the Group received formal notice, in 2013 and 2016, from the administration responsible for the collection of social security contributions, to pay a total amount of €114 million (excluding late payments fees).

The claims not accepted for which a provision had not been set aside by the Group as of December 31, 2016 amounted to €34 million for which appeals or litigation were initiated. A first adverse judgment was rendered in September 2017. The Group pursues its recourse but has recognized the risks related to these claims in the consolidated financial statements at December 31, 2017, for an amount of €39 million.

In 2016, an agreement was reached, with the local authorities of Shenyang in China, to return a land in exchange for a payment of €34 million.

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

Cost of net debt and other financial income and expenses are broken down in the table below:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Interest expenses	(177)	(209)
Interest income	5	6
Interest rate derivatives	(16)	(7)
Fees on credit lines	(5)	(5)
Capitalized borrowing costs	17	12
COST OF NET DEBT	**(176)**	**(203)**
Net income from financial assets (other than cash and cash equivalents and cash management financial assets)	19	21
Currency remeasurement (including currency derivatives)	(14)	(18)
Other	(5)	17
OTHER FINANCIAL INCOME AND EXPENSES	**-**	**20**

10.1 Derivatives not accounted for using hedge accounting

As described in the financial risk management policy, the Group financing activities are mostly centralized (note 4.1.2 "Liquidity risk") and the interest rate risk is managed through the use of "plain vanilla" derivative instruments (note 4.1.4 "Interest rate risk"). As a consequence:

- borrowings are essentially raised in Euros (note 26 "Financial liabilities");
- part of these borrowings is subsequently swapped into foreign currencies to finance the foreign subsidiaries; and
- derivatives are contracted to manage the foreign currency interest rates (note 16 "Derivative financial instruments").

This process is described in the summary table in note 4.2.3 "Interest rate risk".

Although these transactions provide effective economic hedges, they do not qualify for hedge accounting under IFRS (and therefore they cannot be recognized as cash flow hedges as described in note 3.5 "Hedging"). Fluctuations in the derivatives' fair values are therefore accounted for in the income statement. The decrease in fair value during the year amounted to €17 million (2016: decrease of €8 million) and is included in "Interest rate derivatives (Cost of net debt)".

10.2 Ineffective hedges

As in 2016, no ineffective portion of fair value hedges was recognized in the income statement in "Interest rate derivatives (Cost of net debt)" nor cash flow hedge ineffectiveness was recognized in the income statement.

NOTE 11 INCOME TAX

Income tax expense is detailed as follows:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Current tax expense (note 18.2)	(559)	(749)
Deferred tax income/(expense) (note 18.1)	(102)	(48)
INCOME TAX	**(661)**	**(797)**

Current tax includes €81 million of withholding tax on royalties and distribution of retained earnings between Group companies (2016: €84 million).

Reconciliation of the Group effective income tax:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Income before tax	**2,354**	**2,464**
Tax calculated using domestic tax rates applicable to income in the respective countries	**(631)**	**(669)**
Tax effect from:		
▶ untaxed transactions	(9)	15
▶ deferred tax assets not recognized during the year	(36)	(81)
▶ net change in unrecognized deferred tax assets	8	5
▶ changes in tax rates	25	(2)
▶ taxes with no tax base (tax credits, withholding tax, etc.)	(52)	(76)
▶ other items	34	11
INCOME TAX	**(661)**	**(797)**

The Group has operations in various countries that have different tax laws and rates. The weighted average domestic tax rate of Group companies may therefore vary from year to year depending on the relative size of taxable incomes.

The French Constitutional Council pronounced, by a decision entered into force on October 8, 2017, the total invalidation of the contribution of 3% on the distributions of result introduced in 2012. Therefore and in application of IAS 12, a tax income has been recognized for an amount of €47 million which corresponds to the total value of the contributions paid in respect of financial years 2012 to 2016 included. In addition, remunerative interest of €5 million has been recognized in financial income. These sums were paid by the tax authorities before the end of the financial year. The effect of this refund is presented on the "other items" line in the above table.

The tax reform that came into force in the United States at the end of December 2017 resulted in a decrease in the deferred tax expense recorded in the consolidated income statement of €25 million over the year. The decrease in the tax rate, from 38.0% (including local taxes) to 24.8%, is taken into account to value the outstanding deferred taxes of the Group's US subsidiaries at December 31, 2017. This outstanding amount stems mainly from taxable temporary differences relating to the depreciation of property, plant and equipment and recognition at fair value at the date of acquisition of assets acquired during business combinations.

The remaining difference between the Group's effective and theoretical tax rates can be explained mainly by deferred tax assets not recognized during the year and by withholding taxes, tax credits and other taxes whose base is not the income before tax.

NOTE 12 EARNINGS PER SHARE

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

Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. On December 31, 2017, the Company has two types of dilutive potential shares: stock options (note 28.1 "Stock option plans") and performance shares (note 28.2 "Performance share plans"). On December 31, 2016, the Company had a third dilutive instrument: bonds convertible in existing or new shares (OCEANEs). They expired on January 1, 2017 as detailed in note 26.1. For the stock options and when they are dilutives at closing date, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming exercise of the stock options. Since performance shares are granted free of charge and are dilutives by definition, the number of shares that are expected to be issued is determined at closing date based on estimate.

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

	Year ended December 31, 2017	Year ended December 31, 2016
Net income/(loss) *(in € million)*, excluding the non-controlling interests	1,700	1,676
▶ Less, estimated grants to the General Partners	(11)	(12)
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of basic earnings per share	**1,689**	**1,664**
▶ Plus, interest expenses on convertible bonds	-	28
Net income/(loss) attributable to the Shareholders of the Company used in the calculation of diluted earnings per share	**1,689**	**1,692**
Weighted average number of shares *(in thousands of shares)* **outstanding used in the calculation of basic earnings per share**	**179,889**	**180,685**
▶ Plus, adjustment for share option plans	257	422
▶ Plus, adjustment for convertible bonds	-	5,598
▶ Plus, adjustment for performance shares	689	729
Weighted average number of shares used in the calculation of diluted earnings per share	**180,835**	**187,434**
Earnings per share *(in €)*		
▶ Basic	9.39	9.21
▶ Diluted	9.34	9.03

Taking into account the evolution of the average share price in 2017, all the stock option plans as described in the note 28.1 "Stock option plans" are dilutive.

No transaction on shares having an impact on the weighted average number of shares entering in the calculation of basic earnings per share and diluted earnings per share has occurred after the 2017 reporting period.

NOTE 13 GOODWILL AND INTANGIBLE ASSETS

Changes in goodwill and intangible assets are as follows:

(in € million)	Goodwill	Intangibles	Total
Gross carrying amounts at January 1, 2016	**832**	**1,795**	**2,627**
Translation adjustments	58	28	**86**
Additions (including new emission rights: €4 million)	-	162	**162**
Disposals	-	(54)	**(54)**
Changes in scope of consolidation	104	20	**124**
Transfers and other	(1)	5	**4**
Gross carrying amounts at December 31, 2016	**993**	**1,956**	**2,949**
Translation adjustments	(106)	(84)	**(190)**
Additions (including new emission rights: €4 million)	-	190	**190**
Disposals	-	(73)	**(73)**
Changes in scope of consolidation	269	156	**425**
Transfers and other	(2)	29	**27**
Gross carrying amounts at December 31, 2017	**1,154**	**2,174**	**3,328**
Amortization and impairment at January 1, 2016	**(29)**	**(1,174)**	**(1,203)**
Translation adjustments	-	(19)	**(19)**
Amortization	-	(144)	**(144)**
Net impairment	(2)	(6)	**(8)**
Disposals	-	17	**17**
Changes in scope of consolidation	-	-	**-**
Transfers and other	1	-	**1**
Amortization and impairment at December 31, 2016	**(30)**	**(1,326)**	**(1,356)**
Translation adjustments	2	42	**44**
Amortization	-	(154)	**(154)**
Net impairment	(36)	(3)	**(39)**
Disposals	-	56	**56**
Changes in scope of consolidation	2	(2)	**-**
Transfers and other	-	(2)	**(2)**
Amortization and impairment at December 31, 2017	**(62)**	**(1,389)**	**(1,451)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2017	**1,092**	**785**	**1,877**
Net carrying amounts at December 31, 2016	**963**	**630**	**1,593**

13.1 2016 Acquisitions

On December 15, 2016 the Group acquired Levneo, the holding of a group of Brazilian companies producing and commercializing motorbike and bicycle tires under the Levorin trademark. The company is specialized in the "commuting" segment and operates in the Brazilian market.

At December 31, 2016, this acquisition was provisionally reported as "Non-current financial assets and other assets" in the consolidated statement of financial position.

At the acquisition date, the fair value of the consideration transferred amounted to €9 million.

During 2017, the Group has finalized the price allocation and the related acquisition accounting entries.

The assets acquired and liabilities assumed measured at fair value are detailed in the following table:

(in € million)	**At acquisition date**
Intangible assets[(1)]	26
Property, plant and equipment (PP&E)	51
Non-current financial assets and other assets	-
Deferred tax assets	14
Non-current assets	**91**
Inventories	13
Trade receivables and other current assets[(2)]	15
Cash and cash equivalents	4
Current assets	**32**
Non-current financial liabilities	-
Provisions and other non-current liabilities	(31)
Non-current liabilities	**(31)**
Current financial liabilities	(46)
Trade payables and other current liabilities	(70)
Current liabilities	**(116)**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**(24)**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark while using an income approach for the customer relationships. The Levorin trademark has been valued at €17 million and its useful life is indefinite. The fair value of the customer relationships has been measured at €9 million. It will be amortized over its remaining useful life of seven years.
(2) At the acquisition date, the trade receivables amounted to €8 million and they have been kept at the same value.

The purchase price allocation, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for an amount of €33 million, calculated as follows:

(in € million)	**At acquisition date**
Fair value of consideration transferred (1)	9
Fair value of net liabilities assumed (2)	24
GOODWILL (1) + (2)	**33**

With this acquisition, Michelin is consolidating its presence in Brazil and reinforcing the global development of its two-wheel tire ranges. In particular, the Group is strengthening its position in the "Commuting" segment, a significant and expanding market, and is extending the range of tires currently offered, historically oriented to the high-end two-wheel leisure market. These aspects led to the decision to test the goodwill, amounting to €33 million, together with the Two-wheel CGU.

In 2017, Levorin has contributed to the Group's net sales for an amount of €101 million, to the operating result for -€7 million and to the net result for -€15 million.

Levorin is allocated to the operating segment Specialty businesses.

Furthermore, the Group completed the price allocation for Reservas de Restaurantes, S.L.; a Spanish company operating in the online restaurant reservation business acquired in December 2016. The business combination has been accounted for in 2017 by applying the acquisition method. No identifiable intangible asset and no goodwill was recognized in the consolidated statement of financial position as at December 31, 2017.

13.2 Goodwill

The amounts allocated to the CGUs are as follows:

(in € million)	December 31, 2017	December 31, 2016
CGU Passenger car and light truck tires Southeast Asia / Australia	121	125
CGU Passenger car and light truck tires North America	115	128
CGU Passenger car and light truck tires Europe	112	113
Group of CGUs Truck tires South America[(1)]	202	233
Group of CGUs Truck tires North America[(1)(2)]	273	88
Group of CGUs Truck tires Europe[(1)]	109	115
CGU BookaTable	61	88
Other CGUs	99	73
GOODWILL	**1,092**	**963**

(1) In 2015, the synergies identified at Sascar's acquisition, reflecting the opportunity for Sascar to have access to the Group's customers in Brazil and to expand its service offering in other geographical zones led the Group to allocate the goodwill to three groups of CGUs (comprising Truck tire, fleet services and digital activities) in South America, in North America and in Europe.
(2) At December 31, 2017, the goodwill recognized in relation to the acquisition of Nextraq is allocated to this group of CGUs (note 33.1.1).

The impairment tests have been carried out taking into account the following two main assumptions:

- The terminal value takes into account an annual growth rate which depends on the nature of the activities and the countries where the assets are located.
- The rates used to discount the CGUs' future cash flows are based on after-tax WACC (Weighted Average Cost of Capital) and are applied on after-tax cash flows. They are determined In relation with the geographical zones and the activities features.

After-tax discount rates and perpetual growth rates used in 2017 for the valuation of the terminal value are presented in the table below:

(in percent)	After-tax WACC	Perpetual growth rate
Cash Generating Units Tires – Europe	6.3	1.5
Cash Generating Units Tires – North America	7.2	1.5
Cash Generating Units Tires – South America	12.3	3.0
Cash Generating Units Tires – Asia	8.3-12.0	3.0
Cash Generating Unit BookaTable	13.4	2.8
Cash Generating Units Digital activities – South America[(1)]	14.3	4.5

(1) Mainly Brazil.

The results of the test carried out on the CGU BookaTable led the Group to recognize an impairment of goodwill for an amount of €24 million.

As the recoverable amount of the other CGUs and group of CGUs is in excess of their assets value, no sensitivity analysis is disclosed, with the exception of the group of CGU Truck tires South America for which a WACC increase of 100 basis points would lead to an impairment of €56 million.

13.3 Intangible assets

In 2017, additions to intangible assets, amounting to €190 million (2016: €162 million) break down into the following categories:

- Software €175 million
- Emission rights – allowances granted €4 million
- Other €11 million

/ 13.3.1 Software

The net carrying amount of software at December 31, 2017 was €511 million (2016: €455 million). Software is initially recognized at cost. Cost includes cost of acquisition or production cost and other costs directly attributable to the acquisition or production.

/ 13.3.2 Trademarks

At December 31, 2017 the net carrying amount of trademarks was €77 million (2016: €61 million), of which €42 million related to trademarks with indefinite useful lives. These amounts correspond mainly to the fair value of trademarks recognized as part of business combinations.

/ 13.3.3 Emission rights

The emission rights granted or purchased are recognized as an intangible asset at their price on the transaction date. A government grant is recognized in liabilities for the same value as the emission rights granted. The cost and the related liability for actual emissions consumed and the income corresponding to the use of the government grant are accounted for using the price in force at the acquisition date. The balance of the rights granted at December 31, 2017 amounts to 1.9 million metric tons (2016: 1.9 million metric tons) representing a value of €11 million (2016: €12 million). The liability related to actual emissions in 2017 amounts to 0.9 million metric tons (2016: 0.8 million metric tons) representing a value of €5 million (2016: €5 million). It will be offset by the delivery of the allowances granted.

/ 13.3.4 Development costs

In 2017 and 2016, no development costs were capitalized since the criteria for recognition as intangible assets were not met. To be recognized as an asset, the development costs incurred for a new product or a significant product renewal project must fulfil six criteria. One of these criteria requires the entity to demonstrate the existence of a market for the output of the intangible asset. The existence of a market is demonstrated only when the Group has obtained OEM's approval and when the level of profitability generated from the business plan proposed by the manufacturers is in line with Group objectives. In practice, the corresponding development costs are incurred at a stage of the project which is prior to OEM's approval.

NOTE 14 PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

(in € million)	Lands and Buildings	Plant and Industrial Equipment	Other Equipment	Total
Gross carrying amounts at January 1, 2016	**6,287**	**17,745**	**1,462**	**25,494**
Translation adjustments	128	468	34	**630**
Additions (including finance leases: €42 million)	470	1,119	106	**1,695**
Disposals	(199)	(471)	(68)	**(738)**
Changes in scope of consolidation	-	-	1	**1**
Transfers and other	5	(10)	-	**(5)**
Gross carrying amounts at December 31, 2016	**6,691**	**18,851**	**1,535**	**27,077**
Translation adjustments	(351)	(1,065)	(80)	**(1,496)**
Additions (including finance leases: €135 million)	444	1,149	127	**1,720**
Disposals	(60)	(376)	(83)	**(519)**
Changes in scope of consolidation	33	47	2	**82**
Transfers and other	(26)	3	(5)	**(28)**
Gross carrying amounts at December 31, 2017	**6,731**	**18,609**	**1,496**	**26,836**
Depreciation and impairment at January 1, 2016	**(2,789)**	**(11,176)**	**(997)**	**(14,962)**
Translation adjustments	(49)	(281)	(20)	**(350)**
Depreciation	(175)	(997)	(76)	**(1,248)**
Net impairment	(53)	(78)	(16)	**(147)**
Disposals	155	465	65	**685**
Changes in scope of consolidation	-	-	(1)	**(1)**
Transfers and other	1	(1)	(1)	**(1)**
Depreciation and impairment at December 31, 2016	**(2,910)**	**(12,068)**	**(1,046)**	**(16,024)**
Translation adjustments	136	661	53	**850**
Depreciation	(175)	(928)	(88)	**(1,191)**
Net impairment	(3)	(8)	(1)	**(12)**
Disposals	39	346	67	**452**
Changes in scope of consolidation	(4)	(25)	(2)	**(31)**
Transfers and other	1	1	1	**3**
Depreciation and impairment at December 31, 2017	**(2,916)**	**(12,021)**	**(1,016)**	**(15,953)**
NET CARRYING AMOUNTS AT DECEMBER 31, 2017	**3,815**	**6,588**	**480**	**10,883**
Net carrying amounts at December 31, 2016	**3,781**	**6,783**	**489**	**11,053**

PP&E under construction amounted to €2,186 million (2016: €2,027 million).

Accumulated impairment losses amounted to €332 million (2016: €355 million).

The borrowing costs capitalized in 2017 in PP&E amounted to €17 million (2016: €12 million).

PP&E held under finance leases amounted to €263 million (2016: €165 million). The gross carrying amounts of these assets totaled €325 million (2016: €222 million).

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

	December 31, 2017		December 31, 2016	
(in € million)	Present value	Undiscounted value	Present value	Undiscounted value
Within one year	20	24	16	19
Between one and five years	116	125	61	73
More than five years	112	120	70	77
TOTAL FUTURE MINIMUM PAYMENTS (NOTE 26)	**248**	**269**	**147**	**169**

The minimum future payments increase between the two years is due mainly to the introduction in 2017 of new finance leases for the construction of a logistics center in the United States.

NOTE 15 NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS

The carrying amount of the non-current financial assets and other assets is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Available-for-sale financial assets (note 15.1)	285	208
Loans and deposits (note 15.2)	71	62
Derivative instruments (note 16.1)	119	45
Other	4	8
NON-CURRENT FINANCIAL ASSETS AND OTHER ASSETS	**479**	**323**

15.1 Available-for-sale financial assets

Available-for-sale financial assets consist essentially of a portfolio of shares of non-listed companies (note 4.4).

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

(in € million)	2017	2016
At January 1	**208**	**243**
Translation adjustments	(11)	3
Additions[(1)(2)]	118	25
Exit[(1)]	(41)	(116)
Impairment reversal	1	(4)
Fair value changes	10	57
AT DECEMBER 31	**285**	**208**

(1) Available-for-sale financial assets at December 31, 2016 included €12 million related to the acquisition on December 15, 2016 of Levorin and on December 29, 2016 of Reservas de Restaurantes, which have been consolidated in 2017 (note 13.1).

(2) Available-for-sale financial assets at December 31, 2017 include €55 million related to acquisitions performed in the last months of 2017 which will be consolidated in 2018 (note 33.1.2).

15.2 Loans and deposits

The carrying amount of loans and deposits is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Gross loans and deposits	111	102
Impairments	(40)	(40)
TOTAL	**71**	**62**

The balance includes loans to employees and customers.

NOTE 16 DERIVATIVE FINANCIAL INSTRUMENTS

As mentioned in note 3.5 "Hedging", some derivatives, while complying with the Group financial risk management policies, do not qualify or have not been designated as hedging instruments for hedge accounting purposes.

16.1 Derivatives recognized in assets

	December 31, 2017		December 31, 2016	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	14	383	18	383
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	5	80	4	61
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	45	587	23	170
▶ Interest-rate derivatives	-	20	-	-
▶ Other derivatives[1]	55	503	-	-
Non-current derivative instruments (note 15)	**119**	**1,573**	**45**	**614**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	2	36	-	16
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	5	1	3
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	27	1,682	38	1,765
▶ Interest-rate derivatives	-	42	-	143
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 21)	**29**	**1,765**	**39**	**1,927**
TOTAL ASSETS	**148**	**3,338**	**84**	**2,541**

(1) Corresponds to the financial instruments acquired to hedge the optional component of convertibles bonds (note 26.1).

The Group grants cash collaterals to mitigate its credit risk associated with its derivative assets. The amount of collaterals transferred is €42 million as of December 31, 2017 (December 31, 2016: €77 million).

16.2 Derivatives recognized in liabilities

	December 31, 2017		December 31, 2016	
(in € million)	Fair values	Contractual amounts	Fair values	Contractual amounts
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	59	531	4	65
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	-	-	-	-
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	37	393	94	663
▶ Interest-rate derivatives	-	200	2	198
▶ Other derivatives[(1)]	55	503	-	-
Non-current derivative instruments (note 26)	**151**	**1,627**	**100**	**926**
Interest-rate derivatives qualifying as fair value hedging instruments	-	-	-	-
Derivatives qualifying as cash flow hedging instrument				
▶ Currency derivatives	2	36	7	65
▶ Interest-rate derivatives	-	-	-	-
▶ Other derivatives	1	3	1	5
Derivatives not qualifying for hedge accounting				
▶ Currency derivatives	26	1,900	73	1,968
▶ Interest-rate derivatives	-	167	-	199
▶ Other derivatives	-	-	-	-
Current derivative instruments (note 26)	**29**	**2,106**	**81**	**2,237**
TOTAL LIABILITIES	**180**	**3,733**	**181**	**3,163**

(1) Corresponds to the optional components of convertible bonds (note 26.1).

The Group holds cash collaterals to guarantee its own credit risk associated with its derivatives liabilities. The amount of collaterals received is €15 million as of December 31, 2017 (2016: €7 million).

16.3 Derivative contractual amounts

The Group concluded long term currency derivative contracts with maturities between one and ten years for a total amount of €1,591 million (2016: €958 million). The nominal amounts by major currencies sold against the euro are denominated in USD for €326 million (2016: €147 million), in BRL for €135 million (2016: €145 million), in CNH and CNY for €270 million (2016: €365 million) and in THB for €270 million (2016: €220 million). The currencies bought forward against the euro with a more than one year maturity are denominated in USD for €506 million (2016: nil).

The maturity of the other currency derivative contracts does not generally exceed one year.

The contractual amounts of the currency derivatives are presented by currency in the table below:

	December 31, 2017							December 31, 2016						
	Currencies purchased forward							Currencies purchased forward						
(in € million)	EUR	USD	THB	CAD	BRL	Other	Total	EUR	USD	THB	CAD	BRL	Other	Total
Currencies sold forward														
EUR	-	919	34	161	4	198	**1,316**	-	72	29	213	6	746	**1,066**
USD	694	-	180	2	51	49	**976**	382	-	195	4	78	35	**694**
CNY	872	8	-	-	-	13	**893**	1,051	23	-	-	-	24	**1,098**
THB	485	59	-	-	-	5	**549**	279	49	-	-	-	2	**330**
BRL	354	7	-	-	-	-	**361**	363	15	-	-	-	-	**378**
MXN	137	11	-	17	-	-	**165**	69	-	-	20	-	-	**89**
GBP	143	-	-	-	-	-	**143**	30	-	-	-	-	-	**30**
Other	706	132	4	-	-	-	**842**	982	91	2	-	-	13	**1,088**
TOTAL	**3,391**	**1,136**	**218**	**180**	**55**	**265**	**5,245**	**3,156**	**250**	**226**	**237**	**84**	**820**	**4,773**

Currency hedges in CNY include off-shore derivatives denominated in CNH.

The contractual amounts of other derivative financial instruments are presented by currency and by maturity in the table below:

	December 31, 2017				December 31, 2016			
(in € million)	Less than 1 year	Between 1 and 3 years	More than 3 years	Total	Less than 1 year	Between 1 and 3 years	More than 3 years	Total
EUR	100	583	-	**683**	100	483	-	**583**
INR	42	20	-	**62**	24	24	-	**48**
THB	26	-	-	**26**	27	26	-	**53**
USD	41	-	-	**41**	191	48	-	**239**
Interest-rate derivatives	**209**	**603**	**-**	**812**	**342**	**581**	**-**	**923**
EUR	5	-	-	**5**	7	-	-	**7**
USD	2	1	-	**3**	1	-	-	**1**
Other	-	-	1,006	**1,006**	-	-	-	**-**
Other derivatives	**7**	**1**	**1,006**	**1,014**	**8**	**-**	**-**	**8**
TOTAL	**216**	**604**	**1,006**	**1,826**	**350**	**581**	**-**	**931**

At December 31, 2017, the Group has outstanding short term futures contracts on natural rubber with a liability market value of €1 million (2016: asset of €4 million) which has been fully cashed in through the daily margin calls. The contractual values of these futures are €15 million (2016: €15 million).

NOTE 17 EQUITY METHOD INVESTMENTS

Investments in joint ventures and associates amounts to €356 million (2016: €309 million). These include essentially Allopneus SAS in France, E.A. Juffali & Brothers for Tyres in Saudi Arabia, MC Projects B.V. in the Netherlands, Royal Lestari Utama in Indonesia, Wine Advocate Pte. Ltd in Singapore and SIPH Group in France, where the Group's shareholding percentage has changed in 2017 following the public tender offer detailed in note 33.2.

On November 20, 2017, the 40% stake that the Group held in the Chinese joint venture Double Coin Group (Anhui) Warrior Tire Co., Ltd. was sold to the two companies Huayi Group (Hong Kong) Limited and Double Coin Tire Group Ltd. This disposal had no significant effect on the Group's consolidated financial statements.

The financial statements of equity method investments include the following amounts:

(in € million)	2017	2016
Assets	1,440	1,259
Liabilities	734	646
Net sales	1,530	1,374
Net income	32	(23)

NOTE 18 TAXES

18.1 Deferred taxes

Deferred taxes in the consolidated statement of financial position are as follows:

(in € million)	December 31, 2017	December 31, 2016
Deferred tax assets	890	1,191
Deferred tax liabilities	(113)	(117)
NET DEFERRED TAX ASSET	**777**	**1,074**

Deferred tax assets and liabilities at the end of the period, before netting, are as follows:

(in € million)	December 31, 2017	December 31, 2016
Employee benefits	783	1,084
Inventories	115	186
Financial instruments	62	109
Provisions	70	97
Unused tax losses	90	68
Unused tax credits	7	9
Goodwill & Intangible assets	4	26
Property, plant and equipment	(450)	(631)
Other	96	126
NET DEFERRED TAX ASSET	**777**	**1,074**

The change in the net deferred tax asset over the year is as follows:

(in € million)	2017	2016
At January 1	**1,074**	**1,141**
Translation adjustments	(38)	1
Deferred tax income/(expense) (note 11)	(102)	(48)
Tax recognized in other comprehensive income	(132)	(17)
Changes in scope of consolidation	(26)	(3)
Other	1	-
AT DECEMBER 31	**777**	**1,074**

In 2017, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset is due essentially to variations of temporary differences on fixed assets and the impact of the US tax reform.

In 2016, excluding the effect of tax recognized in comprehensive income and translation adjustments, the reduction in the net deferred tax asset was due essentially to variations of temporary differences on employee benefits.

The deferred income tax recognized in other items of comprehensive income is as follows:

(in € million)	December 31, 2017	December 31, 2016
Post-employment benefits	431	566
Available-for-sale financial assets	(21)	(24)
Financial instruments	1	(13)
TOTAL DEFERRED TAX INCOME RECOGNIZED IN OTHER COMPREHENSIVE INCOME	**411**	**529**

The tax reform that came into force in the United States at the end of December 2017 resulted in a deferred tax adjustment recognized in other comprehensive income. The decrease in the tax rate, from 38.0% (including local taxes) to 24.8%, is taken into account to value the outstanding deferred taxes of the Group's US subsidiaries at December 31, 2017. In 2017, the tax rate change generated a decrease of €78 million in other comprehensive income.

The detail of unrecognized deferred tax assets is as follows:

(in € million)	December 31, 2017	December 31, 2016
Deductible temporary difference	**106**	**123**
Tax losses		
▶ of which expiring in less than one year	16	10
▶ of which expiring between one to five years	112	111
▶ of which expiring in more than five years	30	57
▶ of which no expiration	274	296
Total tax losses	**432**	**474**
Tax credits	**2**	**1**
TOTAL UNRECOGNIZED DEFERRED TAX ASSETS	**540**	**598**

18.2 Current taxes

Current taxes in the consolidated statement of financial position are as follows:

(in € million)	2017	2016
Taxes receivables (note 22)	438	360
Taxes payables (note 30)	(188)	(126)
Net total at January 1	**250**	**234**
Current tax expense (note 11)	(559)	(749)
Income tax paid	563	765
Translation adjustments and other	(14)	-
Total changes	**(10)**	**16**
Taxes receivables (note 22)	426	438
Taxes payables (note 30)	(186)	(188)
NET TOTAL AT DECEMBER 31	**240**	**250**

NOTE 19 INVENTORIES

Inventories include the following:

(in € million)	December 31, 2017	December 31, 2016
Raw materials and supplies	1,158	1,227
Work in progress	512	474
Finished goods	2,923	2,879
Total gross inventory	**4,593**	**4,580**
Write-downs on raw materials and supplies	(42)	(44)
Write-downs on work in progress	(1)	(1)
Write-downs on finished goods	(42)	(55)
Total write-downs	**(85)**	**(100)**
NET INVENTORY	**4,508**	**4,480**

Movements in inventory write-downs were as follows:

(in € million)	2017	2016
At January 1	**(100)**	**(93)**
Translation adjustments and other	6	(2)
Write-downs of inventories recognized as an expense in the period	(28)	(42)
Reversals of write-downs	37	37
AT DECEMBER 31	**(85)**	**(100)**

NOTE 20 TRADE RECEIVABLES

The carrying amount of trade receivables is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Gross trade receivables	3,188	3,156
Impairment	(104)	(114)
TRADE RECEIVABLES	**3,084**	**3,042**

All trade receivables are due within twelve months.

The following table presents an ageing analysis of trade receivables as at December 31, 2017:

(in € million)	Gross	Impairment	Net
Current trade receivables	**2,785**	**(23)**	**2,762**
Overdue			
▶ from less than three months	265	(3)	262
▶ between three and six months	32	(3)	29
▶ from more than six months	106	(75)	31
Overdue trade receivables	**403**	**(81)**	**322**
TRADE RECEIVABLES	**3,188**	**(104)**	**3,084**

Movements in impairment are broken down in the table below:

(in € million)	2017	2016
At January 1	**(114)**	**(112)**
Translation adjustments	6	(4)
Impairment charges	(39)	(44)
Impairment reversals	45	46
Changes in scope of consolidation	(2)	-
AT DECEMBER 31	**(104)**	**(114)**

Impairment reversals in 2017 include write-offs of €19 million (2016: €14 million).

NOTE 21 CURRENT FINANCIAL ASSETS

The carrying amount of the current financial assets is broken down in the table below:

(in € million)	December 31, 2017	December 31, 2016
Loans and deposits	76	102
Cash management financial assets (note 26)	180	162
Derivative instruments (note 16.1)	29	39
CURRENT FINANCIAL ASSETS	**285**	**303**

In 2017, bank deposits that have maturities greater than three months, but provide for early withdrawal clauses of less than three months with guaranteed capital and negligible withdrawal costs, have been reclassified from "Current financial assets" to "Cash and cash equivalents". Balances at December 31, 2016 have been restated for comparative purposes for an amount of €330 million.

The characteristics of the cash management financial assets, although being highly liquid, little affected by the interest rate risk and by the foreign currency risk (mainly invested in Euros or hedged), do not strictly meet those of cash and cash equivalent (note 3.21 "Cash and cash equivalents"). They are accounted for at amortized cost (note 3.18 "Non-derivative financial assets").

Loans and deposits include collaterals with financial institutions of €42 million (2016: €77 million) that are not freely available.

NOTE 22 OTHER CURRENT ASSETS

The carrying amount of other current assets is broken down in the table below:

(in € million)	December 31, 2017	December 31, 2016
Suppliers – Advances	137	173
Current tax – Advance payments	426	438
Other taxes receivable	296	304
Other	278	293
Less impairment	(5)	(6)
OTHER CURRENT ASSETS	**1,132**	**1,202**

Other tax receivables mainly relate to VAT.

NOTE 23 CASH AND CASH EQUIVALENTS

The carrying amount of cash and cash equivalents is broken down in the table below:

(in € million)	December 31, 2017	December 31, 2016
Cash at bank and in hand	250	287
Short-term bank deposits of less than three months and other cash equivalents (money market funds essentially)[1]	1,523	1,539
CASH AND CASH EQUIVALENTS	**1,773**	**1,826**

(1) See note 21.

The average effective interest rate on short-term bank deposits was 0.28% in 2017 (2016: 0.38%).

Cash and cash equivalents are essentially held in Euros (2017: 93% after hedge, 2016: 90%).

The less easily available amounts to meet the needs of the Group are mainly related to prudential rules in Ireland specific to captive insurance companies (2017: €81 million, 2016: €83 million).

NOTE 24 SHARE CAPITAL AND SHARE PREMIUMS

(in € million)	Share capital	Share premiums	Total
At January 1, 2016	**364**	**3,222**	**3,586**
Issuance of shares from the exercise of share options and performance shares	3	96	**99**
Cancellation of shares	(7)	(294)	**(301)**
Other	-	-	**-**
At December 31, 2016	**360**	**3,024**	**3,384**
Issuance of shares from the exercise of share options and performance shares	1	16	**17**
Cancellation of shares	(2)	(99)	**(101)**
Other	-	1	**1**
AT DECEMBER 31, 2017	**359**	**2,942**	**3,301**

(number of shares)	Share issued	Treasury shares	Shares outstanding
At January 1, 2016	**181,902,182**	**-**	**181,902,182**
Issuance of shares from the exercise of share options and performance shares	1,503,749	-	1,503,749
Purchase of shares	-	(3,347,040)	(3,347,040)
Disposal of shares	-	-	-
Reduction in capital	(3,347,040)	3,347,040	-
Other	7,230	-	7,230
At December 31, 2016	**180,066,121**	**-**	**180,066,121**
Issuance of shares from the exercise of share options and performance shares	348,063	-	348,063
Purchase of shares	-	(893,197)	(893,197)
Disposal of shares	-	-	-
Reduction in capital	(893,197)	893,197	-
Other	-	-	-
AT DECEMBER 31, 2017	**179,520,987**	**-**	**179,520,987**

The par value per share amounts to €2 (unchanged from 2016). All outstanding shares are fully paid and registered. Shares held for more than four years have a double voting right.

In 2017, the dividend payable for the year 2016 to the shareholders was €3.25 per share (2016: €2.85 per share). It has been fully settled in cash for a net amount of €584 million.

The Managing Chairman will recommend to the Shareholders the payment of a dividend of €3.55 per share in 2018 for the year 2017.

NOTE 25 RESERVES

(in € million)	Translation reserve	Treasury shares	Other reserves	Retained earnings	Total
At January 1, 2016	**(308)**	**-**	**120**	**6,091**	**5,903**
Dividends and other allocations	-	-	-	(538)	**(538)**
Share-based payments – cost of services rendered (notes 7 and 8)	-	-	-	5	**5**
Purchase of shares	-	(301)	-	-	**(301)**
Cancellation of shares	-	301	-	-	**301**
Other	3	-	(1)	5	**7**
Transactions with the shareholders of the Company	**3**	**-**	**(1)**	**(528)**	**(526)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,676	**1,676**
Post-employment benefits	-	-	-	*(194)*	***(194)***
Tax effect – Post-employment benefits	-	-	-	*(8)*	***(8)***
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	(202)	**(202)**
Available-for-sale financial assets – Change in fair values	-	-	*57*	-	***57***
Tax effect – Available-for-sale financial assets – Change in fair values	-	-	*(9)*	-	***(9)***
Available-for-sale financial assets – (Gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*314*	-	*2*	-	***316***
Other	-	-	*3*	*(3)*	**-**
Other items of comprehensive income that may be reclassified to income statement	314	-	53	(3)	**364**
Comprehensive income	**314**	**-**	**53**	**1,471**	**1,838**
At December 31, 2016	**9**	**-**	**172**	**7,034**	**7,215**
Dividends and other allocations	-	-	-	(612)	**(612)**
Share-based payments – Cost of services rendered (notes 7 and 8)	-	-	-	7	**7**
Purchase of shares	-	(101)	-	-	**(101)**
Cancellation of shares	-	101	-	-	**101**
Other	-	-	-	-	**-**
Transactions with the shareholders of the Company	**-**	**-**	**-**	**(605)**	**(605)**
Net income/(loss) attributable to the shareholders of the Company	-	-	-	1,700	**1,700**
Post-employment benefits	-	-	-	*266*	***266***
Tax effect – Post-employment benefits	-	-	-	*(135)*	***(135)***
Other items of comprehensive income that will not be reclassified to income statement	-	-	-	131	**131**
Available-for-sale financial assets – Change in fair values	-	-	*10*	-	***10***
Tax effect – Available-for-sale financial assets – Change in fair values	-	-	*3*	-	***3***
Available-for-sale financial assets – (Gain)/loss recognized in income statement	-	-	-	-	**-**
Currency translation differences	*(528)*	-	-	-	***(528)***
Other	*23*	-	*(86)*	62	***(1)***
Other items of comprehensive income that may be reclassified to income statement	(505)	-	(73)	62	**(516)**
Comprehensive income	**(505)**	**-**	**(73)**	**1,893**	**1,315**
AT DECEMBER 31, 2017	**(496)**	**-**	**99**	**8,322**	**7,925**

Following the repayment of the convertible bond on January 2, 2017 (note 26.1 "financial liabilities"), the equity part of the zero coupon convertible bond (note 26 "Financial debts") for €65 million (2016: €65 million) after-tax was reclassified from other reserves to retained earnings.

Under the share buyback program authorized at the May 13, 2016 Annual Shareholders Meeting, an agreement was signed in February 2017 by which the Group undertook to buy back from an investment services provider a variable number of shares before November 24, 2017, for a maximum amount of €100 million. The average unit price of the 891,476 shares acquired during the year 2017 was €112.17. All the shares were cancelled during the year.

In April 2015, the Group announced a share buyback program of €750 million over a period of 18 to 24 months.

During 2016, the Group concluded with an investment services provider two payback conventions that committed the Group to repurchase a variable number of shares within the limit of a total amount of €300 million before December 15, 2016.

The average purchase price of the 3,347,040 shares acquired during 2016 was €89.63. All the shares were cancelled during 2016.

NOTE 26 FINANCIAL LIABILITIES

The carrying amount of financial liabilities is presented in the table below:

(in € million)	December 31, 2017	December 31, 2016
Bonds	1,770	1,310
Loans from financial institutions and other	217	232
Finance lease liabilities	228	131
Derivative instruments	151	100
Non-current financial liabilities	**2,366**	**1,773**
Bonds and commercial paper	172	903
Loans from financial institutions and other	272	320
Finance lease liabilities	20	16
Derivative instruments	29	81
Current financial liabilities	**493**	**1,320**
FINANCIAL LIABILITIES	**2,859**	**3,093**

The Group net debt is analyzed in the table below:

(in € million)	December 31, 2017	December 31, 2016
Financial liabilities	2,859	3,093
Derivatives recognized as assets (note 16.1)	(148)	(84)
Borrowing collaterals (note 32.3.2)	(42)	(77)
Cash management financial assets (note 21)	(180)	(162)[1]
Cash and cash equivalents (note 23)	(1,773)	(1,826)[1]
NET DEBT	**716**	**944**

(1) See note 21.

The fair value of non-current financial liabilities, calculated in accordance with note 3.6 "Fair value of financial instruments", is presented in the table below:

(in € million)	December 31, 2017	December 31, 2016
Bonds	1,848	1,388
Loans from financial institutions and other	217	232
Finance lease liabilities	228	131
Derivative instruments	151	100
FAIR VALUE OF NON-CURRENT FINANCIAL LIABILITIES	**2,444**	**1,851**

Changes in financial liabilities and derivatives are detailed by flow in the table below:

(in € million)	At January 1, 2017	Cash flows from financial liabilities	Non-cash variations		At December 31, 2017
			Translation adjustments	Other	
Bonds, loans from financial institutions and other	1,542	464	(16)	(3)	1,987
Finance lease liabilities	131	(18)	(10)	125	228
Derivative instruments	100	43	(2)	10	151
Non-current financial liabilities	**1,773**	**489**	**(28)**	**132**	**2,366**
Bonds, loans from financial institutions and other	1,223	(421)	(216)	(142)	444
Finance lease liabilities	16	(6)	(1)	11	20
Derivative instruments	81	(60)	(1)	9	29
Current financial liabilities	**1,320**	**(487)**	**(218)**	**(122)**	**493**
FINANCIAL LIABILITIES	**3,093**	**2**	**(246)**	**10**	**2,859**
Derivatives recognized as assets	(84)	(70)	5	1	(148)
Net impact net in the consolidated cash flow statement		**(68)**			

26.1 Bonds and commercial paper

Bonds and commercial paper issued by the Group have the characteristics mentioned in the table below:

(in € million)	December 31, 2017		December 31, 2016	
	Current	Non-current	Current	Non-current
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €302 million (2016: €302 million) ▶ issued in September 2015 and September 2016 and due in September 2045 ▶ nominal interest rate of 3.25% ▶ effective interest rate of 3.02%	-	316	-	316
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2027 ▶ nominal interest rate of 1.75% (1.68% after hedging) ▶ effective interest rate of 1.86% (1.80% after hedging)	-	297	-	297
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €300 million ▶ issued in May 2015 and due in May 2022 ▶ nominal interest rate of 1.125% ▶ effective interest rate of 1.17%	-	299	-	299
Liability component of zero-coupon convertible bonds issued by Compagnie Générale des Établissements Michelin ▶ nominal value of $600 million ▶ issued in January 2017 ($500 million at par) and April 2017 ($100 million at 103.5%) and due in January 2022 ▶ nominal interest rate of 0% ▶ effective interest rate of 1.98% (-0.38% after hedging) ▶ conversion price at December 31, 2017 of €133.51	-	464	-	-
Bonds issued by Michelin Luxembourg SCS ▶ nominal value of €383 million (2016: €383 million) ▶ issued in June 2012 and due in June 2019 ▶ nominal interest rate of 2.75% (1.09% after hedging) ▶ hedged through a €383 million interest rate swaps (2016: €383 million) expiring in June 2019 (fair value hedge) (note 16)	-	394	-	398
Liability component of zero-coupon convertible bonds (OCEANEs) issued by Compagnie Générale des Établissements Michelin ▶ net proceeds received of €694 million ▶ annual gross yield of 3.07% ▶ effective interest rate of 4.76% ▶ conversion and/or exchange ratio of 1 bond for 1.036 ordinary share ▶ issued in March 2007 and reimbursed in January 2017 ▶ amount reimbursed at maturity date: €753 million	-	-	753	-
Commercial paper issued by Compagnie Générale des Établissements Michelin ▶ nominal value in € equivalent: €110 million, £28 million, $34 million (2016: €74 million, £23 million, $53 million) ▶ effective interest rate of 0.16% at December 31, 2017	172	-	150	-
TOTAL	**172**	**1,770**	**903**	**1,310**

At December 31, 2017, the weighted average nominal interest rate for bonds and commercial paper is 2.00% (1.10% after hedging).

The zero coupon convertible bonds (OCEANEs) issued on March 21, 2007 became due on January 1, 2017.

5,396,099 outstanding OCEANEs for which the option of conversion into shares was not exercised were reimbursed on January 2, 2017, first working day after the due date, at €139.57 per OCEANE. The total amount reimbursed was €753 million including €193 million of interests paid.

In January 2017, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 500 million USD. These bonds were issued at par.

In April 2017, the Group issued additional convertible bonds with a total face value of 100 million USD. These bonds were issued at 103.50% of their face value.

Those bonds are redeemable at par (if they are not converted) and do not bear interest.

In addition to these issues, the Group subscribed to financial instruments with the same maturity, enabling it to fully hedge its exposure to any positive or negative changes in the share price.

This set of transactions, which were hedged by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

These operations have been accounted for in accordance with the accounting policies described in sections 3.4 to 3.6 of note 3 of the consolidated financial statements.

The optional components of convertible bonds and the financial instruments subscribed for hedging purposes are recorded under "Non-current financial assets and other assets" and "Non-current financial liabilities".

26.2 Loans from financial institutions and other

Loans from financial institutions and other include mainly amounts drawn on credit lines, borrowings secured by trade receivables as mentioned in note 32.3.3 "Trade receivables".

Loans from financial institutions and other at December 31, 2017 have the characteristics mentioned in the tables below (before hedging):

(in € million)	EUR	THB	BRL	Other	Total
Fixed rates	-	-	32	-	32
Floating rates	245	73	20	119	457
LOANS FROM FINANCIAL INSTITUTIONS AND OTHER	**245**	**73**	**52**	**119**	**489**
Average effective interest rate paid in 2017	**0.56%**	**1.79%**	**8.68%**	**10.17%**	**4.25%**

The contractual re-pricing of the interest rates of these loans is generally less than six months.

NOTE 27 EMPLOYEE BENEFIT OBLIGATIONS

According to the laws and regulations applicable in each country, as well as in application of its social responsibility policy, the Group takes part mainly in pension, healthcare, death and disability and end of service benefits, for which the amount of benefits paid varies based on a number of factors including the employee's years of service, salary, accumulated funds with an independent manager or contributions paid to insurers.

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. These commitments are calculated with the help of independent actuaries. In the case of defined contribution plans, liabilities correspond to the contributions due.

Since 2003 the Group has been closing its defined benefit plans to new entrants and also, in some cases, to future accruals in order to reduce the risk on the Group's consolidated statement of financial position and has put in place new defined contribution plans or has improved the existing ones.

Since 2005 the Group has a governance body, the Global Employee Benefit Board, that monitors benefits. This board defines Group policies in term of benefits and ensures that local benefit programs comply with them (validation of the changes, introduction of new benefits, etc.), monitors asset returns and benchmarks, as well as the de-risking policies put in place by local boards or Trustees, and proposes an audit plan. The board is assisted by two teams, the Global Benefit Policy Team composed of members from the accounting, finance and human resources departments and the Global Benefit Investment Team composed of the chairmen of the investment committees or Chief Investment officers of the main funded pension plans and Group experts. In countries with substantial benefit obligations similar organization exists.

27.1 Defined Benefit Plans

These plans are retirement plans and retiree healthcare plans, the vast majority of which are now closed to new entrants, even to future accruals, as well as some minor plans such as long service awards or end-of-service benefits.

In Europe, the discount rates are determined using the actuary's yield curve models. These rates are based on the yield of high quality corporate bonds and have the same durations as the liabilities. The discount rate in the USA is based on the actuary's AA Only Bond yield curve rates. The discount rate in Canada is based on the Canadian Institute of Actuaries Canadian Corporate Aa Bond yield curve rates. For countries having several plans (but only one material plan) the assumption of the main plan is used for all plans. For countries having several plans of comparable size but quite different durations, several rates are used.

The inflation assumptions are set using different methods. For the Euro zone, the actuary tool is used with reference to different sources of information as the target inflation set by the Central Banks, the forecasts from the Consensus Economics organization and inflation swap curves. In the UK, the market implied inflation rate is also considered (differential between gilts and indexed linked gilts less a spread). In the USA and Canada, the cost of living increases for some pensions is set using historical averages, central banks targets as well as implied inflation (differential between indexed and non-indexed bonds).

The salary increase assumptions can be either spreads above inflation (either RPI or CPI) or absolute values. These assumptions take into account expected long-term yearly average salary increases as well as the effects of promotions. In some cases, assumptions by category of personnel can be used.

The post-employment mortality assumptions used for the pension plans which are funded through insured contracts are the insurers' tables. For the other main post-employment plans the following tables have been used: (i) USA: RP-2014 Aggregate table using Scale MP-2016; (ii) Canada: 95% of CPM 2014 Private – Scale B; (iii) UK: Generational S2PA CMI_2016 with a 1.5% p.a. long term rate of improvement with a weighting of 116% for males and 102% for females and (iv) Germany: Heubeck RT 2005 G.

	December 31, 2017				December 31, 2016			
	USA	Canada	UK	Germany	USA	Canada	UK	Germany
Life expectancy for males at 65 at the end of the reporting period	19.2	22.1	21.1	18.8	19.4	22.0	22.1	18.8
Life expectancy for males at 65 (15 years after the end of the reporting period)	20.3	22.9	22.3	20.7	20.7	22.9	23.1	20.7
Life expectancy for females at 65 at the end of the reporting period	21.1	24.5	24.0	22.8	21.4	24.5	24.8	22.8
Life expectancy for females at 65 (15 years after the end of the reporting period)	22.2	25.2	25.4	24.8	22.7	25.2	26.1	24.8

The financial position of the main defined benefit plans is summarized below:

(in € million)	Pension plans	Other plans	December 31, 2017	December 31, 2016
Present value of fully or partly funded obligations	7,444	-	7,444	8,203
Fair value of plan assets	(6,367)	-	(6,367)	(6,520)
Funded status deficit/(surplus)	**1,077**	**-**	**1,077**	**1,683**
Present value of unfunded obligations	999	1,820	2,819	3,034
Unrecognized asset due to application of asset ceiling	73	-	73	46
NET DEFINED BENEFIT OBLIGATION	**2,149**	**1,820**	**3,969**	**4,763**
Amounts recognized in the balance sheet:				
▶ As assets in Non-current financial assets and other assets (note 15)			-	-
▶ As liabilities in Employee benefit obligations			3,969	4,763
NET LIABILITY	**2,149**	**1,820**	**3,969**	**4,763**

At December 31, 2017, the present value of the defined benefit obligation is made up of €4,098 million relating to active employees, €1,210 million relating to deferred members and €4,955 million relating to members in retirement (2016: respectively €4,450 million, €1,263 million and €5,524 million).

At December 31, 2017, the present value of the defined benefit obligation is made up of €8,050 million relating to vested benefits and €2,213 million relating to non-vested benefits (2016: respectively €8,772 million and €2,465 million).

Actuarial gains and losses on post-employment defined benefit plans are recognized in other comprehensive income when they occur.

The Group does not recognize as an asset any surplus in excess of the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. If a defined benefit plan is subject to a Minimum Funding Requirement (MFR), the Group immediately recognizes a liability for any surplus resulting from the contributions paid under the MFR which would not be fully recoverable through economic benefits available to the Group.

Any reduction in assets or increase in liabilities resulting from the asset ceiling application is recognized in other comprehensive income.

The movements in net defined benefit obligations recognized in the consolidated statement of financial position are shown below:

(in € million)	Pension plans	Other plans	2017	2016
At January 1	**2,742**	**2,021**	**4,763**	**4,888**
Contributions paid to the funds	(190)	-	(190)	(74)
Benefits paid directly to the beneficiaries	(32)	(122)	(154)	(156)
Other movements	-	-	-	(55)
Items recognized in operating income				
Current service cost	58	62	120	127
Actuarial (gains) or losses recognized on other long term benefit plans	-	-	-	-
Past service cost resulting from plan amendments	(20)	(36)	(56)	(262)
Effect of plan curtailments or settlements	-	-	-	(19)
Effect of plan curtailments recognized within reorganizations and adaptation of activities	(88)	(95)	(183)	(19)
Other items	-	-	-	(1)
Items recognized outside operating income				
Net interest of the net defined benefit liability (asset)	60	55	115	139
Items recognized in other comprehensive income				
Translation adjustments	(79)	(101)	(180)	1
Actuarial (gains) or losses	(332)	36	(296)	377
Portion of unrecognized asset due to the application of the asset ceiling	30	-	30	(183)
AT DECEMBER 31	**2,149**	**1,820**	**3,969**	**4,763**

The amount of actuarial gains or losses presented in the statement of comprehensive income and recognized in equity is detailed in the table below:

(in € million)	Pension plans	Other plans	2017	2016
At January 1	**2,048**	**501**	**2,549**	**2,368**
Actuarial (gains) or losses recognized during the year related to demographic assumptions:				
▶ Due to change in assumptions	(236)	(7)	(243)	(73)
▶ Due to experience	(3)	(28)	(31)	(51)
Actuarial (gains) or losses recognized during the year related to financial assumptions:				
▶ Due to change in assumptions	350	90	440	819
▶ Due to experience	(443)	(19)	(462)	(317)
Unrecognized asset due to application of asset ceiling	30	-	30	(183)
Change in the scope of consolidation	-	-	-	(14)
AT DECEMBER 31	**1,746**	**537**	**2,283**	**2,549**
Of which actuarial gains or (losses)	*1,673*	*537*	*2,210*	*2,503*
Of which asset ceiling effect	*73*	-	*73*	*46*

In 2017, the net amount recognized in the consolidated income statement was an income of €4 million (2016: income of €35 million), broken down as follows:

(in € million)	Pension plans	Other plans	Year ended December 31, 2017	Year ended December 31, 2016
Cost of services rendered during the year	58	62	120	127
Net interest on the defined benefit liability (asset)	60	55	115	139
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	-
Past service cost recognized during the year:				
▶ Due to the introduction of or modifications to defined benefit plans	(20)	(36)	(56)	(262)
▶ Due to curtailments of defined benefit plans	-	-	-	-
Effect of defined benefit plans settlements	-	-	-	(19)
Other items	-	-	-	(1)
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	(88)	(95)	(183)	(19)
TOTAL RECORDED IN THE INCOME STATEMENT	**10**	**(14)**	**(4)**	**(35)**

Annual charges are determined with the assistance of 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/income corresponding to the discounting adjustment to reflect the impact of the passage of time ("net interest");
- income or charge from annual recognition of actuarial gains or losses on other long term defined benefit plans ("Actuarial (gains) or losses recognized during the year");
- gain/loss resulting from changes or introduction of benefit plans ("past service cost recognized during the year");
- gain/loss resulting from curtailments of any benefit plans ("past service cost recognized during the year");
- gain/loss resulting from settlements of any benefit plans ("past service cost recognized during the year").

/ 27.1.1 Pension plans

The Group offers to its employees different pension plans that vary according to applicable laws and regulations in each country and in accordance with the respective collective bargaining agreements relevant to each subsidiary.

Under defined benefit plans, future level of benefits are defined by the plan regulations. The valuation of such defined benefit plans is carried out with the assistance of independent actuaries using actuarial techniques. Defined benefit pension plans can be funded through payments to external funds or insurers specialized in managing these assets. In the case of unfunded plans such as the German pension plans, a provision is made in the consolidated statement of financial position.

The main pension plans provided within the Group are as follows:

USA

The defined benefit plan in USA is the Michelin Retirement Plan (MRP). The provisions applicable to the main population are described below.

The plan was closed to new entrants as of January 1, 2004. Accruals were frozen under the plan as of December 31, 2016. These participants have been enrolled in a defined benefit contribution plan.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 and have completed at least 10 years of vesting service are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental benefit may be granted for employees reaching age 55 and who have completed 30 years of service until the employee is eligible for social security benefit.

The plan provides a guaranteed monthly benefit at retirement based on a defined formula (with a lower accrual rate on the social security wage bases) that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit and orphan's pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides a cost-of-living adjustment of the pension only for employees hired before January 1, 1991.

The plan is funded solely by employer contributions.

Canada

There is one major defined benefit plan in Canada, Michelin Retirement Plan (MRP). Other minor defined benefit plans which are closed to new entrants are valued but not detailed further.

The Michelin Retirement Plan (MRP) was closed to new entrants as from January 1, 2005. After this date new entrants are enrolled in a defined contribution plan. Accruals for most of the participants were frozen under the plan as of December 31, 2015. These participants are enrolled in a defined benefit contribution plan.

The plan sets the normal retirement age at 65. However, employees having 30 years of service or who have reached the age 55 are eligible for early retirement provisions.

In the event of early retirement a reduction is applied to the calculation of the pension but a supplemental bridge is granted for employees having 30 years of service to partially compensate early retirement.

The plan provides a guaranteed monthly annuity at retirement based on a defined formula that takes into consideration the years of plan membership and total pensionable recurring earnings.

The plan includes provision for death in service benefits as well as provision for spouse reversion benefit or a beneficiary pension upon death of retirees. The plan also includes provision for disability benefits.

The plan provides an annual increase of the pension based on a percentage inferior to Consumer Price Index.

The plan is funded solely by employer contributions.

United Kingdom

The defined benefit retirement plan in the UK is the Michelin Pension and Life Assurance Plan.

The plan was closed to new entrants as from March 31, 2005 and replaced by a defined contribution plan and as of January 1, 2009 it was closed for all future accruals.

Accruals up to December 31, 2008 are frozen but pensions are still linked to the average final salary at retirement.

The Plan sets the normal retirement age at 65. However, employees who have reached age 55 are eligible for early retirement with the Group's consent. In the case of early retirement, the accrued benefit is reduced by an actuarial reduction factor.

The plans provide for an annual pension based on the employee's pensionable earnings. Most employees take the maximum amount allowed by tax legislation in the form of a lump sum.

The plan includes provision for death in service benefits, provision for spouse reversion benefit as well as disability benefits.

The plan provides an indexation of the pension benefit based on a capped inflation rate for members who did not choose the pension increase exchange which was proposed in 2017.

The plan is funded solely by employer contributions.

Germany

There is one major defined benefit retirement plan in Germany, the "Versorgungsordnung 1979 (VO 1979)" of MRW (Michelin Reifenwerke AG).

The plan was closed to new entrants as from January 1, 2000. After this date new entrants are enrolled in defined contribution plans.

The plan sets the normal retirement age at 65.

The plans provide lifetime monthly annuity which are based on the employee pensionable compensation.

A flat rate applies to the compensation exceeding the social security ceiling and an additional rate takes into account the years of service on the total pensionable earnings.

The plan includes provision in case of death in service provisions as well as post-retirement spouse and orphan's pensions and disability provisions.

There is a legal obligation to adjust every three years the pension annuity by the inflation up to the average increase of the employees' salaries.

France

There is one major pension defined benefit plan in France, "Régime de retraite supplémentaire MFPM".

In order to be eligible, employees must reach 10 years of service and be present at the retirement date.

This plan had been set up in 1996 in order to grant an additional retirement benefit to all employees when the retirement replacement ratio of the mandatory state plans is below the trigger threshold of 55%. At this point an additional benefit is calculated based on service and pensionable earnings (capped additional plan).

If mandatory state pension plus additional benefit from this plan reaches 55% of pensionable salary, the annuity paid by the plan is capped at this level. Closure of the plan being not possible for new entrants, the threshold of 55% is decreasing progressively until 2046 where it will be nil. In return, employees must participate to a defined contribution plan (Article 83) and can also participate in another defined contribution plans (PERCO).

The plan includes provision in case of post-retirement spouse's pensions and disability provisions.

Plan is insured for the retirees and covered by two insurance companies.

Adjustments or increase of annuity are possible but not automatic and are based on the reserves available.

The following table analyzes changes in the financial position of the Group defined benefit pension plans:

(in € million)	2017				2016			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	4,449	4,715	52	**9,216**	4,274	4,543	35	**8,852**
Translation adjustments	(479)	(116)	(5)	**(600)**	216	(413)	7	**(190)**
Changes in scope of consolidation	-	-	-	**-**	-	8	-	**8**
Current service cost	3	42	1	**46**	16	40	1	**57**
Interest cost on the defined benefit obligation	163	105	3	**271**	176	128	3	**307**
Administration costs	9	4	-	**13**	7	4	-	**11**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	4	(24)	-	**(20)**	2	-	-	**2**
▶ Past service cost due to curtailments of defined benefit plans	-	(88)	-	**(88)**	-	(5)	-	**(5)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	(20)	-	**(20)**
Benefits paid	(255)	(220)	(4)	**(479)**	(264)	(181)	(4)	**(449)**
Other items	-	-	1	**1**	-	(1)	3	**2**
Actuarial (gains) or losses generated during the year	123	(40)	-	**83**	22	612	7	**641**
Present value of the obligations at the end of the year	**4,017**	**4,378**	**48**	**8,443**	**4,449**	**4,715**	**52**	**9,216**
Fair value of plan assets at the beginning of the year	3,974	2,509	37	**6,520**	3,813	2,610	25	**6,448**
Translation adjustments	(426)	(93)	(9)	**(528)**	198	(340)	8	**(134)**
Changes in scope of consolidation	-	-	-	**-**	-	(1)	-	**(1)**
Interest income on plan assets	144	64	5	**213**	156	85	3	**244**
Contributions paid to the plans	44	146	1	**191**	2	71	1	**74**
Benefits paid by the plans	(254)	(189)	(2)	**(445)**	(263)	(151)	(2)	**(416)**
Other items	-	-	1	**1**	(2)	-	3	**1**
Actual return on plan assets excluding interest income	257	148	10	**415**	70	235	(1)	**304**
Fair value of plan assets at the end of the year	**3,739**	**2,585**	**43**	**6,367**	**3,974**	**2,509**	**37**	**6,520**
Deficit/(Surplus) at the end of the year	**278**	**1,793**	**5**	**2,076**	**475**	**2,206**	**15**	**2,696**
Deferred items at the beginning of the year	(46)	-	-	**(46)**	(210)	-	(3)	**(213)**
Translation adjustments	4	-	1	**5**	(9)	-	-	**(9)**
Unrecognized asset due to application of the asset ceiling generated during the year	(24)	-	(8)	**(32)**	173	-	3	**176**
Deferred items at the end of the year	**(66)**	**-**	**(7)**	**(73)**	**(46)**	**-**	**-**	**(46)**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**344**	**1,793**	**12**	**2,149**	**521**	**2,206**	**15**	**2,742**

France

As at June 22, 2017, the Group has announced a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan has been offered to the salaried employees and managers who are based at the Clermont-Ferrand site and for which an agreement with the personnel's representative bodies has been issued.

The pension plan obligation has been reduced for an amount of €88 million. A provision for reorganizations and adaptation of activities has been recognized for an equivalent amount.

United Kingdom

In the United Kingdom, the pension plan implemented a pension increase exchange (PIE) exercise whereby pensioner members were offered an immediate uplift in their pension in return for giving up their future pension increases. The exercise of this option by the pension plan retiree's members has generated a negative past service cost resulting in a reduction of the obligation for an amount of €24 million.

For Canadian pension plans, the Group does not have any rights to a refund of the plan surplus. The economic benefits available are measured as the present value of future service cost. These pension plans are subject to a minimum funding requirement. The surplus recognized as an asset is the sum of:

- any prepaid amount that would reduce the future minimum funding requirement; and
- the estimated future service cost in each period less the estimated minimum funding requirement contributions that would be required for future service.

Any amount exceeding this limit is immediately recognized within the other comprehensive income.

In 2017, the amount recognized resulting from the effect of the asset ceiling was €30 million (2016: -€183 million)

In 2017, the present value of defined benefit pension obligations decreased by €773 million. This change was due to:

(in € million)	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	600	190
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(83)	(641)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	149	74
Changes in plan regulations	108	23
Changes in the scope of consolidation	-	(8)
Other items	(1)	(2)

The fair value of plan assets amounted to €6,367 million at December 31, 2017, showing a decrease of €153 million compared to December 31, 2016. The factors behind this variation were as follows:

(in € million)	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	(528)	(134)
Difference between the contributions paid to the funds and the benefits paid by the funds	(254)	(342)
Actual return on plan assets	628	548
Changes in the scope of consolidation	-	(1)
Other items	1	1

The present value of the defined benefit obligation, the fair value of the plan assets, the surplus or deficit in the plan and the experience adjustments are as follows for 2017 and the previous four periods:

(in € million)	2017	2016	2015	2014	2013
Defined benefit obligation	(8,443)	(9,216)	(8,852)	(8,440)	(7,079)
Plan assets	6,367	6,520	6,448	6,142	5,182
SURPLUS/(DEFICIT)	**(2,076)**	**(2,696)**	**(2,404)**	**(2,298)**	**(1,897)**
Experience adjustment to:					
▶ plan liabilities	32	38	75	32	(43)
▶ plan assets	415	315	(107)	538	166

The experience adjustments in percentage of the present value of the obligation and the fair value of plan assets are presented in the table below:

	2017	2016	2015	2014	2013
Experience adjustment to:					
▶ the plan liabilities in percentage of the present value of the obligation (DBO)	-0.38%	-0.41%	-0.85%	-0.38%	0.61%
▶ to the plan assets in percentage of the fair value of the assets	6.52%	4.83%	-1.66%	8.76%	3.20%

The main actuarial weighted average assumptions used to measure pension plan obligations are as follows:

	December 31, 2017			December 31, 2016		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.65%	2.11%	9.85%	4.02%	2.30%	11.10%
Inflation rate	2.37%	2.69%	4.50%	2.37%	2.78%	5.00%
Rate of salary increases	2.86%	2.81%	4.84%	2.85%	2.69%	6.00%
Weighted average duration of the defined benefit obligation	12.1	15.9	12.4	12.0	16.5	11.3

The discount rates, salary increase and inflation are the main financial assumptions used in the measurement of the defined benefit obligation and changes in these rates may have a significant effect on the amounts reported.

All actuaries provide, for each plan, sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

For the sensitivity of the fair market value of plan assets due to the interest rates movement it is considered that all the yield curve is moving up or down by 0.5 point and only the value of the bonds are impacted, all other assets keeping their value. The sensitivity indicated is the overall change of the value of the total portfolio due to the change in the interest rates.

A 0.5-point shift in these rates, while holding all other assumptions constant, compared to those used for 2017 would have the following effect on:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.63%	7.43%
Discount rate on the aggregate of current service cost and interest cost on the obligation	6.90%	-8.19%
Inflation rate on the defined benefit obligation (DBO)	4.33%	-4.13%
Inflation rate on the aggregate of current service cost and interest cost on the obligation	4.72%	-4.46%
Salary increase rate on the defined benefit obligation (DBO)	1.63%	-1.46%
Salary increase rate on the aggregate of current service cost and interest cost on the obligation	3.05%	-2.68%
Interest rates on the fair market value of plan assets	-6.02%	6.85%

Net income and expenses recognized in the income statement as well as the actual return on plan assets are as follows:

(in € million)	Year ended December 31, 2017				Year ended December 31, 2016			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	12	44	2	**58**	23	44	1	**68**
Interest cost on the defined benefit obligation	163	105	3	**271**	176	128	3	**307**
Interest income on plan assets	(143)	(64)	(4)	**(211)**	(147)	(85)	(3)	**(235)**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	-	-	**-**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	4	(24)	-	**(20)**	2	-	-	**2**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	(20)	-	**(20)**
Other items	-	-	-	**-**	-	(1)	-	**(1)**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(88)	-	**(88)**	-	(5)	-	**(5)**
TOTAL DEFINED PENSION BENEFIT EXPENSES	**36**	**(27)**	**1**	**10**	**54**	**61**	**1**	**116**
Actual return on plan assets	**401**	**212**	**15**	**628**	**226**	**320**	**2**	**548**

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

	December 31, 2017					December 31, 2016				
	Canada	USA	UK	Other	Total	Canada	USA	UK	Other	Total
Quoted securities										
Local equities	3.2%	10.4%	2.4%	0.0%	**5.7%**	3.5%	11.0%	3.0%	0.0%	**6.4%**
Foreign and global equities	9.3%	9.4%	11.0%	0.0%	**9.6%**	8.9%	10.0%	18.7%	0.0%	**12.5%**
Alternative investments	3.9%	11.2%	18.3%	0.0%	**12.1%**	5.2%	10.3%	19.6%	0.0%	**12.3%**
Real estate	0.0%	0.0%	7.3%	0.0%	**2.7%**	0.0%	0.0%	7.2%	0.0%	**2.5%**
Indexed linked bonds	0.1%	0.1%	10.3%	13.8%	**4.5%**	0.1%	0.1%	10.8%	14.0%	**4.4%**
Fixed income government and agencies	24.1%	9.4%	9.6%	0.0%	**11.7%**	21.3%	8.9%	6.3%	0.2%	**9.9%**
Corporate bonds	11.5%	27.2%	7.4%	0.0%	**16.0%**	11.6%	26.5%	6.6%	0.0%	**15.8%**
Other fixed income, multi-asset credit, emerging market bonds	39.8%	19.4%	22.4%	0.0%	**23.4%**	35.9%	20.2%	18.8%	0.0%	**21.8%**
Cash & cash equivalent	1.9%	2.9%	4.2%	0.0%	**3.1%**	2.6%	2.7%	3.5%	0.8%	**2.9%**
Total quoted securities	**93.8%**	**90.1%**	**93.0%**	**13.8%**	**88.7%**	**89.2%**	**89.7%**	**94.5%**	**15.0%**	**88.5%**
Non-quoted securities										
Funds managed by insurance companies	0.0%	0.0%	0.0%	83.3%	**3.4%**	0.0%	0.0%	0.0%	85.0%	**3.2%**
Private placements[(1)]	3.2%	2.0%	7.0%	2.9%	**4.1%**	4.0%	2.9%	5.5%	0.0%	**3.9%**
Real estate	3.0%	7.9%	0.0%	0.0%	**3.8%**	6.8%	7.4%	0.0%	0.0%	**4.4%**
Total non-quoted securities	**6.2%**	**9.9%**	**7.0%**	**86.2%**	**11.3%**	**10.8%**	**10.3%**	**5.5%**	**85.0%**	**11.5%**
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Duration in years of the bond portfolio, excluding cash & cash equivalents and funds managed by insurance companies	**16.9**	**16.4**	**33.6**	**9.5**	**22.1**	**17.6**	**16.4**	**30.2**	**9.0**	**20.6**

(1) Private equity and private debt.

In the above allocation, assets reported under "Quoted securities" are assets which have a regular market value at which such assets can be sold and the ones under "Non-quoted securities" are assets managed by insurance companies and less liquid assets which could be sold on short notice or in case of difficult markets at a discounted price.

An internal group of experts, composed by the chairmen or Chief Investment Officers of the main investment committees and Group specialists, has issued investment guidelines for the use of the local investment committees giving the investment best practices. Among other issues, these guidelines state not to invest directly in any Michelin securities or in any properties used by the Group. Fund managers do not have such restrictions. The Group has no significant amount invested in its own securities. Michelin does not occupy or use any of the real estate assets included in the various portfolios. Detailed information is not available about the underlying assets held in general insurance funds or alternative investments.

Alternative investments are composed of hedge funds and multi asset products such as diversified growth funds in the United Kingdom. These kinds of investment are expected to deliver absolute returns with a lower volatility than equities.

Other fixed income are composed of emerging market bonds, commingled funds, liability hedging portfolios for which the managers invest in government and corporate bonds or in derivatives, as well as, in the UK, in multi asset credit for which the managers can switch between main credit products depending on market conditions. This kind of investment is expected to have a return similar to corporate bonds with a lower volatility due to its diversification to asset backed securities, loans, high yield bonds as well as cash, government and corporate bonds.

For the UK portfolio the real estate investment is an investment into a Limited Price Index Property Fund with long term leases which is expected to hedge inflation risk.

In most countries assets are managed by local independent boards which are required under local pension laws. The boards are required by their articles of association as well as by law to act in the best interest of the fund and of all relevant stakeholders in the plan, *i.e.* current and future beneficiaries as well as employers.

Asset allocation studies are performed periodically, generally every three to five years, by an independent fiduciary body (Investment Board, Board of Trustees) based on recommendations made by independent advisors (actuaries, consultants, investment management firms). The asset allocation takes into account the structure of employee-related liabilities and their terms. In case of a large rise in funding ratio, an asset allocation study should be performed to ensure the target allocation is still appropriate.

The largest pension plans have implemented a dynamic asset allocation, where the target asset allocations are based on plan funded status. An improvement in funding status results in the de-risking of the portfolios, allocating more funds to liability hedging assets (LHA) and less to return seeking assets (RSA). In case of a decrease of the funding ratio the target allocation remains unchanged, as re-risking of the portfolios is not permitted. These pension plans have also implemented an interest rate hedging policy as well as an Inflation hedge policy for the UK. The hedging ratio increases as the funding level improves.

The RSA are diversified with the objective to target efficient portfolios where the level of volatility is minimized for the targeted return. These portfolios combine domestic and global equities with real estate and alternative assets such as hedge funds and private placements. Special attention is given to less liquid asset classes that may complicate the de-risking process by creating concentrated positions or requiring transactions at discounted prices.

The LHA are hedging the duration risk as well as in some cases the credit spread and inflation risk. The LHA portfolios are primarily composed of government and corporate bonds. The larger plans also use completion managers to implement custom solutions in order to hedge key rate duration according to the policy set by each pension fund.

Foreign exchange risks might be hedged when the exposure to foreign currency is considered as non-negligible. For instance the UK fund has numerous currencies and has a policy to hedge 75% of its exposure. Also in Canada 50% of the American dollar exposure is hedged. In other cases, investment managers are given discretion to hedge currency exposure as they deem necessary.

Group contributions to pension plans and benefit payments made by these plans in 2017 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Contributions paid and benefits paid directly by the Group				
2017	45	176	2	**223**
Estimates of contributions to be paid and benefits to be paid directly by the Group				
2018	1	108	-	**109**
2019	2	101	-	**103**
2020	3	118	-	**121**
2021	3	119	-	**122**
2022	3	126	-	**129**
2023-2027	245	640	-	**885**

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 US the following year contribution is determined annually using IRS rules including temporary funding relief provided by BBA15 (Bipartisan Budget Act of 2015) In Canada the contributions are determined on a tri-annual base and the funding plan is spread over 15 years as required under local regulations.

In the UK the contributions are determined based on tri-annual actuarial valuations as required by the Pension Act. In case of deficit the employer must agree a recovery plan with the Trustees. The current Recovery Plan matures in 2027.

In 2017, in addition to the ordinary contributions, it was decided to make contributions in advance due in the UK for an amount of €80 million and in the United States for an amount of €44 million.

In the case of unfunded plans, the payments are made on the due dates, either directly to the beneficiaries or indirectly *via* the relevant administrators.

The estimates of future payments for unfunded plans are based on data included in the calculation of the projected defined benefit obligation based on expected leaving dates each year. The same method is used for the constitutive funds for partially funded plans paid to insurance companies.

/ 27.1.2 Other Defined Benefit Plans

In many countries, Group employees receive other post-employment benefits and long-term benefits throughout their term of employment. The "other post-employment benefits" mainly include health insurance and end of service benefit. The "Other defined benefit plans" are mainly found in the United States, Canada and France. "Other long-term benefits" include mainly long service awards plans provided under local company-specific agreements. Such defined benefit plans generally concern the Group European companies.

As in the case of the above-described defined benefit plans, "other defined benefit plans" are valued with the assistance of independent actuaries using actuarial techniques. The obligations under these plans are not covered by assets and are recognized as liabilities.

The main plans provided within the Group are:

USA

The Group offers retiree medical benefits that provide healthcare coverage for Pre-Medicare and Medicare eligible retirees and their dependents.

Eligible retirees are mainly those who were active prior to January 1, 2004 and will have at least reached age 55 with 10 years of service at the date of retirement.

For Medicare eligible retirees, the health care coverage comes as an addition to Medicare.

Medical and prescription drug expenses are covered by the plan. The retirees contribute to the cost of the pre-Medicare post-retirement medical plan.

In 2016, the plan was amended to move non-union Medicare eligible retirees from a company-sponsored retirement offering to private Medicare exchanges. For this population, the plan will provide the following benefit improvements:

- Retiree Reimbursement Account (RRA) will be funded in a fixed annual amount per retiree and eligible dependents through a Retiree Health Exchange program to either reimburse Medicare, Medicare supplement and/or prescription drug premiums;
- Catastrophic Retiree Reimbursement Account: if the retiree or dependent reaches the eligibility threshold for catastrophic drug coverage, he or she can receive reimbursement for the 5% of out-of-pocket cost not covered by Medicare Part D.

The Group pays a premium for the administrative services. This plan is not funded.

Canada

The Group offers retiree medical benefits that provide healthcare coverage for certain retirees and their dependents. Medical and prescription drug expenses are covered by the plan.

This plan was closed to new entrants as from January 1, 2005.

The Group pays a premium for the administrative services. This plan is not pre-funded.

France

The main plan is a mandatory rubber branch end-of-service benefit plan.

The plan provides that a lump sum payment is made upon retirement for employees being present at the retirement date. The normal age of retirement is 65. The calculation of the lump sum corresponds to a number of months of salary based on years of service at the time of retirement.

This plan is not pre-funded.

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

(in € million)	December 31, 2017				December 31, 2016			
	North America	Europe	Other	Total	North America	Europe	Other	Total
Present value of the obligations at the beginning of the year	958	1,025	38	**2,021**	1,184	1,055	32	**2,271**
Translation adjustments	(98)	1	(4)	**(101)**	45	-	3	**48**
Changes in scope of consolidation	-	-	-	**-**	-	(9)	-	**(9)**
Current service cost	10	48	4	**62**	12	44	4	**60**
Interest cost on the defined benefit obligation	34	19	2	**55**	46	20	1	**67**
Administration costs	-	-	-	**-**	-	-	-	**-**
Plan reorganization costs generated during the year:								
▶ Past service cost due to the introduction of or modifications to defined benefit plans	(39)	3	-	**(36)**	(271)	7	-	**(264)**
▶ Past service cost due to curtailments of defined benefit plans	-	(95)	-	**(95)**	-	(14)	-	**(14)**
▶ (Gains) or losses on settlements of defined benefit plans	-	-	-	**-**	-	1	-	**1**
Benefits paid	(51)	(69)	(2)	**(122)**	(59)	(63)	(2)	**(124)**
Other items	-	-	-	**-**	-	(55)	-	**(55)**
Actuarial (gains) or losses generated during the year	(24)	58	2	**36**	1	39	-	**40**
Present value of the obligations at the end of the year	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**
Fair value of plan assets at the beginning of the year	-	-	-	**-**	-	-	-	**-**
Translation adjustments	-	-	-	**-**	-	-	-	**-**
Changes in scope of consolidation	-	-	-	**-**	-	-	-	**-**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Contributions paid to the plans	-	-	-	**-**	-	-	-	**-**
Benefits paid by the plans	-	-	-	**-**	-	-	-	**-**
Other items	-	-	-	**-**	-	-	-	**-**
Actual return on plan assets excluding interest income	-	-	-	**-**	-	-	-	**-**
Fair value of plan assets at the end of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Deficit/(Surplus) at the end of the year	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**
NET LIABILITY/(ASSET) RECOGNIZED IN THE BALANCE SHEET AT THE END OF THE YEAR	**790**	**990**	**40**	**1,820**	**958**	**1,025**	**38**	**2,021**

USA

In the United States of America, the Group has remeasured the impact of Postretirement Welfare plan amendment in the light of the actual data. The initial measurement carried out in 2016 resulted in a negative past service cost amounting to €271 million. The remeasurement of the impact made in 2017 led the Group to recognize an additional negative past service cost for an amount of €22 million.

In 2017, the Postretirement Welfare plan has been amended for a specific category of retiree members introducing a new structure of the annual subsidy provided by the Company for medical coverage. This change in the plan regulation has generated a negative past service cost resulting in a reduction of the obligation amounting to €17 million.

France

As at June 22, 2017, the Group has announced a global reorganization project aimed to better serve the customers. A voluntary pre-retirement plan has been offered to the salaried employees and managers who are based at the Clermont-Ferrand site and for which an agreement with the personnel's representative bodies has been issued.

The other post-employment plan obligation has been reduced for an amount of €95 million. A provision for reorganizations and adaptation of activities has been recognized for an amount slightly lower to the extent that end-career allowances of the voluntary pre-retirement plan are partly exempted from social security charges.

In 2017 the present value of "other defined benefit plans" decreased by €201 million, due to:

	2017	2016
Effect of changes in exchange rates for the US dollar, British pound and Canadian dollar against the euro	101	(48)
Actuarial gains or (losses) from changes in actuarial assumptions and difference between assumptions and actual experience	(36)	(40)
Difference between the costs (service cost and interest cost) and the benefits paid during the year	5	(3)
Changes in plan regulations	131	277
Changes in the scope of consolidation	-	9
Other items	-	55

The present value of the defined benefit obligation and experience adjustments are as follows for 2017 and the previous four periods:

(in € million)	2017	2016	2015	2014	2013
Defined benefit obligation	(1,820)	(2,021)	(2,271)	(2,286)	(1,993)
Experience adjustments to plan liabilities	46	16	25	65	86
Experience adjustments to plan liabilities *(in % of present value of the obligation (DBO))*	-2.53%	-0.79%	-1.10%	-2.84%	-4.32%

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

	December 31, 2017			December 31, 2016		
	North America	Europe	Other	North America	Europe	Other
Discount rate	3.57%	1.61%	5.47%	4.02%	1.70%	6.47%
Weighted average duration of the defined benefit obligation	11.3	13.6	9.6	10.7	12.1	10.2

Assumptions concerning healthcare cost trends are as follows:

	December 31, 2017		December 31, 2016	
	USA	Canada	USA	Canada
Expected growth in healthcare costs in the first year	7.85%	6.30%	7.96%	5.64%
Minimum long-term rate of annual growth in healthcare costs	5.00%	4.25%	5.00%	4.25%
Year in which the minimum growth rate will be achieved	2026	2028	2026	2028

The discount rate is one of the main assumptions used in the measurement of the defined benefit obligation and changes in this rate may have a significant effect on the amounts reported. All actuaries provide for each plan sensitivities on the obligation (DBO) and Current Service Cost to a change of the main assumptions. DBO and Cost (meaning in that case the aggregate of the current service cost and interest cost on the obligation) sensitivities are the weighted average change of respectively the DBO and the Cost when one of these assumptions changes.

A 0.5-point shift in these rates, all else otherwise being equal, compared to those used for 2017 would have the following effect:

	0.5-point upward shift	0.5-point downward shift
Discount rate on the defined benefit obligation (DBO)	-6.27%	6.39%
Discount rate on the aggregate of current service cost and interest cost on the obligation	0.47%	-0.82%
Healthcare cost trend on the healthcare defined benefit obligation	1.84%	-1.73%
Healthcare cost trend on the aggregate of current service cost and interest cost of healthcare plan obligation	1.78%	-1.63%

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

	Year ended December 31, 2017				Year ended December 31, 2016			
(in € million)	North America	Europe	Other	Total	North America	Europe	Other	Total
Cost of services rendered during the year	10	48	4	**62**	12	43	4	**59**
Interest cost on the defined benefit obligation	34	19	2	**55**	46	20	1	**67**
Interest income on plan assets	-	-	-	**-**	-	-	-	**-**
Actuarial (gains) or losses recognized during the year on other long term defined benefit plans	-	-	-	**-**	-	1	(1)	**-**
Past service cost recognized during the year:								
▶ Due to the introduction of or modifications to defined benefit plans	(39)	3	-	**(36)**	(271)	7	-	**(264)**
▶ Due to curtailments of defined benefit plans	-	-	-	**-**	-	-	-	**-**
Effect of defined benefit plans settlements	-	-	-	**-**	-	1	-	**1**
Portion of defined benefit expenses recognized within reorganizations and adaptation of activities costs	-	(95)	-	**(95)**	-	(14)	-	**(14)**
TOTAL OTHER DEFINED BENEFIT EXPENSES	**5**	**(25)**	**6**	**(14)**	**(213)**	**58**	**4**	**(151)**

Group payments made under "other defined benefit plans" in 2017 and to be made during the 10 following years are as follows:

(in € million)	North America	Europe	Other	Total
Benefit payments made				
2017	51	69	2	**122**
Estimates of benefit payments to be made				
2018	47	21	1	**69**
2019	48	21	2	**71**
2020	49	34	2	**85**
2021	49	46	2	**97**
2022	50	92	2	**144**
2023-2027	240	336	9	**585**

For unfunded plans, such payments are made on the due dates, either directly to the beneficiaries or indirectly to the relevant administrators.

27.2 Defined contribution plans

In some Group companies, employees are covered by defined contribution plans. Such plans mainly provide benefits in addition to those of mandatory post-employment plans.

In 2017, the contributions paid to defined contribution plans and expensed amounted to €220 million (2016: €213 million).

These plans are mainly found in the United States of America, Canada, the United Kingdom and France.

USA

The defined contribution plans in the United States consist of the Michelin Retirement Account Plan (MRAP) and various 401(k) plans. The MRAP plan is fully funded by employer contributions. The contribution levels are based on age and years of service. The 401(k) plans are voluntary and are funded by employee contributions with employer matching contributions. In both the MRAP and 401(k) plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment committee under the authority of the US Pension Board.

Canada

The defined contribution plans in Canada consist of the Defined Contribution Plan for the Employees of Michelin North America (Canada) Inc. as well as a registered retirement savings plan (RRSP). The defined contribution plan is funded by core employer contributions and optional employee contributions with employer matching. The core contribution levels, modified at January 1, 2016, are based on years of service and age. The RRSP plan is voluntary and is funded by employee contributions with employer matching contributions. In both the DC and RRSP plans, asset allocation decisions are made by the employees. The asset allocation choices are determined and monitored by the North American Investment Committee under the authority of the US Pension Board.

United Kingdom

The main defined contribution pension plan in UK is the Michelin Pension and Life Assurance plan DC section (for Michelin and ATS employees). It has been implemented as from December 1, 2004 for the new entrants and for January 1, 2009 for all employees who did not opt out.

For Michelin employees, there are employee and employer contributions to this Plan which are based on a percentage of the eligible pay and age of the employee. Employees may also make optional contributions to the plan and the Group will match some of these optional contributions.

For ATS employees, there are employee and employer contributions. The range of contribution is chosen by the employee and matched by the employer. Contributions are a flat rate whatever the age of the employee.

All contributions to the plan are held in a Pension Account in a Trust. The employees choose how to invest these contributions among the different options made available for the Plan. The asset allocation choices are determined and monitored by the Board of Trustees.

France

There are two defined contribution pension schemes in France: the "Article 83" scheme and the "PERCO".

The defined-contributions "Article 83" retirement savings plan has been implemented as from January 1, 2012 in order to replace the defined benefit plan which will be progressively terminated. It is a mandatory retirement plan for all employees of the French companies concerned by the applicable agreement. Contributions are paid by the employee and the employer on the gross annual salary capped. An individual account is opened on the name of each employee. The employee can claim his additional retirement benefit at the date he is entitled to his pension in a compulsory retirement scheme.

The PERCO has been implemented on June 1, 2007 and revised as from January 1, 2012. It is a voluntary pension saving plan. Each employee can contribute to this plan and the Group will match the voluntary contributions made by the employee up to a cap.

NOTE 28 SHARE-BASED PAYMENTS

28.1 Stock option plans

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

	2017		2016	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**54.35**	**672,028**	**65.87**	**1,733,471**
Granted	-	-	-	-
Forfeited	51.16	(2,098)	85.79	(338,023)
Exercised	55.00	(308,979)	67.27	(723,420)
AT DECEMBER 31	**53.81**	**360,951**	**54.35**	**672,028**

360,951 of the 360,951 options outstanding as at December 31, 2017 are exercisable (2016: 672,028 exercisable out of a total of 672,028).

Stock option plans have the following exercise prices and expiry dates:

			December 31, 2017		December 31, 2016	
Grant dates	Vesting dates	Expiry dates	Exercise prices *(in € per option)*	Number of options outstanding	Exercise prices *(in € per option)*	Number of options outstanding
May 2008	May 2012	May 2017	59.85	-	59.85	75,662
November 2009	November 2013	November 2018	51.16	177,748	51.16	317,554
May 2010	May 2014	May 2019	52.13	79,963	52.13	102,910
May 2011	May 2015	May 2020	66.00	59,127	66.00	93,288
June 2012	June 2016	June 2021	51.16	44,113	51.16	82,614
NUMBER OF STOCK OPTIONS OUTSTANDING				**360,951**		**672,028**

28.2 Performance share plans

Changes in the number of performance share rights are as follows:

	2017	2016
	Number of outstanding performance share rights	Number of outstanding performance share rights
At January 1	**668,936**	**732,406**
Granted	296,440	120,520
Forfeited	(42,780)	(61,027)
Shares delivered	(39,084)	(122,963)
AT DECEMBER 31	**883,512**	**668,936**

In November 2017, 296,440 rights to performance shares have been granted to Group employees. Grantees are subject to a vesting period of four years ending in November 2021 and are not subject to any lock-up period. The shares will vest providing that the performance conditions (share price on the market, industrial environmental performance, employee engagement level, increase in operating income) are met. The fair value of a right to a performance share is estimated at €66.84. This fair value is based on the share price at the grant date, less the present value of expected dividends that will not be received by grantees during the vesting period. The market performance has reduced the fair value of the performance share at grant date, according to the estimated probability that the condition is met. The total cost for the plans issued in 2017 is estimated at €13 million.

The performance share plans have the following characteristics:

Grant dates	Vesting dates		Lock-up period		Fair value at grant date		December 31, 2017 Number of outstanding performance share rights	December 31, 2016 Number of outstanding performance share rights
	France	Other countries	France	Other countries	France	Other countries		
2013	2017	2017	None	None	69.43	69.43	-	78,168
2014	2018	2018	None	None	63.05	63.05	276,168	279,864
2014	2018	2018	None	None	63.05	63.05	106,244	106,244
2015	2019	2019	None	None	82.24	82.24	84,140	84,140
2016	2020	2020	None	None	66.41	66.41	120,520	120,520
2017	2021	2021	None	None	66.84	66.84	296,440	-
NUMBER OF OUTSTANDING PERFORMANCE SHARE RIGHTS							**883,512**	**668,936**

The expense recognized in 2017 for the performance share plans amounts to €7 million (2016: €7 million) and is included in "Other operating income and expenses from recurring activities".

28.3 Employee share purchase plans

In 2017, there was no new employee share purchase plan.

In 2016, the Group launched a share offer for all its employees located in countries where the legal and fiscal requirements were met. This share purchase plan (Bib'Action), carried out under the Company savings plan *(Plan d'Épargne Groupe),* is a standard plan allowing employees to invest in Michelin shares at a discounted price. The shares acquired by the employees participating in the plan cannot be sold or transferred during a five-year period.

The share subscription price was set at €76.38, after a 20% discount on the reference price of €95.47, the latter being the average of the Michelin share's opening trading price of the last twenty trading days preceding the price fixing day. The employees were granted one free share for each share purchased capped to the first five. 657,366 shares were purchased during this share offer.

The global expense recognized in the income statement by the Group in 2016 in relation to this plan amounted to €16 million after deduction of the effect of the five-year restriction.

The main features of the plan and the assumptions used for the valuation of the cost linked to the shares acquired by Group employees were as follows:

Maturity of the plan	5 years
Number of shares subscribed	657,366
Reference price *(in €)*	95.47
Subscription price *(in €)*	76.38
Five-year risk-free rate[1]	-0.28%
Five-year market participant rate[2]	5.30%
Dividend yield	2.99%
Cost of the lock-up period *(in % of the reference price)*	23.82%
Cost recognized *(in € per share)*	23.95

(1) The risk-free interest rate is based on the yield of French government bonds with the equivalent maturity.
(2) The five-year market participant rate is an average of non-dedicated 5-year individual loan rates.

NOTE 29 PROVISIONS AND OTHER NON-CURRENT LIABILITIES

Provisions and other long-term liabilities amount to €1,676 million (2016: €1,604 million) and include provisions for reorganizations and adaptation of activities, provisions for litigation, for warranties as well as other provisions and long-term liabilities.

Movements in provisions during the year:

(in € million)	Reorganizations and adaptation of activities	Litigation, warranties and other provisions	Total
At January 1, 2017	**274**	**363**	**637**
Additional provisions	253	137	**390**
Provisions utilized during the year	(97)	(101)	**(198)**
Unused provisions reversed during the year	(18)	(10)	**(28)**
Translation adjustments	(3)	(21)	**(24)**
Other effects	1	86	**87**
AT DECEMBER 31, 2017	**410**	**454**	**864**

The €454 million balance for Litigation, warranties and other provisions includes mainly amounts arising from social security disputes (URSSAF in France), as well as risks and warranty relating to products marketed mainly in North America.

29.1 Reorganizations and adaptation of activities

At December 31, 2017, the remaining provisions for reorganizations and adaptation of activities relate to following countries:

(in € million)	December 31, 2017	December 31, 2016
France	269[1]	109
United Kingdom	62	76
Italy	40	42
Germany	26	21
Other countries	13	26
TOTAL	**410**	**274**

(1) The balance includes mainly the provision made in relation to the implementation of the new worldwide organisation of the Group.

NOTE 30 OTHER CURRENT LIABILITIES

The carrying amount of other current liabilities is presented in the table below:

(in € million)	December 31, 2017	December 31, 2016
Customers – Deferred rebates	847	969
Employee benefits	573	500
Social security liabilities	221	231
Reorganizations and adaptation of activities liabilities	3	3
Current income tax payable	186	188
Other taxes	279	195
Other	276	310
OTHER CURRENT LIABILITIES	**2,385**	**2,396**

NOTE 31 DETAILS OF THE CASH FLOW STATEMENT

Details of the cash flows are presented in the table below:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Investment grants	(13)	(12)
Change in employee benefit obligations	(235)	(94)
Change in litigation and other provisions	(5)	(20)
Costs related to reorganizations and adaptation of activities	(100)	(99)
Other	7	19
Operating income and expenses from non-recurring activities (cash) and change in provisions	**(346)**	**(206)**
Interest and other financial expenses paid	(422)[2]	(210)
Interest and other financial income received	23	44
Dividends received	26	20
Cost of net debt and other financial income and expenses paid	**(373)**	**(146)**
Change in inventories	(311)	(83)
Change in trade receivables and advances	(317)	(319)
Change in trade payables and advances	205	72
Change in trade payables under factoring contracts	199	217
Change in other receivables and payables	160	(89)
Change in working capital, net of impairments	**(64)**	**(202)**
Purchases of intangible assets (note 13)	(186)	(158)
Purchases of PP&E (note 14)	(1,585)	(1,653)
Government grants received	25	21
Change in capital expenditure payables	78	(25)
Purchases of intangible assets and PP&E	**(1,668)**	**(1,815)**
Increase in other non-current financial assets	(21)	(6)
Decrease in other non-current financial assets	10	13
Net cash flows from cash management financial assets	(18)	(162)[1]
Net cash flows from borrowing collaterals	36	2
Net cash flows from other current financial assets	(10)	(6)
Cash flows from other financial assets	**(3)**	**(159)**
Increase in non-current financial liabilities	494	115
Decrease in non-current financial liabilities	(28)	(92)
Repayment of finance lease liabilities	(24)	(13)
Net cash flows from current financial liabilities	(424)	(141)
Derivatives	(86)	112
Cash flows from financial liabilities	**(68)**	**(19)**
Details of non cash transactions:		
▶ New finance leases (note 14)	135	42
▶ Increase/(Decrease) of liabilities to minority shareholders	-	-
▶ New emission rights	4	4

(1) See note 21.
(2) See note 26.1.

NOTE 32 COMMITMENTS AND CONTINGENCIES

32.1 Commitments

/ 32.1.1 Operating lease commitments

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

(in € million)	December 31, 2017	December 31, 2016
Within one year	234	220
Between one and five years	415	402
More than five years	134	101
TOTAL FUTURE MINIMUM PAYMENTS	**783**	**723**

Total operating lease rents recognized in the income statement in 2017 amounted to €379 million (2016: €381 million).

/ 32.1.2 Capital commitments

PP&E capital expenditure on the main extension projects, which were contracted but not delivered before December 31, 2017, amounts to €326 million (of which €90 million is likely to be delivered from 2019).

/ 32.1.3 Other commitments

The Group has various purchase commitments for goods and services. These commitments are in line with the level of activity expected in the first half of 2018. They are established under normal market conditions and arise in the course of the Group ordinary activities.

32.2 Contingencies

/ 32.2.1 Michelin Pension Trust Ltd UK

Following the introduction of the "Pension Act 2004" in the United Kingdom, a multi-annual plan of contributions to the UK pension funds, "Recovery Plan", was established between Michelin Pension Trust Ltd U.K. and Michelin U.K. In order to limit the amount of the contributions and to stagger them over more than ten years, the Group has given a guarantee to the pension fund to cover the stream of contributions which its subsidiary will have to make.

The calculation of the Recovery Plan is done every three years. The last one was carried out as of March 31, 2017. The actuarial assumptions used to evaluate the liability for the Recovery Plan are globally more conservative than the ones used to evaluate the defined benefit obligations under IAS 19.

The amount of the guarantee given is equal to the difference, if positive, between the present value of future contributions and the amount of the provision booked in the accounts. As of December 31, 2017, the present value of the future contributions exceeding the provision booked in the Group accounts amounts to €133 million.

/ 32.2.2 Tax audit in Germany

Following a tax audit covering the periods 2005 to 2009, a German subsidiary received during the year 2015 notifications of intended tax adjustments on a €305 million tax base. The tax authorities are contesting in the main (€286 million) the effects on the subsidiary of the transfer price policy applied by the Group. No significant new elements with regards to this claim have been identified in 2017.

The Group does not accept any of the positions taken by the German tax authorities and considers that:

- it is more unlikely than likely that the subsidiary will have to face a financial loss in connexion with these tax adjustments;
- furthermore, it is not possible at this stage of the proceedings to reliably evaluate the potential financial risk related to these tax litigations.

In 2016 a new tax audit covering the periods 2010 to 2014 was instigated; no specific elements have been raised as at the date of the closing of the consolidated accounts.

/ 32.2.3 Legal claims in Brazil

In relation to an investment project at its Resende plant (State of Rio de Janeiro), a Brazilian subsidiary of the Group benefitted in 2010, by means of a decree issued by the State governor, from tax advantages taking the form of deferred tax payments on the importation of machines and raw materials, as well as access to a BRL 1, 029 million (around €260 million at 2017 closing exchange rate) credit line.

In 2013, a lawsuit was instigated against the subsidiary, the plaintiff pleading the unconstitutional nature of the decree by which the advantages had been given.

After having received a favorable ruling in 2015, the subsidiary was condemned on appeal in October 2016. The judgment only concerned the deferred tax payments relating to the importation of industrial machines for the Resende plant. The Group estimates that the amount of financial risk related to this litigation to be in the region of BRL 32 million.

In November 2016, the Prosecutor of the State of Rio de Janeiro, based on the appeal ruling, started a new lawsuit against the subsidiary and demanded that it restitutes all of the advantages received following the decree.

The subsidiary opened legal proceedings to suspend the lawsuit, but its request was rejected by the judge who ordered the sequestration of the subsidiary's assets for an amount up to the level of the credit line granted.

The subsidiary, which has never made use of the credit line, entered an appeal for an immediate suspension and annulation of the decision. The request for a suspension was rejected.

At the date of the closing of the consolidated accounts, the preliminary decision concerning the sequestration of the company's assets, pronounced following the lawsuit initiated in November 2016, has not been put into effect.

The Group contests all of the positions expressed by the Brazilian legal authorities in the different lawsuits and considers that it is more likely than unlikely that it will make its points of view prevail.

/ 32.2.4 Other contingencies

In the course of their ordinary activities, the Group companies may be involved in administrative proceedings, litigation and claims. Although provisions have been recognized when the risks are established and the cash outflows probable, there exist uncertainties concerning some of these administrative proceedings, litigation and claims.

In the opinion of the Group management, there is no other governmental, judicial or arbitration proceedings likely to have significant impacts on its net assets or cash flows.

32.3 Assets pledged as collateral

/ 32.3.1 PP&E

PP&E pledged as collateral amounted to €33 million (2016: €34 million).

/ 32.3.2 Financial assets

Loans and deposits amounting to €42 million (2016: €77 million) are pledged as collateral for financial borrowings (note 16 "Derivative Financial Instruments").

/ 32.3.3 Trade receivables

The Group runs two separate programs whereby certain European and North American subsidiaries have transferred ownership interests in their eligible trade receivable portfolios. The maximum financing that can be raised from these programs amounts to €468 million (2016: €476 million). Since the Group has substantially retained 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 €15 million as at December 31, 2017 (2016: €15 million), has been accounted for as collateralized loans (note 26.2 "Loans from financial institutions and other").

NOTE 33 CHANGE IN THE SCOPE OF CONSOLIDATION AND IN THE PERCENTAGE OF INTEREST

33.1 Change in the scope of consolidation

/ 33.1.1 Nextraq

On July 17, 2017, the Group took control of NexTraq Inc., a US provider of telematics solutions for commercial fleets. Nextraq provides solutions that improve drivers' safety, fuel consumption management and fleet productivity. Its services are mainly based on geolocation management of small commercial vehicles for fleets between 2 and 50 vehicles.

The measurement at their fair value of assets acquired and liabilities assumed are detailed in the following table:

(in € million)	At acquisition date
Intangible assets[(1)]	113
Property, plant and equipment (PP&E)	-
Non-current financial assets and other assets	-
Non-current assets	**113**
Inventories	1
Trade receivables and other current assets	14
Cash and cash equivalents	2
Current assets	**17**
Non-current financial liabilities	-
Provisions and other non-current liabilities	-
Deferred tax liabilities	42
Non-current liabilities	**42**
Current financial liabilities	-
Trade payables and other current liabilities	7
Current liabilities	**7**
TOTAL FAIR VALUE OF NET ASSETS ACQUIRED	**81**

(1) The fair value of intangible asset has been measured, with the assistance of an external consultant, using the royalty relief method for the trademark and using an income approach for the customer relationships and the technology. The Nextraq trademark has been valued at €9 million. Its remaining useful life is 15 years. The fair value of the customer relationships has been measured at €87 million. It will be amortized over its remaining useful life of 15 years. The fair value of the technology is €17 million and will be amortized over its remaining useful life of five years.

The allocation of the purchase price, after the measurement of identifiable assets acquired and liabilities assumed, led to the recognition of goodwill for €224 million, calculated as follows:

(in € million)	At acquisition date
Fair value of consideration transferred (1)	305
Fair value of net assets acquired (2)	81
GOODWILL (1) - (2)	**224**

This acquisition will enable the Group to increase its expertise and visibility in the field of fleets telematics services, to expand its customer base in the United States and the geographical coverage of its offerings, as well as accelerate its market's penetration within the trailer segment, where the potential growth of telematics services such as those provided by Nextraq is expected to be important. These analyses led to the allocation of the goodwill to the group of CGUs comprising Truck tire, fleet services and digital activities in North America (note 13.2).

In the five months to December 31, 2017, NexTraq contributed €19 million to the Group's net sales, €1 million to its operating income and €13 million to its net income as a consequence of a deferred tax income recognized following the United States' tax reform adopted in December.

/ 33.1.2 Other acquisitions

In October 2017, the Group acquired the truck tire distributor and service provider Tructyre, in the United Kingdom and Lehigh Technologies in the United States. The latter is specialized in the development and production of innovative raw materials based on the recycling of worn non-reusable tires and other rubber-based industrial products.

In December, the acquisition of PTG (Germany) and Teleflow (France), two leaders in tire pressure control systems, was completed.

Given the acquisition dates of these entities, it has not been possible to integrate them according to the acquisition method before the consolidated financial statements' finalisation and they are provisionally presented under the section "Non-current financial assets and other assets" of both the Consolidated Statement of Financial Position and the Consolidated Cashflow Statement, as at December 31, 2017 for €55 million. Consolidation and purchase price allocation will be carried out during the accounting period beginning on January 1, 2018.

33.2 Change in the percentage of interest

On June 6, 2017, the Group, through its subsidiary Compagnie Financière Michelin SCmA, has filed a draft simplified cash public tender offer with the French securities regulator (*Autorité des marchés financiers* – AMF), acting in concert with the Ivory Coast company SIFCA, the majority shareholder of SIPH, to acquire the 1,042,324 shares (*i.e.,* 20.60% of the capital) in Société Internationale de Plantations d'Hévéas (SIPH) not currently held by the concert parties, at a price of €85 per share. The amount of the operation, corresponding to the expected total repurchase of the shares, is €89 million and was deposited with the financial broker on a blocked account until the closing of the tender offer. Before launching this offer, the Group owned 23.81% of the capital of SIPH, recognized as "Investments in associates" in the consolidated statement of financial position.

The shareholders' agreement entered into by the Group and SIPH at the date of the launch of this operation states that the Group undertakes to sell forward to SIFCA, in the five coming years, 25% of the shares acquired by the Group under the public tender or the squeeze out of any remaining minority shareholders of SIPH, in order to reach the targeted ownership structure as follows:

- Michelin 40% of the share capital;
- SIFCA 60% of the share capital.

The simplified public tender initiated by the Group was closed on July 12, 2017. The Group acquired through this tender 493,452 shares, of which 248,732 were taken up and paid as at June 30, 2017, for a total amount of €41 million. The targeted number of shares was 1,042,234.

The percentage of share capital held by the Group in SIPH after this operation is 33.56%, compared to the 23.81% previously held.

NOTE 34 RELATED PARTY TRANSACTIONS

34.1 Subsidiaries, joint ventures and associates

The list of the major Group subsidiaries is included in note 36 "List of main Group companies". Transactions between the parent company and its subsidiaries and between subsidiaries are eliminated in consolidation.

Transactions and balances between the Group and its associates and joint ventures are presented in the table below:

(in € million)	2017	2016
Income statement		
Income for the sale of goods or supply of services	78	111
Expenses for the purchase of products or supply of services	(224)	(142)
Balance sheet		
Financial liabilities	(7)	(9)
Accounts payable	(5)	(5)
Financial assets	20	4
Accounts receivable	11	31

34.2 Senior Management and Supervisory Board

In 2017, Jean-Dominique Senard, Managing Chairman and General Partner of Compagnie Générale des Établissements Michelin, received a statutory distribution based on 2016 net income and amounting to €2.2 million (2015: €1.3 million).

He was entitled to a global compensation of €1.5 million (social charges included) as non-general Managing Partner of Manufacture Française des Pneumatiques Michelin (2016: €1.5 million).

The present value of the benefits attributed during the period in a post-employment defined benefit plan amounts to €0.6 million (2016: €0.6 million). He was entitled to a gross amount (social charges and tax included) of €1.2 million according to the terms of a long term incentive bonus program reducing the provision, based on the present value of the vested rights in that program, recognized as at December 31, 2017 to an amount of €1.1 million (2016: €2.2 million) including the related tax and social charges.

The global compensation granted in 2017 to the 11(*) members of the Group Executive Committee (2016: 13(*) members) was €24 million (2016: €20 million). This amount breaks down as follows:

(in € million)	Year ended December 31, 2017	Year ended December 31, 2016
Short term benefits	17.1	14.0
Post-employment benefits	3.8	3.1
Other long term benefits	-	-
Termination benefits	-	-
Share-based payments	3.4	2.5
COMPENSATION GRANTED TO MEMBERS OF THE GROUP EXECUTIVE COMMITTEE	**24.3**	**19.6**

(*) Members of the Group Executive Committee as at December 31.

The attendance fees paid in 2017 to the Supervisory Board members for 2016 meetings were €0.5 million (2016: €0.4 million).

NOTE 35 EVENTS AFTER THE REPORTING DATE

The reported amounts of assets and liabilities at the date of the consolidated statement of financial position were adjusted, if needed, up to the date when the Managing Chairman authorized for issue the 2017 consolidated financial statements.

35.1 Joint venture with Sumitomo Corporation of Americas

Michelin North America Inc. and Sumitomo Corporation of Americas announced on January 3, 2018 an agreement to combine their respective North American replacement tire distribution and related service operations in a joint venture owned on a 50-50 basis by the parties. The transaction will form the second-largest player in the wholesale tire market in the United States which will operate under a new brand, NTW.

The Group will bring to the joint venture the wholesale tire activity of its TCI network in the United States, valued at 160 million USD completed by a contribution in cash for 630 million USD.

The transaction might be completed by the end of the first quarter of 2018, subject to customary approvals.

35.2 Non-dilutive cash-settled convertible bonds issue

In January 2018, the Group issued exclusively cash-settled five year convertible bonds with a total face value of 600 million USD. These bonds, which were issued at 95.5% of their face value, are redeemable at par on November 10, 2023 (if they are not converted) and their coupon's interest rate is 0%.

In addition to that bond issuance, the Group subscribed to call options settled in cash only, enabling it to fully cover its exposure to the exercise of the conversion rights embedded in the bonds.

This set of transactions, which were hedged by euro-denominated swaps, provides the Group with the equivalent of classic euro-denominated bond financing at an advantageous cost.

NOTE 36 LIST OF MAIN GROUP COMPANIES

Countries are presented based on the Michelin geographical regions and within each regions are listed according to the alphabetical order of the French names.

Companies	Registered office	Nature	% of interest
EUROPE			
Germany			
Laurent Reifen GmbH	Oranienburg	Manufacturing & commercial	100.00
Michelin Reifenwerke AG & Co. KgaA	Karlsruhe	Manufacturing & commercial	100.00
Euromaster GmbH	Mannheim	Commercial	100.00
Michelin Finanz Gesellschaft für Beteiligungen AG & Co.OHG	Karlsruhe	Financial	100.00
Ihle tires GmbH	Muggensturm	Miscellaneous	100.00
Tirecorp GmbH	Muggensturm	Miscellaneous	100.00
Ihle International GmbH	Muggensturm	Miscellaneous	100.00
Belgium			
Michelin Belux S.A.	Zellik	Commercial	100.00
Denmark			
Euromaster Danmark A/S	Skanderborg	Commercial	100.00
Spain			
Michelin España Portugal, S.A.	Tres Cantos	Manufacturing & commercial	99.81
Reservas de Restaurantes, S.L.	Madrid	Miscellaneous	99.81
Euromaster Automoción y Servicios, S.A.	Madrid	Commercial	100.00
Nex Tyres, S.L.	Lleida	Miscellaneous	50.00
Finland			
Suomen Euromaster Oy	Pori	Commercial	100.00
France			
Compagnie Générale des Établissements Michelin	Clermont-Ferrand	Parent	-
Manufacture Française des Pneumatiques Michelin	Clermont-Ferrand	Manufacturing & commercial	100.00
Pneu Laurent	Avallon	Manufacturing & commercial	100.00
Simorep et Cie – Société du Caoutchouc Synthétique Michelin	Bassens	Manufacturing	100.00
Euromaster France	Montbonnot-Saint-Martin	Commercial	98.41
Michelin Aircraft Tyre	Clermont-Ferrand	Commercial	100.00
Transityre France	Clermont-Ferrand	Commercial	100.00
Michelin Travel Partner	Boulogne-Billancourt	Commercial	100.00
Spika	Clermont-Ferrand	Financial	100.00
Michelin Air Services	Clermont-Ferrand	Miscellaneous	100.00
Société Nationale des Établissements Piot Pneu	Montbonnot-Saint-Martin	Commercial	96.81
Tyredating	Lyon	Commercial	100.00
Ihle France	Schiltigheim	Miscellaneous	100.00
Euromaster Services et Management	Clermont-Ferrand	Commercial	100.00
GIE MICHELIN PLACEMENTS	Clermont-Ferrand	Financial	100.00
Greece			
Elastika Michelin A.E.	Halandri	Commercial	100.00
Hungary			
Michelin Hungaria Tyre Manufacture Ltd.	Nyíregyháza	Manufacturing & commercial	100.00
Ireland			
Miripro Insurance Company Designated Activity Company / Miripro Insurance Company DAC	Dublin	Miscellaneous	100.00
Italy			
Società per Azioni Michelin Italiana	Turin	Manufacturing & commercial	100.00
Luxembourg			
Michelin Luxembourg SCS	Luxembourg	Financial	100.00
Michelin Finance (Luxembourg) S.à r.l.	Luxembourg	Financial	100.00

Companies	Registered office	Nature	% of interest
The Netherlands			
Euromaster Bandenservice B.V.	Deventer	Commercial	100.00
Michelin Nederland N.V.	Drunen	Commercial	100.00
Transityre B.V.	Breda	Commercial	100.00
Poland			
Michelin Polska S.A.	Olsztyn	Manufacturing & commercial	100.00
Serbia			
Tigar Tyres d.o.o.	Pirot	Manufacturing & commercial	100.00
Romania			
Michelin Romania S.A.	Voluntari	Manufacturing & commercial	99.86
Euromaster Tyre & Services Romania S.A.	Voluntari	Commercial	100.00
United Kingdom			
Michelin Tyre Public Limited Company	Stoke-on-Trent	Manufacturing & commercial	100.00
ATS Euromaster Limited	Birmingham	Commercial	100.00
Blackcircles.com Limited	Edinburgh	Commercial	100.00
Livebooking Holdings Limited	London	Commercial	99.94
LB Central Limited	London	Commercial	99.94
Sweden			
Euromaster AB	Varberg	Commercial	100.00
Michelin Nordic AB	Stockholm	Commercial	100.00
Switzerland			
Euromaster (Suisse) S.A.	Givisiez	Commercial	100.00
Nitor S.A.	Granges-Paccot	Financial	100.00
Michelin Suisse S.A.	Givisiez	Commercial	100.00
Compagnie Financière Michelin SCmA	Granges-Paccot	Financial	100.00
Michelin Recherche et Technique S.A.	Granges-Paccot	Miscellaneous	100.00
Michelin Mexico Properties Sàrl	Granges-Paccot	Miscellaneous	100.00
Turkey			
Michelin Lastikleri Ticaret A.S.	Istanbul	Commercial	100.00
AFRICA/INDIA/MIDDLE EAST			
South Africa			
Michelin Tyre Company South Africa Proprietary Limited	Boksburg	Commercial	100.00
Algeria			
Michelin Algérie SPA	Algiers	Commercial	100.00
Nigeria			
Michelin Tyre Services Company Ltd.	Lagos	Commercial	95.48
India			
Michelin India Private Limited	Chennai	Manufacturing	100.00
NORTH AMERICA			
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 North America, Inc.	New York	Manufacturing & commercial	100.00
Michelin Retread Technologies, Inc.	Wilmington	Commercial	100.00
Tire Centers, LLC	Wilmington	Commercial	100.00
CR Funding Corporation	Wilmington	Financial	100.00
Michelin Corporation	New York	Financial	100.00
Oliver Rubber Company, LLC	Wilmington	Manufacturing	100.00
NexTraq LLC	Wilmington	Commercial	100.00
Mexico			
Michelin Mexico Holding, S.A. de C.V.	Queretaro	Financial	100.00
Industrias Michelin, S.A. de C.V.	Queretaro	Manufacturing & commercial	100.00

Companies	Registered office	Nature	% of interest
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.	Vila Velha	Commercial	100.00
Plantações E. Michelin Ltda.	Rio de Janeiro	Miscellaneous	100.00
Sascar Tecnologia E Segurança Automotiva S.A.	Barueri	Miscellaneous	100.00
Industrial Levorin S.A.	Guarulhos	Manufacturing & commercial	100.00
Neotec Indústria e Comércio de Pneus Ltda.	Manaus	Manufacturing & commercial	100.00
LevNeo Participações Ltda.	Guarulhos	Miscellaneous	100.00
Chile			
Michelin Chile Ltda.	Santiago	Commercial	100.00
Colombia			
Industria Colombiana de Llantas S.A.	Bogotá	Commercial	99.96
Peru			
Michelin del Perú S.A.	Lima	Commercial	100.00
SOUTHEAST ASIA/AUSTRALIA			
Australia			
Michelin Australia Pty Ltd	Melbourne	Commercial	100.00
Indonesia			
PT Michelin Indonesia	Jakarta	Commercial	100.00
PT Synthetic Rubber Indonesia	Jakarta	Manufacturing	55.00
Malaysia			
Michelin Malaysia Sdn. Bhd.	Petaling Jaya	Commercial	100.00
Singapore			
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
Thailand			
Michelin Siam Company Limited	Bangkok	Manufacturing & commercial	100.00
Michelin Thai Holding Co., Ltd.	Bangkok	Financial	100.00
Vietnam			
Michelin Vietnam Company Limited	Ho Chi Minh City	Commercial	100.00
CHINA			
China			
Michelin Shenyang Tire Co., Ltd.	Shenyang	Manufacturing	100.00
Shanghai Michelin Tire Co., Ltd.	Shanghai	Manufacturing	100.00
Michelin Asia (Hong Kong) Limited	Hong Kong	Commercial	100.00
Michelin (China) Investment Co., Ltd.	Shanghai	Commercial	100.00
Taiwan			
Michelin Tire Taiwan Co., Ltd.	Taipei	Commercial	100.00
EASTERN EUROPE			
Russia			
Michelin Russian Tyre Manufacturing Company LLC	Davydovo	Manufacturing & commercial	100.00
Ukraine			
Michelin Ukraine LLC	Kiev	Commercial	100.00
JAPAN/KOREA			
Japan			
Nihon Michelin Tire Co., Ltd.	Tokyo	Commercial	100.00
South Korea			
Michelin Korea Co., Ltd.	Seoul	Commercial	100.00

NOTE 37 STATUTORY AUDITORS' FEES

	Deloitte				PricewaterhouseCoopers			
	Statutory auditor (Deloitte & Associés)		Network		Statutory auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousand)	Amount	%	Amount	%	Amount	%	Amount	%
Statutory audit (including consolidated financial statements and half year review)								
Public Interest Entity	*517*	*43%*	-	-	*605*	*43%*	-	-
Controlled entities	*685*	*57%*	*1,640*	*100%*	*815*	*57%*	*3,564*	*100%*
Sub-total	**1,202**	**100%**	**1,640**	**100%**	**1,420**	**100%**	**3,564**	**100%**
Non Audit Services								
Public Interest Entity[(1)]	*20*	*83%*	-	-	*36*	*29%*	-	-
Controlled entities	*4*	*17%*	*821*	*100%*	*87*	*71%*	*2,704*	*100%*
Sub-total	**24**	**100%**	**821**	**100%**	**123**	**100%**	**2,704**	**100%**
TOTAL	**1,226**		**2,461**		**1,543**		**6,268**	

(1) These services are relating mainly to a certificate from the Statutory Auditors on agreed-upon procedures.

7.2 STATUTORY AUDITORS’ REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

This is a translation into English of the Statutory Auditors’ report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors’ report includes information specifically required by French law, such as information about the appointment of the Statutory Auditors or verification of the Management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Compagnie Générale des Établissements Michelin Shareholders’ Meeting

/ Opinion

In compliance with the engagement entrusted to us by your Shareholders’ Meeting, we have audited the accompanying consolidated financial statements of Compagnie Générale des Établissements Michelin (“the Group”) for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

/ Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the “Statutory Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2017 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of ethics for Statutory Auditors.

/ Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the year ended December 31, 2017, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific elements, accounts or items of the consolidated financial statements.

Employee benefit obligations under defined benefit plans

Risk identified

(Notes 2.5.2, 3.24.1, 9.3, 27.1 and 30 to the consolidated financial statements)

The Group has set up several post-employment defined contribution and benefit plans, mainly pension plans, medical expense coverage and retirement benefits.

A significant portion is comprised of defined benefit plans for which the Group undertakes to pay the agreed benefits to current or retired employees, mainly in North America and in certain European countries (mainly the United Kingdom, Germany and France).

The actuarial value of the cumulative employee benefit obligations related to these commitments amounts to €10,263 million as of December 31, 2017. Considering the hedging of certain of these liabilities by dedicated assets, mainly in North America and the United Kingdom, whose fair value totals €6,294 million as of December 31, 2017, the provision on the consolidated balance sheet as of December 31, 2017 amounts to €3,969 million.

The valuation of defined benefit plans as well as the expense recognized during the period requires Management to make significant judgments to determine, for each of the relevant countries and plans, the appropriate assumptions to be adopted concerning the discount and inflation rates, as well as demographic assumptions such as the long-term rate of change in salaries and mortality tables. Management also exercises its judgment concerning the valuation of dedicated hedging assets with respect to their fair value.

Changes in each of the key assumptions underlying the valuations can have a significant impact on the determination of recognized net liabilities as well as the annual expense recorded in the Group's consolidated statement of income. In this context, Management calls on external actuaries to provide assistance to determine these assumptions and to value the commitments.

We considered the valuation of commitments and the hedged assets resulting from the defined benefit plans as a key audit matter given their amounts, Management's significant judgments relating to determining the main actuarial or demographic assumptions and the resulting sensitivity, as well as the complexity of their valuation.

Responses as part of our audit

We have made inquiries as to the process set up by Management to value the commitments made with respect to post-employment defined benefit plans as well as for the related hedged assets, for the main plans existing in North America, the United Kingdom, Germany and France.

We have assessed the appropriateness of the main controls set up by Management relating to the accuracy of the data concerning the people covered by these plans, as well as the controls implemented by the Group's external actuaries.

With the assistance of our experts, our procedures mainly consisted in:

- assessing the reasonableness of the main assumptions adopted, notably the discount and inflation rates, with regard to market conditions;
- assessing the consistency of the assumptions relating to changes in salaries and demographic data (mortality tables, inflation rates for medical costs) with the specificities of the plans.

Our other procedures consisted in:

- examining the impact of the main modifications made to certain plans and verifying their correct recognition;
- regarding hedged assets, making inquiries as to the process set up by Management to document the existence and valuation of these assets and, using sampling, verifying their existence and the consistency of their valuation with the confirmations issued by third parties;
- using sampling, controlling the correct transcription, in the calculation of the commitments made by the Group's external actuaries, of individual data and actuarial and demographic assumptions used by Management;
- verifying the appropriateness of the disclosures presented in Note 27.1 to the consolidated financial statements.

Impairment of non-financial assets

Risk identified

(Notes 2.5.1, 3.17, 9.2, 13.2, 13.3 and 14 to the consolidated financial statements)

As of December 31, 2017, the value of the Group's non-financial assets, i.e. goodwill, intangible assets and property, plant and equipment totals €12,760 million for total assets of €25,267 million. These assets are mainly comprised of property, plant and equipment for €10,883 million, the major portion being those relating to the Group's production sites. The reminder is mainly comprised of goodwill (€1,092 million euro), approximately half of which is related to recent acquisitions, as well as software used by the Group for its day-to-day operations.

Note 3.17 to the consolidated financial statements describes the methods used by the Group to ensure, at the very minimum annually for goodwill, or in the event of indications of impairment of other non-financial assets, that the carrying value of the non-current non-financial assets, included in the Cash-Generating Units (CGU), does not exceed their recoverable amount. For the majority of the assets, this recoverable amount is assessed based on the discounted cash flows from the Group's five-year plan. For the Distribution CGUs, this value is measured based on the fair value, less costs of disposal, of land and buildings, which represent the major portion of their assets.

We considered the value of the non-financial assets as a key audit matter due to their significant amount on the consolidated balance sheet, and because the determination of their recoverable amount involves relying on judgment, notably for cash flow projections and the discount rates applied to them.

Responses as part of our audit

With the assistance of our experts in valuation, we performed the following procedures:

- examined the conformity of the methodology applied by the Group with the provisions of IAS 36 "Impairment of assets";
- performed a critical review of the methods used for implementing this methodology by paying particular attention to Cash-Generating Units for which the difference between the carrying value and the recoverable amount of the assets to be tested is limited;
- assessed the reasonableness of the main estimates, notably the discount rates and the long-term growth rates used, based on comparable data;
- verified that the cash flow projections used are consistent with the budget forecasts validated by Management;
- analyzed the consistency of the revenue, operating income and investment forecasts with the past performances of the activities and market outlook, and performed sensitivity analyses on the different parameters;
- verified the appropriateness of the disclosures presented in Notes 3.17, 9.2, 13.2, 13.3 and 14.

Contingencies related to the tax audit in Germany and litigation in Brazil

Risk identified

(Notes 3.25, 32.2.2 and 32.2.3 to the consolidated financial statements)

The Group carries out its business activities in different and sometimes uncertain and volatile legal and regulatory contexts, in particular fiscal. In the ordinary course of business, the tax and social authorities in the countries in which the Group operates have questions relating to its activities. These audits can result in tax reassessments or litigation with the relevant local authorities.

The estimate of the risk relating to each litigation is reviewed regularly by Management of the relevant subsidiary and at Group level, with the assistance of outside counsels for the most important or complex litigations.

More specifically, the Group is involved in two litigations with local authorities, in Germany with respect to a tax audit on transfer pricing covering the years 2005-2009 and in Brazil in connection with the tax benefits granted as part of an investment project, which are respectively described in Notes 32.2.2 and 32.2.3.

Management, relying on its internal analyses and on the advice of its outside counsels, challenges the positions of the local authorities with regard to these two litigations and has not recorded a provision for any of them. We considered these two litigation cases as a key audit matter given the potential amounts at stake and the significant level of judgment required to determine accounting positions relating to these litigations.

Responses as part of our audit

With the assistance of our experts, we performed the following procedures:

- conducted interviews with the local Management of the relevant entities and at Group level to assess the progress of the procedures and to quantify the potential impact on the consolidated financial statements of the reassessments notified or in the process of being notified by the tax authorities and of the litigation underway with local authorities;
- consulted the decisions of the local legal and tax authorities as well as the correspondence of the relevant Group entities with these authorities and with their outside counsels;
- verified that the absence of a provision for these two litigations complies with the provisions of IAS 37 "Provisions, contingent liabilities and contingent assets".

We have also assessed the appropriateness of the disclosures presented in Notes 32.2.2 and 32.2.3 to the consolidated financial statements.

/ Verification of the information pertaining to the Group presented in the Group Management report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the Group Management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

/ Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Compagnie Générale des Établissements Michelin by the Shareholders' Meeting of May 14, 2004 for PricewaterhouseCoopers Audit and May 7, 2010 for Deloitte & Associés.

As of December 31, 2017, PricewaterhouseCoopers Audit was in its 14th year of uninterrupted engagement and Deloitte & Associés in its 8th year.

/ Responsibilities of Management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Managing Chairman.

/ Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code *(Code de commerce),* our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

A more detailed description of our Statutory Auditor responsibilities for the audit of the consolidated financial statements is presented in the appendix to this report and is an integral part thereof.

Report to the Audit Committee

We submit a report to the Audit Committee, which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention, where applicable, any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters. We describe these matters in the audit report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) No. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of ethics for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine, February 12, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

/ Appendix

Detailed description of the Statutory Auditors' responsibilities

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and in particular:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements;
- assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to issue a qualified or an adverse opinion;
- evaluates the overall presentation of the consolidated financial statements and assesses whether they represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed therein.

8

FINANCIAL STATEMENTS

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8.1 REVIEW OF THE FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN

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

- Manufacture Française des Pneumatiques Michelin (MFPM), a wholly-owned subsidiary that coordinates all of the manufacturing, sales and research operations based in France.
- Compagnie Financière Michelin "Senard et Cie" (CFM), a wholly-owned subsidiary that owns most of the Group's manufacturing, sales and research companies outside of France and coordinates their operations.

Services provided by CGEM and CFM to the operating companies are governed by contractual agreements. They are delivered by MFPM, which bills the operating companies on a cost-plus basis.

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

8.1.1 INCOME STATEMENT

CGEM reported net income of €1,029.3 million in 2017, *versus* €1,415.9 million in 2016.

8.1.1 a) Operating income

Operating income amounted to €151.8 million in 2017, compared with €136.3 million in 2016. Royalty revenue grew by 26.7% during the year, reflecting a similar rise in net sales by Group companies, while operating expenses increased by €140.9 million to €542.3 million from €401.4 million in 2016.

8.1.1 b) Financial income

Net financial income amounted to €861.4 million in 2017, compared with €1,303.9 million the previous year, reflecting a fall in dividend income.

8.1.2 BALANCE SHEET

Equity amounted to €7,338 million at December 31, 2017, *versus* €6,987 million a year earlier. The increase primarily reflected the recognition of 2017 net income, partially offset by (i) the reduction in share capital and paid-in capital in excess of par due to the cancellation of 893,197 shares acquired under the share buyback program launched by the Group in February 2017, and (ii) payment of the 2016 dividend of €585.2 million.

8.2 FINANCIAL STATEMENTS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (PARENT)

BALANCE SHEET AT DECEMBER 31, 2017

ASSETS (in € thousands)		Note	December 31, 2017 Cost	December 31, 2017 Depreciation, amortization & provisions	December 31, 2017 Net	December 31, 2016 Net
Non-current assets						
Intangible assets						
Brands, licenses and other rights			449,349	73,762	375,587	423,000
Other intangible assets			61	61	0	0
		5	**449,410**	**73,823**	**375,587**	**423,000**
Property and equipment						
Land			102	0	102	102
Buildings			1,837	1,837	0	0
Other			346	346	0	0
		5	**2,285**	**2,183**	**102**	**102**
Investments						
Shares in subsidiaries and affiliates		5-6-7-19-20	6,145,995	67,269	6,078,726	6,078,407
Loans and advances to subsidiaries and affiliates[1]		5-7-9	892,805	0	892,805	552,973
Loans[2]		5-6-7-9	252,679	600	252,079	254,873
Other equity interests		5-7-20	2,860	0	2,860	2,782
		5	**7,294,339**	**67,869**	**7,226,470**	**6,889,035**
	(I)		**7,746,034**	**143,875**	**7,602,159**	**7,312,137**
Current assets						
Receivables		7-9	617,945	0	617,945	539,841
Derivative instruments		8	52,925	9,857	43,068	0
Cash			1,150,977	0	1,150,977	867,108
			1,821,847	**9,857**	**1,811,990**	**1,406,949**
Prepaid expenses			89	0	89	70
	(II)		**1,821,936**	**9,857**	**1,812,079**	**1,407,019**
Deferred charges and bond call premiums	**(III)**	8	**2,734**	**520**	**2,214**	**0**
Conversion losses	**(IV)**	8	**65,370**	**0**	**65,370**	**0**
TOTAL ASSETS	**(I)+(II)+(III)+(IV)**		**9,636,074**	**154,252**	**9,481,822**	**8,719,156**
(1) of which: short-term					*892,805*	*552,973*
(2) of which: long-term					*110,079*	*254,873*

EQUITY AND LIABILITIES *(in € thousands)*		Note	December 31, 2017	December 31, 2016
Equity				
Share capital		11	359,042	360,132
Paid-in capital in excess of par		11	2,941,581	3,023,996
Revaluation reserve		12	624,772	624,772
Other reserves		12	1,284,255	1,284,333
Retained earnings		12	1,037,347	215,837
Net income for the year		12	1,029,300	1,415,894
Untaxed reserves		12	61,598	61,598
	(I)		**7,337,895**	**6,986,562**
Liabilities[1]				
Convertible bonds		8-10	505,550	753,134
Ordinary bonds and other borrowings		10	146,538	150,010
Other financial liabilities[2]		7-10	910,606	412,985
Accrued taxes and payroll costs		10	4,914	25,470
Other liabilities		7-10	459,163	390,995
Derivative instruments		8	53,538	0
	(II)		**2,080,309**	**1,732,594**
Conversion gains	**(III)**	8	**63,618**	**0**
TOTAL EQUITY AND LIABILITIES	**(I)+(II)+(III)**		**9,481,822**	**8,719,156**
(1) of which: long-term			*560,244*	*0*
of which: short-term			*1,520,065*	*1,732,594*
(2) of which: short-term bank loans and overdrafts			*0*	*0*

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2017

(in € thousands)		Note	2017	2016
Revenue				
Royalties – of which, export revenues: 622,837		14	681,188	537,617
Other revenue			12,894	21
Total revenue	**(I)**		**694,082**	**537,638**
Operating expenses				
External charges[1]			483,768	393,272
Taxes other than on income			10,278	7,639
Payroll costs			123	30
Depreciation and amortization		5.2	47,571	0
Other expenses			536	410
Total operating expenses	**(II)**		**542,276**	**401,351**
OPERATING INCOME	**(I)-(II)**		**151,806**	**136,287**
Financial income				
Dividends from subsidiaries and affiliates[2]		2.4	845,093	1,311,225
Interest income[2]			19,585	8,871
Provision reversals[2]			3,004	16,096
Exchange gains			7,459	9,040
Total financial income	**(III)**		**875,141**	**1,345,232**
Financial expense				
Amortization and provision expense[3]			1,120	6,172
Interest expense[3]			6,614	26,095
Exchange losses			5,967	9,069
Total financial expenses	**(IV)**		**13,701**	**41,336**
NET FINANCIAL INCOME	**(III)-(IV)**		**861,440**	**1,303,896**
INCOME BEFORE NON-RECURRING ITEMS AND TAX	**(I-II+III-IV)**		**1,013,246**	**1,440,183**
Non-recurring income			0	123
Non-recurring expenses			0	128
NET NON-RECURRING INCOME (EXPENSE)	**(V-VI)**		**0**	**(5)**
INCOME TAX BENEFIT (EXPENSE)	**(VII)**	2.6-15	**(16,054)**	**24,284**
Total revenue	(I+III+V)		1,569,223	1,882,993
Total expenses	(II+IV+VI+VII)		539,923	467,099
NET INCOME			**1,029,300**	**1,415,894**
(1) External charges primarily comprise R&D and services costs rebilled to the Company by the subsidiaries.				
(2) Of which: income from related parties			*860,237*	*1,335,255*
(3) Of which: expenses paid to related parties			*1,669*	*6,566*

Notes 1 to 22 are an integral part of the financial statements of Compagnie Générale des Établissements Michelin.

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 1 GENERAL INFORMATION

The Company's financial year covers the 12 months from January 1 to December 31.

The following notes and tables form an integral part of the financial statements.

The financial statements were approved for publication by the Chief Executive Officer on February 9, 2018 after being reviewed by the Supervisory Board.

Unless otherwise specified, all amounts are presented in thousands of euros.

NOTE 2 SIGNIFICANT EVENTS OF THE YEAR

2.1. Since December 31, 2016, the Company owns all of the Group's brands and technologies and it therefore receives the full amount of the related royalties.

2.2. The zero-coupon bonds (OCEANEs) issued on March 21, 2007, which are convertible and/or exchangeable for new or existing shares of common stock, became due on January 1, 2017. 5,396,099 outstanding OCEANEs for which the option of conversion into shares was not exercised were redeemed on January 2, 2017, the first working day after the due date, at €139.57 per OCEANE. The total redemption amount was €753 million, including interest of €193 million.

2.3. In January 2017, the Company issued USD 500 million worth of five-year non-dilutive cash-settled convertible bonds. The bonds were issued at par and, if not converted, are redeemable at par. They do not bear interest.

In April 2017, the Company carried out a further USD 100 million tap issue of five-year non-dilutive cash-settled convertible bonds. The bonds were issued at 103.5% of par and are redeemable at par. They do not bear interest.

Concurrently with these issues, the Company purchased financial instruments with the same maturity to hedge its entire exposure to increases and decreases in the Michelin share price. The proceeds from the two issues were swapped for euros, providing the Group with the equivalent of classic eurodenominated bond financing at an attractive cost.

2.4. During the year, Compagnie Financière Michelin SCmA paid a total of €845 million in dividends.

2.5. A total of 893,197 shares bought back in 2017 under the share buyback program at a cost of €100,577 thousand were canceled during the year.

2.6. In a ruling applicable as from October 8, 2017, France's Constitutional Council held the 3% surtax on distributed earnings introduced in 2012 to be unconstitutional. A tax benefit of €47 million was therefore recorded covering the 3% surtax paid in the years 2012 to 2016. Interest on the amount to be refunded represented €5 million and was recorded in "Interest income". The surtax was refunded by the tax authorities, together with the related interest, before the end of 2017.

NOTE 3 BASIS OF PREPARATION

The financial statements of Compagnie Générale des Établissements Michelin have been prepared and presented in accordance with French generally accepted accounting principles, including regulation ANC 2016-07 dated November 4, 2016 and the guidance and recommendations issued since that date by the French Accounting Board (CNC). These principles have been applied consistently in all periods presented unless otherwise specified.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Intangible assets

"Brands, patents and other rights" are stated at historical cost. Patents and other rights are amortized on a straight-line basis over seven years. Brands are not amortized.

If there is any indication that their value may be impaired, a provision for impairment is recorded.

Expenses incurred for the creation and protection of brands are recognized as expenses for the year.

"Other intangible assets" consist of vehicle parking rights, which are amortized over 40 years.

4.2 Property and equipment

/ 4.2.1 Cost

Property and equipment are stated at historical cost, except for assets held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

/ 4.2.2 Depreciation

Property and equipment are depreciated on a straight-line basis over the following estimated useful lives:

- Buildings: 30 years.
- Equipment: 10 years, except for computer hardware, which is depreciated over five years.

4.3 Investments

/ 4.3.1 Shares in subsidiaries and affiliates

Cost: Shares in subsidiaries and affiliates are stated at historical cost, except for investments held at the time of the 1976/1978 legal revaluation, which are stated at valuation.

Net book values: Shares in subsidiaries and affiliates are written down in the event of a lasting decline in value in use to below cost. Value in use generally corresponds to the Company's share in the investee's underlying adjusted or unadjusted net assets or consolidated net assets, as adjusted for its earnings outlook.

/ 4.3.2 Other equity interests

This item includes shareholdings that the Company intends to retain, but which are not held for purposes directly related to the Company's business.

Other equity interests are measured in the same way as shares in subsidiaries and affiliates.

/ 4.3.3 Loans

Loans are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.4 Receivables

Accounts receivable are stated at nominal value and a provision for impairment is recognized to cover any risk of non-recovery.

4.5 Paid-in capital in excess of par

This item corresponds to premiums on shares issued for cash or on conversion of bonds, after deducting issuance costs net of tax. When shares are cancelled, the difference between their purchase cost and par value is recorded as a deduction from paid-in capital in excess of par.

4.6 Untaxed reserves

Substantially all untaxed reserves correspond to reinvested capital gains qualifying for rollover relief under the former Article 40 of the French General Tax Code *(Code général des impôts).*

4.7 Conversion of foreign currencies

Revenues and expenses in foreign currencies are converted at the transaction date exchange rate.

Foreign currency receivables and payables are converted at the year-end exchange rate.

4.8 Derivative instruments

/ 4.8.1 Currency derivatives at fair value through profit or loss

Foreign currency forward contracts that are outstanding at the balance sheet date are marked to market in the balance sheet. Their notional amounts are recognized in off-balance sheet items.

/ 4.8.2 Currency derivatives qualifying for hedge accounting

Losses and gains arising from remeasurement at fair value of currency derivatives qualified as hedges are recorded in the balance sheet under "Conversion losses" or "Conversion gains", to offset the gain or loss on the hedged item.

/ 4.8.3 Options on treasury stock qualifying for hedge accounting

The Company purchased cash-settled call options to hedge its economic exposure to the potential exercise of the conversion rights embedded in the non-dilutive cash-settled convertible bonds referred to in Note 2.3.

Pursuant to regulation ANC 2015-05, Article 628-12, the premium on the purchased options was initially recorded in the balance sheet and is being amortized through financial expense over the hedging period (five years).

4.9 Income taxes

Income tax expense in the income statement includes current taxes due by the tax group and tax credits.

NOTE 5 NON-CURRENT ASSETS

Changes in intangible assets, property and equipment and the corresponding depreciation/amortization can be analyzed as follows:

5.1 Changes in non-current assets

(in € thousands)	Cost at January 1, 2017	Additions, new loans, increases in accrued interest	Disposals, decommissioning, reduction in loans and accrued interest	Cost at December 31, 2017
Intangible assets	449,252	158	0	449,410
Property and equipment	2,285	0	0	2,285
	451,537	**158**	**0**	**451,695**
Shares in subsidiaries and affiliates	6,145,676	319	0	6,145,995
Loans and advances to subsidiaries and affiliates	552,973	340,054	(222)	892,805[1]
Loans	257,877	162,600	(167,798)	252,679[1]
Other equity interests	2,782	78	0	2,860
	6,959,308	**503,051**	**(168,020)**	**7,294,339**
TOTAL	**7,410,845**	**503,209**	**(168,020)**	**7,746,034**

(1) Loans are granted to related companies.

5.2 Depreciation and amortization

	At January 1, 2017	Increase for the year	Decrease for the year	At December 31, 2017
Intangible assets	26,252	47,571[1]	0	73,823
Property and equipment	2,183	0	0	2,183
TOTAL	**28,435**	**47,571**	**0**	**76,006**

(1) Amortization concerns technology acquired on December 31, 2016 from a related company (MRT), which is being amortized over seven years.

NOTE 6 PROVISIONS

	At January 1, 2017	Increase for the year	Decrease for the year	At December 31, 2017
Provisions for impairment of shares in subsidiaries and affiliates and other equity interests	67,269	0	(0)	67,269
Provisions for impairment of loans	3,004	600	(3,004)	600
TOTAL	**70,273**	**600**	**(3,004)**	**67,869**

NOTE 7 RELATED-PARTY ASSETS AND LIABILITIES

	Transactions involving			
Balance sheet items (net book value)	**related companies**	**other companies in which the Company holds an equity interest**	**Other**	**Total**
Shares in subsidiaries and affiliates	6,078,726	0	0	**6,078,726**
Loans and advances to subsidiaries and affiliates	892,805	0	0	**892,805**
Loans	252,079	0	0	**252,079**
Other equity interests	0	2,840	20	**2,860**
Receivables	342,655	0	275,290	**617,945**
Other financial liabilities	910,606	0	0	**910,606**
Other liabilities	456,392	0	2,771	**459,163**

NOTE 8 NON-DILUTIVE CASH-SETTLED CONVERTIBLE BONDS

The issuance costs for the USD 600 million 2017-2022 non-dilutive cash-settled convertible bonds were recorded in deferred charges. At December 31, 2017, the cash-settled call options purchased to hedge the Company's economic exposure to the potential exercise of the conversion rights embedded in the bonds had a net book value of €43 million (see Note 4.8.3).

NOTE 9 MATURITIES OF LOANS AND RECEIVABLES

	Total	Due within one year	Due in more than one year
Non-current assets			
Loans and advances to subsidiaries and affiliates	892,805	892,805	0
Loans	252,679	110,679	142,000
Current assets			
Receivables	617,945	617,945	0
TOTAL	**1,763,429**	**1,621,429**	**142,000**

NOTE 10 MATURITIES OF PAYABLES AND LONG- AND SHORT-TERM DEBT

	Total	Due within one year	Due in one to five years	Due in more than five years
Convertible bonds	505,550	0	505,550	0
Ordinary bonds and other borrowings	146,538 (1)	146,538	0	0
Other financial liabilities	910,606	910,606	0	0
Accrued taxes and payroll costs	4,914 (2)	3,758	1,156	0
Other liabilities	459,163 (3)	459,163	0	0
TOTAL	**2,026,771**	**1,520,065**	**506,706**	**0**

(1) The commercial paper program totaled €1.5 billion at December 31, 2017, with the nominal amounts outstanding at that date representing €110 million, USD 10 million and GBP 25 million.
(2) An accrual of €1,156 thousand was recorded in respect of Chief Executive Officer's rights to long-term incentive plan payments that vested in prior years.
(3) Including €456,392 thousand in liabilities toward related companies and €2,343 thousand in accrued expenses.

NOTE 11 SHARE CAPITAL AND PAID-IN CAPITAL IN EXCESS OF PAR

Share capital and paid-in capital in excess of par break down as follows:

	Share capital	Paid-in capital in excess of par	Total
At January 1, 2017: 180,066,121 shares	**360,132**	**3,023,996**	**3,384,128**
Issuance of 348,063 shares in connection with performance share and stock option plans	696	16,376	**17,072**
Cancellation of 893,197 shares	(1,786)	(98,791)	**(100,577)**
AT DECEMBER 31, 2017: 179,520,987 SHARES	**359,042**	**2,941,581**	**3,300,623**

The shares have a par value of €2.

All outstanding shares are registered and fully paid.

NOTE 12 OTHER EQUITY

	Revaluation reserve	Other reserves	Retained earnings	Net income for the year	Untaxed reserves	Total
At January 1, 2017	**624,772**	**1,284,333**	**215,837**	**1,415,894**	**61,598**	**3,602,434**
Appropriation of 2016 net income			820,676	(1,415,894)		**(595,218)**
Dividends on treasury stock			834			**834**
Deduction for performance share issuance		(78)				**(78)**
2017 net income				1,029,300		**1,029,300**
AT DECEMBER 31, 2017	**624,772**	**1,284,255**	**1,037,347**	**1,029,300**	**61,598**	**4,037,272**
The revaluation reserve concerns:						
▶ Land	32					
▶ Shares in subsidiaries and affiliates	624,740					
Other reserves break down as follows:						
▶ Legal reserve, including €26,943 thousand corresponding to long-term capital gains		37,158				
▶ Special long-term capital gains reserve		881,419				
▶ Other reserves		365,678				

NOTE 13 SHARE-BASED PAYMENTS

Stock option plans

The number of options granted under stock option plans and the average weighted exercise price may be analyzed as follows:

	2017		2016	
	Weighted average exercise price *(in € per option)*	Number of options	Weighted average exercise price *(in € per option)*	Number of options
At January 1	**54.35**	**672,028**	**65.87**	**1,733,471**
Granted	-	-	-	-
Cancelled	51.16	(2,098)	85.79	(338,023)
Exercised	55.00	(308,979)	67.27	(723,420)
AT DECEMBER 31	**53.81**	**360,951**	**54.35**	**672,028**

All of the 360,951 options outstanding at December 31, 2017 were exercisable at that date (2016: 672,028 out of 672,028).

Details of the stock option plans in progress at December 31, 2017 are as follows:

			December 31, 2017		December 31, 2016	
Grant date	Start of exercise period	End of exercise period	Exercise price *(in € per option)*	Number of options outstanding	Exercise price *(in € per option)*	Number of options outstanding
May 2008	May 2012	May 2017	59.85	-	59.85	75,662
November 2009	November 2013	November 2018	51.16	177,748	51.16	317,554
May 2010	May 2014	May 2019	52.13	79,963	52.13	102,910
May 2011	May 2015	May 2020	66.00	59,127	66.00	93,288
June 2012	June 2016	June 2021	51.16	44,113	51.16	82,614
NUMBER OF OPTIONS OUTSTANDING				**360,951**		**672,028**

Performance share plans

The number of performance share rights outstanding may be analyzed as follows:

	2017	2016
	Number of performance share rights outstanding	Number of performance share rights outstanding
At January 1	**668,936**	**732,406**
Granted	296,440	120,520
Cancelled	(42,780)	(61,027)
Delivered	(39,084)	(122,963)
AT DECEMBER 31	**883,512**	**668,936**

In November 2017, 296,440 rights to shares of Company stock, subject to certain performance conditions (performance shares) were granted to Group employees. The rights are subject to a four-year vesting period ending in November 2021 without any lock-up period. The shares will vest at the end of this period if the performance objectives concerning growth in the share price and operating income, the environmental performance of manufacturing operations and the employee engagement level have been met. The fair value of each performance share right is estimated at €66.84, based on the share price at date of grant less the discounted value of the estimated dividends that the grantee will not receive over the vesting period and other adjustments. The fair value of performance shares at date of grant may fall if the likelihood of meeting the market performance condition decreases.

Details of performance share plans in progress at December 31, 2017 are as follows:

Grant date	Vesting date		Lock-up period		Fair value at date of grant		December 31, 2017	December 31, 2016
							Number of performance share rights outstanding	Number of performance share rights outstanding
	France	Other countries	France	Other countries	France	Other countries		
2013	2017	2017	None	None	69.43	69.43	-	78,168
2014	2018	2018	None	None	63.05	63.05	276,168	279,864
2014	2018	2018	None	None	63.05	63.05	106,244	106,244
2015	2019	2019	None	None	82.24	82.24	84,140	84,140
2016	2020	2020	None	None	66.41	66.41	120,520	120,520
2017	2021	2021	None	None	66.84	66.84	296,440	-
NUMBER OF PERFORMANCE SHARE RIGHTS OUTSTANDING							**883,512**	**668,936**

Employee share issues

No new employee share issue was carried out in 2017.

In 2016, the Group launched the Bib'Action employee share issue open to all employees resident in countries where the plan was authorized under local legal and tax rules. Carried out in connection with the Group Savings Plan (PEG), Bib'Action gave employees an opportunity to purchase Michelin shares at a discount to their market price, subject to a five-year lock-up.

The issue price was set at €76.38, a 20% markdown on the reference price of €95.47, which corresponded to the average of the opening prices quoted for the Michelin share over the 20 trading days preceding the day on which the issue price was set. In addition, employee contributions were matched, with the Group contributing one share for each of the first five shares purchased, thus increasing the number of shares received by participating employees.

A total of 657,366 shares were subscribed under the share issue.

The following table presents the main features of the plan and the key assumptions used to determine the plan costs:

Lock-up period	5 years
Number of shares purchased	657,366
Reference price *(in €)*	95.47
Purchase price for employees *(in €)*	76.38

NOTE 14 REVENUE

Revenue for the year totaled €681,188 thousand, consisting entirely of royalties received from:

France	58,351
Outside France	622,837
TOTAL	**681,188**

NOTE 15 INCOME TAX

Compagnie Générale des Établissements Michelin is the parent company of a tax group that also comprises thirteen French subsidiaries that are at least 95%owned directly or indirectly.

Under the terms of the group relief agreement, each subsidiary in the tax group continues to record the income tax expense that it would have paid if it had been taxed on a stand-alone basis and any group relief is recorded at the level of Compagnie Générale des Établissements Michelin.

The income tax expense recorded in the Company's income statement for 2017 includes current taxes (€10,830 thousand), the 3% surtax on earnings distributed in 2016 (€17,828 thousand) and the refund of the 3% surtax on earnings distributed in the years 2012 to 2016 (€46,557 thousand).

NOTE 16 MARKET RISKS

16.1 Interest rate risk

The Company does not hold any interest rate instruments.

16.2 Currency risk

At December 31, 2017, the Company had receivables corresponding to royalties with a net book value of €157 million. These receivables have been converted into euros at the year-end exchange rate. The policy is to hedge currency risk through currency futures.

As explained in Note 2.3, during 2017 the Company issued convertible bonds denominated in US dollars. The related currency risk has been fully hedged by means of forward purchases of foreign currency with the same maturity as the bonds.

16.3 Equity risk

The Company holds shares in subsidiaries and affiliates and other equity interests that are measured at value in use.

The Company is exposed to the risk of a change in value of its own shares, in connection with its non-dilutive cash-settled convertible bond issues. This risk has been fully hedged through the purchase of call options.

NOTE 17 MANAGEMENT COMPENSATION

As per its Bylaws, the Company is administered by one or several General Managing Partners who are entitled to a share of the income distributed among all the General Partners in accordance with the provisions of the Bylaws. The Managing Partner(s) do not receive any benefits in kind.

The statutory share of 2016 profit allocated to the Chief Executive Officer and General Managing Partner in 2017 amounted to €2.2 million (2016: €1.3 million in respect of 2015 profit).

In 2008, a long-term incentive bonus (2008 ILT) was awarded to the Chief Executive Officer in the form of units whose value is equal to the difference between (i) the value of Michelin shares on the date the units are cashed in and (ii) the benchmark share price, defined as the exercise price of the respective stock options granted to Group employees on May 29, 2008. The other terms and conditions of the award (notably the vesting period, eligibility criteria and the cap on gains) are identical to those of the stock option plan, except for certain minor adjustments made to reflect Mr. Senard's legal status of Non-General Managing Partner during this period. The number of units and the exercise price were adjusted under the same terms and conditions as the stock option plan following the October 25, 2010 share issue.

As allowed under 2008 ILT plan rules, in February 2017 Mr. Senard cashed in his 2008 ILT, representing a gross amount of €978 thousand based on the opening Michelin share price of €107.05 on the settlement date.

NOTE 18 FEES PAID TO THE STATUTORY AUDITORS

	Deloitte & Associés	PricewaterhouseCoopers Audit
Audit services	517	605
Non-audit services[1]	20	36

(1) Non-audit services consisted mainly of an "agreed upon procedures" engagement performed by the Statutory Auditors.

NOTE 19 SECURITIES PORTFOLIO AT DECEMBER 31, 2017

	Number of securities	Book value
Shares in subsidiaries and affiliates		
Compagnie Financière Michelin "Senard et Cie"	25,023,552 shares	4,325,680
Manufacture Française des Pneumatiques Michelin	13,263,156 shares	1,614,309
Spika S.A.	200,000 shares	138,737
		6,078,726
Other equity interests		
SI Participations (in liquidation)	17,776 shares	278
Siparex Associés	161,543 shares	2,562
Other		20
		2,860

NOTE 20 LIST OF SUBSIDIARIES AND AFFILIATES

Subsidiaries and affiliates *(in € thousands unless otherwise specified)*	Share capital(1)(2)	Other equity excl. income(1)(2)	% interest	Book value of shares		Outstanding loans and advances	Guarantees given by the Company	Last published revenue(2)	Last published profit/(loss)(1)(2)	Dividends received during the year
				Cost	Net					
A – Detailed information about subsidiaries and affiliates (investments with a book value in excess of 1% of the Company's capital)										
Compagnie Financière Michelin SCmA Route Louis-Braille 10, 1763 Granges-Paccot (Switzerland)	2,502,355 *(in CHF thousands)*	7,370,799 *(in CHF thousands)*	100.00	4,325,680	4,325,680	186,427	-	-	1,268,759 *(in CHF thousands)*	844,974
Manufacture Française des Pneumatiques Michelin Place des Carmes-Déchaux, 63000 Clermont-Ferrand	504,000	1,708,337	99.99	1,614,309	1,614,309	698,140	-	4,952,683	13,052	-
Spika S.A. 23, rue Breschet, 63000 Clermont-Ferrand	183,000	(58,328)	100.00	205,915	138,737	8,238	-	-	(10,300)	-
B – Aggregate information about other subsidiaries and affiliates										
1 – Subsidiaries not listed under A:										
▶ French companies				-	-	-	-			-
▶ Foreign companies				91	-	-	-			-
2 – Affiliates not listed under A:										
▶ French companies				2,840	2,840	-	-			-
▶ Foreign companies				-	-	-	-			-

(1) In local currency.
(2) Year ended December 31, 2016.

NOTE 21 FINANCIAL COMMITMENTS

21.1 Lines of credit

	2017	2016
Lines of credit granted by the Company to related companies	940,700	763,600
Drawdowns	(800,600)	(365,500)
AVAILABLE AT DECEMBER 31	**140,100**	**398,100**

These lines of credit expire in 2018 (€870,700 thousand) and 2019 (€70,000 thousand).

21.2 Currency futures

At December 31, 2017, the value in euros of currency futures was as follows:

- Currency to be received €605,216 thousand.
- Currency to be delivered €607,672 thousand.

NOTE 22 SUBSEQUENT EVENTS

In January 2018, the Company carried out a USD 600 million non-dilutive cash-settled convertible bond issue. The bonds were issued at 95.5% of par and will be redeemed at par on November 10, 2023. They do not bear interest.

Cash-settled call options have been purchased to hedge the Company's economic exposure to the potential exercise of the conversion rights embedded in the bonds.

The proceeds from the issue were swapped for euros, providing the Group with the equivalent of classic euro-denominated bond financing at an attractive cost.

8.3 STATUTORY AUDITORS' REPORT ON THE ANNUAL FINANCIAL STATEMENTS

For the year ended December 31, 2017

This is a translation into English of the Statutory Auditors' report on the annual financial statements of the company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information specifically required by French law, such as information about the appointment of the Statutory Auditors or verification of the Managing Chairman's Management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

To the Compagnie Générale des Établissements Michelin Shareholders' meeting

/ Opinion

In compliance with the engagement entrusted to us by your Shareholders' meeting, we have audited the accompanying annual financial statements of Compagnie Générale des Établissements Michelin for the year ended December 31, 2017.

In our opinion, the annual financial statements give a true and fair view of the assets and liabilities and of the financial position of the company as at December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

/ Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *"Statutory Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report.

Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from January 1, 2017 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) no. 537/2014 or in the French Code of ethics for statutory auditors.

/ Justification of Assessments – Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the year ended December 31, 2017, as well as our responses to those risks.

These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific elements, accounts or items of the annual financial statements.

Valuation of shares in subsidiaries and affiliates and equity interests

Risk identified

(Notes 4.3.1, 4.3.2, 5.1, 6, 19 and 20 to the financial statements).

As of December 31, 2017, shares in subsidiaries and affiliates and equity interests are recorded on the balance sheet for a net amount of 6,082 million euros. They are recognized at historical cost and increased by the impact of legal revaluations if necessary.

They are stated at the value in use generally estimated by Management based on the share in the net assets or consolidated net assets (possibly re-estimated) of the relevant entities, their earnings outlook as well as the use for the company which holds the shares.

To estimate the value in use of these securities, Management exercises its judgment when choosing the items to be considered according to the relevant subsidiaries and affiliates, items which can correspond, depending on the case, to historical figures (share of statutory or consolidated net assets), and /or forecast items (earnings outlook) as well as the use for the company which holds the shares.

In this context, due to the degree of judgment inherent in certain items, notably the probability of achieving the forecasts prepared by Management, we consider the valuation of the shares in the subsidiaries and affiliates and equity interests to be a key audit matter.

Responses as part of our audit

Our work consisted in verifying that the assessment of the values in use by Management is based on an appropriate justification of the valuation methods and items used and:

- For valuations based on historical items:
  - Verify that the net assets' figures used match with the accounts of the entities and that the adjustments made, when necessary, are based on probative documentation.
- For valuations based on forecast items:
  - Obtain the cash flows and operating forecasts of the relevant entities prepared by Management and assess the consistency of the assumptions used.

Our work consisted also to assess the items relating to the use for the company which holds the shares.

/ Verification of the Managing Chairman's Management report and of the other documents addressed to shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the Managing Chairman's Management report and in the other documents provided to shareholders with respect to the financial position and the annual financial statements

We have no matters to report as to the fair presentation and the consistency with the annual financial statements of the information given in the Managing Chairman's Management report and in the other documents addressed to shareholders with respect to the financial position and the annual financial statements.

Report on corporate governance

We attest that the report prepared by the Supervisory Board on Corporate Governance sets out the information required by Articles L. 225-37-3 and L. 225-37-4 of the French Commercial Code.

Concerning the information given in accordance with the requirements of Article L. 225-37-3 of the French Commercial Code relating to remunerations and benefits received by the Managing Partners and any other commitments made in their favor, we have verified its consistency with the annual financial statements or with data used to prepare these annual financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

With respect to the information relating to items that your company considered likely to have an impact in the event of a public purchase or exchange offer, provided pursuant to Article L. 225-37-5 of the French Commercial Code, we have verified their compliance with the source documents communicated to us. Based on our work, we have no observations to make on this information.

Other information

In accordance with French law, we have verified that the required information concerning the identity of the shareholders and holders of the voting rights has been properly disclosed in the Managing Chairman's Management report.

/ Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Compagnie Générale des Etablissements Michelin by the Shareholders' meeting of May 14, 2004 for PricewaterhouseCoopers Audit and May 7, 2010 for Deloitte & Associés.

As of December 31, 2017, PricewaterhouseCoopers Audit was in its 14th year of uninterrupted engagement and Deloitte & Associés in its 8th year.

/ Responsibilities of Management and those charged with governance for the annual financial statements

Management is responsible for the preparation and fair presentation of the annual financial statements in accordance with French accounting principles, and for such internal control as Management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, Management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The annual financial statements have been approved by the Managing Chairman.

/ Statutory Auditors' responsibilities for the audit of the annual financial statements

Objective and audit approach

Our role is to issue a report on the annual financial statements. Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code *(Code de commerce)*, our statutory audit does not include assurance on the viability of the company or the quality of management of the affairs of the company.

A more detailed description of our Statutory Auditor responsibilities for the audit of the annual financial statements is presented in the appendix to this report and is an integral part thereof.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention, where applicable, any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the annual financial statements of the current period and which are therefore the key audit matters. We describe these matters in the audit report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) no. 537/2014, confirming our independence pursuant to the rules applicable in France as defined in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine, February 12, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

/ Appendix

Detailed description of the Statutory Auditors' responsibilities

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and in particular:

- identifies and assesses the risks of material misstatement of the annual financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the annual financial statements;
- assesses the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the annual financial statements or, if such disclosures are not provided or inadequate, to issue a qualified or adverse opinion.
- evaluates the overall presentation of the annual financial statements and assesses whether they represent the underlying transactions and events in a manner that achieves fair presentation.

8.4 STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS AND COMMITMENTS WITH THIRD PARTIES

Annual General Shareholders' Meeting for the approval of the Company annual financial statements as of December 31, 2017

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in French and it is provided solely for the convenience of English speaking users.

This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with French law and professional auditing standards applicable in France.

It should be understood that the agreements reported on are only those provided by the French Commercial Code (Code de commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders of Compagnie Générale des Établissements Michelin

In our capacity as Statutory Auditors of your Company ("the Company"), we hereby report on regulated agreements and commitments with third parties.

It is our responsibility to report to you, based on the information provided to us, on the main terms, conditions and the reasons justifying the interest for the Company, of the agreements and commitments that have been disclosed to us or that we may have identified as part of our engagement, without commenting on their relevance or substance or identifying any undisclosed agreements or commitments. It is your responsibility, pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce),* to assess the interest of entering into these agreements and commitments with a view to approving them.

Where applicable, it is our responsibility to communicate to you the information pursuant to Article R. 226-2 of the French Commercial Code *(Code de commerce)* relating to carrying out the agreements and commitments already approved by the Shareholders' Meeting during the year.

We conducted the procedures we deemed necessary in accordance with professional standards applicable in France.

/ Agreements and commitments to be submitted for the approval of the Shareholders' Meeting

We were not informed of any agreement or commitment to be submitted for approval at the Shareholders' Meeting pursuant to the provision of Article L. 226-10 of the French Commercial Code.

/ Agreements and commitments authorized in prior years by the Shareholders' Meeting

We inform you that we have not been advised of any agreements and commitments, approved by the Shareholders' Meeting in prior years, having continuing effect during the year.

Neuilly-sur-Seine, February 12, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit
Éric Bulle

Deloitte & Associés
Pascale Chastaing-Doblin

8.5 STATEMENT OF CHANGES IN EQUITY

(in € thousands and € per share)	2017	2016
Net income		
Accounting profit		
Total: Net income/(loss)	1,029,300	1,415,894
Per share: Net income/(loss)	5.73	7.86
Recommended dividend		
Total	637,300[1]	585,215
Per share	3.55[1]	3.25

(1) Subject to approval by shareholders at the Annual Meeting on May 18, 2018.

Statement of changes in equity *(in € thousands)*	2017	2016
A) 1 – Equity at December 31, 2016 before dividends	**6,986,562**	**6,294,453**
2 – Dividend approved by the Annual Shareholders Meeting	(595,218)	(525,402)
B) Equity at January 1, 2017 after dividends	**6,391,344**	**5,769,051**
C) Movements for the year:		
1 – Par value of shares issued during the year	(1,090)	(3,672)
2 – Increase in paid-in capital in excess of par	(82,414)	(198,125)
3 – Change in reserves and retained earnings[1]	755	3,414
4 – Net income for the year	1,029,300	1,415,894
D) Equity at December 31, 2017 before dividends	**7,337,895**	**6,986,562**
E) TOTAL CHANGES IN EQUITY DURING THE YEAR	**946,551**	**1,217,510**
F) of which changes due to changes in Group structure	*0*	*0*
G) TOTAL CHANGES IN EQUITY DURING THE YEAR EXCLUDING CHANGES IN GROUP STRUCTURE	**946,551**	**1,217,510**
Notes:		
C3 – Amounts transferred to the revaluation reserve during the year	*0*	*0*
C6 – Dividends on treasury shares credited to retained earnings	*834*	*3,660*

(1) Excluding appropriation of 2016 net income.

8.6 APPROPRIATION OF 2017 NET INCOME

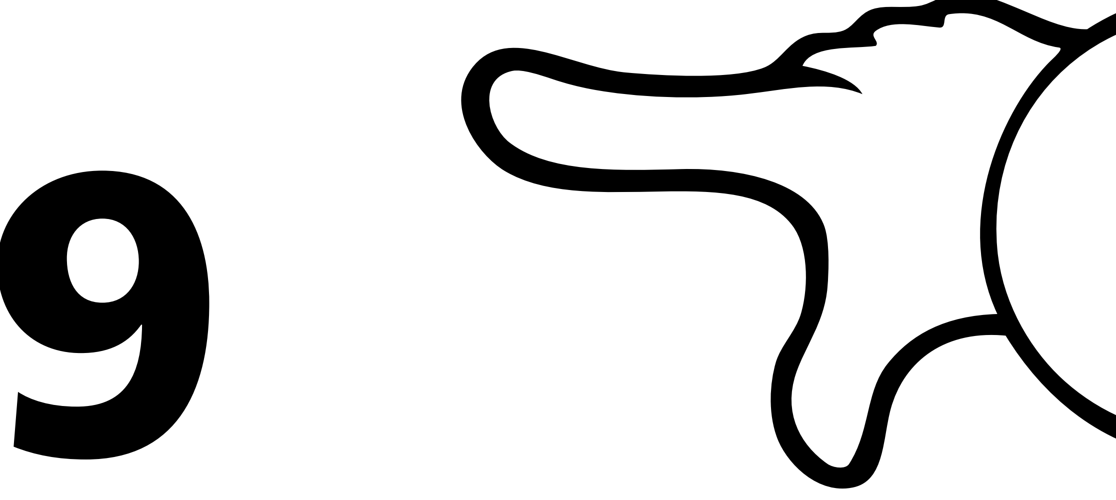
(in € thousands)	2016	2017
Amount to be appropriated		
Retained earnings brought forward from prior year		1,037,347
Net income for the year		1,029,300
Recommended appropriations		
Dividend	637,300[1]	
Statutory share of income attributed to the General Partners	10,158[1]	
Retained earnings	1,419,189	
TOTAL	**2,066,647**	**2,066,647**

(1) Subject to approval by shareholders at the Annual Meeting on May 18, 2018.

8.7 FIVE-YEAR FINANCIAL SUMMARY

(in € thousands and in € per share, unless otherwise specified)	2013	2014	2015	2016	2017
I – Capital at December 31					
a) Share capital	371,579	371,452	363,804	360,132	359,042
b) Number of common shares outstanding	185,789,643	185,726,200	181,902,182	180,066,121	179,520,987
II – Results of operations					
a) Net revenue	545,071	503,954	564,550	537,617	681,188
b) Earnings before tax, depreciation, amortization and provisions (EBTDA)	331,917	598,149	653,701	1,430,254	1,058,933
c) Income tax	12,741	22,365	40,511	24,284	(16,054)
d) Net income	302,985	555,428	589,684	1,415,894	1,029,300
III – Per-share data					
a) Earnings per share after tax, before depreciation, amortization and provision expenses (EBDA)	1.72	3.10	3.37	7.80	5.99
b) Basic earnings per share	1.63	2.99	3.24	7.86	5.73
c) Dividend per share	2.50	2.50	2.80	3.25	3.55[1]
IV – Employee data					
a) Average number of employees	8	8	7	0	0[2]
b) Total payroll	485	318	670	34	28
c) Total benefits	(119)	139	199	(4)	95

(1) Subject to approval by shareholders at the Annual Meeting on May 18, 2018.
(2) All of the employees were transferred to a Company subsidiary on January 1, 2016. The above amounts mainly correspond to expenses relating to long-term incentive bonuses awarded to the Chief Executive Officer.



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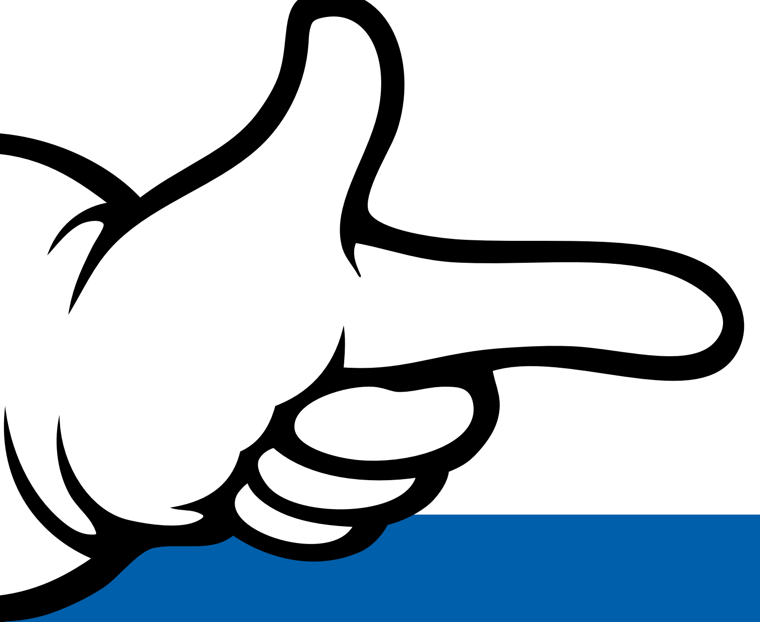


9.1 PERSON RESPONSIBLE FOR THE REGISTRATION DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Person Responsible for the Registration Document and the Annual Financial Report

Jean-Dominique Senard, Managing Chairman

/ Statement by the person responsible for the Registration Document and the Annual Financial Report

I hereby declare that, to the best of my knowledge and having taken all reasonable precautions, the information contained in the Registration Document is in accordance with the facts and no information has been omitted that would be likely to affect its import.

I further declare that, to the best of my knowledge, (i) the financial statements have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation, and (ii) the management report (section 2 of this Registration Document) presents fairly the business and earnings performance and the financial position of the Company and the undertakings in the consolidation, as well as the principal risks and uncertainties they face.

I obtained a statement from the Statutory Auditors at the end of their audit affirming that they have verified the information regarding the financial position and the accounts contained herein and have read the entire Registration Document.

Clermont-Ferrand, March 9, 2018

Jean-Dominique Senard,
Managing Chairman

9.2 STATUTORY AUDITORS

9.2.1 STATUTORY AUDITORS

Under French law, the accounts of listed companies are required to be audited by two independent Statutory Auditors. The purpose of this requirement is to provide assurance that the financial statements have been properly prepared and comply with the true and fair view principle.

The Statutory Auditors are appointed by the Annual Shareholders Meeting for a six-year term, based on a recommendation made by the Supervisory Board following a selection process overseen by the Audit Committee. They may be re-appointed for successive terms. They test the fairness of financial statements and carry out all of the statutory audit work required by law. Michelin does not ask them to perform any other engagements that might impair their independence.

The Statutory Auditors of Compagnie Générale des Établissements Michelin, Michelin's holding Company are:

PricewaterhouseCoopers Audit

Registered member of the *Compagnie régionale des Commissaires aux Comptes de Versailles*

63, rue de Villiers
92208 Neuilly-sur-Seine

Represented by Éric Bulle, Partner
Substitute Statutory Auditor, Jean-Baptiste Deschryver, Partner, PricewaterhouseCoopers Audit

Deloitte & Associés

Registered member of the *Compagnie régionale des Commissaires aux Comptes de Versailles*

185, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine

Represented by Pascale Chastaing-Doblin, Partner
Substitute Statutory Auditor, BEAS

195, avenue Charles-de-Gaulle
92524 Neuilly-sur-Seine Cedex

There are no legal or financial ties of any sort between the two accounting firms or the lead partners.

The Statutory Auditors' term of office will expire at the end of the Annual Shareholders Meeting to be held in 2022 to approve the 2021 accounts.

9.2.2 FEES PAID TO THE STATUTORY AUDITORS OF COMPAGNIE GÉNÉRALE DES ÉTABLISSEMENTS MICHELIN (CGEM)

The following table sets out the details of the fees charged 2017 by the Michelin Group Auditors:

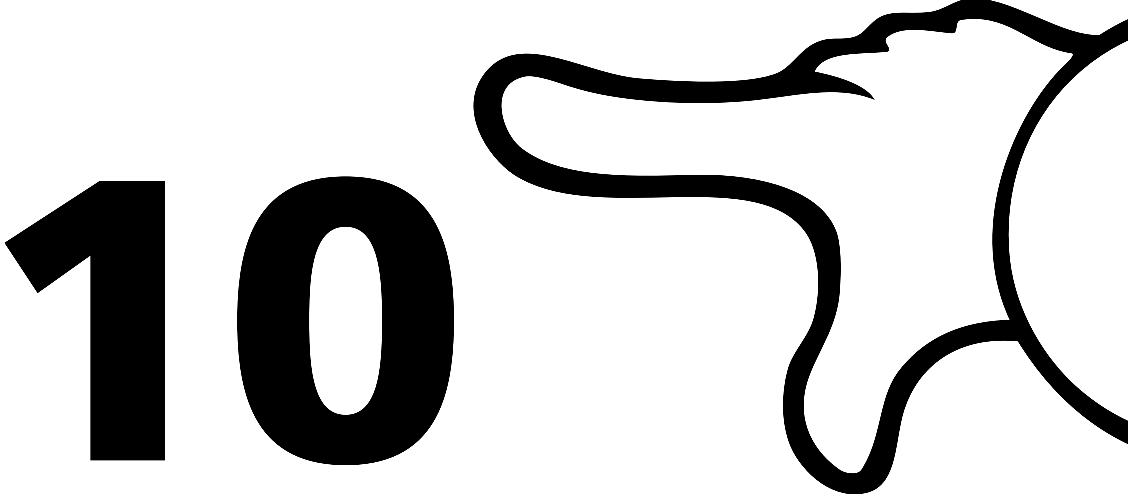
	Deloitte				PricewaterhouseCoopers			
	Statutory Auditor (Deloitte & Associés)		Network		Statutory Auditor (PricewaterhouseCoopers Audit)		Network	
(in € thousand)	Amount	%	Amount	%	Amount	(%)	Amount	%
Statutory audit (including consolidated financial statements and half year review)								
▶ Public Interest Entity	517	43%	-	-	605	43%	-	-
▶ Controlled entities	685	57%	1,640	100%	815	57%	3,564	100%
Sub-total	**1,202**	**100%**	**1,640**	**100%**	**1,420**	**100%**	**3,564**	**100%**
Non audit services								
▶ Public Interest Entity[1]	20	83%	-	-	36	29%	-	-
▶ Controlled entities	4	17%	821	100%	87	71%	2,704	100%
Sub-total	**24**	**100%**	**821**	**100%**	**123**	**100%**	**2,704**	**100%**
TOTAL	**1,226**		**2,461**		**1,543**		**6,268**	

(1) These services are relating mainly to a certificate from the Statutory Auditors on agreed-upon procedures.

9.3 2015 AND 2016 FINANCIAL STATEMENTS INCORPORATED BY REFERENCE

The following information is incorporated by reference in this Registration Document:

- Consolidated financial statements for the period ended December 31, 2015 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 7, 2016 (D.16-0114) respectively on pages 192 to 256 and 257.
- Consolidated financial statements for the period ended December 31, 2016 as well as the relevant Statutory Auditors' reports contained in the Registration Document filed with the AMF on March 7, 2017 (D.17-0131) respectively on pages 205 to 273 and 274.



10

ANNUAL SHAREHOLDERS MEETING OF MAY 18, 2018

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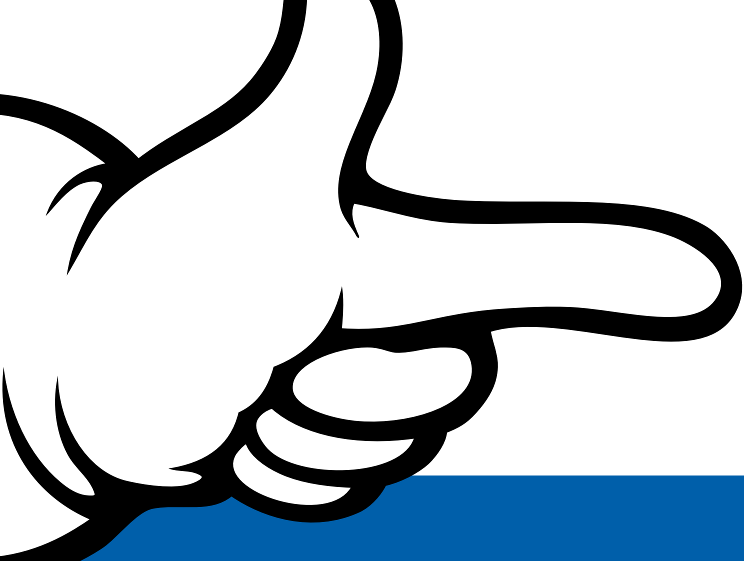

10.1 REPORT OF THE CHIEF EXECUTIVE OFFICER AND PROPOSED RESOLUTIONS

Introduction

Ongoing dialogue between shareholders and issuers, both before and after Annual Shareholders Meetings, is essential to enable shareholders to effectively exercise their role, and for companies to enhance their communications.

One of the ways that companies can ensure the effectiveness of such dialogue is by making additional efforts to clearly explain the content, rationale and import of the resolutions submitted for shareholder approval.

In its "Final Report on General Meetings of Shareholders of Listed Companies" published on July 2, 2012, a working group set up by the French securities regulator (the AMF) proposed, inter alia, that the titles of resolutions put forward at Shareholders Meetings should be more understandable and that the wording of the statement of reasons for each proposed resolution should be improved in order to clarify what is to be voted on and what is at stake in shareholders' decisions. Following this proposal, the AMF called on the trade associations concerned to draft a guide that explains the objectives and procedures for each type of resolution.

In response to this request, the Committee of Corporate & Securities Law and Corporate Governance that forms part of the French employers' federation (the MEDEF) coordinated the preparation of a guide concerning *"Proposed resolutions submitted to the vote of shareholders of listed companies"* prepared in 2013 and updated in January 2016 (hereinafter referred to as the "MEDEF Guide" or the "Guide")[1], which is available on the MEDEF's website at www.medef.com/. Consequently, for each financial authorization to be submitted for approval at the May 18, 2018 Annual Shareholders Meeting, this report refers to the corresponding information sheet in the Guide.

The resolutions set in blue type below are the resolutions proposed by the Company that will be included in the Notice of Meeting published in the *Bulletin des annonces légales obligatoires.* Each shareholder will also be sent a copy of the Notice of Meeting within the period prescribed by law.

10.1.1 ORDINARY RESOLUTIONS (1ST TO 12TH RESOLUTIONS)

1st and 2nd resolutions

/ Approval of the Company financial statements for the year ended December 31, 2017

/ Appropriation of net income for the year ended December 31, 2017 and approval of the recommended dividend

The first and second resolutions concern approval of the Company's 2017 financial statements and appropriation of net income for the year.

Shareholders are invited to approve the transactions reflected in the Company's income statement and balance sheet, as presented, and to appropriate net income for the year which amounts to €1,029,300,379.57.

After deducting €10,157,651.96 attributable to the General Partners in accordance with the Bylaws, the balance of €1,019,142,727.61 plus €1,037,346,493.74 in retained earnings brought forward from prior years represents a total of €2,056,489,221.35 available for distribution to shareholders.

We are recommending paying a 2017 dividend of €3.55 per share.

In order to qualify for the dividend payment, beneficiaries must be shareholders of record at midnight (CET) on May 23, 2018 (the record date).

The ex-dividend date will be May 22, 2018.

The dividend will be paid as from May 24, 2018.

The amount of the dividend corresponding to the treasury shares held on the payment date will be allocated to retained earnings.

First resolution
(Approval of the Company financial statements for the year ended December 31, 2017)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the Company financial statements for the year ended December 31, 2017 which show net income for the period of €1,029,300,379.57.

The Ordinary Shareholders Meeting also approves the transactions reflected in these financial statements and referred to in these reports, including those relating to the various provision accounts.

Second resolution
(Appropriation of net income for the year ended December 31, 2017 and approval of the recommended dividend)

On the recommendation of the Chief Executive Officer (as approved by the Supervisory Board), the Ordinary Shareholders Meeting notes that the total amount available for distribution is as follows:

- Net income for the year: €1,029,300,379.57;
- Share of profits attributed to the General Partners in accordance with the Bylaws: €10,157,651.96;
- Balance: €1,019,142,727.61;
- Plus retained earnings brought forward from prior years: €1,037,346,493.74;
- Total amount available for distribution: €2,056,489,221.35;

And resolves:

- To pay an aggregate dividend of: €637,299,503.85;
- Representing €3.55 per share;
- To appropriate the balance of: €1,419,189,717.50 to retained earnings.

The dividend will be paid as from May 24, 2018.

(1) In French only.

The amount of dividend corresponding to the treasury shares held on the payment date will be allocated to retained earnings.

For individual shareholders domiciled in France for tax purposes, the tax treatment of the dividend will be as follows:

- The dividend will be subject to the 30% flat tax (12.8% in respect of income tax and 17.2% for French social security contributions) for individual shareholders domiciled in France for tax purposes introduced in Article 28-I-28° of the 2018 Finance Act, which is not in discharge of other tax liability.
- The 12.8% flat tax will be applied automatically unless the taxpayer makes an irrevocable election to pay income tax at the graduated rate on all dividend income. The election must be made each year, when the taxpayer's personal income tax return is filed.
- The two-step method of paying tax on dividends is maintained.

In accordance with Article 119 *bis* of the French General Tax Code *(Code général des impôts),* dividends paid to shareholders not domiciled in France for tax purposes are subject to withholding tax at the rate applicable to the country in which the shareholder is domiciled.

As required under Article 243 *bis* of the French General Tax Code, shareholders note that dividends paid for the past three years were as follows:

Year	Total dividend payout *(in €)*	Dividend per share* *(in €)*
2014	464,315,500.00	2.50
2015	518,421,218.70	2.85
2016	585,214,893.25	3.25

* *The full amount of the dividend was eligible for the 40% tax allowance provided for in Article 158-3-2° of the French General Tax Code.*

3rd resolution

/ Approval of the consolidated financial statements for the year ended December 31, 2017

The purpose of the third resolution is to approve the consolidated financial statements for the year ended December 31, 2017, which show net income for the period of €1,692,942 thousand.

The Registration Document and the Annual Report and Sustainable Development Report, which can be downloaded from Michelin's website (www.michelin.com), contain an analysis of the consolidated financial statements and year-on-year changes. These documents can also be sent to shareholders on request.

Third resolution
(Approval of the consolidated financial statements for the year ended December 31, 2017)

Having considered the reports of the Chief Executive Officer, the Statutory Auditors and the Supervisory Board, the Ordinary Shareholders Meeting approves the consolidated financial statements for the year ended December 31, 2017 which show net income for the period of €1,692,942 thousand.

4th resolution

/ Related-party agreements

As no related-party agreements were entered into during 2017, shareholders are invited to place on record that there are no such agreements to approve.

In addition, no related-party agreements entered into in previous years remained in force during 2017.

Fourth resolution
(Related-party agreements)

Having considered the Statutory Auditors' special report on related-party agreements governed by Article L. 226-10 of the French Commercial Code *(Code de commerce),* the Ordinary Shareholders Meeting approves said report and places on record that no such agreements requiring shareholder approval were entered into or were in force in 2017.

5th resolution

/ Authorization for the Managing Partners to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of €180

In the fifth resolution, shareholders are invited to renew the authorization for the Company to buy back its own shares over a period of 18 months on the same terms as the previous authorization. The maximum purchase price per share under this authorization would be €180 and the maximum number of shares purchased would represent less than 10% of the total shares outstanding at the time of the transaction(s).

The cap on the purchase price has been raised to take into account the growth in the Company's share price during 2017.

This new authorization would supersede the previous authorization granted for the same purpose at the Annual Shareholders Meeting held on May 19, 2017.

During 2017, the Company used the previous authorization to buy back and cancel just over 893,000 (eight hundred ninety-three thousand) shares, resulting in a corresponding capital reduction. For details of the buybacks, see section 5.5.7 of the 2017 Registration Document.

The proposed authorization would not be able to be used during a public offer period.

This type of proposed resolution is explained in detail in Information Sheet 4 (Share Buybacks), on page 36 of the MEDEF Guide, *"Proposed resolutions submitted to the vote of shareholders of listed companies"* available (in French only) on the MEDEF's website at www.medef.com/.

Fifth resolution
(Authorization for the Managing Partners or any one of them to put in place a share buyback program, except during a public offer period, based on a maximum purchase price per share of €180)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, as well as the description of the share buyback program drawn up in accordance with the requirements of the General Regulations of the AMF, the Ordinary Shareholders Meeting authorizes the Managing Partners or any one of them, in accordance with Articles L. 225-209 *et seq.* of the French Commercial Code, to put in place a program for the Company to buy back its own shares at a maximum purchase price per share of €180 (one hundred eighty euros).

In the event of any corporate actions, such as a bonus share issue paid up by capitalizing reserves or a stock split or reverse stock split, the above maximum purchase price will be adjusted accordingly.

The number of shares that may be bought back under this authorization may not represent more than 10% (ten percent) of the total shares outstanding at the time of each transaction. The total number of shares that may be purchased for the purpose of maintaining a liquid market, as set out below, will be calculated

after deducting the number of shares sold over the duration of the share buyback program. In addition, the Company may not hold more than 10% (ten percent) of its own share capital at any time.

Based on the share capital at December 31, 2017, the maximum amount invested in the program would not exceed €3,231,377,640 (three billion, two hundred and thirty-one million three hundred and seventy-seven thousand six hundred and forty euros), corresponding to 10% (ten percent) of the Company's share capital, or 17,952,098 (seventeen million nine hundred and fifty-two thousand and ninety-eight) shares purchased at the maximum price of €180 (one hundred and eighty euros) per share.

The objectives of the share buyback program are as follows:

- To purchase shares for sale or allocation to employees of Group companies in accordance with the conditions set down by law, including (i) on exercise of stock options, (ii) under performance share plans and (iii) in connection with employee rights issues.
- To maintain a liquid market for the Company's shares through a liquidity contract complying with the code of ethics approved by the AMF.
- To purchase shares for allocation on exercise of rights attached to securities redeemable, convertible, exchangeable or otherwise exercisable for shares of the Company.
- To purchase shares to be held and subsequently sold, exchanged or otherwise transferred in connection with external growth transactions. The maximum number of shares purchased for the purpose of being held and subsequently sold or exchanged in connection with a merger, de-merger or asset contribution shall not exceed 5% of the Company's share capital.
- To implement any other market practices that may be authorized in the future.
- To acquire shares for cancellation under a shareholder-approved capital reduction.

  The purchase, sale or transfer of shares may be effected at any time, except during a public offer period, and by any method, on the basis and within the limits prescribed by the laws and regulations in force on the transaction date(s), via regulated markets, multilateral trading facilities, systematic internalizers or over-the-counter, including through (i) block purchases or sales, (ii) public offers of purchase or exchange, (iii) the use of options or other forward financial instruments traded via regulated markets, multilateral trading facilities, systematic internalizers or over-the-counter, or (iv) the allocation of shares on conversion, redemption, exchange or exercise of securities carrying rights to the Company's shares or by any other means, either directly or via an investment services provider. The entire buyback program may be implemented through a block trade.

  The Managing Partners, or any one of them, shall have full powers – which may be delegated – to (i) place buy and sell orders, (ii) enter into any and all agreements, (iii) make any and all filings, (iv) carry out all other formalities, (v) allocate or reallocate the purchased shares to any of the various purposes of the program and (vi) generally, do everything necessary to carry out the share buyback program.

This authorization shall be valid for a period of 18 months from the date of this Meeting and supersedes, from that date, the authorization granted for the same purpose in the fifth resolution of the Annual Shareholders Meeting held on May 19, 2017.

6th resolution

/ Advisory vote on the components of the compensation due or awarded for 2017 to Jean-Dominique Senard, Chief Executive Officer

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chief Executive Officer[1], in line with the AFEP/MEDEF Code recommendation[2] which provides for a mandatory shareholder vote.

In line with this recommendation in the AFEP/MEDEF Code and the implementation guidelines dated December 2016, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to the Chief Executive Officer and the Chairman of the Supervisory Board. Said components may include:

- The fixed portion.
- The annual variable portion, including a description of the objectives that must be met in order for this variable portion to be awarded.
- Exceptional compensation.
- Stock options, performance shares and long-term variable compensation, including a description of the objectives that must be met in order for these components of compensation to be awarded.
- Benefits related to taking up or terminating office.
- Supplementary pension benefits.
- Any other benefits.

Consequently, based on the recommendation and favorable opinion of the Supervisory Board and with the approval of the Non-Managing General Partner (SAGES), in the sixth resolution the Chief Executive Officer is asking shareholders to issue a positive advisory vote on the components of the compensation due or awarded for 2017 to Jean-Dominique Senard, who is the Company's Chief Executive Officer and sole executive officer.

(1) In connection with the compensation policy described in section 10.2.1.1 of the Supervisory Board's report in the 2016 Registration Document (page 310).
(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee are presented in the table below (all of the amounts indicated are based on the standard tables provided in the AFEP/MEDEF Code which are set out in sections 4.4.2 and 4.4.3 of the 2017 Registration Document).

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	1,100,000	**Unchanged from the previous year.** This corresponds to the gross annual fixed compensation due by Manufacture Française des Pneumatiques Michelin (MFPM), a controlled entity, as consideration for the duties performed by Mr. Senard in his capacity as Non-General Managing Partner of that company. Its amount was set by MFPM's General Partner in 2014 and has not been changed since then. For more information, see sections 4.3.2 a) Fixed compensation and 10.2.1.1 Compensation policy of the 2016 Registration Document (pages 112 and 310 respectively).
Annual variable compensation	1,696,328	**Details of the Annual Variable Components of Mr. Senard's compensation were announced by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.** **Shared features** The basis used to calculate the Annual Variable Components (the Consolidated Calculation Base) corresponds to 0.6% of the Group's consolidated net income. The Annual Variable Components of Mr. Senard's compensation are paid out of the share of profit (Profit Shares) allocated to the two General Partners of CGEM – Jean-Dominique Senard and SAGES – that is now split between them on a mutually agreed basis. The consolidated net income to be presented at the Annual Shareholders Meeting on May 18, 2018, amounts to €1,692,942 thousand. The Compensation and Appointments Committee has therefore noted that the Consolidated Calculation Base for 2017 is €10,157,652. Given the mutually agreed division of the Profit Share between the General Partners, and the performance achieved in 2017 with respect to the conditions governing the Annual Variable Components, as described below, the total amount payable to Mr. Senard represents €1,696,328 (before applicable withholding tax), as follows: **Single-Criterion Annual Variable Component** This component is equal to 8% of the Consolidated Calculation Base. The Compensation and Appointments Committee noted that the Single-Criterion Annual Variable Component amounts to €812,612.16 for 2017. **Multi-Criteria Annual Variable Component** This component corresponds to between 0% and 14% of the Consolidated Calculation Base, depending on achievement rates for seven criteria. The Compensation and Appointments Committee carefully reviewed each of the quantitative and qualitative criteria applicable to this component[1]. Based on this review, the Committee concluded that the overall achievement rate for the three quantitative criteria (which are the same as those applied to determine the 2017 variable compensation of the Executive Committee members and Group managers) was 62/100, compared to a maximum rate of 100/100. Concerning the two qualitative criteria, the Committee concluded that: ▶ Concerning the executive management succession plan, having observed that Mr. Senard had examined this issue in detail with input from the members of the Compensation and Appointments Committee, the Committee rated his performance in relation to the objective as very good. ▶ Concerning deployment of the Group's four initiatives – Digital Strategy, Customer Service, Simplification of Operating Procedures & Empowerment, Integration & Profitable Growth of Three Recent Acquisitions (Sascar, BookaTable and Levorin) – the indicators defined by the Committee showed that significant progress had been achieved. The Compensation and Appointments Committee therefore considered that the overall achievement rate for the qualitative criteria was 35/50 compared with a maximum rate of 50/50. In conclusion of its analysis concerning the Multi-Criteria Annual Variable Component, the Committee recommended to the Supervisory Board that cumulative actual performance in relation to these quantitative and qualitative criteria should be rated as 97/150. Based on the Consolidated Calculation Base of €10,157,652, the application of this cumulative achievement rate to the assessment grid defined by the Supervisory Board resulted in a Multi-Criteria Annual Variable Component of €883,715.72 for 2017. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) For reasons of confidentiality and business secrecy, and in particular to avoid (i) disclosing information about the Company's strategy that could be used by competitors for their advantage and (ii) creating confusion in shareholders' minds with the information disclosed by the Company to investors, the Supervisory Board has elected not to disclose details of these performance targets.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred variable compensation awarded in 2017	No deferred variable compensation was due for 2017	**This long-term incentive bonus was announced by the Supervisory Board in a press release posted on the Company's website on July 11, 2017.** The long-term incentive bonus is calculated on a base amount of €1,800,000, as increased or reduced to reflect the percentage gain or loss in Michelin's share price over three years (2017-2019 period). The amount obtained by applying the adjustment clause will be modulated by the application of the following three criteria set by the Supervisory Board and applicable over the above three-year period: ▶ Share performance. ▶ Environmental and corporate social responsibility performance: employee engagement and environmental performance of manufacturing operations (as measured by the MEF). ▶ Growth in operating income[1]. These criteria are the same as the ones applicable to the 2017 performance share plan for Group employees, which is not open to Mr. Senard. They concern implementation of the Group's long-term strategy as expressed in the Ambitions for 2020. The achievement rate under this long-term incentive plan will be equal to 100% only if the targets for all three criteria are met in full. The long-term incentive bonus is not due by Michelin but would be deducted from the General Partners' allocated Profit Shares. The final amount receivable under the long-term incentive plan will be: ▶ Capped at 150% of the average of the Annual Variable Components paid to Mr. Senard for 2017, 2018 and 2019. ▶ Paid out of the Profit Shares allocated to the General Partners in respect of 2019 and payable in 2020 after the 2019 financial statements have been approved: – Subject to the availability of Profit Shares payable in 2020 out of 2019 profit; and – Up to the amount of said available Profit Shares after deducting the Single-Criterion and Multi-Criteria Annual Variable Components due for 2019. If Mr. Senard were to cease to be a General Partner (for reasons other than death or disability) before his term expires and before the end of the performance assessment period, notably due to his resignation or removal from office, he would forfeit his rights to the long-term incentive bonus. If Mr. Senard ceases to hold office on the date his term expires (in May 2019), for reasons other than death or disability, before the end of the reference three-year period for determining the achievement rate for the performance criteria, the three-year period will continue to run, including beyond the end of his term (until end-2019). In this case, the incentive bonus will be paid at the end of said three-year period, for an amount prorated to the actual time served as Chief Executive Officer during the period. In the same way as for the long-term incentive bonuses awarded in 2014 and 2015, Mr. Senard will be required to invest 20% of the bonus in Michelin shares at the end of the three-year period and to retain these shares for as long as he remains in office, after which the shares may be sold on a phased basis over three years. As this is a long-term incentive plan, the Supervisory Board noted that no amount was due in respect of 2017. For more information, see sections 4.4.3 b) Variable compensation and 4.4.3 c) Long-term incentive bonus (Table 1.3) of this Registration Document (pages 131 to 133), and section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) Consolidated operating income based on a comparable consolidation scope and at constant exchange rates and accounting methods, excluding non-recurring items, as adjusted if necessary for the effects of any exceptional events.

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Cash-settled deferred incentive bonus awarded in 2015 and due in 2018 in respect of 2017	994,860	The long-term incentive bonus was presented at the Annual Shareholders Meeting of May 13, 2016 and was approved by a majority of 97.39% of the votes cast (sixth resolution). 2017 was the last calculation year for this bonus and the Compensation and Appointments Committee therefore noted the achievement rates for each of the performance criteria, as follows: ▶ Growth in the Michelin share price compared with that of the CAC 40 index: 22.0% achievement rate out of a possible 33.3%. ▶ Average annual growth in net sales (by value): 33.3% achievement rate out of a possible 33.3%. ▶ Average annual return on capital employed (ROCE): 33.3% achievement rate out of a possible 33.3%. Based on the presentation by the Chair of the Compensation and Appointments Committee, the Supervisory Board noted the achievement rates for each of the performance criteria and, at Mr. Senard's request, limited the gross amount of his long-term incentive bonus payable in 2018 to €994,860 (before applicable withholding tax). Mr. Senard is committed to investing 20% of the incentive bonus in Michelin shares, which he will continue to hold for as long as he remains in office, with any subsequent sales to be carried out on a phased basis over four years. For more information, see Table 1.1 in section 4.4.3 c) of this Registration Document (page 133).
Stock options, performance shares and other long-term compensation	N/A	No stock options granted No performance shares granted No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	N/A	Mr. Senard does not receive any attendance fees
Value of fringe benefits	8,470	Company car

Components of compensation due or awarded for 2017 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments[(1)]	Amounts submitted to shareholder approval *(in €)*	Presentation
Compensation for loss of office	No compensation for loss of office was due for 2017	**The detailed information in this section is unchanged from 2016.** In accordance with Article 13-2 of the Bylaws, as approved by an extraordinary resolution of the May 13, 2011 Annual Shareholders Meeting, if Mr. Senard were to be removed from office before the end of his term as a result of a change of strategy or a change of control of the Company, provided such removal was not due to gross misconduct, he would be entitled to compensation for loss of office to be decided by the Non-Managing General Partner and subject to the prior approval of the Supervisory Board. The amount of any such compensation would not exceed the equivalent of Mr. Senard's total compensation for the two years preceding the year of his removal from office. It would be subject to the performance conditions decided by the Supervisory Board in 2014. The final compensation would be reduced, if applicable, so that any other severance payments due to Mr. Senard would not result in his receiving an aggregate severance package in excess of two years' compensation, as recommended in the AFEP/MEDEF Code. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).
Non-compete indemnity	No indemnity was due under a non-compete clause in 2017	**The detailed information in this section is unchanged from 2016.** In the same way as Michelin employees who have specific expertise that needs to be protected to prevent its use by a competitor in a manner that is detrimental to the Company's interests, Mr. Senard is subject to a non-compete clause. The Company is, however, entitled to waive the application of this clause. If the Company were to decide to apply this non-compete clause over a period of up to two years, it would have to pay to Mr. Senard the equivalent of up to 16 months' compensation based on the most recent aggregate compensation paid to him by Group companies. The non-compete indemnity would be reduced or canceled, if necessary, so that Mr. Senard's total severance package did not exceed the equivalent of the aggregate of his last two years' compensation, as recommended in the AFEP/MEDEF Code. For more information, see section 10.2.1.1 Compensation policy of the 2016 Registration Document (page 310).

(1) Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the French Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for S.A.s pursuant to Articles L. 225-37 and L. 225-68 of the French Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

Components of compensation due or awarded for 2017 which have been submitted for shareholder approval in accordance with the procedures applicable to related-party agreements and commitments[1]	Amounts submitted to shareholder approval *(in €)*	Presentation
Supplementary pension benefits	No supplementary pension benefits were due for 2017	**The pension plan structure and rules are unchanged from 2016.** This description complies with the provisions of the Macron Act of August 6, 2015 and the enabling legislation dated February 23, 2016. Mr. Senard is not a member of any pension plan set up specifically for executive officers. In his capacity as Non-General Managing Partner of MFPM, Mr. Senard participates in the supplementary pension plan set up for MFPM senior executives (the Michelin Executive Supplementary Pension Plan). This plan, which is governed by Article L. 137-11 of the French Social Security Code and Article 39 of the French General Tax Code and is not restricted to Non-General Managing Partners (executive officers), has the following main features: ▶ Participants must have served for at least five years as a senior executive. ▶ 1.5% of benefits vest each year, entitling participants to an annuity representing a replacement rate of up to 15% of the reference compensation (annual average of the best three years of compensation out of the last five years preceding the beneficiary's retirement). ▶ The replacement rate including benefit entitlements under compulsory plans is capped at 35%. ▶ An evaluation is carried out in accordance with Group accounting policies. ▶ Benefit entitlement is conditional on participants ending their career at MFPM as an executive employee or executive officer, in accordance with Article L. 137-11 of the French Social Security Code. ▶ 70% of the prior year's benefit obligation funded through a contribution to an insured plan. Mr. Senard's reference compensation is made up solely of the fixed compensation paid by MFPM and amounts to €1,100,000 for 2017. Based on the assumptions set out in the above-mentioned enabling legislation of February 23, 2016, his estimated annual pension under the plan will amount to €148,500. The pension benefits will be taxed at the rate of 32%. As the reference compensation represented less than half of the aggregate amount received by Mr. Senard for 2017 (fixed compensation and variable Profit Shares), the actual gross replacement rate represented by pension benefits paid under the plan will be well below the 45% ceiling recommended in the AFEP/MEDEF Code.

(1) *Unlike for joint stock companies (sociétés anonymes, or S.A.s) the provisions concerning "related-party commitments" set out in Article L. 225-42-1 of the French Commercial Code do not apply to commitments given by a partnership limited by shares (société en commandite par actions, or S.C.A.) to its Managing Partners (Article L. 226-10 of said Code states that Articles L. 225-38 to L. 225-43 thereof apply to partnerships limited by shares with respect to related-party agreements but does not mention related-party commitments).*
The fact that the specific system applicable to S.A.s concerning related-party commitments does not apply to S.C.A.s is corroborated by Article L. 226-10-1 of the French Commercial Code, which states that the Chairman of the Supervisory Board is required to prepare a report reviewed by the Statutory Auditors whose content explicitly excludes information related to the "principles and rules concerning the compensation and benefits granted to executive officers", whereas this information is compulsory for S.A.s pursuant to Articles L. 225-37 and L. 225-68 of the French Commercial Code. This difference in the applicable legal regimes does not have any effect on (i) the rules concerning public disclosures of the amounts and underlying principles relating to the compensation of the Company's executive officers and (ii) the application, adapted to the context, of the AFEP/MEDEF Code's recommendations.

Sixth resolution
(Advisory vote on the components of the compensation due or awarded for 2017 to Jean-Dominique Senard, Chief Executive Officer)

Having noted the agreement of both of the General Partners on the allocation of Profit Shares and considered the report of the Supervisory Board, the Ordinary Shareholders Meeting issues a positive advisory vote on the components of the compensation due or awarded for 2017 to Jean-Dominique Senard, Chief Executive Officer, as presented in sections 4.4.2, 4.4.3 and 4.4.4 of the Company's 2017 Registration Document.

7th resolution

/ Advisory vote on the components of the compensation due or awarded for 2017 to Michel Rollier, Chairman of the Supervisory Board

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act No. 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board has decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board[1], in line with the AFEP/MEDEF Code recommendation[2] which provides for a mandatory shareholder vote.

In line with this recommendation in the AFEP/MEDEF Code and the implementation guidelines dated December 2016, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to the Chief Executive Officer and the Chairman of the Supervisory Board. Said components may include:

- The fixed portion.
- The annual variable portion, including a description of the objectives that must be met in order for this variable portion to be awarded.
- Exceptional compensation.
- Stock options, performance shares and long-term variable compensation, including a description of the objectives that must be met in order for these components of compensation to be awarded.
- Benefits related to taking up or terminating office.
- Supplementary pension benefits.
- Any other benefits.

Consequently, the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2017 to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee are presented in the table below (all of the amounts indicated are based on the standard tables provided in the AFEP/MEDEF Code, which are set out in sections 4.4.2, 4.4.5 and 4.4.6 of the 2017 Registration Document).

Compensation due or awarded for 2017	Amounts (or accounting value) submitted for shareholder approval *(in €)*	Presentation
Fixed compensation	N/A	No fixed compensation
Annual variable compensation	N/A	No annual variable compensation
Cash-settled deferred variable compensation	N/A	No cash-settled deferred variable compensation
Stock options, performance shares and other share-based payments	N/A	No stock options granted No performance shares granted No other share-based payments
Exceptional compensation	N/A	No exceptional compensation
Attendance fees	90,000	Total amount allocated in respect of his duties as Chairman of the Supervisory Board and member of the Compensation and Appointments Committee. Mr. Rollier's attendance rate at meetings of the Supervisory Board and the Committee of which he is a member was 100% in 2017. For more information, see sections 4.4.2 c) Attendance fees and 4.4.5 Compensation policy of the 2017 Registration Document (pages 128 and 142 respectively).
Value of fringe benefits	N/A	No fringe benefits

(1) In connection with the compensation policy described in section 10.2.1.2 of the Supervisory Board's report in the 2016 Registration Document (page 313).
(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

Components of compensation due or awarded for 2017 which have been or are being submitted for shareholder approval under the procedure applicable to related-party agreements and commitments	Amounts submitted for shareholder approval *(in €)*	Presentation
Compensation for loss of office	N/A	No commitment for the payment of compensation for loss of office
Non-compete indemnity	N/A	No commitment for the payment of a non-compete indemnity
Supplementary pension benefits	N/A	No commitment for the payment of supplementary pension benefits

Seventh resolution
(Advisory vote on the components of the compensation due or awarded for 2017 to Michel Rollier, Chairman of the Supervisory Board)

Having considered the report of the Supervisory Board, the Ordinary Shareholders Meeting issues a positive advisory vote on the components of the compensation due or awarded for 2017 to Michel Rollier, Chairman of the Supervisory Board, as presented in sections 4.4.2, 4.4.5 and 4.4.6 of the Company's 2017 Registration Document.

8th resolution

/ Authorization for the Managing Partners to issue bonds and debt-linked securities

The purpose of the eighth resolution is to authorize the Managing Partners to issue up to €5,000,000,000 (five billion euros) worth of bonds or debt-linked securities. This authorization would supersede the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (fifteenth resolution) that was used in 2017 to issue $600 million worth of bonds (for details of these issues, see section 7.1 of the 2017 Registration Document).

The proposed cap on debt securities issues would be raised to €5,000,000,000 (five billion euros), to reflect the Group's improved financial position and the resulting ratings upgrades decided by the rating agencies in recognition of its conservative financial strategy, strong competitive position in one of the less risky sectors of the automotive supply market, and its good geographical and segment diversification. It was these strengths that led the agencies to ease the rating ratios applied to the Group between 2014 and 2018. The increased issuance capacity would enable the Company to (i) take advantage of favorable market conditions to optimize the management of the consolidated balance sheet and (ii) continue to implement its external growth strategy.

Eighth resolution
(Authorization for the Managing Partners or any one of them to issue bonds and debt-linked securities)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting:

- Authorizes the issue of (i) bonds and/or (ii) debt-linked securities representing a maximum nominal amount of €5,000,000,000 (five billion euros) or the foreign currency equivalent.
- Grants the Managing Partners or any one of them full powers to carry out one or several such issues, for the amounts and in the periods determined at their discretion, in France and/or abroad and/or on the international market, and to determine the issues' characteristics, amounts, terms and conditions.
- Resolves that the Managing Partners or any one of them shall have full powers, which may be delegated, to use this authorization and to decide the issues' characteristics, amounts, terms, price and other conditions.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

9th, 10th and 11th resolutions: election and re-election of Supervisory Board members

/ Michelin's Supervisory Board plays a vital role for the Group

The current members of Michelin's Supervisory Board are Barbara Dalibard, Anne-Sophie de La Bigne, Aruna Jayanthi, Monique Leroux, Olivier Bazil, Pat Cox, Jean-Pierre Duprieu, Cyrille Poughon and Michel Rollier.

All of them have very solid business experience acquired through working with leading corporations as well as a good knowledge of the Michelin Group. They actively participate in the work of both the Board and its Committees, as illustrated by the attendance rates for meetings held in 2017 (93.6% for Board meetings and 100% for meetings of the Audit Committee and the Compensation and Appointments Committee).

The Supervisory Board members perform their duties independently and have total freedom of judgment.

A summary of the work carried out by the Supervisory Board in 2017 is included in the Corporate Governance Report set out in section 4.3.2 of the 2017 Registration Document.

/ Michelin's General Partners do not take part in the election or re-election of Supervisory Board members

Michelin is a *société en commandite par actions* (partnership limited by shares) and as such its Supervisory Board is entirely made up of non-executive members (nearly 67% of whom are independent) who represent the shareholders. Only the Supervisory Board itself may put forward proposals for the election or re-election of its members at Annual Shareholders Meetings.

With a view to clearly segregating management and supervisory powers, no General Partner may play a role in the nomination process – neither the General Managing Partner (the Chief Executive Officer), nor the Non-Managing General Partner (SAGES), which is responsible for ensuring the Company's continuity of leadership.

The General Partners may not be involved in decisions to recommend candidates for election to the Supervisory Board at Shareholders Meetings.

Likewise, in accordance with the law and the Company's Bylaws, the General Partners may not take part in any votes cast at Shareholders Meetings concerning the election or re-election of Supervisory Board members and their shares are not included in the quorum for the related resolutions.

For further information on Michelin's corporate governance principles, see the Corporate Governance Report corresponding to section 4 of the 2017 Registration Document.

/ The Supervisory Board is recommending that shareholders re-elect two Supervisory Board members and elect one new member

The terms of office of Monique Leroux, Pat Cox and Cyrille Poughon are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2017.

The candidate selection process, the criteria applied by the Compensation and Appointments Committee and a presentation of the candidates are set out in the report of the Supervisory Board on the proposed resolutions (see the Notice of Meeting for the 2018 Annual Shareholders Meeting and section 10.2.1 of the 2017 Registration Document).

Following this process the Board decided by a unanimous vote (with the candidates for re-election abstaining) to ask the Chief Executive Officer to recommend at the Annual Meeting that the shareholders:

- Re-elect Monique Leroux and Cyrille Poughon, neither of whom took part in the Supervisory Board vote on their nomination for re-election.
- Elect Thierry Le Hénaff to replace Pat Cox, who had informed the Board that he did not wish to stand for re-election.

These Supervisory Board members would be elected/re-elected for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2021.

Ninth resolution
(Re-election of Monique Leroux as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Monique Leroux as a member of the Supervisory Board for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2021.

Tenth resolution
(Re-election of Cyrille Poughon as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting re-elects Cyrille Poughon as a member of the Supervisory Board for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2021.

Eleventh resolution
(Election of Thierry Le Hénaff as a member of the Supervisory Board)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, the Ordinary Shareholders Meeting elects Thierry Le Hénaff as a member of the Supervisory Board for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2021.

12th resolution

/ Election of Yves Chapot as Managing Partner

The purpose of the twelfth resolution is to elect Yves Chapot as a Managing Partner of the Company.

Jean-Dominique Senard's term as Chief Executive Officer expires at the close of the 2019 Annual Shareholders Meeting and he has recently announced that he does not want to stand for re-election.

To plan his replacement in line with corporate governance best practices and in the Group's best interests, the Non-Managing General Partner, SAGES, engaged in a rigorous, thorough selection process several months ago in full cooperation with Michelin's Supervisory Board and Jean-Dominique Senard, General Managing Partner, himself.

As part of this process, and in accordance with the Company's Bylaws, the Board of Directors of SAGES made a recommendation that was presented by its Chairman, Jacques de Chateauvieux, to the Company's Supervisory Board meeting on February 9, 2018.

The Supervisory Board issued a unanimous opinion in favor of SAGES' recommendation. The General Partners subsequently held a meeting during which this recommendation was approved by Jean-Dominique Senard.

All participants in the Company's governance system agreed that management continuity should be secured immediately, in line with Michelin's values.

As a result, the decision was made to submit the following resolutions to the shareholders at the upcoming Annual Meeting:

- An extraordinary resolution to elect Florent Menegaux as General Managing Partner (thirteenth resolution)[1].
- An ordinary resolution to elect Yves Chapot as Managing Partner (twelfth resolution).

Yves Chapot, who was born in 1962 and is a French national, is currently Executive Vice President, Automotive Business Lines and Asia, Africa, India & Middle East regions, and a member of the Group Executive Committee.

Yves Chapot holds a degree as a certified public accountant.

After an initial work experience at the Arthur Andersen consulting and audit firm, Yves Chapot joined the Michelin Group in 1992, assuming various management responsibilities within the internal audit team.

In 1997, he was appointed Chief Executive Officer for Taurus in Hungary. In 1999, he became Chief Financial Officer for Europe.

From 2005 to 2012, he was responsible for Michelin China. From 2007 to 2009, he was also in charge of the Passenger car and Light truck tire business for Asia.

(1) Biographical details for Florent Menegaux are provided in the presentation of the thirteenth resolution.

In 2012, he was named head of Euromaster, before becoming Executive Vice President, Distribution in December 2014.

In March 2017, he was appointed Executive Vice President for the Passenger car and Light truck Product Line.

Starting January 2018, Yves Chapot is Executive Vice President, Automotive Business Lines. He oversees the Automotive B2C Global Brands, Automotive B2C Regional Brands, Automotive Original Equipment Business Lines, and the following three regions: Africa, India & Middle East, East Asia & Australia, and China.

If the twelfth and thirteenth resolutions are adopted and in accordance with the Company's Bylaws, SAGES will act on the Supervisory Board's recommendation and appoint Jean-Dominique Senard as Chief Executive Officer for the remainder of his term, to be succeeded by Florent Menegaux at the close of the 2019 Annual Shareholders Meeting[1].

Twelfth resolution
(Election of Yves Chapot as Managing Partner)

On the recommendation of the Non-Managing General Partner, having considered the report of the Chief Executive Officer and the favorable opinion expressed by the Supervisory Board, and noted the agreement of both of the General Partners, the Ordinary General Meeting elects Yves Chapot as Managing Partner for a four-year term expiring at the close of the Annual Shareholders Meeting to be called to approve the financial statements for the year ending December 31, 2021.

10.1.2 EXTRAORDINARY RESOLUTIONS (13TH TO 25TH RESOLUTIONS)

13th resolution

/ Election of Florent Menegaux as General Managing Partner and corresponding amendment of the Bylaws

The purpose of the thirteenth resolution is to elect Florent Menegaux as General Managing Partner and to amend the Bylaws to reflect his election, in application of the succession plan described in the presentation of the twelfth resolution above.

Florent Menegaux, who was born in 1962 and is a French national, is currently Group Senior Executive Vice President and Chief Operating Officer, and a member of the Group Executive Committee.

After graduating with a degree in finance, management and economics, Florent Menegaux joined Price Waterhouse in 1986 as a consultant. He was soon appointed manager, specializing in interest rate risk control and management for banks.

In 1991, Exel Logistics France, a logistics and transport company, offered him the position of Finance Director. Six months later, he was promoted Chief Executive Officer. From 1995 to 1996, Florent Menegaux was Chief Executive Officer of the General Cargo Transport division for the Norbert Dentressangle group.

In 1997, Florent Menegaux joined Michelin as Commercial Director for Truck tires in the United Kingdom and the Republic of Ireland.

In 2000, Michelin appointed him Sales Director for Truck tires Original Equipment and Replacement markets for North America. In 2003, he became head of Truck tires for South America.

In 2005, he was appointed head of the Africa – Middle East region.

In January 2006, Florent Menegaux became responsible for the Group's Passenger car and Light truck tire Replacement Business Unit for Europe, before being appointed Executive Vice President for the Passenger car and Light truck worldwide activities in 2008. He also oversees Michelin's Motorsports activities and Materials business.

In December 2014, he was appointed Chief Operating Officer and then Senior Executive Vice President of the Michelin Group in 2017.

Since January 2018, he also oversees the Group's Business Departments, and the Manufacturing, Supply Chain and Customer Experience Operational Departments.

If the twelfth and thirteenth resolutions are adopted and in accordance with the Company's Bylaws, SAGES will act on the Supervisory Board's recommendation and appoint Jean-Dominique Senard as Chief Executive Officer for the remainder of his term, to be succeeded by Florent Menegaux at the close of the 2019 Annual Shareholders Meeting[1].

Thirteenth resolution
(Election of Florent Menegaux as General Managing Partner)

- On the recommendation of the Non-Managing General Partner, having considered the report of the Chief Executive Officer and the favorable opinion expressed by the Supervisory Board, and noted the agreement of both of the General Partners, the Extraordinary General Meeting resolves:
- To elect Florent Menegaux as General Managing Partner of the Company for a four-year term expiring at the close of the Shareholders Meeting to be called to approve the 2021 financial statements.
- To amend the second paragraph of Article 1 of the Bylaws to read as follows:

  Old wording:

  "Jean-Dominique Senard, Managing Partner"

  New wording:

  "Jean-Dominique Senard and Florent Menegaux, Managing Partners"

14th resolution

/ Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders

In the fourteenth resolution, shareholders are asked to authorize the Managing Partners to increase the Company's capital by issuing ordinary shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders. Note that the authorization could not be used during a public offer period.

(1) See the press release published on February 9, 2018.

The aggregate par value of shares issued under this authorization would not exceed €126,000,000 (one hundred and twenty-six million euros), representing close to 35% of the Company's current share capital, and the aggregate nominal value of debt securities issued with immediate or deferred rights to shares would be capped at €2,500,000,000 (two billion five hundred million euros).

This new authorization renews the authorization given at the Annual Shareholders Meeting of May 13, 2016 (sixteenth resolution), which has not been used.

The blanket ceiling on issues, with or without pre-emptive subscription rights, of securities with rights to shares is set in the twenty-first resolution.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.1, *"Authorizations to carry out capital increases with pre-emptive subscription rights for existing shareholders"*, on page 41 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"* available (in French only) on the MEDEF's website at www.medef.com/.

Fourteenth resolution
(Authorization for the Managing Partners or any one of them to issue shares and/or securities carrying rights to shares, with pre-emptive subscription rights for existing shareholders)

Having considered the Chief Executive Officer's report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Article L. 225-129-2 and Articles L. 228-91 *et seq.*:

- To authorize the Managing Partners or any one of them to carry out one or several issues of shares and/or securities carrying immediate and/or deferred rights to the Company's new or existing shares, except while a public tender offer is in progress. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies.
- That:
  - The aggregate par value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares shall not exceed €126,000,000 (one hundred and twenty-six million euros), representing close to 35% of the Company's current share capital. This ceiling shall not include the par value of any additional shares to be issued in accordance with the applicable laws, regulations, or contractual provisions in order to protect the rights of existing holders of securities carrying rights to shares or of other rights to the Company's shares.
  - The securities carrying rights to shares issued under this authorization may notably consist of equity securities and/or debt securities or equity- or debt-linked securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, this authorization may not be used to issue preference shares or securities with immediate or deferred rights to preference shares.
  - The aggregate nominal amount of debt securities carrying rights to shares issued under this authorization shall not exceed €2,500,000,000 (two billion five hundred million euros) or the equivalent at the issue date in a foreign currency or a monetary unit determined by reference to a basket of currencies.
  - Shareholders shall have a pre-emptive right to subscribe the shares and/or debt securities issued under this authorization, pro rata to their existing shareholdings. The Managing Partners or any one of them may also give shareholders a pre-emptive right to subscribe any shares and/or debt securities not taken up by other shareholders. In this case, if the issue is oversubscribed, this secondary pre-emptive right will also be exercisable pro rata to the existing shareholdings of the shareholders concerned.
  - If the entire issue is not taken up by shareholders exercising their pre-emptive rights, the Managing Partners or any one of them may take one or more of the following courses of action, in the order of their choice: (i) limit the amount of the issue to the subscriptions received, provided that at least three-quarters of the issue is taken up; (ii) freely allocate all or some of the unsubscribed securities among the investors of its choice; or (iii) offer them for subscription by the public in the French market and/or a foreign market and/or the international market.
  - Equity warrants may be offered for subscription on the above basis or allocated among holders of existing shares without consideration, in which case the Managing Partners or any one of them shall be authorized to decide that rights to fractions of shares shall be non-transferable and non-tradable and that the corresponding shares shall be sold.
  - The Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the characteristics, amount(s), timing, price(s) and other terms and conditions of the issue(s), which may be carried out on one or more occasions in France and/or abroad and/or in the international market, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date(s), subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the new shares on the markets of their choice, (v) place on record the amount of the capital increase(s) resulting from the share issues, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, enter into any and all agreements for the purpose of completing the issue(s), and (vii) charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

15th resolution

/ Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights for existing shareholders

The fifteenth resolution concerns the issuance of ordinary shares and/or securities carrying rights to shares without pre-emptive subscription rights for existing shareholders. Note that the authorization could also not be used during a public offer period.

The issue price of the new shares would be at least equal to the average of the opening prices quoted for the Company's shares over the three trading days preceding the pricing date, less a discount of no more than 5%.

The aggregate par value of shares issued under this authorization would not exceed €36,000,000 (thirty-six million euros) or close to 10% of the current share capital, and the aggregate nominal value of securities carrying immediate or deferred rights to shares would be capped at €2,500,000,000 (two billion five hundred million euros).

This authorization renews the authorization given at the Annual Shareholders Meeting of May 13, 2016 (eighteenth resolution), which has not been used.

The cap on issues of debt securities with immediate or deferred rights to shares placed through a public offer without pre-emptive subscription rights has been aligned with the blanket ceiling on the issuance of debt securities carrying rights to shares set in the twenty-first resolution.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.2, *"Authorizations to carry out capital increases without pre-emptive subscription rights for existing shareholders"*, on page 45 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Fifteenth resolution
(Authorization for the Managing Partners or any one of them to issue shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights for existing shareholders)

Having considered the Chief Executive Officer's report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Articles L. 225-135, L. 225-136 and L. 228-91 *et seq.:*

- To authorize the Managing Partners or any one of them to carry out, except while a public tender offer is in progress, one or several issues of shares and/or securities carrying immediate and/or deferred rights to the Company's new or existing shares, through a public offer. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies.
- That:
  - The aggregate par value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares shall not exceed €36,000,000 (thirty-six million euros), representing close to 10% of the Company's current share capital. This ceiling shall not include the par value of any additional shares to be issued in accordance with the applicable laws, regulations, or contractual provisions in order to protect the rights of existing holders of securities carrying rights to shares or of other rights to the Company's shares.
  - The securities carrying rights to shares issued under this authorization may notably consist of equity securities and/or debt securities or equity- or debt-linked securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, this authorization may not be used to issue preference shares or securities with immediate or deferred rights to preference shares.
  - The aggregate nominal amount of debt securities with rights to shares issued under this authorization shall not exceed €2,500,000,000 (two billion five hundred million euros) or the equivalent at the issue date in a foreign currency or a monetary unit determined by reference to a basket of currencies.
  - Shareholders shall not have a pre-emptive right to subscribe the securities issued under this authorization.
  - (i) The issue price of the shares shall be at least equal to the weighted average of the prices quoted for the Company's shares on Euronext Paris over the three trading days preceding the issue pricing date, less a discount of no more than 5% (five percent), and (ii) the issue price of securities carrying rights to shares shall be set in such a way that the amount received by the Company at the issue date plus the amount to be received on conversion, exchange, redemption or exercise of securities carrying rights to shares shall be, for each share issued, at least equal to the issue price defined in point (i) above.
  - The Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the characteristics, amount(s) (within the above limits), timing, price(s) and other terms and conditions of the issue(s), which may be carried out on one or more occasions in France and/or abroad and/or in the international market, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date(s), subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the new shares on the markets of their choice, (v) place on record the amount of the capital increase(s) resulting from the share issues, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, enter into any and all agreements for the purpose of completing the issue(s), and (vii) charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

16th resolution

/ Authorization for the Managing Partners to issue shares and/or securities carrying rights to shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights for existing shareholders

The purpose of the sixteenth resolution is to submit to a separate vote by shareholders a proposed authorization for the Managing Partners or any one of them to issue shares and/or securities carrying rights to shares through private placements. This authorization could not be used during a public offer period.

This authorization would give the Company the necessary flexibility to rapidly raise funds from qualified investors.

The securities would be placed exclusively with the categories of investors specified in Article L. 411-2-II of the French Monetary and Financial Code *(Code monétaire et financier), i.e.* (i) professional investment portfolio managers and (ii) qualified investors or restricted groups of investors, provided that they are investing on their own behalf.

Any share issues carried out under this authorization would be included in the ceiling for issues without pre-emptive subscription rights for existing shareholders set in the fifteenth resolution.

This authorization renews the authorization given at the Annual Shareholders Meeting of May 13, 2016 (eighteenth resolution), which has not been used.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.3, *"Authorizations to carry out capital increases through private placements"*, on page 47 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Sixteenth resolution
(Authorization for the Managing Partners or any one of them to issue shares and/or securities carrying rights to shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights for existing shareholders)

Having considered the Chief Executive Officer's report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves, in accordance with Articles L. 225-129 *et seq.* of the French Commercial Code – notably Articles L. 225-135, L. 225-136 and L. 228-91 *et seq.* – and paragraph II of Article L. 411-2 of the French Monetary and Financial Code:

- To authorize the Managing Partners or any one of them to carry out one or several issues of shares and/or securities carrying immediate and/or deferred rights to the Company's new or existing shares through an offer governed by paragraph II of Article L. 411-2 of the French Monetary and Financial Code, except while a public tender offer is in progress. The issue(s) may be carried out in France or abroad and may be denominated in euros, foreign currencies or any monetary unit determined by reference to a basket of currencies.
- That:
  - The aggregate par value of the shares issued under this authorization either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares shall not exceed €36,000,000 (thirty-six million euros), representing close to 10% of the Company's current share capital. This ceiling shall not include the par value of any additional shares to be issued in accordance with the applicable laws, regulations, or contractual provisions in order to protect the rights of existing holders of securities carrying rights to shares or of other rights to the Company's shares.
  - The securities carrying rights to shares issued under this authorization may notably consist of equity securities and/or debt securities or equity- or debt-linked securities or securities allowing the issue of intermediate debt securities. They may take the form of dated or undated, subordinated or unsubordinated notes. However, this authorization may not be used to issue preference shares or securities with immediate or deferred rights to preference shares.
  - The aggregate nominal amount of debt securities issued under this authorization shall not exceed €2,500,000,000 (two billion five hundred million euros) or the equivalent at the issue date in a foreign currency or a monetary unit determined by reference to a basket of currencies.
  - Issues of shares and debt securities carried out under this authorization shall be included in the ceilings for such issues set in the fifteenth resolution of this Meeting.
  - Shareholders shall not have a pre-emptive right to subscribe the securities issued under this authorization.
  - (i) The issue price of the shares shall be at least equal to the weighted average of the prices quoted for the Company's shares on Euronext Paris over the three trading days preceding the issue pricing date, less a discount of no more than 5% (five percent), and (ii) the issue price of securities carrying rights to shares shall be set in such a way that the amount received by the Company at the issue date plus the amount to be received on conversion, exchange, redemption or exercise of securities carrying rights to shares shall be, for each share issued, at least equal to the issue price defined in point (i) above.
  - The Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the characteristics, amount(s) (within the above limits), timing, price(s) and other terms and conditions of the issue(s), which may be carried out on one or more occasions in France and/or abroad and/or in the international market, (ii) suspend any issue(s) where appropriate, (iii) determine the issue date(s), subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the new shares on the markets of their choice, (v) place on record the amount of the capital increase(s) resulting from the share issues, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, enter into any and all agreements for the purpose of completing the issue(s), and (vii) charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

17th resolution

/ Authorization for the Managing Partners to increase the number of securities to be issued in the event that an issue (with or without pre-emptive subscription rights) is oversubscribed

The purpose of the seventeenth resolution is to authorize the Managing Partners or any one of them to increase the number of securities to be issued in the event that an issue carried out under the fourteenth, fifteenth or sixteenth resolutions is oversubscribed. It could not be used during a public offer period.

The additional securities would not exceed 15% of the original issue and would be offered at the same price as for the original issue. They would be included in the ceilings set in the resolution concerned.

This authorization would replace the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (nineteenth resolution), which has not been used.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.6, *"Authorizations to increase the amount of an issue carried out either with or without pre-emptive subscription rights in the event that the issue is oversubscribed (greenshoe option)"*, on page 53 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Seventeenth resolution
(Authorization for the Managing Partners or any one of them to increase the number of securities to be issued in the event that an issue (with or without pre-emptive subscription rights) is oversubscribed)

Having considered the Chief Executive Officer's report, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves, in accordance with Article L. 225-135-1 of the French Commercial Code:

- To authorize the Managing Partners or any one of them to increase the number of shares and/or other securities carrying rights to shares issued with or without pre-emptive subscription rights under the fourteenth, fifteenth and sixteenth resolutions. Any such additional shares and/or other securities (i) shall be issued within 30 days of the end of the subscription period for the original issue, (ii) shall not represent more than 15% (fifteen percent) of the original issue, (iii) shall be offered at the same price as for the original issue, and (iv) shall be included in the respective ceilings set in the fourteenth, fifteenth and sixteenth resolutions.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

18th resolution

/ Authorization for the Managing Partners to increase the Company's capital by capitalizing reserves, income or additional paid-in capital

The purpose of the eighteenth resolution is to seek an authorization to increase the Company's capital by up to €80,000,000 (eighty million euros) by capitalizing reserves, income or additional paid-in capital. Note that the authorization could not be used during a public offer period.

This authorization would replace the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (twentieth resolution), which has not been used.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.7, *"Authorizations to increase capital by capitalizing reserves"*, on page 55 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Eighteenth resolution
(Authorization for the Managing Partners or any one of them to increase the Company's capital by capitalizing reserves, income or additional paid-in capital)

Having considered the reports of the Chief Executive Officer and the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves, in accordance with Articles L. 225-129 and L. 225-130 of the French Commercial Code:

- To authorize the Managing Partners or any one of them to increase the Company's capital, on one or more occasions except during a public offer period, by a maximum of €80,000,000 (eighty million euros) by issuing bonus shares and/or raising the par value of existing shares, to be paid up by capitalizing reserves, income or additional paid-in capital. This amount shall not include the par value of any additional shares to be issued in accordance with the applicable laws, regulations and contractual provisions in order to protect the rights of existing holders of securities carrying rights to shares or of other rights to the Company's shares.
- That if new shares are issued, the Managing Partners or any one of them shall be authorized to decide that rights to fractions of shares shall be non-transferable and non-tradable and that the corresponding shares shall be sold in accordance with Article L. 225-130 of the French Commercial Code. In such a case, the sale proceeds shall be allocated among the rights holders within 30 days of the date when the whole number of shares allotted to them is recorded in their securities account.
- That the Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) determine the timing and terms and conditions of the capital increase(s), (ii) determine the subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up shares, (iii) apply for the listing of the new shares on any market chosen by them, (iv) place on record the amount of the capital increase(s) resulting from the issue of shares, (v) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each capital increase.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

19th resolution

/ Authorization for the Managing Partners to increase the Company's capital by issuing ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets

The nineteenth resolution concerns issues of shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets.

The aggregate par value of the new shares would be included in the ceiling set in the fifteenth resolution. Shares issued in payment of contributed assets would also be limited to the equivalent of 10% of the Company's capital.

This authorization would replace the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (twenty-first resolution), which has not been used.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.5, *"Authorizations to increase capital in payment for contributed assets"*, on page 51 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Nineteenth resolution
(Authorization for the Managing Partners or any one of them to increase the Company's capital by issuing ordinary shares, without pre-emptive subscription rights for existing shareholders, in connection with a stock-for-stock offer or in payment of contributed assets)

Having considered the reports of the Chief Executive Officer and the Supervisory Board and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- To authorize the Managing Partners or any one of them to issue ordinary shares, except during a public offer period:
  - In connection with a stock-for-stock offer carried out in accordance with Article L. 225-148 of the French Commercial Code, or
  - As payment for shares or securities carrying rights to shares of another company contributed to the Company in transactions not governed by Article L. 225-148 of the French Commercial Code, in which case the number of shares issued shall be based on the report of the Expert Appraiser of Capital Contributions *(Commissaire aux apports)* and shall not exceed 10% (ten percent) of the Company's capital.

  The aggregate par value of shares issued under this authorization shall be included in the ceiling specified in the fifteenth resolution of this Meeting.
- That the Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) determine the timing and terms and conditions of the capital increase(s), (ii) determine the subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up shares, (iii) approve the value attributed to the acquired stock, (iv) apply for the listing of the new shares on any market chosen by them, (v) place on record the amount of the capital increase(s) resulting from the issue of shares, (vi) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each capital increase.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

20th resolution

/ Authorization for the Managing Partners to carry out a rights issue for members of a Group Employee Shareholder Plan and/or restricted share issues, without pre-emptive subscription rights for existing shareholders

The twentieth resolution concerns rights issues for employees who are members of a Group Employee Shareholder Plan. The issues would be limited to an aggregate par value of €7,000,000 (seven million euros), or less than 2% of the Company's current share capital.

This authorization would replace, with the same ceiling, the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (twenty-second resolution), which has not been used.

A detailed explanation of this type of proposed resolution is provided in Information Sheet 6.3, *"Authorizations to carry out employee rights issues"*, on page 67 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Twentieth resolution
(Authorization for the Managing Partners or any one of them to carry out a rights issue for members of a Group Employee Shareholder Plan and/or restricted share issues, without pre-emptive subscription rights for existing shareholders)

Having considered the report of the Chief Executive Officer, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- To authorize the Managing Partners or any one of them, pursuant to Articles L. 3332-1 *et seq.* of the French Labor Code *(Code du travail)* and Articles L. 225-129-6 and L. 225-138-1 of the French Commercial Code, to carry out one or more rights issues for members of an Employee Shareholder Plan of the Company or of French or foreign related companies within the meaning of Article L. 225-180 of the French Commercial Code and Article L. 3344-1 of the French Labor Code.
- That:
  - Existing shareholders shall waive their pre-emptive right to subscribe any shares to be issued under this authorization.
  - The aggregate par value of shares issued under this authorization shall not exceed €7,000,000 (seven million euros), representing less than 2% of the Company's current share capital. This ceiling shall not include the par value of any additional shares to be issued in accordance with the applicable laws, regulations or contractual provisions in order to protect the rights of existing holders of securities carrying rights to shares or of other rights to the Company's shares.
  - The issue price of the shares offered under this authorization shall be set by the Managing Partners or any one of them in accordance with Article L. 3332-19 of the French Labor Code and shall not reflect a discount of more than 20% (twenty percent) on the average of the opening prices quoted for the Company's shares on Euronext Paris over the 20 trading

days preceding the date on which the opening date of the subscription period is decided. The Managing Partners or any one of them may reduce or cancel this discount if appropriate, in order to take into account, inter alia, locally applicable tax, labor law or accounting restrictions.

- Employees may be given free shares in place of the discount, in accordance with Article L. 3332-21 of the French Labor Code.
- The Managing Partners or any one of them may also decide that employer matching payments will be made in the form of free shares or securities with rights to shares instead of cash, subject to the limits set out in Article L. 3332-21 of the French Labor Code.
- The Managing Partners or any one of them shall have full powers – which may be delegated in accordance with the applicable laws and regulations – to use this authorization, including to (i) set the characteristics, amount, and terms and conditions of the issue(s), (ii) determine whether the shares will be purchased directly by employees or through a corporate mutual fund, (iii) set the issue date(s), subscription period(s) and cum-rights date(s) as well as the method and timeframe for paying up the shares, (iv) apply for the listing of the new shares on any markets chosen by them, (v) set any length-of-service conditions to be met by beneficiaries, (vi) place on record the amount of the capital increase(s) resulting from the rights issues, (vii) carry out – directly or through a representative – all operations and formalities related to the capital increase(s) and, at their discretion, charge the costs of the capital increase(s) against the related premiums and deduct from the premiums the amounts necessary to increase the legal reserve to 10% of the new capital after each issue.

In accordance with the applicable legal provisions, the authorization provided for in this resolution shall also cover sales of shares to members of a Group Employee Shareholder Plan.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

21st resolution

/ Blanket ceilings on issues of shares and securities and debt securities carrying rights to shares

The purpose of the twenty-first resolution is to set a blanket ceiling of €126,000,000 (one hundred twenty-six million euros) – or the equivalent of close to 35% of the Company's current capital – on share issues carried out under the fourteenth, fifteenth, sixteenth, seventeenth and nineteenth resolutions. This authorization would replicate the authorization granted for the same purpose at the Annual Shareholders Meeting of May 13, 2016 (twenty-third resolution), which has not been used.

It also raises to €2,500,000,000 (two billion five hundred million euros) the blanket ceiling on issues of debt securities carrying immediate or deferred rights to shares carried out under the fourteenth, fifteenth, sixteenth and seventeenth resolutions. An explanation of the ceilings set by shareholders for authorizations relating to corporate actions is provided in the Introductory Information Sheet, *"Authorizations granted by shareholders for the Board of Directors to carry out capital increases"*, on page 38 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Twenty-first resolution
(Blanket ceilings on issues of shares and securities and debt securities carrying rights to shares)

Having considered the reports of the Chief Executive Officer and the Supervisory Board and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- That:
  - The aggregate par value of shares issued under the fourteenth, fifteenth, sixteenth, seventeenth and nineteenth resolutions, either immediately or on conversion, exchange, redemption or exercise of securities carrying rights to shares, shall not exceed €126,000,000 (one hundred and twenty-six million euros), representing close to 35% of the Company's capital as of the date of this Meeting. This ceiling shall not include either (i) the par value of any shares to be issued to protect the interests of holders of securities carrying rights to shares or of other rights to the Company's shares in accordance with the law, or (ii) any other adjustments made pursuant to any applicable contractual provisions.
  - The aggregate nominal amount of debt securities carrying immediate or deferred rights to shares, issued under the fourteenth, fifteenth, sixteenth and seventeenth resolutions shall not exceed €2,500,000,000 (two billion five hundred million euros) or the equivalent in a foreign currency or a monetary unit determined by reference to a basket of currencies.

This authorization shall be valid for a period of 26 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

22nd resolution

/ Authorization for the Managing Partners to reduce the Company's capital by canceling shares

In the twenty-second resolution, shareholders are invited to authorize the Managing Partners or any one of them to reduce the Company's capital by canceling treasury shares purchased under shareholder-approved buyback programs.

This 18-month authorization would replace the authorization granted for the same purpose at the Annual Shareholders Meeting of May 19, 2017 (tenth resolution).

Just over 893,000 (eight hundred ninety-three thousand) shares acquired under buyback programs were canceled in 2017 (for more details, refer to section 5.5.7 of the 2017 Registration Document).

A detailed explanation of this type of proposed resolution is provided in Information Sheet 5.9, *"Authorizations to carry out capital reductions"*, on page 59 of the MEDEF Guide *"Proposed resolutions submitted to the vote of shareholders of listed companies"*, available (in French only) on the MEDEF's website at www.medef.com/.

Twenty-second resolution

(Authorization for the Managing Partners or any one of them to reduce the Company's capital by canceling shares)

Having considered the report of the Chief Executive Officer, the Statutory Auditors' special report and the report of the Supervisory Board, and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- To authorize the Managing Partners or any one of them to:
  - Cancel, at their sole discretion, on one or more occasions, all or some of the shares purchased under shareholder-approved buyback programs, provided that the number of shares canceled does not exceed 10% (ten percent) of the Company's capital.
  - Charge the difference between the cost of the canceled shares and their par value against any available premium or reserve account.
- To grant the Managing Partners, or any one of them, full powers – which may be delegated in accordance with the law – to (i) carry out the capital reduction(s) following the cancellation(s) of shares authorized under this resolution, (ii) make the corresponding accounting entries, (iii) amend the bylaws to reflect the new capital and (iv) generally, carry out all necessary formalities.

This authorization shall be valid for a period of 18 months from the date of this Meeting. It supersedes any authorization previously granted for the same purpose.

23rd resolution

/ Change of the address of the Company's head office and corresponding amendment of the Bylaws

The purpose of the twenty-third resolution is to transfer the Company's head office from 12, cours Sablon, Clermont-Ferrand (63000), France, to 23, place des Carmes-Déchaux, Clermont-Ferrand (63000), France, with effect from July 1, 2018, as part of the plan to improve the organization of its various departments, and to amend Article 5 of the Bylaws accordingly.

Twenty-third resolution

(Change of the address of the Company's head office and corresponding amendment of the Bylaws)

Having considered the reports of the Chief Executive Officer and the Supervisory Board and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- To change the address of the Company's head office with effect from July 1, 2018 and amend Article 5 of the Bylaws as follows:

  Old wording:

  The Company's head office is located at 12, cours Sablon, Clermont-Ferrand, in the Puy-de-Dôme region of France.

  New wording:

  The Company's head office is located at 23, place des Carmes-Déchaux, Clermont-Ferrand, in the Puy-de-Dôme region of France.

24th resolution

/ Alignment of the Bylaws with new provisions of French company law

The purpose of the twenty-fourth resolution is to align Article 19 of the Bylaws concerning agreements subject to the Supervisory Board's authorization with Articles L. 225-38 and L. 225-39 of the French Commercial Code (referred to in Article L. 226-10 of the Code), as modified by Government order 2014-863 dated July 31, 2014, in order to avoid any difference that would make Article 19 of the Bylaws incompatible with these legal provisions.

Twenty-fourth resolution

(Amendment of the Bylaws – Alignment with French company law)

Having considered the reports of the Chief Executive Officer and the Supervisory Board and having noted the approval of both of the General Partners, the Extraordinary Shareholders Meeting resolves:

- To amend Article 19 of the Bylaws as follows (the changes are presented in bold and italics):

Old wording:	New wording:
Any agreement entered into directly or through a third party between the Company and one of its Managing Partners, any of the members of the Supervisory Board, a shareholder that holds more than 10% of the voting rights or, in the case of a corporate shareholder, the company which controls that shareholder within the meaning of Article L. 233-3 of the French Commercial Code must be authorized in advance by the Supervisory Board. The same shall apply to any agreement in which any of these individuals or entities has a direct interest.	*Any agreement entered into directly or through a third party between the Company and one of its Managing Partners, any of the members of the Supervisory Board, a shareholder that holds more than 10% of the voting rights or, in the case of a corporate shareholder, the company which controls that shareholder within the meaning of Article L. 233-3 of the French Commercial Code must be authorized in advance by the Supervisory Board.* ***The Supervisory Board shall give the reasons for its authorization, in terms of the agreement's benefits for the Company, and shall describe the agreement's financial terms.*** *The same shall apply to any agreement in which any of these individuals or entities has a direct interest.*
The same shall also apply to any agreement between the Company and another enterprise, if one of the Managing Partners or any member of the Supervisory Board of the Company is the owner, a General Partner, a Director, the Chief Executive Officer, a member of the Managing Board or a member of the Supervisory Board of that enterprise.	*The same shall also apply to any agreement between the Company and another enterprise, if one of the Managing Partners or any member of the Supervisory Board of the Company is the owner, a General Partner, a Director, the Chief Executive Officer, a member of the Managing Board or a member of the Supervisory Board of that enterprise.*
The above provisions shall not apply to agreements concerning arm's length transactions carried out in the normal course of business.	*The above provisions shall not apply to agreements concerning arm's length transactions carried out in the normal course of business* ***or to agreements entered into with a company that is wholly owned by the Company directly or indirectly.***
The person concerned shall notify the Supervisory Board as soon as he or she becomes aware of an agreement requiring prior authorization. He or she shall not take part in the vote on the proposed authorization.	*The person concerned shall notify the Supervisory Board as soon as he or she becomes aware of an agreement requiring prior authorization. He or she shall not take part in the vote on the proposed authorization.*
These agreements shall be authorized on the basis provided for by law.	*These agreements shall be authorized on the basis provided for by law.*

25th resolution

/ Powers to carry out formalities

The purpose of the twenty-fifth resolution is to give powers to carry out the formalities related to the Shareholders Meeting.

Twenty-fifth resolution

(Powers to carry out formalities)

The shareholders give full powers to the bearer of an original, copy or extract of the minutes of this Ordinary and Extraordinary Shareholders Meeting to carry out all legal and administrative formalities and to make all filings and publish all notices required by the applicable laws.

10.1.3 SUMMARY OF FINANCIAL AUTHORIZATIONS SUBMITTED FOR SHAREHOLDER APPROVAL

Corporate action	Applicable ceilings *(nominal amount)*	Duration (expiration date)
Issuance of shares and/or securities carrying rights to shares, with pre-emptive subscription rights *(14th resolution)*	shares: €126 million (close to 35% of current capital) debt securities: €2.5 billion	26 months *(July 2020)*
Issuance of shares and/or securities carrying rights to shares, through a public offer, without pre-emptive subscription rights *(15th resolution)*	shares: €36 million (close to 10% of current capital) debt securities: €2.5 billion	26 months *(July 2020)*
Issuance of shares and/or securities carrying rights to shares through an offer governed by Article L. 411-2 of the French Monetary and Financial Code, without pre-emptive subscription rights *(16th resolution)*	shares: €36 million (close to 10% of current capital)(1) debt securities: €2.5 billion(1)	26 months *(July 2020)*
Increase in the number of securities to be issued under issues with or without pre-emptive subscription rights *(17th resolution)*	15%, subject to the ceilings applicable for the issues concerned	26 months *(July 2020)*
Issuance of new shares paid up by capitalizing reserves, income or additional paid-in capital *(18th resolution)*	€80 million	26 months *(July 2020)*
Issuance of shares for a stock-for-stock offer or in payment for contributed assets *(19th resolution)*	€36 million (less than 10% of current capital)(1)	26 months *(July 2020)*
Employee rights issue *(20th resolution)*	€7 million (less than 2% of current capital)	26 months *(July 2020)*
Blanket ceilings on all the authorizations to issue shares and debt securities carrying rights to shares (except for share issues carried out under the eighteenth and twentieth resolutions) *(21st resolution)*	shares: €126 million (close to 35% of current capital) debt securities: €2.5 billion	26 months *(July 2020)*
Capital reduction by canceling shares *(22nd resolution)*	10% of the current capital	18 months *(November 2019)*
Share buyback program *(5th resolution)*	17.95 million shares at a maximum price of €180 per share	18 months *(November 2019)*

(1) Included in the ceiling set in the fifteenth resolution (issuance through a public offer without pre-emptive subscription rights).

Other issues	Applicable ceilings *(nominal amount)*	Duration (expiration date)
Issuance of bonds and debt-linked securities *(8th resolution)*	€5 billion	26 months *(July 2020)*

10.2 REPORT OF THE SUPERVISORY BOARD: RECOMMENDATIONS CONCERNING THE VOTES ON THE PROPOSED RESOLUTIONS

10.2.1 ELECTION/RE-ELECTION OF SUPERVISORY BOARD MEMBERS (9TH, 10TH AND 11TH RESOLUTIONS)

Michelin is a *société en commandite par actions* (partnership limited by shares) and as such its Supervisory Board is entirely made up of non-executive members (nearly 67% of whom are independent) who represent the shareholders.

With a view to clearly segregating management and supervisory powers, no General Partner may play a role in the nomination process – neither the General Managing Partner (the Chief Executive Officer), nor the Non-Managing General Partner (SAGES), which is responsible for ensuring the Company's continuity of leadership.

Neither of the two General Partners is involved in decisions to recommend candidates for election to the Supervisory Board at Shareholders Meetings.

In addition, French law and the Company's Bylaws prohibit the General Partners from taking part in the vote at Shareholders Meetings to elect members of the Supervisory Board and their shares are not included in the quorum for the related resolutions.

The terms of office of Pat Cox, Monique Leroux and Cyrille Poughon are due to expire at the close of the Annual Shareholders Meeting called to approve the financial statements for the year ended December 31, 2017.

Monique Leroux and Cyrille Poughon have informed the other Supervisory Board members that they wish to stand for re-election, which is the purpose of the ninth and tenth resolution.

In accordance with best governance practices and with the agreement of the other Supervisory Board members, Pat Cox has decided not to stand for re-election to the Supervisory Board.

The Supervisory Board unanimously thanks Pat Cox for his exceptional contribution to the Board's work during his 12 years of membership and as a member of the Compensation and Appointments Committee.

The Compensation and Appointments Committee has decided to recommend Thierry Le Hénaff as new member of the Supervisory Board, which is the purpose of the eleventh resolution.

/ Monique Leroux

Fiera Capital – 1501 McGill College – Montreal (Quebec) – H3A 3M8 – Canada

Monique Leroux was born in 1954 and is a Canadian national. She is currently Chair of the Board of Invest Quebec and Chair of the Quebec Government's Advisory Committee on the Economy and Innovation. From 2008 to 2016, she was Chair of the Board, President and Chief Executive Officer of Mouvement Desjardins, Canada's largest cooperative financial group. She has been a member of the Board of Directors of the International Cooperative Alliance since 2013, serving as its President from 2015 to 2017. In 2017, she was appointed by Canada's Prime Minister as a member of the Canada-United States Council for Advancement of Women Entrepreneurs and Business Leaders. She is also Chair of the Board of Governors of the Society for the Celebration of Montreal's 375th Anniversary. She sits on the Board of Directors of Bell (BCE), Couche-Tard (ATD), Michelin (ML-France) and S&P Global (United States), and is a Strategic Advisor to Fiera Capital.

Monique Leroux is a member of the Order of Canada, an Officer of the *Ordre national du Québec* and a *Chevalier de la Légion d'honneur* (France), and has been awarded honorary doctorates by eight Canadian universities.

Monique Leroux owned 1,000 Michelin shares as of December 31, 2017.

She was appointed to Michelin's Supervisory Board on October 1, 2015 to replace Laurence Parisot following the latter's resignation. Her appointment was ratified by the Annual Shareholders Meeting of May 13, 2016 (in the ninth resolution, by a majority of 99.86% of the votes cast). She has been a member of the Audit Committee since 2017. At its last review, the Supervisory Board considered that Monique Leroux is an independent member[1] because:

- She does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- She is not currently and never has been an employee of Michelin or any of its subsidiaries.
- She has not been a member of the Supervisory Board for more than 12 years.
- She is not a corporate officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which a corporate officer of Michelin has a seat on the Board.
- She has not been an auditor of Michelin in any of the past five years.
- She is not a shareholder or a corporate officer of SAGES, which is one of Michelin's General Partners.
- She is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

(1) See the detailed review of Supervisory Board members' independence in the Corporate Governance Report (section 4.3.2 g) of the 2017 Registration Document).

The Board examined Monique Leroux's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- The pros and cons of re-electing her.
- Her excellent understanding of the challenges facing the Group.
- The skills and experience she brings to the Board.
- Her experience in the areas of accounting, finance and internal control.
- Her availability, attendance rate and engagement at meetings of the Supervisory Board and the Audit Committee. In 2017, her attendance rate at Board and Committee meetings was 100%.
- The fact that she is an independent member of the Board and has no conflicts of interest.
- Her contribution to the complementary nature of the Board's membership.

In particular, the Board considers that Ms. Leroux will continue to give the Group the benefit of her experience in two areas:

The experience she acquired in one of the largest North American financial institutions, leading the bank's dynamic growth while making it as one of the strongest financial institution In the world.

Her participation in many international bodies, which gives her solid insight into the global markets.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Monique Leroux be re-elected for a further four-year term. Ms. Leroux did not take part in the Board's discussion or vote.

/ Cyrille Poughon

Michelin – 23, place des Carmes-Déchaux – 63040 Clermont-Ferrand – France

Cyrille Poughon was born in 1975 and is a French national. He is currently Leader of the Head Office Security and Safety Program at Manufacture Française des Pneumatiques Michelin.

He began his career with the Michelin Group in 1996 and has held a variety of positions in sales and logistics.

He served as Secretary of Michelin's European Works Council until 2014.

In 2015, he followed the "Certified Corporate Director" training program organized by *Sciences-Po* and *Institut Français des Administrateurs.*

Cyrille Poughon owned 410 Michelin shares as of December 31, 2017.

Cyrille Poughon, who was elected to the Supervisory Board for the first time on May 16, 2014 (in the ninth resolution, by a majority of 99.49% of the votes cast), is an employee of Manufacture Française des Pneumatiques Michelin, one of the Group's largest operating companies and its largest French subsidiary. Despite his independent mindset and conspicuous participation in Supervisory Board meetings, the Board considered that Mr. Poughon could not be qualified as independent because of the implicit requirement for him, as a Michelin employee, to demonstrate loyalty to the Group(1). Cyrille Poughon is nevertheless a member of the Supervisory Board with the same powers as the other members.

The Board examined Cyrille Poughon's candidature for re-election for a four-year term based on the above-mentioned criteria, taking into account:

- The pros and cons of re-electing him.
- The skills and experience he brings to the Board.
- His experience in the areas of accounting, finance and internal control.
- His availability, attendance rate and engagement at meetings of the Supervisory Board. In 2017, his attendance rate at Board meetings was 100%.
- His contribution to the complementary nature of the Board's membership.

The Board notably considered his international vision of labor relations and the Group, his understanding of the manufacturing sector and his deep familiarity with the Group's organization.

In addition, since 2015 he has been tasked with acting as a neutral observer of the Group's social dialogue processes in order to make an informed contribution to the Board's discussions on this issue. He has already visited some of the Group's largest plants worldwide and presented his observations to the Supervisory Board along with an overview of the challenges and opportunities. These presentations were greatly appreciated by the Supervisory Board members(2).

In compliance with legal requirements, employees are also represented on the Supervisory Board of the Group's largest French subsidiary and one of its largest operating companies, Manufacture Française des Pneumatiques Michelin (MFPM), by a member designated by MFPM's Central Works Council.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board decided to recommend that Cyrille Poughon be re-elected for a further four-year term. Mr. Poughon did not take part in the Board's discussion or vote.

/ Thierry Le Hénaff

Arkema – 420, rue d'Estienne-d'Orves, 92700 Colombes – France

To replace Pat Cox, who chose not to stand for re-election, the Supervisory Board asked the Compensation and Appointments Committee to define a candidate search strategy based on best practices. The Committee assigned the initial selection process to a leading independent recruitment firm which shortlisted a certain number of potential candidates.

After examining these candidates' profiles in detail, the Committee decided to recommend Thierry Le Hénaff for election.

Thierry Le Hénaff was born in 1963 and is a French national. He is the Chairman and Chief Executive Officer of Arkema(3).

Thierry Le Hénaff holds engineering degrees from *École Polytechnique* and *École Nationale des Ponts et Chaussées,* and a Master's degree in Industrial Management from Stanford University in the United States. He holds the titles of *Chevalier de l'Ordre national du mérite* and *Chevalier dans l'Ordre national de la Légion d'honneur.* He has been a member of the Board of Directors of *École Polytechnique*'s Foundation since 2016.

After starting his career with Peat Marwick Consultants, in 1992 he joined Bostik, Total's Adhesives division, where he held a number of operational positions in France and worldwide.

In July 2001, he was appointed Chairman and Chief Executive Officer of Bostik Findley, the new entity resulting from the merger of Total's and Elf Atochem's Adhesives divisions.

In January 2003, he joined Atofina's Executive Committee, and in 2004 he joined the Executive Committee of Total Chemicals.

In addition to serving on the Boards of Arkema Group subsidiaries, he has also been a director of Eramet.

Thierry Le Hénaff has been Chairman and Chief Executive Officer of Arkema since the Company was floated on the Paris stock exchange in 2006.

(1) See the detailed review of Supervisory Board members' independence in the Corporate Governance Report (section 4.3.2 g) of the 2017 Registration Document.
(2) See the list of countries concerned in the previous year in the Corporate Governance Report (section 4.3.2 a) of the 2017 Registration Document.
(3) Listed company.

The Compensation and Appointments Committee considers that he would contribute to the Supervisory Board:

- His managerial experience within a major international group.
- His proven ability to support the transformation of an industrial group, while making it a global leader in its main activities.
- Complementary skills and experience to those of other Board members.
- Sufficient availability and involvement in the work of the Board and its Committees.
- An absence of conflicts of interest with the Company.
- A desire to actively participate in the work of the Supervisory Board.

The Supervisory Board considers that Thierry Le Hénaff qualifies as an independent member because:

- He does not have any close family ties with either the Chief Executive Officer or any member of the Supervisory Board.
- He is not currently and never has been an employee of Michelin or any of its subsidiaries.
- He has not been a member of the Supervisory Board for more than 12 years.
- He is not a corporate officer of a company in which Michelin directly or indirectly has a seat on the Board, or in which a corporate officer of Michelin has a seat on the Board.
- He has not been an auditor of Michelin in any of the past five years.
- He is not a shareholder or an executive officer of SAGES, one of Michelin's General Partners.
- He is not a customer, supplier or banker that is material for Michelin or that derives a significant portion of its business from Michelin.

His election to the Board would increase the number of independent members to seven, representing a high 77% of the total.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board has decided to recommend that Thierry Le Hénaff be elected for a four-year term.

Mr. Le Hénaff has agreed to stand for election to the Supervisory Board. He held 90 Michelin shares as of March 9, 2018. He has given a commitment to acquire the necessary number of shares to hold the 400 shares required under the Supervisory Board's internal rules within a few weeks of his election.

/ Expiration dates of Supervisory Board members' terms of office

After the Annual Shareholders Meeting, the expiration dates of the Supervisory Board members' terms of office will be effectively staggered, as follows:

	2019 AGM	2020 AGM	2021 AGM	2022 AGM
Olivier Bazil			X	
Barbara Dalibard	X			
Anne-Sophie de La Bigne		X		
Jean-Pierre Duprieu		X		
Aruna Jayanthi	X			
Monique Leroux				X
Cyrille Poughon				X
Michel Rollier			X	
Thierry Le Hénaff				X
NUMBER OF EXPIRATIONS BY YEAR	**2**	**2**	**2**	**3**

10.2.2 ELECTION OF NEW MANAGING PARTNERS (12TH AND 13TH RESOLUTIONS)

Jean-Dominique Senard's term as Chief Executive Officer will expire at the close of the Annual Shareholders Meeting to be called in 2019 to approve the 2018 financial statements.

Mr. Senard has announced that he does not intend to stand for re-election.

The participants in the Company's governance system agreed that management continuity should be secured immediately, in line with Michelin's values.

To plan his replacement in line with corporate governance best practices and in the Group's best interests, the Non-Managing General Partner, SAGES, engaged in a rigorous, thorough selection process several months ago in full cooperation with Michelin's Supervisory Board and Jean-Dominique Senard, General Managing Partner, himself.

As part of this process, and in accordance with the Company's Bylaws, at the Company's Supervisory Board meeting on February 9, 2018, SAGES proposed that two candidates should be put forward for election as Managing Partners.

On the recommendation of the Compensation and Appointments Committee, the Supervisory Board issued a unanimous opinion in favor of SAGES' proposal, which was subsequently also approved by Jean-Dominique Senard in his capacity as General Managing Partner[(1)].

The Chief Executive Officer will ask shareholders to:

- Elect Florent Menegaux as General Managing Partner (thirteenth extraordinary resolution) for a four-year term.

(1) See the press release published on February 9, 2018.

- Elect Yves Chapot as Managing Partner (twelfth ordinary resolution) for a four-year term.

Biographical details for each of these candidates are provided in the Chief Executive Officer's report on the respective resolutions submitted to the May 2018 Annual Shareholders Meeting (see section 10.1.1 of the 2017 Registration Document and the Notice of Meeting).

The Supervisory Board believes that the two candidates have considerable strengths, including:

- Their respective experience.
- Their deep knowledge of the Group's businesses.
- Their involvement in the current transformation of the Group's organization.
- Their complementary career paths and their essential skills in managing the large-scale change that will be necessary to support the Group's growth.
- The guarantee of management continuity and permanence.

The Supervisory Board unanimously recommends that shareholders elect Florent Menegaux as General Managing Partner and Yves Chapot as Managing Partner.

If the twelfth and thirteenth resolutions are adopted and in accordance with the Company's Bylaws, SAGES will act on the Supervisory Board's recommendation and appoint Jean-Dominique Senard as Chief Executive Officer for the remainder of his term, to be succeeded by Florent Menegaux at the close of the 2019 Annual Shareholders Meeting.

10.2.3 "SAY-ON-PAY" ADVISORY VOTE ON THE CHIEF EXECUTIVE OFFICER'S COMPENSATION FOR 2017 (6TH RESOLUTION)

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chief Executive Officer[1], in line with the AFEP/MEDEF Code recommendation[2] which provides for a mandatory shareholder vote.

In line with this recommendation in the AFEP/MEDEF Code and the implementation guidelines dated December 2016, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to the Chief Executive Officer and the Chairman of the Supervisory Board. Said components may include:

- The fixed portion.
- The annual variable portion, including a description of the objectives that must be met in order for this variable portion to be awarded.
- Exceptional compensation.
- Stock options, performance shares and long-term variable compensation, including a description of the objectives that must be met in order for these components of compensation to be awarded.
- Benefits related to taking up or terminating office.
- Supplementary pension benefits.
- Any other benefits.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board as part of the compensation policy described in section 10.2.1.1 of the 2016 Registration Document are described in the presentation of the sixth resolution in the Chief Executive Officer's report (section 10.1.1 of the 2017 Registration Document).

Consequently, with the approval of the Non-Managing General Partner (SAGES), the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2017 to Jean-Dominique Senard, Chief Executive Officer and the Company's sole executive officer.

10.2.4 "SAY-ON-PAY" ADVISORY VOTE ON THE COMPENSATION OF THE CHAIRMAN OF THE SUPERVISORY BOARD FOR 2017 (7TH RESOLUTION)

Articles L. 225-37-2 and L. 225-82-2 of the French Commercial Code, as updated to reflect the provisions of the "Sapin 2" Act (Act 2016-1691 dated December 9, 2016), concerning shareholder approval of (i) the principles and criteria for determining, allocating and awarding the fixed, variable and exceptional components of the compensation and benefits of executive and non-executive non-independent directors (*ex ante* approval) and (ii) the components of the compensation paid or awarded to said directors pursuant to these principles (*ex post* approval) are not applicable to partnerships limited by shares by virtue of Article L. 226-1 of the Code.

(1) In connection with the compensation policy described in section 4.4.1 a) and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting.
(2) Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.

However, in line with its commitment to apply corporate governance best practices, fulfill shareholders' expectations and, as in 2017, comply with the explicit recommendation in the AFEP/MEDEF Code that partnerships limited by shares should apply *"the same compensation rules as those applicable to joint stock corporations, subject only to any differences justified by the specific features of this legal form, particularly those relating to the status of General Managing Partner"* (Article 24.1.3), the Supervisory Board and the General Partners have decided for 2018 to give the Annual Shareholders Meeting the opportunity to issue an advisory vote on the compensation due or awarded to the Chairman of the Supervisory Board[(1)], in line with the AFEP/MEDEF Code recommendation[(2)] which provides for a mandatory shareholder vote.

In line with this recommendation in the AFEP/MEDEF Code and the implementation guidelines dated December 2016, shareholders are asked to express an advisory "say-on-pay" vote on the components of compensation due or awarded for the previous year to the Chief Executive Officer and the Chairman of the Supervisory Board. Said components may include:

- The fixed portion.
- The annual variable portion, including a description of the objectives that must be met in order for this variable portion to be awarded.
- Exceptional compensation.
- Stock options, performance shares and long-term variable compensation, including a description of the objectives that must be met in order for these components of compensation to be awarded.
- Benefits related to taking up or terminating office.
- Supplementary pension benefits.
- Any other benefits.

The compensation components concerned and the related reviews performed by the Compensation and Appointments Committee and the Supervisory Board as part of the compensation policy described in section 10.2.1.2 of the 2016 Registration Document are described in the presentation of the seventh resolution in the Chief Executive Officer's report (section 10.1.1 of the 2017 Registration Document).

Consequently, the Supervisory Board recommends that shareholders issue a positive advisory vote on the components of the compensation due or awarded for 2017 to Michel Rollier, Chairman of the Supervisory Board and sole non-independent non-executive director.

10.2.5 APPROVAL OF THE FINANCIAL STATEMENTS, THE FINANCIAL AUTHORIZATIONS, AN AMENDMENT TO THE BYLAWS AND THE CHANGE OF ADDRESS OF THE COMPANY'S HEAD OFFICE (4TH, 5TH, 8TH AND 14TH TO 24TH RESOLUTIONS)

Concerning the other ordinary resolutions, the accounting and financial information communicated to shareholders and the Chief Executive Officer's report presenting the Group's operations and results for 2017 (for the purposes of the first and second resolutions).

We have no comments on the Statutory Auditors' reports on the financial statements.

As no new related-party agreements requiring shareholder approval were entered into in 2017, you are asked to place on record that there are no such agreements to approve (fourth resolution).

Before asking shareholders to approve the financial statements of the Company, the consolidated financial statements and the proposed appropriation of net income, we would like to underscore last year's growth progression, record high earnings, and free cash flow robustness, which were in line with our ambitions.

These good performances lead us to reaffirm our confidence in the Chief Executive Officer.

They also lead us to support the Chief Executive Officer's recommendation to set the dividend at €3.55 per share (second resolution).

The Company wishes to renew its share buyback program on the same terms as for the previous program (fifth resolution).

An authorization to cancel shares bought back under the program is also being sought to replace the authorization granted at the 2017 Meeting which was used by the Company during the year (twenty-fourth extraordinary resolution).

We are also proposing a number of extraordinary resolutions (fifteenth to nineteenth, twenty-first and twenty-second resolutions) which renew – on the same or very similar terms – the financial authorizations granted at the May 13, 2016 Annual Shareholders Meeting. The new resolutions have a higher ceiling for debt issues. They continue to be required in order for the Group to implement its overall business strategy.

In addition, shareholders will be asked to renew the previous authorization to carry out rights issues for members of a Group Employee Shareholder Plan (twentieth resolution).

The twenty-third resolution concerns the transfer of the Company's head office to a different building in Clermont-Ferrand and the resulting amendment to the corresponding Article of the Bylaws.

Lastly, the twenty-fourth resolution concerns an alignment of Article 19 of the Bylaws concerning agreements subject to the Supervisory Board's authorization with Articles L. 225-38 and L. 225-39 of the French Commercial Code (referred to in Article L. 226-10 of the Code).

We recommend that shareholders adopt the proposals submitted by the Chief Executive Officer for their approval by voting in favor of the corresponding ordinary and extraordinary resolutions.

February 9, 2018

The Supervisory Board

(1) *In connection with the compensation policy described in section 4.4.1 b) and in the Notice of Meeting for the May 18, 2018 Annual Shareholders Meeting.*

(2) *Recommendation applied by the Company since it came into effect and, in 2018, in compliance with the most recent version of the AFEP/MEDEF Code dated November 2016.*

10.3 STATUTORY AUDITORS' REPORTS

10.3.1 STATUTORY AUDITORS REPORT ON THE ISSUE OF SHARES AND SECURITIES WITH OR WITHOUT PRE EMPTIVE RIGHTS

Combined Shareholders Meeting of May 18, 2018 14th, 15th,16th, 17th and 21st resolutions

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France

To the Compagnie Générale des Etablissements Michelin Shareholders' meeting

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin ("the Company") and pursuant to Articles L.228-92 and L.225-135 et seq. of the French Commercial Code (Code de commerce), we hereby present our report on the shareholder authorizations sought by the Managing Chairman, with a proposed delegation to the Managing Partners, or to one of them, to issue shares and/or marketable securities, which you will be asked to approve.

Your Managing Chairman, with a proposed delegation to the Managing Partners, or to one of them, is seeking, on the basis described in his report, a 26-month authorization, from the date of this meeting, to decide, except during the period of a public offer, on the following securities issues and set the final terms of the issues and, if appropriate, to cancel existing shareholders' pre-emptive subscription rights:

- The issue with pre-emptive subscription rights (14th resolution) of shares and/or securities, under the form of equity and/or debt securities, carrying immediate and/or deferred rights to new or existing shares in the Company.
- The issue through a public offer without pre-emptive subscription rights (15th resolution) of shares and/or securities carrying immediate and/or deferred rights to new or existing shares in the Company.
- The issue, without pre-emptive subscription rights, through an offer governed by paragraph II of Article L.411-2 of the French Monetary and Financial Code, within the limit of 20% of the Company's share capital per year (16th resolution), of shares and/or securities carrying immediate and/or deferred rights to new or existing shares in the Company.

The aggregate par value of shares issued under the 14th, 15th, 16th, 17th and 19th resolutions, either immediately or on conversion, exchange, redemption or exercise of securities shall not, under the 21st resolution exceed €126,000,000, it being stipulated that the aggregate par value of shares issued or to be issued shall not exceed:

- €126,000,000 under the 14th resolution,
- €36,000,000 under each of the 15th and 16th resolutions or globally under the 15th , 16th and 19th resolutions in aggregate.

The aggregate nominal amount of debt securities issued under the 14th, 15th, 16th and 17th resolutions shall not, under the 21st resolution, exceed €2,500,000,000.

These ceilings take into account the additional securities to be issued under the 14th, 15th and 16th resolutions in accordance with Article L.225-135-1 of the French Commercial Code, if you also adopt the 17th resolution.

The Managing Chairman is responsible for preparing a report on the proposed issues in accordance with Articles R.225-113 et seq. of the French Commercial Code. Our role is to express a conclusion on the fairness of accounting information contained in his report, on the proposed waiver of shareholders' pre-emptive subscription rights and on certain other information pertaining to the issues as presented in his report.

We performed the procedures that we considered necessary in accordance with the professional standards issued by our professional body, Compagnie nationale des commissaires aux comptes, for this type of engagement. Those procedures consisted of reviewing the contents of the Managing Chairman's report concerning the proposed issues and the proposed method of determining the issue price of the shares.

Subject to a subsequent examination of the final conditions of any issues decided by the Managing Partners, or one of them, we have nothing to report concerning the proposed method of determining the issue price of the shares under the 15th and 16th resolutions, as described in the Managing Chairman's report.

As the Managing Chairman's report does not describe the method to be used to determine the issue price of shares under the 14th resolution, we do not express a conclusion thereon.

As the final issue terms have not yet been set, we do not express a conclusion thereon and, consequently, on the proposed waiver of shareholders' pre-emptive subscription rights under the 15th and 16th resolutions.

As required by Article R.225-116 of the French Commercial Code, we will issue a further report if and when the Managing Partners, or one of them, decide to use these authorizations to issue equity instruments carrying rights to other equity instruments or debt securities, in the event of the issue of securities carrying rights to shares to be issued and in the event of the issue of shares without pre-emptive subscription rights.

Neuilly-sur-Seine, February 26, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

10.3.2 STATUTORY AUDITOR'S REPORT ON THE SHARE CAPITAL INCREASE WITH CANCELLATION OF PREFERENTIAL SUBSCRIPTION RIGHTS RESERVED FOR EMPLOYEES

Combined Shareholders' meeting of May, 18, 2018– 20th resolution

This is a free translation into English of the Statutory Auditors' report issued in French and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France

To the Compagnie Générale des Etablissements Michelin Shareholders' meeting,

In our capacity as Statutory Auditors of your company and in accordance with Articles L.225-135 et seq. of the French Commercial Code (Code de commerce), we hereby present our report on the proposed delegation to the Managing Partners, or one of them, the authority to decide a share capital increase by issuing ordinary shares, with cancellation of preferential subscription rights, reserved for employees who are members of a saving plan of your company and its affiliated French and foreign companies within the meaning of Article L. 225-180 of the French Commercial Code (*Code de commerce*) and Article L. 3344-1 of the French Labor Code (*Code du travail*) for a maximum amount of € 7,000,000, a transaction on which you are being asked to vote.

This share capital increase is submitted to your approval pursuant to Article L.225-129-6 of the French Commercial Code (*Code de commerce*) and Articles L.3332-18 et seq. of the French Labor Code (*Code du travail*).

Your Managing Chairman proposes, on the basis of his report, the proposed delegation to the Managing Partners, or one of them, for a period of twenty-six months, as from the date of this Shareholders' meeting, to decide on whether to proceed with a share capital increase and to cancel your preferential subscription rights. If applicable, they shall determine the final conditions of this transaction.

It is the Managing Chairman's responsibility to prepare a report in accordance with Articles R. 225-113 and R. 225-114 of the French Commercial Code (*Code de commerce*). Our role is to express an opinion on the fairness of the data extracted from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issuance as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. Such procedures consisted in verifying the content of the Managing Chairman's report as it relates to this transaction and the terms and conditions of the proposed issue price of the equity securities.

Subject to our subsequent review of the terms and conditions of the proposed issues, we have no comments to make on the procedures for determining the issue price of the equity securities presented in the Managing Chairman's report.

As the final terms and conditions under which the issues will be carried out have not yet been set, we express no opinion on them and, consequently, on the proposed cancellation of the preferential subscription rights on which you are being asked to vote.

In accordance with Article R. 225-116 of the French Commercial Code, we will issue a supplementary report, where necessary, when this delegation of authority is utilized by your Managing Partners.

Neuilly-sur-Seine, February 26, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

10.3.3 STATUTORY AUDITORS' REPORT ON THE CAPITAL REDUCTION

Combined Shareholders' meeting of May18, 2018 - 22th resolution

This is a free translation into English of the Statutory Auditors' report issued in French and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France

To the Compagnie Générale des Établissements Michelin Shareholders' meeting

In our capacity as Statutory Auditors of Compagnie Générale des Etablissements Michelin and pursuant to Article L.225-209 of the French Commercial Code (*Code de commerce*) concerning capital reductions carried out by canceling bought-back shares, we hereby present our report on our assessment of the reasons for and terms of the proposed capital reduction(s).

Your Managing Chairman has proposed that you delegate to the Managing Partners, or to one of them, for a period of 18 months as of the date of this meeting, the authority to cancel, for up to 10% of the share capital, the bought-back shares of your company, as authorized under the aforementioned article.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*), for this type of engagement. Those procedures consisted of examining the fairness of the reasons for and whether the terms of the proposed capital reduction(s), which do not undermine shareholders' equality, were compliant.

We have nothing to report concerning the reasons for and the terms of the proposed capital reduction(s).

Neuilly-sur-Seine, February 26, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Deloitte & Associés**
Éric Bulle	Pascale Chastaing-Doblin

10.3.4 OTHER STATUTORY AUDITORS' REPORTS

The Statutory Auditors' reports to the Annual Shareholders Meeting of May 18, 2018 that are not presented below can be found in the following sections of this Registration Document:

- Report on the Company financial statements: in section 8.3;
- Special report on regulated agreements and commitments with third parties: in section 8.4;
- Report on the consolidated financial statements: in section 7.2;
- Report by one of the Statutory Auditors, appointed as an independent third party, on the consolidated environmental, labour and social information presented in the management report: in section 6.6.

11

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11.1 TABLE OF CONCORDANCE WITH THE FRENCH COMMERCIAL CODE 368

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11.4 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT 376

11.1 TABLE OF CONCORDANCE WITH THE FRENCH COMMERCIAL CODE

		Sections
I.	**REVIEW OF THE FINANCIAL STATEMENTS FOR THE YEAR**	
1.	Consolidated financial statements	7
2.	Company financial statements	8
3.	Dividends	5.2
II.	**SUBSEQUENT EVENTS, TRENDS AND OUTLOOK**	
1.	Significant subsequent events	7.1 - (note 35) ; 2.12 ; 2.7.3
2.	Trend information	2.7
3.	Group markets: seasonal fluctuations in business	2.1
III.	**RISK FACTORS**	
1.	Operating risks	2.9.3
2.	Financial risks	2.9.3 e)
3.	Legal risks	2.9.3 k)
4.	Environmental, industrial and technological risks	2.9.3 c) ; 2 9.3 f) ; 2.9.3 i)
5.	Risk coverage – Insurance	1.7 ; 2.9.1
IV.	**MANAGING PARTNERS AND SENIOR EXECUTIVES**	
1.	Terms of office and functions of the Managing Partners	4.1
2.	Shares held by the Managing Partners	4.1
3.	Managing Partners' compensation and interests	4.4
4.	Stock options and performance shares	4.4
V.	**CORPORATE SOCIAL RESPONSIBILITY DATA**	
1.	Social responsibility	1.3.2 ; 2.15 ; 6.2 ; 6.3
2.	Environment	1.3.2 ; 2.13 ; 6.4
3.	Customer and supplier relations	6.3
4.	Report on social and environmental reporting methods	6.1 ; 6.4.1
VI.	**COMPANY IDENTITY**	
1.	Company identity	5.1
2.	Relations between the Company and its subsidiaries	1.4
3.	Information on the Company's capital	5.5
4.	Information that may have a bearing in the event of a takeover bid	4.9
5.	Other information about the Company that is an integral part of the management report	None

11.2 CROSS-REFERENCE TABLE FOR EMPLOYEE, SOCIETAL AND ENVIRONMENTAL INFORMATION

		Sections
EMPLOYEE INFORMATION		
a) Employment	Total workforce and distribution by gender, age and geographical area	6.2.1.a
	New hires and dismissals	6.2.1.b
	Compensation and changes to compensation	6.2.1.c
b) Work schedules	Work schedules	6.2.2.a / 6.2.2.b / 6.2.2.c / 6.2.2.d / 6.2.2.e
	Absenteeism	6.2.2.e (North America and Europe, excluding Russia)
c) Employee relations	Organizing the social dialogue process, and in particular information and employee consultation procedures, as well as collective bargaining with employees	6.2.5.a / 6.2.5.b / 6.2.5.c
	Overview of collective bargaining agreements	6.2.5.a (presentation of key agreements in 2016)
d) Health and safety	Workplace health and safety	6.2.3
	Overview of agreements signed with unions or employee representatives related to workplace health and safety	6.2.5.a (presentation of key agreements in 2016)
	Workplace accidents, and more specifically frequency and severity rates, and occupational illnesses	6.2.3.c
e) Training	Implemented training policies	6.2.4.a / 6.2.4.b
	Total amount of training hours	6.2.4.a
f) Equal treatment	Measures taken to promote gender equality	6.2.6.c
	Measures taken to promote the employment and integration of people with disabilities	6.2.6.d
	Anti-discrimination policy	6.2.6.a / 6.2.6.b / 6.2.6.e
g) Promoting and encouraging compliance with the ILO's conventions in relation to	Freedom of association and protection of the right to organize	6.2.5
	The elimination of discrimination in employment and occupation	6.2.6
	The abolition of forced labor	6.3.4
	The effective abolition of child labor	6.3.4
SOCIETAL INFORMATION		
a) General environmental policy	How the company addresses environmental issues and, if applicable, environmental audit and certification procedures	6.4.1
	Training and informing employees about environmental stewardship	6.4.1
	Resources allocated to preventing environmental risks and pollution	6.4.1
	Provisions and guarantees for environmental risks, unless such information could seriously harm the company in any pending litigation	6.4.1
b) Pollution	Deploying measures to prevent, abate or remediate air, water and soil pollution severely affecting the environment	6.4.1, 6.4.2
	Managing noise and other types of pollution caused by operations	6.4.2

c) Circular economy	**i) Avoiding and managing waste**	
	Measures implemented for waste prevention, recyling, reuse and other types of waste recovery and disposal solutions	6.4.1, 6.4.3
	Initiatives to reduce food waste	N/A*
	ii) Using resources sustainably	
	Water consumption and water supply with respect to local hydric stress	6.4.1, 6.4.3
	Raw materials consumption and measures taken to use them more efficiently	6.4.3
	Energy consumption and measures taken to improve energy efficiency and the use of renewable energies	6.4.1, 6.4.3, 6.4.4
	Land use	6.4.3
d) Climate change	Greenhouse gas emissions produced by the company's operations, particularly those emitted from the use of its goods and services	6.4.1, 6.4.2, 6.4.4
	Adapting to the impact of climate chang=	6.4.4
e) Protecting biodiversity	Measures taken to preserve biodiversity	6.4.1, 6.4.5
SOCIETAL INFORMATION		
a) Territorial, economic and social impact of the company's activities	Regarding employment and local development	6.3.1
	Local and neighboring communities	6.3.2.b
b) Relationships with people and organizations interested in the company's activities, in particular job-assistance organizations, educational institutions, environmental protection organizations, consumer associations and neighboring communities	Dialogue processes with these people and organizations	6.3.2.a / 6.3.2.d
	Partnership and philanthropic initiatives	6.3.2.c
c) Subcontractors and suppliers	Addressing social and environmental issues in purchasing policy	6.3.4.a / 6.3.4.b
	The importance of subcontracting and the consideration of suppliers' and subcontractors' corporate social responsibility	6.3.4.c
d) Fair, honest business practices	Anti-bribery actions	6.3.3.b
	Measures taken to support consumers' health and safety	6.3.3.c
e) Other initiatives under way to promote human rights	Other initiatives under way to promote human rights	6.2. Introduction

NA: Not applicable/Not applied.

* *Given the nature of the Michelin Group's manufacturing operations, this environmental indicator is not included in the reporting scope. However, related initiatives are undertaken by the Group's food service providers at the local level.*

11.3 GLOBAL REPORTING INITIATIVE (GRI) CONTENT INDEX

In order to better answer the growing expectations of stakeholders in terms of CSR communication and considering the recent emergence of robust international reporting standards, the Group intends to complete its CSR approach by progressively integrating the Global Reporting Initiative (GRI) standards at a core level.

This table illustrates the indications contained in the report which are already consistent with the GRI indicators.

Disclosure	Description	Claims of reporting	Place	Section or subsection/Comment
GRI 102 : GENERAL DISCLOSURES				
1. Organizational profile				
102-01	Name of the organization	Core	5.1	Company Information
102-02	Activities, brands, products, and services	Core	1.1.3 1.1.4 1.2	Four areas of value creation What are our assets Profile
102-03	Location of headquarters	Core	1.6.2 a)	Headquarters – Offices – Research Centers
102-04	Location of operations	Core	1.6	Sites
102-05	Ownership and legal form	Core	5.1	Company Information
102-06	Markets served	Core	2.1	Tire Markets
102-07	Scale of the organization	Core	6.2.1 a) 1.6 1.3.1 2.14 3.2 5.2.1	Group workforce and their distribution Sites Financial Performance Breakdown of capital and voting rights Sales Michelin action
102-08	Information on employees and other workers	Core	6.2.1 a) 6.2.7	Group workforce and their distribution Summary table of 2017 social data
102-09	Supply chain	Core	6.2.4	Relations with subcontractors and suppliers
102-10	Significant changes to the organization and its supply chain	Core	2.13 6.2.1 b)	Significant changes of the financial or commercial situations Information on downsizing plans, job retention actions, redeployment efforts and accompanying measures in 2017 in the Michelin Group
102-11	Precautionary Principle or approach	Core	2.9 6.5	Risk factors Vigilance plans
102-12	External initiatives	Core	6.2	A strong commitment to employee well-being
2. Strategy				
102-14	Statement from senior decision-maker	Core		"Interview with Jean-Dominique Senard CEO Michelin Group"

Disclosure	Description	Claims of reporting	Place	Section or subsection/Comment
3. Ethics and integrity				
102-16	Values, principles, standards, and norms of behavior	Core	2.9.3 a) 6.3.3 a) 6.4.3 b)	Risk of breach of ethics Generalize a plan in favor of ethics Commit firmly to preventing corruption
102-17	Mechanisms for advice and concerns about ethics		2.9.3 a) 6.3.3 a) 6.3.3 b) 6.5.5	Risk of breach of ethics Generalize a plan in favor of ethics Commit firmly to preventing corruption Alert and reporting mechanisms
4. Governance				
102-18	Governance structure	Core	4.1	Composition of administrative, management and supervisory bodies
102-19	Delegating authority	Comprehensive	4.5.3 5.5.2	Delegation of authority State of the authority delegations and of the enforced authorizations
102-20	Executive-level responsibility for economic, environmental, and social topics	Comprehensive	4.1	Composition of administrative, management and supervisory bodies
102-21	Consulting stakeholders on economic, environmental, and social topics	Comprehensive	6.3.2 a)	Intensifying dialogue with stakeholders
102-22	Composition of the highest governance body and its committees	Comprehensive	4.1 4.2.2	Composition of administrative, management and supervisory bodies Independent supervisory bodies reporting directly to shareholders
102-23	Chair of the highest governance body	Comprehensive	4.1	Composition of administrative, management and supervisory bodies
102-26	Role of highest governance body in setting purpose, values, and strategy	Comprehensive	4.2.1 b)	Mission
102-31	Review of economic, environmental, and social topics	Comprehensive	2.9	Risk Factors
102-35	Remuneration policies	Comprehensive	4.3	Management and supervisory board compensation
102-36	Process for determining remuneration	Comprehensive	4.3	Management and supervisory board compensation
102-37	Stakeholders' involvement in remuneration	Comprehensive	4.3.3 4.3.5	Shareholder consultation on the elements of compensation Shareholder consultation on the elements of compensation due
5. Stakeholders engagement				
102-40	List of stakeholder groups	Core	6.2.2	Develop relationships with stakeholders and local populations
102-41	Collective bargaining agreements	Core	6.2.5 a)	Social Dialogue : the new social policy is becoming better understood in the different host countries
102-42	Identifying and selecting stakeholders	Core	6.3.2 a)	Intensifying dialogue with stakeholders
102-43	Approach to stakeholder engagement	Core	6.3.2 a)	Intensifying dialogue with stakeholders
102-44	Key topics and concerns raised	Core	6.3.2 a)	Intensifying dialogue with stakeholders

Disclosure	Description	Claims of reporting	Place	Section or subsection/Comment
6. Reporting practice				
102-45	Entities included in the consolidated financial statements	Core	7. Note 36	Consolidated financial statements Note 36
102-46	Defining report content and topic Boundaries	Core	6.1	CSR Reporting Methodology Content and scope definition process
102-47	List of material topics	Core	6.1	CSR Reporting Methodology Materiality
102-48	Restatements of information	Core	6.1	CSR Reporting Methodology Indicators
102-49	Changes in reporting	Core	6.1	Content and scope definition process
102-50	Reporting period	Core	6.1 7.1	CSR Reporting Methodology Reporting cycle and period Consolidated accounts at December 31, 2017
102-51	Date of most recent report	Core	6.1	CSR Reporting Methodology Indicators.
102-52	Reporting cycle	Core	6.1	CSR Reporting Methodology Reporting cycle and period
102-53	Contact point for questions regarding the report	Core	Back cover	
102-54	Claims of reporting in accordance with the GRI Standards	Core	6.1	CSR Reporting Methodology
102-55	GRI content index	Core		
102-56	External assurance	Core	6.6	Report by one of the statutory auditors, appointed as an independent third party, on the consolidated employee, societal and environmental information included in the management report
GRI 200 : ECONOMIC				
GRI 201 - Economic performance				
GRI 201-1	Direct economic value generated and distributed		1.3.1 2.3 2.3.3 b) 2.3.3 i) 5.2	Financial Performance Consolidated Income Statement Review Employee fees and number of employees Income Tax Stockmarket Data
GRI 201-2	Financial implications and other risks and opportunities due to climate change		4.5.3	Financial risks associated with climate change and the low-carbon strategy
GRI 202 - Market presence				
GRI 202-2	Proportion of senior management hired from the local community		6.2.6 e)	Focusing on local management sensitive to host community cultures
GRI 203 - Indirect Economic Impacts				
GRI 203-1	Infrastructure investments and services supported		6.3.1 6.3.2 b) 6.3.2 c)	Creating Local Jobs and Businesses Participating harmoniously in local community life A new chapter in corporate philanthropy

Disclosure	Description	Claims of reporting	Place	Section or subsection/Comment
GRI 300 : ENVIRONNEMENTAL				
GRI 302 - Energy				
GRI 302-1	Energy consumption within the organization		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 302-3	Energy intensity		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 302-4	Reduction of energy consumption		6.4.1	A global environmental policy. Evolution of the Group's MEF indicator
GRI 303 - Water				
GRI 303-1	Water withdrawal by source		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 304 - Biodiversity				
GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas		6.4.1 6.4.5	A global environmental policy Summary table of environmental data for the Group Protection of biodiversity around sites Identify protected areas near sites
GRI 305 - Emissions				
GRI 305-1	Direct (Scope 1) GHG emissions 7		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 305-2	Energy indirect (Scope 2) GHG emissions		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 305-3	Other indirect (Scope 3) GHG emissions		6.4.4	Actions to mitigate climate change Carbon footprint of products and services
GRI 305-4	GHG emissions intensity		6.4.1	A global environmental policy Evolution of the Group's MEF indicator Summary table of environmental data for the Group.
GRI 305-5	Reduction of GHG emissions		6.4.1	A global environmental policy Evolution of the Group's MEF indicator Summary table of environmental data for the Group
GRI 305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions		6.4.1	A global environmental policy Evolution of the Group's MEF indicator
GRI 306 - Effluenst and waste				
GRI 306-2	Waste by type and disposal method		6.4.1	A global environmental policy Evolution of the Group's MEF indicator Summary table of environmental data for the Group
GRI 400 : SOCIAL				
GRI 401 - Employment				
GRI 401-1	New employee hires and employee turnover		6.2.1 b) 6.2.4 a)	Movements Fundamentals of management reaffirmed
GRI 402 - Labor / Management relations				
GRI 402-1	Minimum notice periods regarding operational changes		6.2.5 b)	inform, dialogue and widely mobilize

Disclosure	Description	Claims of reporting	Place	Section or subsection/Comment
GRI 403 - Occupational health and safety				
GRI 403-1	Workers representation in formal joint management – worker health and safety committees		6.2.2 c) 6.2.3 a)	Actions to meet the needs of employees Preserve the health of people
GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		6.2.3 c) 6.2.7	Measure and monitor work accidents and occupational illness Summary table of 2017 social data
GRI 404 - Training and education				
GRI 404-1	Average hours of training per year per employee		6.2.4 b) 6.2.7	A sustained training effort Summary table of 2017 social data
GRI 404-3	Percentage of employees receiving regular performance and career development reviews		6.2.4 c)	Transformation of the Personnel function
GRI 405 - Diversity and equal opportunity				
GRI 405-1	Diversity of governance bodies and employees		6.2.1 a) 6.2.7	Group's workforce and their distribution Summary table of 2017 social data
GRI 405-2	Ratio of basic salary and remuneration of women to men		6.2.6 c)	Facilitate women's access to all jobs and ensure equal pay
GRI 407 - Freedom of association and collective bargaining				
GRI 407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk		6.2.5 a) 6.5.3 6.5.4 a)	Social Dialogue Social Relations Purchasing Policy
GRI 408 - Child labor				
GRI 408-1	Operations and suppliers at significant risk for incidents of child labor		6.2.3 a)	Human Rights
GRI 412 - Human rights assesment				
GRI 412-1	Operations that have been subject to human rights reviews or impact assessments		6.2.3 a)	Human Rights
GRI 413 - Local communities				
GRI 413-1	Operations with local community engagement, impact assessments, and development programs		6.2.2 c) 6.3.2 a) 6.3.2 b) 6.4.3	Actions to meet the needs of employees Intensified dialogue with stakeholders Human rights Participate harmoniously in local community life Circular Economy Optimizing land use
GRI 414 - Supplier social Assesment				
GRI 414-1	New suppliers that were screened using social criteria		6.3.4 b)	Take into account in the purchasing policy social and environmental issues
GRI 414-2	Negative social impacts in the supply chain and actions taken		6.3.4 b) 6.4.2	Take into account in the purchasing policy social and environmental issues Control of releases and treatment of nuisances Limit noise pollution and odors
GRI 415 - Public policy				
GRI 415-1	Political contributions		Code d'Éthique	"Michelin has no vocation to support a political candidate in the hopes of obtaining benefits for the company.The Group maintains a principle of neutrality. However, in some countries and / or jurisdictions where it is a legal or accepted practice, the Group can support a candidate who works for sustainable mobility. These donations and political contributions will be subject to a public declaration, as required by law."

11.4 TABLE OF CONCORDANCE FOR THE REGISTRATION DOCUMENT

In order to facilitate reading of the Registration Document, please consult the following contents table to identify the disclosures required under European Commission Regulation No. 809/2004 dated April 29, 2004.

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